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December 1992

# Information Management and Technology Issues



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

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**Comptroller General  
of the United States**

December 1992

The Speaker of the House of Representatives  
The Majority Leader of the Senate

In response to your request, this transition series report discusses widespread weaknesses in federal information resources management that underlie many of the problems found in individual programs. Despite heavy investments in computer technology, executive agencies still lack essential information for managing their programs effectively and achieving measurable results. Moreover, many agencies are not using information technology strategically to simplify and streamline their organization, management, and business processes—as well as to improve service to the public. Our efforts have highlighted the need for better leadership and strategic planning in this area.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher

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# Information Management and Technology Issues

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The federal government spends over \$20 billion annually on new technology—and tens of billions more running current systems. Yet agency after agency still lacks critical information needed to analyze programmatic issues, manage agency resources, control expenditures, and demonstrate measurable results. Moreover, the government is falling farther behind the private sector in using information technology to streamline its operations and improve service to the public.

As noted in our 1988 transition series report, these problems stem from management weaknesses. Top federal executives continue to overlook the strategic role of information technology in reengineering business practices. Moreover, information resource managers typically lack the authority and resources to help their agencies modernize and simplify work practices, define information needs, and ensure the most effective use of information resources. Aggravating this situation is the federal acquisition management and budget process. Its demand for certainty in the system development process leads project managers to downplay risks and problems—resulting in missed benefits and misspent money. Solving these problems will

depend heavily on the ability of top executives to both develop a strategic framework for change and effectively marshal their agencies' information resources talent. In addition, both agencies and the Congress need the willingness to experiment with different approaches to the acquisition management and budget process.

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# Lack of Essential Information

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Information problems vex most federal programs. Program managers struggle to wrest the information they need from the mountain of data they collect—much of it still in paper form. Critical pieces of data are missing, unreliable, or not suited to the issues at hand. Even when available and automated, the data may be scattered among many separate information systems—making it harder for managers to analyze complex program problems, develop sound policies, or measure the effectiveness of agency actions. As a result, they may lack essential information needed to manage effectively. Some sobering examples follow:

- Health Care: National health care expenditures reached \$666 billion in 1990—absorbing more than 12 percent of the gross national product (GNP). Over 42 percent of this total is publicly funded. By the end of the decade, the expenditures are expected to exceed 16 percent of the GNP. Poor information systems are aggravating the current crisis in health care financing. Medicare, for example, mistakenly paid out over a billion dollars for services already covered by other insurers, in part because of inadequate data. Equally important, patient care is still heavily dependent on paper records that intrinsically limit the capacity to

retrieve critical data needed to guide health care policymaking.

- Education: The Department of Education, with an annual budget of over \$29 billion, administers nearly 200 separate programs and provides federal funds to states and localities to educate disadvantaged children, help persons with disabilities, and finance the higher education of young Americans. But the Department lacks key management information with which to measure the effectiveness of its programs and redirect them as needed. For example, missing, incomplete, and unreliable data in the \$13 billion Stafford Student Loan Program has led the government to provide millions of dollars in new loans to students who previously defaulted.
- Savings & Loan and Banking Crises: The Resolution Trust Corporation (RTC), responsible for managing and selling over \$400 billion in assets from 725 failed thrift institutions, has had trouble effectively executing sales strategies because it cannot adequately track the status of assets. About \$100 billion in assets—many of which are hard to sell—remained to be sold at year's end. In addition, RTC could receive another \$40 billion in assets from thrifts that may fail

before September 30, 1993. Similar information problems face the Federal Deposit Insurance Corporation in dealing with assets from the rising number of bank failures.

Pulling together data from separate information systems can be particularly troublesome. As programmatic issues become more interrelated, managers increasingly need to integrate data from across an agency in order to analyze cross-cutting problems. The data, however, are commonly scattered among many independent, stand-alone information systems, developed at different times to meet the special needs of individual offices. These systems usually do not employ uniform data standards, processing standards, or communications standards—making the electronic exchange of data difficult or impossible.

At the Environmental Protection Agency (EPA), for example, various program offices manage different kinds of pollution—such as air, water, hazardous waste, toxic substances, and pesticides. Over the years, each office has developed separate information systems to meet its particular needs. EPA is currently struggling to integrate

data from these separate systems to better understand and manage the interplay of various types of pollution. Its difficulties in doing this have weakened the agency's ability to enforce environmental regulations in a comprehensive manner or to pursue complex regional pollution issues.

The effectiveness of federal programs can also be stymied by agencies' inability to readily share information with other units of government and the private sector. This is particularly evident with child support and other welfare programs that are federally funded but locally administered. Each year, for example, about \$4 billion in child support payments goes uncollected. A large part of the problem stems from difficulties that states and federal agencies have in exchanging data electronically on the location of absent parents. When absent parents cannot be found, the cost of child support is passed on to the taxpayers.

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# Chronic Problems in Developing and Modernizing Systems

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Developing and modernizing government information systems is a difficult and complex process. Again and again, projects have run into serious trouble, despite hard work by dedicated staff. They are developed late, fail to work as planned, and cost millions—even hundreds of millions—more than expected. The results, in missed benefits and misspent money, can be found throughout government.

During the past 25 years, for instance, the Internal Revenue Service (IRS) has twice tried and failed to modernize its antiquated tax-processing system. Unreliable and unresponsive, this system impedes IRS' ability to collect and account for about a trillion dollars in revenue, deal with a reported \$111 billion in accounts receivable, and narrow the annual tax gap (the difference between taxes owed and taxes voluntarily paid), estimated at about \$114 billion for 1992. Although IRS now has a vision for how it will operate in the future and has completed basic planning for its latest modernization effort, it has not made satisfactory progress in some areas critical to the project's success. For example, IRS has been slow in finalizing a business strategy for making the transition from its current, paper-intensive business processes to new,

highly automated work processes—a necessary step before the benefits of automation can be fully realized.

Like IRS, the Social Security Administration (SSA) has been involved in a long-term effort to modernize its systems. For the most part, however, SSA has focused on automating its existing paper-driven, labor-intensive work practices in an incremental, piecemeal fashion. While resulting in some immediate benefits in improved service, this approach will not put SSA in a position to cope with the surge in beneficiaries looming on the horizon. To capture the critically needed benefits of modernization, SSA must direct its system modernization efforts toward fundamentally improving the way it does business. SSA is only now taking steps to complete a business plan for guiding its use of information technology in the future.

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# Poor Management—A Root Cause

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Although information problems can be complex and varied, they generally reflect basic weaknesses in leadership and organization. Top agency executives do not pay enough attention to the role of information technology in achieving fundamental improvements in agency operations. In addition, the agency unit responsible for information resources management (IRM) often lacks appropriate organizational stature to be an effective partner with top executives in identifying opportunities to use technology to reduce administrative costs, increase productivity, and enhance service to the public. As a result, agencies often initiate major technology projects without first determining where technology investments can produce the greatest operational benefits. Costly projects end up showing disappointing results. Moreover, many agencies have not even established measurements for determining the actual effects that the projects are having on supporting mission goals.

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## Failure to Think Strategically

Pressure for quick solutions to complex problems works against strategic planning—the heart of effective IRM. The political process pushes both the Congress

and executive agencies to focus strongly on achieving near-term results at the expense of the long term. So does the fact that the average tenure of top government executives is less than 2 years. Faced with many competing demands and the desire to show progress, agency leaders do not focus enough attention on the long-term task of simplifying and streamlining agency operations through the use of technology.

Successful modernization is based on a strategic analysis of what the agency needs to accomplish, where it is now, and where it must be at future points in order to meet its goals. While most agencies have mission statements that define general goals, many agency leaders do not follow through on the next step: analyzing current business processes to learn where they are breaking down and how they should be restructured to achieve fundamental, long-term improvements in business practices and service to the public. Such analysis is exactly what many successful private sector organizations are doing.

Agencies cannot perform such analysis if they are not disciplined enough to use rigorous performance measures and quantitative data to evaluate current work

processes. Instead of making the effort to do so, agency leaders too often give the green light to technology projects in the belief that more information resources will somehow engender solutions to management problems. Acquiring the latest technology can create the illusion of progress, but agencies may actually lock themselves more tightly into existing, inefficient ways of doing business.

Take, for example, the Veterans Benefits Administration's (VBA) modernization aimed at speeding up claims payments to veterans. VBA did not complete its analysis of claims-processing deficiencies before deciding on a technology approach. As it now turns out, VBA's initial modernization investment of \$94 million will trim only 6 to 12 days from the average claims processing time of 151 days—hardly an acceptable return on investment. The problem: Technology was focused on what turned out to be a minor hitch in the claims process as a whole.

Such misjudgment is not uncommon. When an agency does not first analyze its business processes and determine where improvements should be focused, it short-circuits technology's potential to

dramatically increase productivity and reduce costs. This kind of “modernization” often does little more than speed up existing work processes. Not surprisingly, dramatic benefits in cost savings, productivity, and service rarely materialize. Some improvements are gained at the margins—but often at a high cost.

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## Ineffective IRM Organization

A strong IRM organization is an indispensable partner in helping agency leaders work through a top-down analysis of business processes and determine where strategic information technology investments need to be made. The importance of this partnership is recognized in the Paperwork Reduction Act, which requires federal departments and agencies to designate a senior official for information resources management. This official is to report to the agency head and, in essence, is charged with ensuring that the agency carries out its information activities in an efficient, effective, economical manner.

Many agencies, however, have organized themselves for failure in IRM. Too often, the senior-level IRM official is a titular figure, without experience in information management, who is burdened with major responsibilities in other areas. His or her IRM

responsibilities become delegated to mid-level IRM managers, who are immersed in the agency's day-to-day systems operation and procurement issues. Typically, these managers do not play a major role in the agency's high-level strategic planning. They lack adequate organizational visibility, authority, and competent staff resources to ensure that program offices are using technology to best advantage in meeting both their own needs and the agency's corporate information needs.

This IRM organizational problem has come about largely because top agency leaders have not recognized the increasingly important role of technology in their organizations. Historically, data processing began as a back-room function, supporting activities such as personnel and payroll. Today it is still common to find an agency's IRM function placed under a general administrative services office, even though computers have moved out of the back room and onto the desks of program staff.

Poor IRM organization leads to the failure of top management and IRM staff to work together in developing an effective strategic technology plan. This plan is the linchpin that aligns an organization's business needs

with its information resources. It is the map for getting the agency from where it is now to where it wants to be—and for defining the technology investments that should be made to support streamlined work processes. Frequently, what an agency touts as a strategic technology plan is merely a listing of ongoing acquisitions.

Failure to align program needs with technology investments results in lost opportunities for improvement and wasted dollars. For example, the National Institutes of Health (NIH) did not effectively manage key aspects of a major system contract, potentially worth over \$800 million. The acquisition was not factored into NIH's strategic planning, nor were the computing requirements of the scientific community identified. The result was a contract that did not effectively support NIH's basic purpose: biomedical research. Another example is the Farmers Home Administration's (FmHA) effort to modernize the automated systems used to make and collect loans—its third attempt since the mid-1970s. FmHA failed to link its \$520 million technology initiative to a long-range business plan that clearly articulated how the agency would operate in the future. Indeed, the technology plan did not even reflect important changes being

made in FmHA's organizational structure and loan-management operations. These problems cast serious doubt on FmHA's ability to use technology to better support its loan programs.

Without strong corporate IRM leadership and planning, program staff may develop systems that meet their own requirements, but conflict with the broader information needs of the organization. The result is a hodge-podge of incompatible standards and systems. For example, the Navy's \$600 million program to upgrade nontactical computers on ships lacks effective central IRM management. Instead, 12 different Navy commands have authority over development, funding, and procurement of the major computer systems that comprise the program. The resulting redundant development efforts require excessive financial resources and increase the amount of training and maintenance needed to support the different systems.

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# Problems With the Acquisition Management and Budget Process

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Even well-planned efforts to modernize the use of information technology can be derailed by the federal acquisition management and budget process. The objectives of the process are reasonable: to deliver individual systems that perform as intended, on time, and cost-effectively. The process aims to achieve economy through standardizing and sharing systems across agencies. Rewards are supposed to go to project managers who can do this. Yet the process repeatedly fails to meet these objectives because it does not take into account the realities of systems development.

A fundamental dichotomy is at work in large-scale systems development projects: the acquisition management process demands certainty and is risk-averse, yet systems development is inherently uncertain and risk-intensive. The process calls for systems developers to formulate precise long-term plans and budgets. It unrealistically assumes that detailed systems requirements can be well understood at the outset, that software development will be predictable, and that long-term budgeting can be done with a high degree of accuracy. Unfortunately, none of these expectations

recognizes the enormous difficulties involved in developing large systems.

The acquisition management process often works well for purchasing readily definable goods and services, but it does not support effective risk identification and risk management—the essence of major systems development. Large-scale systems are extremely complex and take many years to design, develop, test, and install. For example, software development, which is the heart of most system development projects, remains a poorly managed discipline. It is still very difficult to accurately predict software costs, development time, and performance at the beginning of a systems project. Such uncertainties make it nearly impossible to satisfy in any meaningful way the process's expectations for precise milestones and budget estimates.

To make matters worse, the acquisition management and budget process creates behavioral incentives that actually undermine good systems development practices and hinder the achievement of governmentwide objectives. For example, the process provides powerful incentives for project managers to set unrealistically

optimistic cost and schedule estimates and to ignore risks and problems. Project budgets are generally set by the agency, the Office of Management and Budget, and the Congress on a year-by-year basis. This process often involves scrutiny of the progress being made by the project. Because changes in plans and cost estimates are seen as indicators of poor management, project managers try to maintain a pretense of problem-free development and avoid providing honest assessments of project risks. By not mentioning problems for as long as possible, managers can often ensure continued project funding—at least in the near term.

Since agencies frequently change project managers, it becomes easy to defer problems to others. This is particularly true with Defense projects, where the rotation of personnel into and out of project manager positions is routine. With such managerial turnover comes a clouding of responsibility and accountability for the project's success, all too often resulting in higher costs and delays in the delivery of systems.

Because there are few incentives and many risks in developing systems that bridge the needs of several offices or support other

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**Problems With the Acquisition  
Management and Budget Process**

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agencies, it is not surprising that technology projects generally reflect the parochial interests of individual offices. The result is the continued spawning of systems that are narrowly focused and cannot support the larger needs of the agency or the government.

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# Solving the Problem—Managing Strategically

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Managing information resources strategically involves visionary leadership and a framework for managing change that focuses on the strategic uses of technology for achieving the agency's mission. Few other management initiatives offer higher leverage over the cost-effective use of taxpayer dollars. This effort needs to be supported by a sound IRM organization.

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## Establishing a Strategic Framework for Change

Agency leaders can start by adopting a management philosophy that emphasizes continuous improvement of business practices. This philosophy is essential if agencies are to carry out their missions effectively during a prolonged period of budgetary constraints.

Implementing such a philosophy requires a strategic framework that can guide the agency over many years, even amid turnover in agency leadership. This framework must necessarily be based on mission goals, analysis of business practices, and long-range information technology planning. The operative concept should be simplifying and streamlining business processes. Developing a strategic framework should always precede the development and acquisition of automated systems. Without it,

technology modernization invariably breaks down into a series of half-measures that are redirected or replaced every few years.

The Congress often focuses on the costs of systems procurements. While costs are important, the underlying management issue is becoming more critical: How well do planned information technology projects support fundamental, long-term improvement in agency programs, operations, and service to the public? By highlighting this issue as part of its oversight activities, the Congress can encourage agency leaders to develop and follow a strategic framework for successful modernization that can be sustained over many years. The need to continuously improve federal operations is, after all, a shared concern that transcends shifts in personnel or politics.

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### Strengthening IRM Leadership and Management

Sound IRM management is essential for realizing potential productivity and effectiveness gains achievable with today's technology. Agency leaders need to make their IRM organization a strong partner in determining how information technology should be applied to best meet the strategic needs of the agency. Doing this involves

three elements: IRM leadership, organization, and resources.

The agency needs a senior-level IRM executive who is familiar with the uses of information technology in simplifying and streamlining business practices and who can devote full attention to this issue. This senior executive needs to be highly placed in the organization so that he or she can work closely with the agency head and senior program managers in analyzing work processes and formulating a strategic plan for information technology needs. Some agencies have formalized this relationship by establishing the position of chief information officer, reporting directly to the head of the organization.

Similarly, the IRM function itself needs organizational placement that appropriately reflects the critical role of information technology in all aspects of agency operations. This means moving the IRM unit out from under general administrative services and making it a unit of its own, reporting to top management. It should be headed by the agency's senior-level IRM executive.

Neither the senior-level IRM executive nor the IRM organization can be effective without adequate staff resources imbued with disciplined approaches for both managing the current technology base and carrying out strategic planning for new technology. Providing these resources is difficult for agencies in lean budget times. But this is a good place to make an investment since the effective use of information technology can leverage major benefits in operational efficiency and service to the public.

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## Experimenting With Change

How can the federal acquisition management and budget process be better tailored to accommodate the uncertainty and complexity inherent in modern, large-scale systems development? The stakes are high, considering the billions of dollars involved in these procurements, the desire to promote competition, and the need to oversee and control expenditures.

Resolving this issue will require the cooperative dedication of the Congress, the executive branch, and the technology industry. No one has answers that satisfy everyone's concerns. It is therefore important that all parties involved have the willingness and flexibility to experiment

with different approaches. For example, multiyear budgeting might be tried on some projects to encourage managers to identify and correct problems early in the acquisition. Such experimentation is particularly appropriate given the rapid pace of innovation in information technology. It may lead to broad-based agreement on better acquisition management models that could help agencies build the information technology base they need to dramatically improve their operations and better serve the American people.

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# Related GAO Products

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Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6, Nov. 4, 1992).

ADP Procurement: Prompt Navy Action Can Reduce Risks to SNAP III Implementation (GAO/IMTEC-92-69, Sept. 29, 1992).

Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77, Sept. 14, 1992).

Perceived Barriers to Effective Information Resources Management: Results of GAO Panel Discussions (GAO/IMTEC-92-67, Sept. 1992).

Tax Systems Modernization: Update on Critical Issues Facing IRS (GAO/T-IMTEC-92-18, May 13, 1992).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14, Apr. 2, 1992).

Resolution Trust Corporation: Corporate Strategy Needed to Improve Information Management (GAO/IMTEC-92-38, Mar. 5, 1992).

Information Resources: Summary of Federal Agencies' Information Resources Management Problems (GAO/IMTEC-92-13FS, Feb. 13, 1992).

Major NIH Computer System: Poor Management Resulted in Unmet Scientists' Needs and Wasted Millions (GAO/IMTEC-92-5, Nov. 4, 1991).

ADP Modernization: Half-Billion Dollar FmHA Effort Lacks Adequate Planning and Oversight (GAO/IMTEC-92-9, Oct. 29, 1991).

Interstate Child Support Enforcement: Computer Network Contract Not Ready to Be Awarded (GAO/IMTEC-92-8, Oct. 23, 1991).

SSA Computers: Long-Range Vision Needed to Guide Future Systems Modernization Efforts (GAO/IMTEC-91-44, Sept. 24, 1991).

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43, June 18, 1991).

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**Related GAO Products**

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Medical ADP Systems: Automated Medical Records Hold Promise to Improve Patient Care (GAO/IMTEC-91-5, Jan. 22, 1991).

Meeting the Government's Technology Challenge: Results of a GAO Symposium (GAO/IMTEC-90-23, Feb. 1990).

Information Technology Issues (GAO/OCG-89-6TR, Nov. 1988).

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December 1992

# Program Evaluation Issues



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Washington, D.C. 20548

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**Comptroller General  
of the United States**

December 1992

The Speaker of the House of Representatives  
The Majority Leader of the Senate

In response to your request, this transition series report discusses a topic that is critical to the effective oversight of government programs: the need for sound, evaluative information on how programs are operating and what they are actually accomplishing. This report, unlike our 1988 transition series report on this topic, cites some examples of good work being done within executive branch agencies. More generally, however, we feel that the attention being paid to evaluation issues is inadequate either for managing programs efficiently or for providing the Congress with the data necessary for informed program oversight.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher

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# The Importance of Program Evaluation

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Over the next few years, the federal government will face powerful opposing pressures: the need, on the one hand, to reduce the federal deficit, and the demand, on the other, for a federal response to some potentially expensive domestic problems (expanding health insurance, restoring the economy, and the like). These pressures are likely to intensify concern with the effective management of federal programs and with the availability of objective information on the results of federal investments. In other words, are the federal officials who administer programs adequately informed about the implementation and the results of those investments? And can they, in turn, adequately inform the President, the Congress, and the nation about what has been accomplished?

Program evaluations contribute systematic information to federal decision-making that has been useful in a variety of ways, such as the following:

- Recent welfare-to-work evaluations funded by the Department of Health and Human Services showed a relationship between the increased employment of program participants and savings to the federal and

state governments achieved through reduced welfare payments.

- Evaluations of chemical weapons demonstrated gaps in the military's capacity to manage and use these weapons and played a major role in the termination of the Bigeye Bomb program and in the successful completion of ongoing arms control negotiations on chemical warfare.
- Evaluations conducted some years ago showed the effectiveness of the Job Corps program in preparing disadvantaged young men and women for employment and were a major contributor to the reauthorization of this expensive intervention.
- The Safe Medical Devices Act of 1990 included a number of provisions that were the direct results of findings in a series of medical device evaluations. Among other things, the act provides for increased recall powers for the Food and Drug Administration and for improved information reported to the Congress.

It is important to recognize that an objective and systematic evaluation function not only serves to protect an agency against wasted resources in the form of inefficient or ineffective programs. There may also be

elements of government programs that are in fact harmful to the well-being of some segments of society—unintended effects that a well-conducted program evaluation could prevent or detect. For example, an evaluation of the likely impacts of proposed immigration reform legislation—suggesting that the proposal would result in long waiting lists and delay the reunification of families—led to appropriate changes in the bill before its enactment in 1990.

If the nation is to have strong, well-managed federal programs that can deal efficiently and successfully with our domestic and international problems and if the President and the Congress are to be adequately informed of progress in meeting those challenges, the numbers and quality of the program evaluations conducted by executive branch agencies must be improved.

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# Rebuilding Capacity

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In our 1988 transition series report, we found that there had been a 22-percent decline in the number of professional staff in agency program evaluation units between 1980 and 1984. A follow-up study of 15 units that had been active in 1980 showed an additional 12-percent decline in the number of professional staff between 1984 and 1988. Funds for program evaluation also dropped substantially between 1980 and 1984 (down by 37 percent in constant 1980 dollars). We have not repeated this survey, but discussions with the departments and the Office of Management and Budget offer no indication that the executive branch investment in program evaluation showed any meaningful overall increase from 1988 to 1992.

Apparently, the effort to rebuild the government's evaluation capacity that we called for in our 1988 transition series report has not been carried out. As in 1988, executive branch agencies have often failed to conduct the program evaluations that would provide officials with knowledge about the effectiveness of their programs. As in 1988, the Congress continues to turn to us and our sister agencies—the Congressional Budget Office, the Office of Technology Assessment, and the Congressional Research

Service—to do studies that might more appropriately be conducted by executive branch agencies. It is our mission to provide credible information to the Congress and to help ensure that the reports the Congress receives are not limited to those from special interest groups. However, we should not, and indeed cannot, do it all.

A first step in improving capacity is for agencies to review the adequacy of their current funding for evaluation. Some agencies, like the Department of Commerce and the Administration on Aging, devote few resources to evaluating their programs. Other agencies—like the Department of Education and the Public Health Service—dedicate major resources to evaluation. In these agencies, the task may be less one of rebuilding overall capacity than of strengthening areas of weakness. For example, the Department of Education conducts many evaluations of its elementary and secondary programs, but the investment at the postsecondary level is irregular in spite of some major ongoing problems. Similarly, some Public Health Service agencies do a great deal of evaluation, whereas others, like the National Institutes of Health, spend only a small percentage of available funds for program evaluation.

Our evaluations help fill the gaps in the information available to the Congress, but there is no substitute for a systematically planned, ongoing effort for an agency to evaluate its own programs. The next sections demonstrate that the limited capacity for program evaluation in the executive branch has some important consequences:

- agencies lack information on the effectiveness of their programs;
- agencies lack data on the targeting and outreach of their programs; and
- agencies need to improve their capacity to make sound decisions on the use of data for policy-making.

We are, however, able to conclude with some examples of promising agency initiatives.

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# The Effects of Many Important Programs Are Unknown

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One of the most significant gaps in program evaluation information from the executive branch concerns program effectiveness. Program effectiveness evaluations show what, if anything, has changed as a result of implementing a program. Limited budget dollars can be more concentrated among programs that have demonstrated effectiveness, while programs with little evidence of effectiveness can be cut or reformed and restructured.

Do participants in federally funded elementary and secondary education programs for disadvantaged children show improvements in educational achievement similar to that of other children? Are federal housing vouchers shown to be effective in helping needy persons who would often not have adequate housing without the vouchers?

In short, is there evidence of some concrete benefit that results from a program that would not have occurred without the program? Program effectiveness evaluations estimate the effects of federal programs using statistical analysis of outcomes (such as educational achievement test scores or condition of housing) for groups of persons

receiving program services compared with similar groups of nonparticipants.

Our response to congressional requests over the last 4 years has yielded the following information on the effects of federal programs.

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## Education

Despite increased attention in recent years to removing the barriers that prevent the full involvement of persons with disabilities in work and other activities, the Department of Education has not evaluated the effectiveness of its \$1.8 billion-per-year program of vocational rehabilitation. Our evaluation using confidential income tax data showed only very modest overall long-term gains in earned income, in contrast to the dramatic short-term employment effects often cited by the program. The Congress has strengthened evaluation in the recent reauthorization of the program. The Department of Education should conduct such studies and help establish the overall impact of the legislation by identifying, for example, how people with certain disabilities have been helped by the program while those with other disabilities may need different assistance than the program has provided.

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The Effects of Many Important:  
Programs Are Unknown

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Health and  
Human Services

The Department of Health and Human Services regularly makes public recognition awards to "promising" drug abuse prevention programs on the basis of reviews that required no hard evidence of program effectiveness. The problem here is that people in other communities could base new programs upon weak models while other, more effective programs go unrecognized. In response to our report, the agency agreed to begin seeking such evidence.

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Health and  
Human Services

To correct perceived widespread abuses of foster care, federal reforms were enacted in 1980 to ensure that the necessity and appropriateness of each foster care placement was periodically reviewed and that families received needed services. A 1989 evaluation found that these reforms had not been completely carried out and that no national evaluations had been performed. This evaluation gap means that children placed in foster care may still be unnecessarily at risk of abuses such as needless delays in returning them to their natural parents.

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Defense

We evaluated the Department of Defense's (DOD) methods for selecting recruits for

training in technical occupational specialties and for assessing the effectiveness of the training. DOD's major selection instrument, the Armed Services Vocational Aptitude Battery, which has been extensively researched over the years, was moderately successful in predicting classroom performance in these more demanding training courses. But in most cases, testing of actual field performance—the end point of the training program—was either nonexistent or inadequate, making it impossible to evaluate the overall effectiveness of the services' training program. Thus, much of the investment that the Department had made in program evaluation was in this case inefficient because the final loop—showing which training programs produce the top performers and thus make the best use of DOD's human resources—had not been closed.

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# Some Agencies Are Poorly Informed About Program Targeting and Outreach

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A second type of program evaluation that is useful—but often not available from federal agencies—concerns questions of program implementation. Agencies should evaluate different aspects of program implementation, such as the proper targeting of programs and their outreach—that is, whether they reach some or all of those eligible.

Analysis of program targeting demonstrates how well the program is reaching its intended recipients (such as determining the extent to which Chapter 1 aid, under the Elementary and Secondary Education Act of 1965, is targeted for and reaches educationally disadvantaged children). Studies of outreach examine participation in federal programs.

Such evaluations help agencies understand why their outreach may not be successful and what barriers may need to be overcome before participation can increase. There are important gaps in agencies' knowledge of the targeting and outreach of their programs.

The limited executive branch evaluations of targeting and program outreach led to congressional requests for us to do work such as the following.

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Health and  
Human Services

The National Cancer Institute is responsible for disseminating information on treatments proven to be effective in the treatment of cancer in experimental situations. An evaluation revealed various blockages in the processes that the Institute used to move breakthrough therapies from clinical trials to the patient. Recommended treatments had not been adopted for many patients in the samples we studied. Consequently, these patients had not received what the Institute considered state-of-the-art treatment.

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Education

Federal student aid is especially intended to help persons of modest means gain access to postsecondary education, but sound information on school costs and the availability of aid has to reach potential recipients in time for them to make crucial decisions about their higher education plans. An evaluation documented both unawareness and incorrect understanding of the program that could have significant effects on the decisions students and parents make. The Congress acted on these findings in revising student aid laws in 1992 to require the Department to make improved information available and to evaluate its impact.

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## Agriculture

We found in reviewing the Department of Agriculture's Food Stamp program that less than half of the households eligible for food stamps participated in the program in the mid-1980s. Evaluators found evidence of a variety of outreach problems. About half of the eligible nonparticipants incorrectly thought that they were ineligible. Almost two-thirds of the eligible nonparticipants cited either a lack of information or program barriers, including administrative "hassles," as the reason for their nonparticipation. These findings suggest that the program should be changed to make food stamps more available to eligible persons who need them.

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## Aging

The Older Americans Act mandates that in the provision of services, the Administration on Aging should target older individuals with the greatest economic or social needs and give particular attention to low-income minority individuals. A program evaluation found that the data collection instrument and methodology used by the agency did not permit the generation of accurate counts of all participants, including targeted populations, in mandated programs and services. The data are thus inadequate to answer fundamental congressional questions

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**Some Agencies Are Poorly Informed  
About Program Targeting and Outreach**

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about the degree to which agency programs target resources to persons with the greatest economic or social needs.

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# Agencies Sometimes Rely Upon Flawed Studies and Ignore or Misuse Sound Analyses

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In 1992, we found some new consequences of the deterioration of the program evaluation capacity of the federal government in addition to the absence of information. In some cases, agencies have conducted evaluation studies, but the information produced is either flawed or improperly used for policy purposes. The studies may be based upon problematic data or analysis, or they may be properly conducted but ignored or misused in the formulation of policy. These problems suggest that management improvements are necessary. Agencies need to review the quality of their data and research more carefully and better integrate the findings from program evaluations and other analyses into agency decision-making.

Examples of inappropriate use—or neglect—of evaluation evidence by federal agencies in recent years include the following.

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## Environmental Protection Agency

An analysis of the shared responsibilities of the Environmental Protection Agency (EPA) and state environmental agencies for managing a national program of hazardous waste found that important information gaps remain. Problematic measurement and data

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**Agencies Sometimes Rely Upon Flawed  
Studies and Ignore or Misuse Sound  
Analyses**

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collection procedures limit the quality of some of the information produced, and the biennial reporting system still does not ensure that the states will collect or report to EPA all necessary data. The result is that it is not possible to determine whether the hazardous waste reduction goals are being met.

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**Multiple Agencies**

We conducted a comprehensive evaluation of four executive branch agencies—EPA, the Food and Drug Administration, the Occupational Safety and Health Administration, and the Consumer Product Safety Commission—to determine how well they were protecting the public from exposure to reproductive and developmental toxicants. There were major gaps in the evaluative information available to these agencies. First, because no accepted federal list of these toxins has been developed, such as that mandated for carcinogens, these agencies have had no index of the most important hazards to reproduction and development. Second, risk assessment for these toxicants has been based upon a flawed threshold assumption: that is, that there is a specific dose level below which no problems occur. However, well-known hazards, such as lead and radiation, are

dangerous at any dose level. Therefore, it appears that current standards for exposure to lead and radiation could be resulting in more developmental problems in children and reproductive problems in adults than would occur under an alternative, nonthreshold approach.

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## Defense

Many unproven assumptions weaken DOD's decision-making in important national security areas. Our evaluation of the U.S. strategic triad found several major examples of assumptions that we found to be either inaccurate or unsupported by available data. In some areas, such as the threat posed by the former Soviet Union, the assumptions grossly overstated what the data actually support. In other areas—for example, the performance of weapon systems—available data instead show understated assumptions. In still other cases, such as specific assertions made by officials, no supporting data were available. Over the past 30 years, DOD has not conducted any comprehensive evaluation of the strategic nuclear triad. The lack of realistic assessments of the threat and the lack of rigorous analysis of the relative performance and merit of the weapon systems has resulted in the

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**Agencies Sometimes Rely Upon Flawed  
Studies and Ignore or Misuse Sound  
Analyses**

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questionable development and procurement of multiple costly modernization programs.

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**Agriculture**

A series of studies examined the accuracy of various price, production, and supply forecasts made by the U.S. Department of Agriculture. Long-term commodity forecasts had large and systematic error rates over the period 1981-88. These errors contributed to a significant underestimate of the commodity program outlay estimates that were made in the President's 1990 budget submission to the Congress. Accurate forecasts are also important for administering such agency programs as acreage reductions and export enhancements. The Department agreed with recommendations to improve forecasting and set up a process to identify, report, and correct errors when they occur.

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**Transportation**

We reviewed the quality and completeness of the analytical efforts supporting the testimony of the National Highway Traffic Safety Administration regarding the impact of continued requirements for automobile downsizing upon highway safety. The agency's finding that more than 1,300 fatalities each year can be attributed to the automobile weight reduction efforts that

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**Agencies Sometimes Rely Upon Flawed  
Studies and Ignore or Misuse Sound  
Analyses**

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began in the 1970s was not supported by available data. Instead, our analyses showed that the automobile weight reductions have had virtually no net effect on total highway fatalities. On the one hand, the very lightest cars have higher fatality rates than the very heaviest. On the other hand, the decreased number of heavy cars on the highways accounts for much of the total car weight reduction that occurred during the time period, diminishing the danger to the occupants of other cars.

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# Some Promising Initiatives Do Exist

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This year, in contrast to 1988, we identified a number of agency evaluations that were well done or work in progress that seems promising.

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## Centers for Disease Control

The Congress requested an independent review of the investigation by the Centers for Disease Control (CDC) into the causes of the HIV infections found among patients of a Florida dentist. We concluded that CDC's research—especially that on genetic sequencing—was well done and our review supports CDC's conclusions that five patients became infected as a result of receiving care from the dentist with AIDS, although the mode of transmission remains uncertain. This review suggests that CDC made an exemplary effort to find and use the best information available at the time.

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## Agency for Health Care Policy and Research

We reported that despite considerable changes in the management of breast cancer treatment since the 1970s, there was no observable improvement in survival. That we were the only organization to examine nationally how well cancer patients fared underscored the fact that there was no federal agency charged specifically to examine health outcomes. That situation

changed in 1989 with the establishment of the Agency for Health Care Policy and Research. Currently, this agency has within its mandate the broad areas of determining the effectiveness of medical interventions, creating medical practice guidelines, and disseminating information on outcomes. This offers the promise of advances in the quality and quantity of information that will be available for making informed, future health care policy decisions.

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Office of  
Personnel  
Management and  
Merit Systems  
Protection Board

In response to concerns in the Congress and among such groups as the National Commission on the Public Service that the quality of the federal professional and technical workforce was declining in the 1980s, we examined the available data and found no significant evaluation of workforce quality either in the major agencies or in the Office of Personnel Management (OPM). However, in response to our 1988 report, OPM and the Merit Systems Protection Board have in the last 4 years developed significant evaluation programs involving measurements of quality among those recruited and retained in a number of key occupations, and an expanded effort is being planned on the basis of a national advisory panel's work.

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## Related GAO Products

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### Importance of Program Evaluation

Bigeye Bomb: Unresolved Developmental Issues (PEMD-89-27, Aug. 11, 1989).

Immigration Reform: Major Changes Likely Under S.358 (PEMD-90-5, Nov. 9, 1989).

Medical Devices: FDA's Implementation of the Medical Device Reporting Regulation (PEMD-89-10, Feb. 17, 1989).

Program Evaluation Issues (OCG-89-8TR, Nov. 1988).

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### Program Effects Often Unknown

Vocational Rehabilitation Program: Client Characteristics, Services Received, and Employment Outcomes (T-PEMD-92-3, Nov. 12, 1991).

Drug Abuse Prevention: Federal Efforts to Identify Exemplary Programs Need Stronger Design (PEMD-91-15, Aug. 22, 1991).

Military Training: Its Effectiveness for Technical Specialties Is Unknown (PEMD-91-4, Oct. 16, 1990).

Foster Care: Incomplete Implementation of the Reforms and Unknown Effectiveness (PEMD-89-17, Aug. 14, 1989).

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Program  
Targeting Often  
Unknown

Higher Education: Gaps in Parents' and Students' Knowledge of School Costs and Federal Aid (PEMD-90-20BR, July 31, 1990).

Food Stamp Program: A Demographic Analysis of Participation and Nonparticipation (PEMD-90-8, Jan. 19, 1990).

Cancer Treatment: National Cancer Institute's Role in Encouraging the Use of Breakthroughs (PEMD-89-4BR, Oct. 20, 1988).

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Failure to Use  
Quality Studies

Summary of the Strategic Nuclear Triad Evaluation (PEMD-92-36R, Sept. 28, 1992).

Reproductive and Developmental Toxicants: Regulatory Actions Provide Uncertain Protection (PEMD-92-3, Oct. 2, 1991).

Highway Safety: Have Automobile Weight Reductions Increased Highway Fatalities? (PEMD-92-1, Oct. 8, 1991).

USDA Commodity Forecasts: Inaccuracies Found May Lead to Underestimates of Budget Outlays (PEMD-91-24, Aug. 13, 1991).

Waste Minimization: EPA Data Are Severely Flawed (PEMD-91-21, Aug. 5, 1991).

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Promising  
Evaluation  
Efforts

AIDS: CDC's Investigation of HIV Transmissions  
by a Dentist (PEMD-92-31, Sept. 29, 1992).

Federal Workforce: A Framework for  
Studying Its Quality Over Time (PEMD-88-27,  
Aug. 4, 1988).

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# Transition Series

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## Economics

Budget Issues (GAO/OCG-93-1TR).

Investment (GAO/OCG-93-2TR).

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## Management

Government Management Issues  
(GAO/OCG-93-3TR).

Financial Management Issues  
(GAO/OCG-93-4TR).

Information Management and Technology  
Issues (GAO/OCG-93-5TR).

Program Evaluation Issues (GAO/OCG-93-6TR).

The Public Service (GAO/OCG-93-7TR).

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## Program Areas

Health Care Reform (GAO/OCG-93-8TR).

National Security Issues (GAO/OCG-93-9TR).

Financial Services Industry Issues  
(GAO/OCG-93-10TR).

International Trade Issues (GAO/OCG-93-11TR).

Commerce Issues (GAO/OCG-93-12TR).

Energy Issues (GAO/OCG-93-13TR).

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Transportation Issues (GAO/OCG-93-14TR).

Food and Agriculture Issues  
(GAO/OCG-93-15TR).

Environmental Protection Issues  
(GAO/OCG-93-16TR).

Natural Resources Management Issues  
(GAO/OCG-93-17TR).

Education Issues (GAO/OCG-93-18TR).

Labor Issues (GAO/OCG-93-19TR).

Health and Human Services Issues  
(GAO/OCG-93-20TR).

Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development  
Issues (GAO/OCG-93-22TR).

Justice Issues (GAO/OCG-93-23TR).

Internal Revenue Service Issues  
(GAO/OCG-93-24TR).

Foreign Economic Assistance Issues  
(GAO/OCG-93-25TR).

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**Transition Series**

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December 1992

# The Public Service



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United States  
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**Comptroller General  
of the United States**

December 1992

The Speaker of the House of Representatives  
The Majority Leader of the Senate

In response to your request, this transition series report discusses a topic that is critical to the successful implementation of the government's programs—the need to acquire and retain a competent and motivated federal workforce. The issues described in this report include modernizing employment practices, enhancing federal workforce management, fully implementing pay reform, and rebuilding a positive public image for the public service to restore public confidence in government and make it an attractive career choice.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Director-designate of the Office of Personnel Management.

A handwritten signature in black ink that reads 'Charles A. Bowsher'. The signature is written in a cursive, flowing style.

Charles A. Bowsher

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# Public Service Issues

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In our 1988 transition series, we reported that the government was faced with a people problem that impeded agencies in their efforts to achieve their missions. We said that the negative image of public service—due largely to years of criticism of federal employees and unethical conduct by government officials—and the inadequacy of federal compensation were significant barriers to attracting and retaining a high-quality workforce.

Important progress has been made in the past 4 years. Criticism of federal employees has subsided somewhat, major ethics reform legislation has been enacted, and a new pay-determining process has been put into place to help narrow the ever-widening gap between federal and private sector pay.

If the government is to be able to attract and retain high-quality people, meet the public's performance expectations, and regain a positive public image, it is important not only to sustain the initiatives begun during the past 4 years but also to respond to other emerging issues.

One such issue is reducing the size of workforces. Federal managers do not always have the flexibility, systems, or processes

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they need to downsize effectively while both meeting their mission requirements and treating employees fairly.

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# Modernizing Employment Practices

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Clearly, the federal government faces stiff competition from other employers, who also want the best and brightest. Competitive dimensions (in addition to pay) include recruiting and hiring processes, benefits structures, and approaches to downsizing when workforces must be reduced. Many employers have more progressive approaches in these areas than the federal government.

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## Improving Recruiting and Hiring

The Office of Personnel Management (OPM) is improving many aspects of the government's recruiting and hiring programs, but significant problems remain.

Federal recruitment efforts at the nation's colleges and universities have been most notable for their absence. Federal employment information at colleges and universities is often inadequate, and service has sometimes been poor at OPM's job information centers. Information on federal job openings is not always available or easy to locate, and the application process remains a mystery to many. OPM needs to continue working with agencies to strengthen federal recruiting efforts, particularly at colleges and universities, and to make information on federal employment

readily accessible nationwide. Closer working relationships among OPM, federal agencies, and college placement personnel and increased involvement by agency program managers in recruitment would also help greatly.

Federal hiring mechanisms are burdensome and complex. Many personnel officers and program managers believe that the time it takes to hire someone is a significant problem. Rules have been designed to ensure merit; increase the employment of women, minorities, and veterans; and give managers some flexibility. However, these rules often do not meet their objectives; sometimes they conflict and overwhelm both managers and applicants.

The government needs a new hiring process, but designing one will not be easy. Federal agencies, the Congress, and other interested parties must all work together to solve this problem. We have ongoing efforts aimed at identifying potential solutions.

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Meeting the  
Changing Needs  
of Our Workforce

Dramatic changes in the demographic composition of the nation's workforce are presenting serious challenges to all organizations in their efforts to be effective,

competitive employers. More and more women are working, and the proportion of families with both spouses in the labor force has increased greatly. Furthermore, the workforce is aging. The median age of the workforce rose by more than 2 years from 34.3 in 1980 to 36.6 in 1990 and is predicted to increase by another 4 years by 2005.

Progressive nonfederal employers are ahead of the federal government in adapting to changing times. For example, flexible benefits are becoming increasingly available in nonfederal organizations but are generally not available to federal employees. Also, unlike employees in many nonfederal organizations, federal employees are generally not permitted to use any portion of accumulated sick leave to care for family members who are ill unless they have a contagious disease. Some companies have begun programs to extend older employees' careers and rehire retirees to fill temporary needs. Other programs that appear to have wide applicability, such as adoption assistance or sick-child care, are available in only a few agencies or for certain employees.

OPM has established a new office to concentrate on work/family issues. This office needs to monitor demographic

changes and develop and promote proposals that will not only enable the government to catch up with other employers but also enable it to become a leader in the work/family arena.

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Equipping  
Agencies to  
Downsize the  
Federal  
Workforce

Organizations often rely on attrition when they need to reduce their workforces. When the size of the reduction needed is relatively small and sufficient time is available, attrition can work well for both the employer and the employee. However, when significant reductions are needed over relatively short time frames, attrition alone may not be enough.

Such is the situation facing the federal government. The Department of Defense (DOD) is in the process of reducing its workforce by over 200,000 by fiscal year 1997 from its level in 1987. Given the federal budget deficit, many civilian agencies could face large reductions as well.

Federal workforce downsizing of the magnitude expected will create a major challenge to delivering quality programs and services to the public. Federal approaches to achieve voluntary reductions have met with limited success. Both managers and

employees have criticized methods for dealing with involuntary employee separations as costly, unfair, and possibly discriminatory.

What is the problem? Unfortunately, there are many. The government has not created sufficient incentives to induce voluntary moves; the process for reductions in force (RIF) is inflexible and has multiplier effects on the number of persons affected; and job placement programs are likely to be hard pressed to place a high proportion of registrants in jobs. Federal managers also claim that the rigid rules for offering early retirement and conducting RIFs often frustrate their attempts to shape a workforce needed to accomplish their agencies' missions.

Recent legislation dealing primarily with DOD downsizing provides new financial incentives to encourage early retirements and resignations; advance notice, expanded job training, and placement assistance to employees facing involuntary separations; and various other forms of transition assistance. It is important that these additional tools be implemented to lessen the financial and emotional effects on displaced employees and minimize adverse

organizational impacts. Civilian agencies also need to be given appropriate tools to deal with downsizing, and all downsizing approaches need to be evaluated to see if they are equitable and do not adversely affect mission accomplishment.

More specifically, the new administration and the Congress will have to address several questions.

- Are additional incentives needed to induce separations among those persons already eligible for early retirement?
- Will the implementation of voluntary separation incentives recently authorized for DOD effectively increase attrition without being discriminatory while allowing managers the flexibility to shape their workforces to meet their needs?
- Should voluntary separation incentives recently authorized for DOD or other incentives be provided to civilian agencies?
- Will current job placement programs be able to match sufficient numbers of displaced employees with other government vacancies

without placing new restrictions on civilian agency managers' discretion in hiring?

- Are statutory and/or regulatory changes needed to minimize the expected adverse impact of involuntary separations on women and minorities?

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# Enhancing Federal Workforce Management

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The public expects and has every right to receive high-quality services at reasonable costs from a government workforce that (1) reflects the people it serves, (2) operates efficiently and effectively, and (3) is held accountable for results. Too often, limited top-management attention or complex and restrictive laws, regulations, and processes have hampered the government's ability to effectively manage its workforce toward meeting these objectives.

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## Intensifying Efforts to Diversify the Federal Workforce

The federal government has made strides toward attaining a workforce that reflects the nation's diverse population, but much more needs to be accomplished. Although women and minorities comprise the majority of the federal workforce at grades 2 through 11, their presence decreases to about 30 percent for grade 13 positions and continues downward to about 17 percent for the Senior Executive Service (SES). Moreover, 1990 federal workforce data show that one or more women or minority groups were underrepresented in 97 percent of 261 key jobs—jobs that lead to middle- and upper-level management positions.

Management commitment at all levels of government and continued monitoring are

needed if the federal government is to achieve a diverse workforce. Agencies frequently do not set measurable affirmative employment goals. At agencies we have reviewed, SES performance workplans do not specifically hold managers accountable for meeting affirmative employment objectives. Specificity is needed to truly gauge how successfully the executives are carrying out their affirmative employment responsibilities. Furthermore, many agencies have submitted late or incomplete program plans to the Equal Employment Opportunity Commission (EEOC). EEOC has often approved these plans even though they lacked such important elements as certain workforce analyses needed to determine progress in achieving a representative workforce.

EEOC must provide stronger leadership. It must work with federal agencies to help them better identify and address barriers to the entry and progression of women and minorities. We have made a number of recommendations to EEOC for improving the government's affirmative employment program. These include the need for better guidance to agencies on required workforce analyses and the need for EEOC to withhold approval of agency plans until substantive requirements are met. EEOC has begun to

address our concerns. It needs to continue to work with agencies to strengthen accountability for results.

Although stronger leadership from EEOC is essential, the President and the Congress need to emphasize to agency heads that they must have programs in place and hold their senior managers accountable for achieving a representative workforce, particularly at higher grade levels.

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Allowing  
Agencies to  
Manage  
Performance  
More Flexibly

The government's performance management system is commonly perceived as not working well. Often, it does not meet its objectives to improve and motivate employees' performance, achieve individual accountability, and instill employees' trust in the assessment process.

One reason is that the government's performance management system has been and continues to be too rigid. Consistent with private sector trends, many federal agencies are beginning to move away from rigid, centralized, and individual-oriented management approaches to the more flexible, decentralized, team-oriented, and customer-based approaches similar to those embodied in the principles of total quality

management (TQM). The government needs to continue moving toward a flexible performance management system that agencies can tailor to their own missions, work environments, and workforces.

Another reason the system is not working well is that the link between performance and pay is considered by many to be too weak to motivate, reward, or penalize employees. For example, many employees believe that the amount of money provided through performance awards is not sufficient to serve as a motivator, and employees who continue to perform poorly over a long period are often not penalized through reductions in pay. Consistent with the principles of TQM, some managers would like to have greater ability to reward team efforts.

In addition, as we noted in our 1988 transition series report on the Public Service, the lack of measurable goals and objectives makes it difficult to know whether important programs and initiatives are succeeding. Our more recent work shows this to be a continuing problem. It is difficult to hold organizations or people accountable without clear results-oriented

goals and good performance measures to gauge progress in achieving those goals.

Performance management is one of the most difficult and complex issues in human resource management. While there appears to be a consensus on what the specific problems are, there does not appear to be a consensus on specific solutions. Thus, the executive and legislative branches need to work on an approach for (1) giving agencies the flexibility they need to develop solutions that will work for them, (2) linking performance and pay in a manner that will better motivate and reward employees, and (3) establishing results-oriented goals and better using performance measures to gauge progress.

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### Improving Labor- Management Relations

Labor-management relations experts as well as agency and union representatives across the country agree that the federal labor-management relations program is not working well. They say that the program is too adversarial and that it suffers from excessive litigation over procedural and minor matters. In addition, processes used to resolve disputes are viewed as too slow and complex.

Comprehensive reform is essential to the effective conduct of the public's business, including implementation of the quality improvement initiatives that emphasize employee involvement and teambuilding being sought by federal agencies. Because the perceived problems are systemic and widespread, convening a panel of participants in the federal program and nationally recognized experts in labor relations could be the best approach for developing a viable reform proposal.

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## Reforming Health Benefits

The Federal Employee Health Benefits Program (FEHBP) is the largest employer-sponsored health insurance program in the United States. In fiscal year 1993, it will provide health benefits for about 9 million federal employees, annuitants, and their dependants at an estimated cost of \$16 billion. Over the years, the Congress, OPM, federal employees, and employee unions have expressed concerns about FEHBP's structure and cost and have called for reform.

The debate on FEHBP reform has appropriately focused on issues related to program design, availability of choice among plans, and cost of health benefits. At the

Congress' request, others have examined and reported on these issues, essentially reinforcing the call for reform. Also at the Congress' request, we have looked at the program's administrative costs, almost all of which are incurred by contractors.

At a cost of over one-half billion dollars annually, contractors' administration of FEHBP is an important consideration. We believe that as much as \$200 million annually could be saved if FEHBP's administrative costs were reduced to the levels of other large health benefits programs we reviewed. However, to achieve savings of that magnitude, it would be necessary to legislate a more uniform benefits structure and allow for the procurement of administrative services under competitive, fixed-price contracts that would periodically be rebid. Currently, benefits vary widely among plans, and OPM uses essentially noncompetitive, self-renewing contracts with carriers.

The new Congress and administration need to continue the debate on FEHBP and reach consensus on reform, including the potential for saving up to \$200 million annually in administrative costs. In the meantime, OPM could save up to \$35 million yearly by better managing administrative costs under the

current FEHBP structure. We believe that more thorough OPM analyses and comparisons of operational costs among plans could identify opportunities for cost savings.

OPM has been responsive to our recommendations but has been hampered by limited staffing in its efforts to better oversee program administrative costs as well as combat fraud and abuse in the program. The Congress and the administration need to work with OPM to ensure that reasonable staffing levels are available.

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### Choosing Between Employees and Contractors

In today's environment of tight budgets, agencies face tough challenges accomplishing their missions. A key issue is whether to use contractors or expand the workforce. This issue has two major components. One relates to the flexibility agencies have to make these decisions. The other relates to the core expertise agencies need to oversee and control contractors.

Federal managers have not often had sufficient flexibility to choose between hiring employees or contractors because of restrictive legislation or personnel ceilings imposed by the Office of Management and

Budget (OMB) or the Congress. Agencies frequently must use contractors even when they believe it would be more appropriate to use employees because of the nature of the work involved or because it would be less costly to use employees.

For example, legislative and budgetary restrictions on the Environmental Protection Agency's (EPA) Superfund Program necessitated the use of contractors rather than employees. According to EPA officials, it is easier to get OMB's approval for contract dollars than for employee positions for various agency programs. Also, personnel ceilings imposed by OMB were a major factor inhibiting the Department of Energy (DOE) from achieving substantial savings by having government employees rather than contractors perform support service functions.

Another problem sometimes faced by agencies, due at least in part to restrictions on hiring employees, is the lack of sufficient staff capability to oversee and control contractors. The lack of this capability has contributed to serious problems in government programs, such as safety problems at nuclear weapons production plants and in the nation's space program.

Although OMB has indicated that it is willing to authorize additional employee positions, the use of personnel ceilings as a control device has left agencies with the perception that OMB is still reluctant to do so. The Congress and OMB need to provide agencies with the authority and flexibility to use government employees rather than contractors when employees would be more appropriate, considering the nature of the work involved, or could more cost effectively carry out agencies' missions.

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# Fully Implementing Pay Reform

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Four years ago, it was generally recognized that inadequate salaries were a primary cause of the government's recruitment and retention problems. In 1990, the Bush administration and the Congress reached agreement on a comprehensive, long-term pay reform program designed to ultimately make federal salaries competitive with the private sector. The program was enacted into law and has been favorably received. The basis for this legislation was well founded, namely, that high-quality people needed to effectively run government programs were finding employment elsewhere.

But budgetary constraints could jeopardize full implementation of pay reform. Achieving a consensus between the administration and the Congress was a long, arduous process that would be difficult to reestablish if the current program were to become sidetracked. Full implementation of pay reform is a key building block of a more effective government and important to the government's ability to attract and retain a highly qualified and motivated workforce. If the size of the workforce, coupled with budget deficits, makes pay reform too difficult to fund, the Congress and the administration may want to consider the

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option of reducing the size of the workforce to allow full implementation of pay reform.

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# Rebuilding a Positive Public Image

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Public respect for and confidence in government have been diminishing. News reports of alleged misconduct by government officials or efforts by former federal officials to influence decision-making have not helped project a positive image of government.

In 1989, the Congress and President Bush forged a consensus on ethics reform in the federal government and enacted the Ethics Reform Act of 1989. The act strengthened federal conflict-of-interest statutes and employee financial disclosure requirements, with a view toward achieving greater uniformity in ethics rules among all three branches of the government. All three branches have also been given additional authority and responsibility to ensure effective program implementation.

Federal agencies in the executive branch have varied in the intensity and effectiveness of their efforts to prevent, detect, and deal with conflicts of interest between employees' official duties and their private interests. The effectiveness of the ethics program has been impeded by insufficient top-management emphasis on implementing effective employee financial disclosure reporting and inadequate review of

employees' activities outside the government.

Agencies' efforts to address employees' conflicts of interest have also been impeded by shortages of staff assigned to review disclosure reports and by the failure of some agencies to require employees holding positions vulnerable to conflicts of interest to file disclosure reports (or to report outside activities). Furthermore, the executive branch's supervising ethics office, the Office of Government Ethics (OGE), has been hampered in its monitoring and enforcement efforts by limited staff and authority. Recent legislation authorized more staff and enforcement powers.

Agency heads must aggressively pursue strong ethics programs, including requirements for producing effective employee disclosure of financial and outside interests and a sufficient number of properly qualified staff assigned to review these interests and ensure that they are appropriate.

Problems with financial disclosure programs also exist in the legislative and judicial branches, so they, too, need to continuously improve their efforts.

Another dimension of strong ethics programs in the executive branch is the willingness and ability of employees to report misconduct without fear of retaliation and with the understanding that their allegations will be properly investigated. Many federal employees do not have this sense. In 1992, about 70 percent of the employees we surveyed reported that they had little or no knowledge about how the whistleblower law protects them and said that they did not know where to report misconduct. One solution to this problem would be to have agencies provide information on where to report misconduct during OGE-required ethics training programs.

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## Related GAO Products

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### Modernizing Employment Practices

Federal Employment: How Federal Employees View the Government as a Place to Work (GAO/GGD-92-91, June 18, 1992).

Federal Employment: Displaced Federal Workers Can Be Helped by Expanding Existing Programs (GAO/GGD-92-86, May 5, 1992).

The Changing Workforce: Comparison of Federal and Nonfederal Work/Family Programs and Approaches (GAO/GGD-92-84, Apr. 23, 1992).

The Changing Workforce: Demographic Issues Facing the Federal Government (GAO/GGD-92-38, Mar. 24, 1992).

Federal Recruiting and Hiring: Making Government Jobs Attractive to Prospective Employees (GAO/GGD-90-105, Aug 22, 1990).

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### Enhancing Federal Workforce Management

Federal Health Benefits Program: Stronger Controls Needed to Reduce Administrative Costs (GAO/GGD-92-37, Feb. 12, 1992).

Government Contractors: Are Service Contractors Performing Inherently Governmental Functions? (GAO/GGD-92-11, Nov. 18, 1991).

Federal Affirmative Employment: Status of Women and Minority Representation in the Federal Workforce (GAO/T-GGD-92-2, Oct. 23, 1991).

Federal Labor Relations: A Program in Need of Reform (GAO/GGD-91-101, July 30, 1991).

Federal Affirmative Action: Better EEOC Guidance and Agency Analysis of Underrepresentation Needed (GAO/GGD-91-86, May 10, 1991).

Performance Management: How Well Is the Government Dealing With Poor Performers? (GAO/GGD-91-7, Oct. 2, 1990).

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Fully  
Implementing Pay  
Reform

Federal Pay: Private Sector Salary Differences by Locality (GAO/GGD-91-63FS, Apr. 29, 1991).

Recruitment and Retention: Inadequate Federal Pay Cited as Primary Problem by Agency Officials (GAO/GGD-90-117, Sept. 11, 1990).

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Rebuilding a  
Positive Public  
Image

Whistleblower Protection: Determining Whether Reprisal Occurred Remains Difficult (GAO/GGD-93-3, Oct. 27, 1992).

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Employee Conduct Standards: Some Outside  
Activities Present Conflict-of-Interest Issues  
(GAO/GGD-92-34, Feb. 10, 1992).

The Public Service (GAO/OCG-89-2TR,  
Nov. 1988).

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# Transition Series

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# Health Care Reform



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United States  
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**Comptroller General  
of the United States**

December 1992

The Speaker of the House of Representatives  
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of health care reform. The issues include (1) access to health insurance for the uninsured, (2) private health insurance market reforms, (3) health care cost containment, (4) administrative simplification, (5) fraud and abuse controls, (6) diffusion and pricing of new medical technologies, and (7) medical malpractice reform.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Medicare Claims (GAO/HR-93-6, Dec. 1992).

The GAO products upon which this transition series report is based are listed at the end of this report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Secretary-designate of the Department of Health and Human Services.

A handwritten signature in cursive script that reads 'Charles A. Bowsher'.

Charles A. Bowsher

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# Health Care Reform

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A key challenge facing the new Congress and administration is finding a better way to manage and finance the U.S. health care system while preserving the high-quality, innovative medical care the United States has achieved. The United States is projected to spend 18 percent of its gross domestic product (GDP) on health care by the year 2000—far more than any other industrialized country. These growing costs are being shared by individuals and the business community as well as federal and state programs. The inexorable rise in health care costs is constraining wage increases and the financial capability of federal and state governments to address other pressing social concerns. We have emphasized that failure to control overall health care costs will stymie efforts to control outlays on Medicare and Medicaid—the fastest growing major programs in the federal budget—and will make it more difficult, if not impossible, to bring the federal budget into balance.<sup>1</sup> Individuals, business, and the government need to work together to tame the cost spiral for health care.

Despite having the highest costs in the industrialized world, our health care system is not serving large portions of our

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<sup>1</sup>See particularly app. III in *Budget Deficit: Appendixes on Outlook, Implications, and Choices* (GAO/OCG-90-5A, Sept. 28, 1990).

population very well. Nearly 34 million Americans are uninsured and millions more are underinsured or fear they might lose coverage if they develop a serious medical condition, lose their job, or change employers.

The Congress has asked us to review approaches developed in American communities and foreign countries that might help explain the root causes of our health care problems and suggest possible solutions. We have examined the experiences of Canada, France, Germany, and Japan as well as U.S. federal programs and state and community initiatives. If the United States is to broaden access and contain health spending, there is a need to consider adopting features common to successful systems that we have observed in other countries and within our own borders.

A reformed U.S. system must also build on the strengths of the nation's current health care system. A strong research establishment, the continuing development of technology, and the capacity to evolve more efficient service delivery mechanisms are among the strengths of the U.S. health care system that should be preserved.

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# Access to Health Insurance for the Uninsured

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Universal access to health insurance is an achievable goal. Countries like Canada, France, and Germany provide high-quality health care to all their citizens, yet spend a considerably smaller share of their nations' resources on health. Within our own borders, Hawaii is the state with the largest share of its population covered by health insurance. Rochester, New York, counts 7.1 percent of its population under the age of 65 as uninsured compared with a national average of about 15 percent. Yet both Hawaii and Rochester have achieved enviable records in terms of health cost containment and the level of insurance premiums.

Universal access to health insurance is not free. Estimates for providing the 34 million persons who are uninsured with health insurance range from \$12 billion to \$27 billion annually. These costs are not the only factor that has made it difficult to achieve universal access to health insurance in the United States. Universal access would also entail major changes in the role of government, the structure of the health finance system, and the financial responsibilities of individuals and employers. An employer mandate would compel businesses to provide or finance insurance for their employees and may add

new costs and responsibilities for many small firms. A Canadian-style system would involve a substantial increase in the share of health care costs financed through the tax mechanism.

The United States is considering a commitment to universal coverage not only because of the needs of the 34 million uninsured but also because such coverage can contribute to both short- and long-term strategies for cost containment. Universal coverage contributes to lowering administrative costs for providers by relieving them of the burden of assessing insurance status before treatment and by limiting losses associated with bad debt. Changes in these two areas would be especially beneficial for institutions such as teaching hospitals and public hospitals in large cities that currently serve large numbers of uninsured patients. Universal coverage also contributes to system efficiency by reducing the need for the uninsured to use more expensive treatment settings such as the hospital emergency room because they are not covered for treatment in less expensive settings. Moreover, adequate coverage for preventive and primary care for chronic conditions can

help avoid more costly and serious treatments in the future.

Universal health insurance coverage is not ensured in all of the comprehensive reform proposals, although all proposals seek to make significant inroads to reducing the uninsured population. National health insurance plans that cover all citizens explicitly solve the problem of the uninsured. Proposals that rely on the existing employer-based insurance model require development of complementary programs to cover the uninsured who are not employed and any employed persons or family members who remain uninsured under the employer-based plans.

For example, Hawaii's mandate that employers provide insurance coverage does not require that health insurance coverage be provided to part-time workers or to family members of insured workers. To address these gaps in coverage and to include the unemployed who are not eligible for Medicaid, Hawaii developed a supplemental state-sponsored insurance plan to extend coverage to these groups. The state estimates that it has reduced the number of uninsured to about 2 percent of its population.

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# Private Health Insurance Market Reforms

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About three-fourths of uninsured Americans are workers or their dependents, and just over one-half of uninsured workers are employed by firms with fewer than 25 employees. Some underwriting and rating practices in the private insurance industry have made obtaining affordable health insurance difficult or impossible under several conditions: when an insured worker, dependent family member, or coworker in the same risk pool develops an expensive medical condition; when a worker changes jobs; or when a firm changes insurance carriers. If comprehensive reform is based on the current employer-based private insurance system, reforms of insurance practices that affect people in these situations are essential.

Two broad types of health insurance reforms would be needed—those designed to improve availability and those designed to improve affordability. Reforms related to availability guarantee that insurance will be available to all eligible members of employee groups through

- guaranteed issue of policies to all employer groups and their eligible members,

- guaranteed renewal of policies that eliminate or restrict the capacity of insurers to cancel policies because of medical history or to introduce new policy exclusions at the time of renewal, and
- guaranteed continuity of coverage when employers change insurers, employees change jobs, or insurers become insolvent or discontinue offering health insurance.

Because insurance may be available but still priced out of the reach of small businesses, affordability also needs to be addressed through

- restricting factors used in setting rates, such as health status and previous claims experience, and
- limiting the range of premiums a single insurer can charge for customers with different risk characteristics.

These types of reforms are needed to ensure that private insurance products are available to everyone under employer-mandated coverage plans. However, such reforms can be a double-edged sword. While they would increase availability and reduce insurance premiums for higher-risk groups that have

been excluded from the market, the reforms would generate higher premiums for those currently insured in lower-risk groups who would share in the costs of the extended coverage.

The net effect of insurance market reforms alone on reducing the ranks of the uninsured is unclear. States have introduced a number of these reforms in the last few years. Early experience suggests that such reforms have had a modest effect on reducing the ranks of the uninsured when coupled with limited subsidy programs and state assistance to risk pooling.

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# Health Care Cost Containment

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The call for control of health care costs is now heard throughout U.S. society. Expanding insurance coverage to the uninsured would make cost control more urgent, but even without that additional spending, the upward sweep of health care costs is threatening the financial position of businesses, individuals, and governments.

Cost control entails some force that disciplines the decisions of consumers and providers. As a result, cost control means that some segments of society will receive less. Providers (such as physicians and hospitals) will have lower revenues than if present trends continue. Consumers may face less choice among providers, and the rate of improvement in medical technology may slow.

Nonetheless, cost control is imperative. Without it, the problem of the uninsured will likely worsen as the unchecked rise in the cost of insurance puts it out of the reach of more and more people. Moreover, lack of cost control will aggravate the budgetary squeeze on the federal and state governments. How to control costs with the fewest adverse effects on the population is the challenge.

Among the many proposals for achieving cost discipline in U.S. health care, two broad strategies are currently most prominent: managed competition and direct controls. Both would use government regulation, although in quite different ways. The two strategies differ in the extent to which they rely on market forces and in the extent to which they have been tested in practice. Managed competition would give regulation a competition-enhancing slant by establishing a complex set of rules within which competition can occur. After restructuring the marketplace, the government would play umpire for insurers, providers, and beneficiaries while letting competition exert discipline and rein in health care costs. The second strategy, direct controls, would require public (or quasi-public) authorities to set health care prices, limit overall spending, and regulate the spread of new technology.

The strategy of managed competition is evolving, and its various proponents sometimes define it in different ways. Nonetheless, they agree on blending federal regulation with incentives and private initiative to create a cost-conscious discipline for hospitals and physicians. Also, current proposals assume heavy reliance on

managed care health plans, such as health maintenance organizations (HMO) and preferred provider organizations (PPO), that try to encourage efficiency by placing providers at risk for health costs, using administrative processes to attempt to control services, or both.

In designing a practical system of managed competition, two questions are pivotal:

- First, can rates for health care plans be set so that insurers are not rewarded for “cream-skimming”?

Under current arrangements, a company offering health insurance makes more money by attracting people who are healthier than average and by not insuring bad health risks. Whether a system of managed competition could prevent cream-skimming—which would undermine the system—is much debated. Our work on Medicare’s rate-setting for HMOs illustrates the difficulty of the task.

- Second, would managed competition achieve cost savings at the expense of quality?

To prevent this, the proponents of managed competition stress the need to create new sources of information about the quality of health care. How quickly such information could be generated and how consumers would use it are, however, open questions. Our work on HMOs for Medicare enrollees shows that quality assurance is needed to avoid abuses due to cost-cutting.

The strategy of managed competition is appealing to many. The Netherlands, for example, is in the early stages of implementing a particular version of the strategy. But evaluating the likely effectiveness of managed competition is hampered by lack of a real test, abroad or within an American state, in which a system of managed competition could be observed. Some research on states with relatively strong competition among HMOs and other managed care providers is mildly encouraging. Nonetheless, these states have not implemented managed competition, so it is difficult to draw conclusions from them about how much a managed competition system would flatten the trend in costs.

The alternative approach, direct controls, uses fee schedules and other price controls,

spending targets and caps (sometimes called “global budgets”), and controls on the dispersal of new technology. Our analysis of these controls also reveals both strengths and weaknesses.

Direct controls have been employed in many different settings and have been implemented in a variety of ways. For example, direct controls are used systemwide in countries with many insurers (such as Germany) and with a single insurer (Canada). In the United States, direct controls are used at the federal level (Medicare uses a fee schedule and has introduced a spending target for physicians’ services), at the state level (Maryland sets hospital rates), and at the local level (Rochester, New York, has used global budgets for hospitals).

In addition, direct controls have, with different degrees of success, restrained health care costs. Our studies of American and foreign health care provide evidence on the effectiveness, in particular, of spending controls and price controls. Thus, we found that the cost containment strategy used in Rochester, New York—which included global budgets—seemed to have slowed the rise in hospital costs. For France and

Germany, our analysis showed that targets and caps slowed the rate of spending increases compared with what would have happened without these policies. Our analysis also confirmed that the strength of enforcement is important: In Germany, spending caps have replaced targets, which were more weakly enforced, and the caps have proved more effective in limiting spending.

Direct controls on prices also have been relatively effective in containing costs. As our analysis showed, U.S. states that have set rates for hospital services to which all insurers in the state must adhere have slowed the growth in their per capita health spending. In addition, Medicare, which uses a variant of price controls in reimbursing hospitals, has slowed the rise in its costs for hospital services. Other countries' experience with price controls is generally consistent with these findings for the United States.

Direct controls are not a panacea, however. Even viewed just in terms of cost containment, they do not eliminate all spending pressures. Moreover, direct controls can hamper efficiency and retard innovation. Budgeting procedures may not

reward efficient providers and insurers and may not penalize inefficient ones. Spending caps and targets may freeze the prevailing system of delivering health care and discourage innovations like managed care. Budgets may adapt too slowly to changes in technology, the demographic mix of patients, and methods of delivering care. Price controls can slow or block a needed shift of resources, say from one specialty to another, when demand or supply conditions change. To some extent these difficulties can be mitigated, but still they must be weighed when the choice of a spending control strategy is made.

In sum, neither managed competition nor direct controls is without drawbacks. Indeed, some analysts and policymakers are crafting proposals that combine the market-oriented advantages of managed competition with the extra cost discipline of direct controls—specifically, a cap on overall health spending. These hybrid plans are too sketchy as yet for observers to determine whether the two strategies can be blended, or how effective such a hybrid system might be.

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# Administrative Simplification

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In the United States, nearly 6 percent of total health expenditures in 1989 were accounted for by the administration of government health programs and private insurers. In sharp contrast, Canada spends about one-fifth as much proportionately on these insurance overhead functions. In addition, U.S. providers spend billions of dollars each year for billing and other administrative activities directly attributable to our system of financing health care. Providers in Canada, Germany, France, and Japan incur lower costs, in part because they deal with a more unified payment mechanism. While considerable debate continues about the precise magnitude of the potential savings in administrative overhead and providers' administrative burdens associated with specific reform proposals, there is general agreement that significant savings can be achieved in this area.

Administrative expenses for private insurance plans average about 12 percent, but they can be as high as 40 percent of claims costs for individual and small group plans. When multiple insurers market a range of plans differing in scope of coverage, the result is significant overhead costs to cover claims processing and marketing. While a wide range of insurers and plans

may create greater consumer choice and greater responsiveness to consumers' needs, this wide range is part of the reason for higher administrative costs. Physicians, hospitals, and other providers must expend resources on billing and administrative procedures to deal with the fragmented payment system.

Almost all reform proposals attempt to achieve cost savings by reducing administrative costs through one or more of the following approaches:

- combining large numbers of employers into large insurance-buying cooperatives to achieve administrative economies,
- defining a single or limited number of basic insurance plans to reduce marketing costs and the burden on providers,
- developing standardized claims forms and billing procedures for all insurance plans and providers,
- eliminating insurance underwriting activities,
- eliminating deductibles and copayments to eliminate the need for providers to issue bills,

- using more inclusive methods for reimbursing providers, such as global budgets, and
- using a single payer with uniform payment rules and procedures in each market area.

Canada, for example, achieves substantial administrative savings through a combination of a single payer with uniform payment rules and elimination of all deductibles and copayments. The United States might achieve a similar level of administrative savings if it adopted a Canadian-type reform, but the savings could be largely offset by the additional use of services associated with the elimination of deductibles and copayments. Alternatively, the United States could retain deductibles, copayments, and utilization review activities. This approach would reduce potential administrative savings but result in greater control over potential costs associated with increased use of health services. If the United States should choose a system that depends on employer-based private insurance, some level of administrative savings could still be achieved through a combination of the other approaches described above.

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# Fraud and Abuse Controls

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The United States may want to invest more, rather than less, in the administrative resources required for detection of fraudulent and abusive practices by health care providers. Estimates vary widely on the losses resulting from fraud and abuse, but the most common is about 10 percent of total health care spending or about \$80 billion annually. Only a token amount of administrative resources are devoted to detection and elimination of fraudulent and abusive practices.

Both public and private health insurance programs are subject to fraud and abuse but separately appear unable to combat it successfully. Our work suggests that fraud and abuse may be even more prevalent in privately insured programs, in which control efforts have not been as prominent and data systems are more fragmented. Indeed, federal health care programs have taken the leadership role in prevention of such practices. While a simpler and more uniform payment and administrative system may make it easier to detect potential fraud and abuse, we believe that investing the needed resources in designing the administrative structure and continuing surveillance to limit the potential for such practices is essential. These issues are discussed more fully in our

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related report, Medicare Claims (GAO/HR-93-6, Dec. 1992).

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# Diffusion and Pricing of New Medical Technologies

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The rapid spread and increased use of new medical technologies has been relatively unrestrained in recent years and has given health spending added momentum. Technological advances have sometimes led hospitals to participate in a medical “arms race,” as they acquire expensive technology and seek to keep patients and doctors from shifting to rival hospitals.

Once declared eligible for reimbursement, third-party payers—business, government, and private insurers—have primarily shouldered the financial burden of these technological advances. However, insurers’ payment policies have not always encouraged efficient and prudent use of these medical services. Instead, insurers have left themselves vulnerable to excessive spending by giving providers incentives to be wasteful or abusive in offering medical services. In particular, our work has shown that in some cases, insurers have not adjusted payment rates to reflect the effect of maturing technology on costs.

The challenge for policymakers is to find ways to encourage development of new technologies while ensuring their efficient use. This can be accomplished through

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**Diffusion and Pricing of New Medical  
Technologies**

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payment policies that reflect the costs  
incurred by high-volume, efficient providers.

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# Medical Malpractice Reform

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Savings in addition to those stemming from comprehensive health care reform can be achieved through fundamental changes in the U.S. medical malpractice system. The United States faces higher costs for medical malpractice insurance and associated defensive medicine costs than other nations.

U.S. medical malpractice premiums are estimated to be only about 1 percent of total U.S. health care costs. There is considerably wider variation in estimates of the potential additional costs of defensive medicine—diagnostic tests and procedures performed solely to protect physicians in the event a malpractice claim is filed. The American Medical Association estimated the costs of defensive medicine at \$20 billion in 1991. Moreover, physicians want relief, not only from the financial burdens of malpractice, but also from its emotional burdens.

Cost reduction should not be the sole basis for malpractice reform. Malpractice reform also should be directed toward providing better access to compensation for those who are injured. Arbitration and no-fault programs have been implemented in various states as an alternative to a complex and expensive court process. Many of these

programs also incorporate local practice guidelines that, although not an absolute defense, provide evidence in a judicial process that accepted medical protocols were followed. Furthermore, hospitals and other medical settings are adopting risk-management programs that are expected to improve the quality of care. We believe these efforts should continue to be studied and, when positive effects are demonstrated, should be considered in conjunction with comprehensive health care reform.

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# Observations About Health Care Reform

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Reform of U.S. financing of health insurance and payment of health care providers is a daunting task. U.S. health care is an \$800 billion enterprise that is diverse, complicated, and dynamic. Achieving reform will be particularly difficult because, to many people, reform seems to threaten a good situation. People whose health insurance is adequate and whose health care is good may fear that reform will result in diminished care or higher costs for them. For providers as well as consumers, reform of the health care marketplace will cause a considerable reshuffling and generate losers as well as winners.

Moreover, reform will not produce a structure that is perfect. Our reviews of the health systems of other countries shows that after putting major reforms in place, these countries continue to seek ways to improve their systems. We believe that the imperfections of any reform—and the dynamic character of the health care industry—make a stream of further changes inevitable in the years ahead. However, there may be greater risks in not undertaking comprehensive health care reform. Without reform, costs will continue to escalate while a substantial number of Americans lack access to health insurance.

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## Related GAO Products

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### Alternative Health Care Systems

Health Care: Rochester's Community Approach Yields Better Access, Lower Costs (GAO/HRD-93-44, forthcoming).

Access to Health Care: States Respond to Growing Crisis (GAO/HRD-92-70, June 16, 1992).

Health Care Spending Control: The Experience of France, Germany, and Japan (GAO/HRD-92-9, Nov. 15, 1991).

Canadian Health Insurance: Lessons for the United States (GAO/HRD-91-90, June 4, 1991).

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### Health Care Costs

Hospital Costs: Adoption of Technologies Drives Cost Growth (GAO/HRD-92-120, Sept. 9, 1992).

Medicare: Excessive Payments Support the Proliferation of Costly Technology (GAO/HRD-92-59, May 27, 1992).

Health Care Spending: Nonpolicy Factors Account for Most State Differences (GAO/HRD-92-36, Feb. 13, 1992).

U.S. Health Care Spending: Trends, Contributing Factors, and Proposals for Reform (GAO/HRD-91-102, June 10, 1991).

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Health Insurance

Employer-Based Health Insurance: High Costs, Wide Variation Threaten System (GAO/HRD-92-125, Sept. 22, 1992).

Access to Health Insurance: State Efforts to Assist Small Businesses (GAO/HRD-92-90, May 14, 1992).

Private Health Insurance: Problems Caused by a Segmented Market (GAO/HRD-91-114, July 2, 1991).

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Fraud and Abuse

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