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December 1992

Natural Resources Management Issues





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

**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 natural resources management. These issues include (1) maintaining facilities and lands and staffing programs under increasing budgetary constraints, (2) seeking a better return for the sale or use of natural resources, and (3) establishing national policies for natural resources in the 1990s.

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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Natural Resources Management Issues

Vital for economic, ecological, and cultural reasons, natural resources on federal lands comprise vast reserves of fuels and other minerals, timber, rangeland, water, habitat for fish and wildlife, recreation areas, areas of scenic beauty, historic and cultural sites, and artifacts. Managing and protecting these resources, as well as managing the vast infrastructure—including buildings, roads, trails, bridges, developed sites, water and sewer systems, dams, and other facilities on federal lands—associated with them, are primarily the responsibility of the Department of the Interior, the Department of Agriculture's Forest Service, and the U.S. Army Corps of Engineers. Together, these agencies hold and are responsible for almost 30 percent of the country's land surface, rights to minerals beneath even more of the country and beneath 1.4 billion acres of ocean floor, and 12,000 miles of commercial navigation channels. For fiscal year 1993, budget authorities for managing natural resources total about \$16.6 billion. In fiscal year 1992, these resources generated an estimated \$6.9 billion in receipts to the federal government.

In our 1988 transition report, we concluded that the most pressing overall need at that time was for the Department of the Interior

to become a more effective steward by better balancing competing demands on the natural and cultural resources it is legislatively mandated to foster, protect, and preserve. We pointed out that billions of dollars would be needed to stop the continued deterioration of, and prevent possibly irreversible damage to, the nation's natural and cultural resources. Though the Department of the Interior and other responsible agencies have not always agreed with our positions, a number of changes have been made. Budgetary constraints, however, will slow the pace of change and will require difficult trade-offs among important yet competing priorities.

Our 1988 report also concluded that the Department of the Interior had not always fulfilled its fiduciary responsibility of collecting the revenues due the government or taken advantage of opportunities to increase revenues. Since then, various amendments have been proposed and bills introduced to ensure a better return for the sale or use of natural resources on federal lands. With few exceptions, however, these reforms have not been enacted. According to estimates prepared by the Congressional Budget Office, legislation to ensure a better return could generate an additional \$4.5

billion in revenues and savings in fiscal years 1993 to 1997.

Finally, a number of key decisions about the management of the nation's natural resources have been left to the 103rd Congress. Resolving the issues involved will go a long way in establishing national policies for natural resources in the 1990s.

Setting Priorities Under Budgetary Constraints

The management of the nation's natural resources is at a crossroads. While the infrastructure on federal lands that is associated with natural resources is expanding yearly, the existing infrastructure and lands, approaching \$200 billion in value, are in a growing state of disrepair. At the same time, agency staff are being asked to assume increasing responsibilities and to perform more duties. As a result, existing maintenance and reconstruction standards are being compromised and trade-offs are being made among important yet competing work priorities.

Although annual appropriations for managing natural resources have increased in recent years, these increases have not been large enough to make a dent in the needs for the infrastructure and staffing. Moreover, in fiscal year 1993, appropriations for managing natural resources dropped by 1.3 percent from the previous fiscal year, and the Budget Enforcement Act of 1990 will require substantial cuts to discretionary spending in fiscal years 1994 and 1995 with no allowance for new or deferred needs. As a result, the new administration now faces a difficult choice: It must find new sources of funding for the agencies responsible for managing natural resources and/or find ways

for these agencies to operate more efficiently, or it must make further cutbacks in the services they provide and/or their standards for maintaining facilities and lands.

**Cumulative
Shortfall at the
Department of
the Interior**

In 1988, we reported a \$1.9 billion cumulative shortfall in funds for park maintenance. In its fiscal year 1993 budget request, the Department of the Interior reported that the deferred maintenance of parks will now cost over \$2.1 billion. In addition, the Department identified a growing backlog in the maintenance and reconstruction of the Bureau of Land Management's (BLM) \$400 million infrastructure of facilities. Additional funding requirements include

- an unquantified need for improvements to the 337 dams built by the Bureau of Reclamation since 1902;
- an estimated \$27 billion shortfall between (1) the estimated costs to reclaim lands around surface coal mines abandoned before 1977 and (2) the fees collected for this

purpose when the authority to collect such fees expires in 2004; and

- an estimated \$283 million to reclaim about 280,000 acres of abandoned, suspended, or unauthorized hardrock mining operations on federal lands.

**Forest Service's
Assets Continue
to Deteriorate**

As we reported from September 1989 through January 1991, the Forest Service will require

- at least \$644 million to eliminate the backlog of maintenance and reconstruction of trails and developed recreation sites and
- millions of dollars more to develop and maintain special recreation and wilderness areas in accordance with current standards.

**Corps' Water
Resources
Projects Are a
Vital, but Aging,
National
Resource**

By the turn of the century, many of the structures in the Corps of Engineers' vital, but aging, \$125 billion inventory of water resources projects will have reached their design life, according to the Corps. The major structures have an average age of 33 years, and 12 percent of the projects are over 50 years old. As a result, major rehabilitation projects will become increasingly important and costly in the near future.

Significant
Staffing and
Funding
Shortfalls Have
Been Reported

We, as well as others, have identified significant shortfalls in the staffing and funding for natural resources management, including the following:

- In 1987, 267 National Park Service unit managers reported needing a 35-percent increase in maintenance staff to eliminate the growing backlog of deferred maintenance.
- In 1990, BLM reported needing a 50-percent increase in its range management budget to restore riparian areas damaged by overgrazing, detect and deter unauthorized grazing, and collect and analyze data to determine appropriate grazing levels. BLM also has reported needing additional staff and/or resources to (1) verify oil and gas production, (2) complete and implement legislatively mandated land-use plans and related environmental impact statements used to guide the management of the public lands, and (3) implement the objectives envisioned for wildlife in the land-use plans that have been completed.
- In recent years, the Fish and Wildlife Service (FWS) has pointed to insufficient staffing or resource constraints as a primary reason for its inability to (1) list, in a timely manner,

about 600 domestic species for which it has adequate information to support their protection under the Endangered Species Act and (2) even minimally deter crimes against wildlife. Moreover, many of FWS' special agents are deskbound for months at a time because of insufficient operating funds.

- In 1991, we reported that despite recent increases in the Forest Service's appropriations, funding and/or staffing levels were not sufficient to (1) bring recreational sites up to the condition called for by the Service's development plans and maintenance standards, (2) conduct the monitoring necessary to identify improper grazing and devise remedies, or (3) implement wildlife-beneficial actions included in approved land-use plans.
- Funding and staffing shortfalls have adversely affected the federal government's efforts to control the use of wetlands. The shortfalls have inhibited enforcement activities, impeded the Corps' ability to establish wetlands' boundaries, and often precluded the Corps from meeting established goals for timely processing permits for projects that may alter wetlands. Budgetary constraints have also hampered

**Setting Priorities Under Budgetary
Constraints**

the ability of the Environmental Protection Agency, FWS, and the Department of Commerce's National Marine Fisheries Service to visit proposed project sites, comment on permit applications, and follow up on the Corps' decisions about permits to see if their recommendations were adopted.

Ensuring a Better Return for Natural Resources

For the agencies managing natural resources, one alternative for addressing the declining condition of the nation's natural resources and related infrastructure is to obtain new sources of funding. It seems reasonable to expect that in these times of budgetary constraints, the federal government should (1) seek a better return for the sale or use of the mineral, renewable, and other natural resources on its lands; (2) cover programs' costs to the extent reasonable and make some programs revenue producers rather than contributors to the national debt, as they are now; and (3) provide a revenue base that can be used to better manage and improve federal lands so that they will remain a viable public resource in the future.

According to estimates prepared by the Congressional Budget Office (CBO), legislation to ensure a better return for the sale or use of natural resources on federal lands could generate an additional \$4.5 billion in revenues and savings in fiscal years 1993 to 1997. Legislative precedent exists for returning revenues to the managing agencies or units to supplement, rather than supplant, yearly appropriations. This could help reduce the need for further cutbacks in the services provided and/or the standards to

which the facilities and lands are maintained.

We believe that the Congress and new administration should consider a number of situations in which it appears that the government could receive a better return, including the following:

Hardrock Minerals

- Valuable federal lands continue to pass into private ownership for a fraction of their value. Over the last 120 years, the federal government has sold about 3.2 million acres of public lands, or an area about the size of Connecticut, under the patent provision of the Mining Law of 1872. This provision allows holders of economically minable claims to obtain all rights and interests to both the land and the minerals by patenting them for \$2.50 or \$5.00 an acre—an amount that approximated the fair market value for western grazing land and farmland in 1872. As a result, some patent holders have reaped huge profits at the government's expense. For example, between 1970 and 1983 the government received less than \$4,500 for 20 patents that in 1988 were estimated to be worth between \$13.8 million and \$47.9 million.

- The government receives no financial compensation for hardrock minerals extracted from federal lands. In 1990, hardrock minerals worth at least \$1.2 billion were extracted from federal lands, while the known, economically recoverable reserves of hardrock minerals that remained on federal lands were valued at \$64.9 billion.

Federal Water

- Some farmers have taken advantage of a loophole in the Reclamation Reform Act of 1982, as amended, by reorganizing their large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities, such as partnerships or corporations, can irrigate with federal water at rates that exclude any interest on the government's investment in the irrigation component of its water resources projects. The act has not, however, stopped the flow of federally subsidized water to land above the 960-acre limit that is being operated as one large farming operation. Consequently, the federal government is not collecting the revenues to which it would be entitled if the multiple landholdings were considered collectively as

large farms subject to the act's 960-acre limit. The foregone revenues from one large farming operation alone are about \$2 million a year. Such revenues are likely to remain uncollected unless the act is amended.

- By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only \$10 million, or 1 percent, of the over \$1 billion in construction costs that they owe the federal government. Amendments to the CVP's purposes in 1986 require irrigators and other users to pay their share of the federal investment in the CVP by 2030. Under the terms of the long-term water contracts currently being renewed by the Secretary of the Interior, the Bureau of Reclamation can adjust each water district's rates annually to meet the deadline. While the Bureau may ultimately recover its construction costs by 2030, the dollars that eventually flow to the U.S. Treasury could be worth much less than if they had been repaid sooner—as inflation decreases the money's value and as opportunities to use the money for other, productive purposes, such as reducing the federal debt, are lost.

- Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled \$534 million in 1986, while the Bureau of Reclamation placed the cost at \$2.2 billion. (Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for compounding unpaid interest.) Much has changed in the West since the subsidies were established in 1902, and it is not known whether the subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.
- The use of federally subsidized water to produce federally subsidized crops results in the federal government's paying double subsidies. According to the Department of the Interior, between 1976 and 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide was used to produce crops that are also eligible for subsidies through the Department of Agriculture's commodity programs. The Department of the Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled \$203 million in 1986.

Other estimates are higher. For example, the Bureau of Reclamation placed the figure at \$830 million.

Recreation
Lands

- In 1989, according to available financial information (which was complete for about 60 percent of the 9,000 concession agreements identified by six federal agencies), the federal government received about \$35 million in concession fees from gross concession revenues of about \$1.4 billion. This amount represents an average return to the government of about 2 percent.
- Under land-use agreements with nonfederal public entities, the Bureau of Reclamation has agreed to the long-term use of some of its lands with no compensation to the federal government. The nonfederal public entities, in turn, develop and lease the lands to private commercial operators in exchange for a percentage of their gross revenues. For example, the Bureau agreed that the city of Scottsdale, Arizona, could use about 760 acres of its land for 75 years for recreation development. The city developed two major recreation facilities on the land and subsequently leased them to private commercial operators. The operators of

these facilities generated about \$24 million in gross revenues from 1988 through 1990, and the city was entitled to receive about \$1.5 million in compensation. Although Bureau headquarters officials were unable to tell us the extent to which the agency has used these agreements, we identified three other similar agreements in Arizona that the Bureau had approved.

- Improved pricing of user fees at recreational sites could help defray direct costs to the government, shift the cost burden from the taxpayers in general to the beneficiaries of the services, and alleviate overcrowding at many sites. Entrance and user fees are charged at some sites, but the fees generally cover only a small portion of the costs for the services provided to visitors. For example, in 1992, the National Park Service spent an estimated \$220 million on services for visitors but recovered only an estimated \$60 million in fees. According to CBO, requiring federal land managing agencies to charge fees to cover the costs for services would generate \$170 million in fiscal year 1993 and \$950 million over 5 years.

Public Rangelands

- The fees charged ranchers to graze livestock on public lands do not cover either the

government's cost to manage the grazing program or the cost to better manage and improve the lands so that they will remain a productive public resource in the future. Thus, the fees may represent a subsidy for many of the ranchers who graze livestock on about 268 million acres of public lands. CBO estimates that an annual increase in grazing fees not to exceed 33.3 percent a year, with the fees reaching fair market value in 4 years, would increase federal receipts by approximately \$120 million over fiscal years 1993 to 1997.

Timber

- The government does not always recover its expenses for preparing and administering sales of timber, resulting in below-cost sales. For example, in fiscal year 1990, under our most conservative definition of costs, \$35.6 million in such expenses went unrecovered. These expenses range as high as \$112.2 million when all costs are considered. While the Forest Service has acted to reduce losses from below-cost timber sales, many such sales are still not subject to review. CBO estimates that the net savings in federal budget outlays over fiscal years 1993 to 1997 would be about \$230 million if all future timber sales were eliminated in three of the Forest Service's

nine regions where, on average over the last decade, cash expenditures have exceeded cash receipts by a 3:1 ratio.

**Inland
Waterways**

- The government does not impose user fees that are high enough to recover the cost of operating and maintaining the nation's system of inland waterways. CBO estimates that taxpayers, not users, paid \$700 million of the about \$800 million that the Corps of Engineers spent to construct, operate, and maintain the nation's system of inland waterways in fiscal year 1991. According to CBO, imposing user fees high enough to recover the cost of operating and maintaining the system would reduce the federal deficit by \$350 million in fiscal year 1993 and by \$1.9 billion through fiscal year 1997. CBO also notes that higher fees would increase efficiency. Reducing subsidies to water transportation should (1) improve the allocation of resources by leading shippers to choose the most efficient transportation route rather than the most heavily subsidized one and (2) encourage more efficient use of existing waterways, reducing the need for new construction to alleviate congestion.

Sharing
Revenues
With States and
Counties

- Federal land-managing agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before the agencies share the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis sometimes causes the costs of the programs to exceed the federal government's share of the revenues. According to CBO, changing revenue-sharing from a gross-receipt basis to a net-receipt basis would reduce net federal outlays by \$1.05 billion over fiscal years 1993 to 1997.

Balancing the Conservation and Use of Natural Resources

The most difficult challenge concerning natural resources that faces this or any other Congress and administration is fulfilling the federal government's responsibilities as a steward of the nation's natural resources by providing the proper balance between their use and conservation for future generations. Achieving this balance has been likened to steadying a pendulum that could swing between two extremes—irresponsible consumptive use and preservation to the exclusion of all other uses.

Where this pendulum rests at any given time depends, to a large degree, on policy decisions. The 102nd Congress has left some thorny legislative issues for the next Congress, among them the Endangered Species Act, the Clean Water Act, and various proposals to designate additional areas as wilderness. Resolving these issues will go a long way in establishing national policies for natural resources in the 1990s.

The Endangered Species Act

Since 1966, when the first act was passed to protect species threatened with extinction, the pendulum has periodically swung between increased protection and the need to soften the law's economic impact. Under the Endangered Species Act of 1973,

economic factors may not be considered in listing a species as endangered or threatened or in consultations with federal agencies proposing activities that may affect listed species; these actions must be based solely on biological data. Economic and other nonbiological factors, however, may be considered when making other decisions, including designating habitat critical to the species' protection and granting exemptions from the act's protective provisions.

The June 1990 listing of the Northern spotted owl and the listing's current and potential impact on commercial logging in the old-growth forests of the Pacific Northwest and the listing of three species of Columbia River Basin salmon in fiscal year 1992 and the potential economic costs associated with their protection have again riveted national attention on the act's reauthorization. Spending authorization for the Endangered Species Act expired at the end of fiscal year 1992. Rather than reauthorize the act for 5 years, as it has often done in the past, the Congress authorized spending for 1 more year under the Department of the Interior's fiscal year 1993 appropriations bill and appropriated money for the National Academy of Sciences to study the act. Ultimately, the new Congress will have to

decide the extent to which economic and other nonbiological factors, including the need to compensate owners whose property loses value because of the act, should be considered in making decisions about endangered and threatened species.

The Clean Water Act

Controversy over proposals to amend section 404 of the Clean Water Act of 1977—to better balance the need to protect wetlands with the rights of private property owners—delayed the reauthorization of the act. Although section 404 is just 1 of at least 25 federal laws that affect wetlands, it provides the primary legislative authority behind federal efforts to control their use and has become a major regulatory and environmental issue in recent years.

Wetlands provide vital habitat for fish and wildlife and offer numerous other benefits. However, according to the Fish and Wildlife Service (FWS), the contiguous 48 states lost an estimated 53 percent of their original 221 million acres of wetlands over the 200 years from the 1780s to the 1980s. FWS' most recent estimates suggest that these states continue to lose about 290,000 acres of wetlands each year.

The section 404 program requires landowners and developers to obtain permits issued by the Corps of Engineers to dredge or fill navigable waters, including wetlands. The program has become the target of farmers, developers, oil companies, and other private landowners who believe that the program has intruded too far into their decisions about how to use their land and that the process for obtaining permits is time-consuming, costly, and inconsistently administered by the Corps.

Environmentalists and some state officials, on the other hand, are concerned that current proposals for defining wetlands would result in the loss of millions of acres previously regulated as wetlands.

During the 102nd Congress, major revisions to section 404 were proposed that seek to stem the loss of remaining wetlands without creating severe economic hardship for private developers and property owners. In the appropriations bills for both fiscal year 1992 and fiscal year 1993, the Congress banned the Corps from using its more expansive 1989 definition of wetlands in favor of a more narrow 1987 one, and the latter bill appropriated funds for the National Academy of Sciences to study how to define wetlands and how to categorize them

according to their function and value. As with the Endangered Species Act, the 103rd Congress will ultimately have to decide how best to balance the protection, restoration, and creation of wetlands with the need for sustained economic growth and development.

Wildernesses

Economics will also play a key role in congressional deliberations on designating additional areas as wilderness. Because the Wilderness Act of 1964 generally prohibits such things as motorized equipment, buildings, roads, commercial enterprises, and aircraft landings in wilderness, some believe that designating areas as wilderness is detrimental to the economy. Others believe that doing so is a necessary step for preserving federal lands in an undisturbed condition for present and future generations.

Nowhere has this use-versus-conservation debate been more visible than in the conflicting efforts to open the Arctic National Wildlife Refuge's 1.5-million-acre "coastal plain" to exploration for oil or to designate it as wilderness. After 2 years of work, the 102nd Congress sent to the President, and he signed, major energy legislation that did not include the opening

of the refuge to development, despite arguments that (1) drilling there could create 200,000 jobs and provide \$125 billion in revenues for the federal government and the state of Alaska and (2) the 800-mile-long Trans-Alaska Pipeline System that is the primary means for delivering nearly 25 percent of the nation's domestically produced oil could shut down within the next 10 to 30 years unless a new oil field is developed in the refuge. Meanwhile, efforts to have the refuge's coastal plain designated as wilderness were also unsuccessful.

Bills that would have designated the Arctic National Wildlife Refuge's coastal plain as wilderness were not the only such bills not to make it through the 102nd Congress. Left unfinished was work on at least five additional bills to designate wilderness areas in Montana, Colorado, Utah, and the California Desert, as well as additional areas in Alaska. Also unresolved was the accompanying issue of state water rights in wilderness areas. Our review of studies on the effects of designating additional areas in Utah as wilderness led us to conclude that the likely effect on Utah's economy has not been adequately quantified. As a result, policy decisions on this issue in Utah, and possibly in other states, will have to be

**Balancing the Conservation and Use of
Natural Resources**

based primarily on subjective judgment
rather than on objective economic data.

Related GAO Products

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Wildlife Protection: Enforcement of Federal Laws Could Be Strengthened (GAO/RCED-91-44, Apr. 26, 1991).

Forest Service: Difficult Choices Face the Future of the Recreation Program (GAO/RCED-91-115, Apr. 15, 1991).

Federal Land Management: An Assessment of Hardrock Mining Damage (GAO/RCED-88-123BR, Apr. 19, 1988).

Parks and Recreation: Park Service Managers Report Shortfalls in Maintenance Funding (GAO/RCED-88-91BR, Mar. 21, 1988).

Ensuring a Better Return for Natural Resources

Mineral Resources: Value of Hardrock Minerals Extracted From and Remaining on Federal Lands (GAO/RCED-92-192, Aug. 24, 1992).

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, Aug. 22, 1991).

Bureau of Reclamation: Federal Interests Not Adequately Protected in Land-Use Agreements (GAO/RCED-91-174, July 11, 1991).

Federal Lands: Improvements Needed in Managing Concessioners (GAO/RCED-91-163, June 11, 1991).

Rangeland Management: Current Formula Keeps Grazing Fees Low (GAO/RCED-91-185BR, June 11, 1991).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, Apr. 25, 1991).

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6, Oct. 12, 1989).

Federal Land Management: The Mining Law of 1872 Needs Revision (GAO/RCED-89-72, Mar. 10, 1989).

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Endangered Species: Past Actions Taken to Assist Columbia River Salmon (GAO/RCED-92-173BR, July 13, 1992).

Related GAO Products

Endangered Species Act: Types and Number of Implementing Actions (GAO/RCED-92-131BR, May 8, 1992).

Wetlands Overview: Federal and State Policies, Legislation, and Programs (GAO/RCED-92-79FS, Nov. 22, 1991).

Interior Issues (GAO/OCG-89-24TR, Nov. 1988).

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December 1992

Education Issues





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

**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 education. The issues include the need to (1) enhance federal efforts to meet the National Education Goals, (2) reduce the cost and preserve the integrity of the student loan program, and (3) strengthen departmental management.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

The GAO products upon which this transition series 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 Secretaries-designate of Education, Health and Human Services, and Labor.

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Education Issues

Our educational system is not keeping pace with the demands of a changing economy. International competition is transforming the American workplace, increasing the demand for highly skilled workers across manufacturing and service industries. Employers want employees who can solve problems, share management responsibilities, and work in teams. Yet the nation's schools are not educating many students to meet these demands.

In the United States, public elementary and secondary education is a \$221 billion cooperative enterprise of local, state, and federal governments. This enterprise faces great challenges. Only a small percentage of the nation's students can perform tasks requiring complex reasoning and problem solving, and their achievement in mathematics and science lags behind that of their peers in other industrialized nations. We estimate that about one in three youths aged 16 to 24 will not have the skills needed for even entry-level, semiskilled, high-wage occupations. Over 1,900 teenagers drop out of school every day. While the federal government contributes less than 6 percent of what is spent on elementary and secondary education, the Department of Education has a strong leadership role to

play in working with states and localities to improve the nation's education system as a whole and in ensuring that all children will benefit from the improvements.

Among the challenges that the Department faces in school reform are helping schools to adjust to a higher proportion of poor, minority, and immigrant children; continuing to support the development of high national standards for all children; and moving thoughtfully in backing the development of new forms of student assessment. The Department will also need to consider how to use existing categorical programs in the context of broad reform and how the discrete services provided by its programs complement one another and those of other agencies. For example, to help ensure that young children are ready for and succeed in school, the Department should continue efforts to link its programs with others, such as the Department of Health and Human Services' Head Start program. The Department will also need to work closely with the Department of Labor to develop an effective national strategy for our youth's transition from school to work. Most importantly, the federal government will need to determine how to maximize its

resources to promote widespread school reform efforts among states and localities.

However, the Department has long-standing managerial problems that may hamper its taking a strong leadership role in reforming the nation's educational system. In our 1988 transition report, we noted many deficiencies in the Department's management, particularly in student assistance programs; loan defaults cost the federal government \$3.6 billion in 1991. The Congress has enacted changes that could significantly improve the operation of these programs, but serious problems remain in overall departmental management, financial and management information systems, and human resource management. If not addressed, these problems could undermine not only student loan reforms but also reform of the nation's educational system.

Enhancing Federal Efforts to Meet National Education Goals

Concerns about the quality of our nation's education system have increased dramatically in the decade since A Nation at Risk documented the system's inadequacies.¹ Even though changes were implemented during the 1980s, many experts agree that major improvements are still needed to prepare the nation's youth for the economic realities of the next century. A critical component of our nation's competitiveness is the capacity of the nation's students to meet the demands of a changing workplace. Members of the business community have been particularly alarmed about the lack of skills among entry-level youth.

The Department of Education is in a unique position to provide leadership, even though its financial contribution is small. For example, the federal contribution to U.S. spending on elementary and secondary education has never exceeded 10 percent; in fiscal year 1990, it was less than 6 percent. But the federal role in education has been important in ways these figures do not convey.

The Department and the Congress have traditionally developed programs to address

¹A Nation at Risk: The Imperative of Educational Reform, National Commission on Excellence in Education (Washington, D.C.: U.S. Government Printing Office, 1983).

specific national needs. The cornerstones of federal efforts have been programs to assist specific groups of students: disadvantaged students, those with disabilities, and those whose proficiency in English is limited. New concerns about the quality of education for all students, however, are broadening the focus of the federal role in education.

Early in 1990, the President and the nation's governors agreed to National Education Goals for the year 2000, which have become a framework for education reform efforts. These goals address the need to ensure all children's readiness for school and improved grasp of challenging subject matter, ensure school environments conducive to learning, and enhance the knowledge and skills of those entering and competing in the work force. Moving the nation toward meeting these goals will be a key task of this administration and the Congress.

As the nation moves toward higher standards for all children, it faces a growing number of disadvantaged children who, as a whole, are becoming more diverse and increasingly poor. The Department of Education faces dual challenges: exercising leadership to improve the nation's education system as a whole and ensuring that all

children, especially those who have been less successful in the nation's schools, will benefit from these improvements.

Promoting Readiness for School

Many children are unprepared for school. Of the 22.8 million children in the United States under the age of 6 in 1991, over 5 million lived in poverty, an increase of almost 50 percent from 1975. Many of these children experience disadvantages, including problems with language development, nutritional deficiencies, and health problems. Poor children have the lowest participation rates in preschool programs, despite evidence that high-quality preschool programs can substantially increase chances for success in school.

The Head Start program, operated by the Department of Health and Human Services, is the largest federal effort to provide comprehensive early childhood services to disadvantaged children, with a fiscal year 1992 budget of \$2.2 billion. The Department of Education, however, also supports services for young children through Chapter 1 of the Elementary and Secondary Education Act, Even Start, and parts of the Individuals With Disabilities Education Act. These programs had combined fiscal year

1992 budgets for young children totaling over \$1 billion.

As the nation seeks to ensure that all children are prepared to enter school, coordinated efforts from all levels of government will be needed to guarantee access to quality preschool services and attention to the needs of young children after they enter school. The Department of Education should continue to work closely with other agencies to promote these efforts.

The Department of Education should consider how the discrete services provided by each of its programs complement one another and those of other agencies. In addition to examining relationships to federal preschool programs, such as Head Start, the Department will need to consider how its programs relate to those of states and localities that fund preschool programs. Furthermore, many federal and state programs fund child care services that could complement preschool programs. All of these programs form an unconnected patchwork of services. In examining strategies to integrate services provided by different agencies, we found that efforts linking clients to services—by using case managers or developing agreements among

service providers—are more successful than state-led approaches that attempt to reorganize entire agencies or create new services. Still, the incoming administration and the Congress will need to identify the best ways to link together the many programs that serve young children and their families.

In preparation for the reauthorization of Head Start, we are conducting several studies that should also help to illuminate issues for the Department of Education's early childhood efforts: an analysis of census data to determine preschool participation rates among the nation's children, whatever the funding source; an in-depth study in several states to identify the federal, state, and local programs that deliver services to young children, as well as how they relate to one another; and a study of the arrangements that other nations have made to provide preschool services to young children.

Leading School Reform Efforts

Leadership by the Department and the Congress is needed in promoting widespread school reform. This leadership must address a number of issues: how to foster national efforts, without a prescriptive federal role, to

develop high standards related to the national education goals; how to use major federal categorical programs in the context of broad reform; and how to maximize the federal government's limited resources to promote state and local school reform efforts.

Developing National
Standards and
Assessments

In 1992, the National Council on Education Standards and Testing issued proposals to set high national standards for five core subjects—English, mathematics, science, history, and geography—and to develop a system of national assessments using those standards. A variety of groups—funded by the Department of Education, other government entities, and foundations—have begun to develop these national standards and new forms of assessments.

To meet the National Education Goals, the Congress and the Department will need to work together to ensure that progress continues in developing high standards for what students should know. The Congress and the Department also need to proceed thoughtfully as new forms of student assessments are developed. We are studying the role of assessments in national school reform efforts, including the likely cost of a

national assessment for the United States and the experience of some Canadian provinces with student assessment. The Department and the Congress will also need to consider how to avoid misuse of these assessments, which could be used to deny opportunities to some students. A key point of debate has been the fairness of assessing students, especially when their schools have not afforded them adequate materials, curricula, or instruction.

Federal leadership—using the knowledge of technical experts and educators—is also necessary in developing indicators to track progress toward meeting all of the goals. In measuring progress toward improving student competency in challenging subjects, we found problems with the way performance standards were set and how achievement tests, specifically for mathematics, were interpreted.

Changing Context
for Categorical
Programs

The context for federal categorical programs is changing. The Congress and the Department will need to consider how categorical programs will help disadvantaged students achieve the high standards implied by the National Education Goals. Research and an expanding

knowledge base—about how children learn and the most effective teaching practices—have led to a greater focus on higher order thinking skills and advanced skills instruction, rather than an emphasis on basic skills and remediation. The Congress and the Department need to consider different ways of serving children with special needs—whether the children are disadvantaged because of poverty, have disabilities, or lack proficiency in English. A key issue is how to ensure that these students, who are the traditional targets of federal categorical programs, also benefit from broader school reform efforts.

Our ongoing work will explore the operation of categorical programs in the context of current reform efforts. In one study under way, we are examining the accountability system established for the Chapter 1 categorical program during its last reauthorization in 1988.

Facilitating
Widespread Reform

Federal leadership will be needed to promote extensive school reform. The critical issue that has continually faced the Department is how to enable its programs to play a role in widespread innovation. Efforts of various kinds are under way at the state

and local levels. Different reform models have been adopted by individual schools, but these have not been used extensively. Some experts believe that implementing reforms across an entire school district may hold more promise for widespread school reform. We are studying how school-based and districtwide reform models are identified, adopted, and implemented at the district and school levels, and with what effects. We also have studies under way to examine state and district efforts to (1) reform school system regulations and (2) give schools more control over their budgets.

Another issue the Department will need to consider is how to enhance, as part of reform efforts, the training and preparation of teachers. Current programs may be inadequate. For example, we found that the Eisenhower math and science state grant program, while flexible and popular, funds mostly short-term teacher training. Most experts believe that this training will not contribute significantly to achieving the National Education Goal of making U.S. students number one in the world in math and science achievement by the year 2000.

Helping Schools
Adjust to
Demographic
Changes

Growth in the number of poor children places greater demands on school resources. In 1991, over 14 million children lived in families with incomes below the poverty level, an increase of 40 percent from 1975. Given this growth in child poverty, any public commitment to meeting the National Education Goals will require examining the distribution of resources devoted to education, new institutional strategies to improve educational services, and ways to ensure equal educational opportunities.

School districts that have high proportions of poor children will face greater challenges in providing educational services, especially those districts with limited capabilities to finance those services. Better targeting of existing federal resources to the nation's neediest schools could provide a partial solution. For example, we found that the Chapter 1 formula, which allocates federal funds for educational services for disadvantaged students, could be revised to reflect the greater need of counties with high concentrations of poor children and the reduced capability of some counties to fund needed services. Currently, the Department collects little systematic data on schools' physical condition and the relative need for resources. For example, national data are

unavailable to determine whether those schools with more students at the poverty level also face greater burdens of inadequate facilities.

As of 1991, over 25 percent of American children were black, Hispanic, or members of other minority groups. Heavy immigration from Latin America and Asia has contributed to this trend, swelling the number of children with limited proficiency in English. Although our work exploring the implications of these and other demographic trends is ongoing, other researchers have already come to some conclusions. For example, because immigration from non-English-speaking nations is rising, many urban school districts face students speaking many different languages and having limited proficiency in English. The concentration of these students in some school districts will require new approaches to provide these children with a quality education. We are examining the magnitude of this problem and are assessing district strategies to provide services to students speaking many different languages.

To meet the needs of children from high-poverty and immigrant backgrounds, schools may also have to house services that other agencies have traditionally provided.

We are examining various approaches to providing comprehensive services, such as health or child care, at the school.

New strategies to meet the needs of growing numbers of poor and immigrant children cannot ignore discrimination issues. In some districts, we found that the use of ability grouping has resulted in disproportionate numbers of minority students' being assigned to lower ability classes for all subjects. These assignments are made without considering students' potentially greater abilities in some subjects than in others. The Department needs to improve its enforcement efforts related to discriminatory ability grouping and to revise title VI regulations to identify practices that schools should use in assigning students on the basis of ability.

Helping Students in the Transition From School to Work

Only 30 percent of our graduates go on to a 4-year college. Those not heading for college often are carried along in undemanding or poor-quality programs that frequently do not give the students skills that employers need. We estimate that about one in three youths aged 16 to 24 will not have the skills needed to meet employers' requirements for entry-level, semiskilled, high-wage

occupations—5.5 million high school dropouts and 3.8 million graduates who lack high school competencies.

Clearly, many of America's youth have been leaving high school poorly prepared for the world of work. Given the profound changes taking place in workplaces in the United States and abroad, these youth may be even less prepared for the workplaces of the future. The challenge facing the Congress and the incoming administration is how to adapt the nation's education and training systems to more effectively prepare youth for the world of work.

We found that the United States does not have a coherent strategy for preparing our youth for work, while other nations do. Our principal foreign competitors emphasize that all youth be prepared for work and be ready to adapt to workplace changes. We are studying key components of comprehensive approaches for the transition from school to work; that study will help focus efforts to ensure that youth are prepared for jobs of the 21st century.

While the Department of Education is responsible for elementary and secondary education, it shares responsibility with the

Department of Labor for secondary and postsecondary skill training. (For a discussion of issues relating to the Department of Labor, see our transition series report, Labor Issues, GAO/OCG-93-19TR, Dec. 1992.) The magnitude of the problems facing youth in transition from school to work requires strong federal leadership in many areas, with an emphasis on combined efforts among the Education and Labor Departments and the Congress.

Improving
Work-Related and
Academic Skills

The Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990 provide the framework for federal efforts geared to improving high school graduates' occupational and academic skills through vocational education. The amendments encourage expanded use of instructional approaches, such as linking high school programs with community and technical college programs, and integrating academic and vocational instruction so that students can learn to apply academic skills in a work-related setting. In ensuring that the amendments are fully implemented, the Department should consider how vocational education reform can be an integral part of school reform and not be seen as a separate effort for some students.

On the basis of our studies of foreign approaches for improving the school-to-work transition, we have suggested general expansion of school-employer linkages, particularly apprenticeship-type programs. Modifying our nation's apprenticeship system to serve large numbers of youth could be difficult, yet adding apprenticeship-type programs to our educational system shows promise.

Our studies of apprenticeship-type programs, which have strong links to employers, have identified three basic types of programs. For example, high-quality cooperative education gives high school juniors and seniors work experience and on-the-job training, together with job-related classroom instruction. Students learn about the working world, acquire job skills, and often are offered permanent employment with their co-op employer. Similarly, school-to-apprenticeship programs offer high school seniors structured skill training, but have the additional benefit of being tied into the formal apprenticeship system. High school academy programs operate as schools-within-schools and provide training in a series of occupations related to a single industry. For example, the Academy of Applied Electrical Science, housed in

Philadelphia's Thomas Edison High School, trains youth for careers in the electrical trades. Programs are developed with extensive input from employers and often involve practical, hands-on experience.

Many districts and schools are developing new instructional approaches that foster school-employer linkages. The nation faces a significant challenge in expanding promising approaches and developing others, so that all students can be prepared for a changing world of work. The Department of Education is a focal point for federal leadership to encourage this reform.

Developing Skill
Standards and
Assessments

As part of the move to national education standards and closer school-employer linkages, education and business leaders are struggling to define what skills graduates need to be prepared for work. Some of our foreign competitors, notably Germany, maintain quality occupational training by using competency testing and certifying that trainees meet national standards. Employers view certificates as evidence that trainees have achieved particular skill levels. In the United States, certificates often certify course completion and not necessarily the attainment of skills. It is now recognized that

the United States needs to move toward the use of competency-based skill standards and certification. The Departments of Education and Labor have started such efforts.

We are studying the development and use of occupational skill standards and certification systems. We are looking at what barriers existing systems have had to overcome, how federal efforts could facilitate the development and adoption of new systems, and how the two Departments are working together to foster the development and use of skill standards. In the meantime, many schools across the nation are developing and using their own competency-based curricula. The Department of Education should determine how to ensure that schools develop curricula that are consistent with the broader efforts under way to define needed skills.

Developing Program
Information

School officials across the nation are also working independently to develop congressionally mandated performance measures for vocational-technical programs, conduct yearly assessments, and improve programs as needed. But it may be difficult to develop a national picture from these independent efforts. The 1990 Perkins

amendments require the Department of Education to develop a national data system to help policymakers and educators assess vocational education efforts. The Department should make development and implementation of this system, which the act required to be in place by March 1991, a priority.

Many students, their parents, and employers are unaware of the potential benefits of alternative approaches to the transition to work. Because high school cooperative education, like vocational education, has a reputation as a dumping ground for academically weak students, parents, students, and teachers often avoid these programs. Yet, we found high-quality programs in 15 sites in eight states. The actual extent of high-quality programs is unknown, partly because the Department of Education no longer collects information on them. The challenge is to find ways to evaluate existing programs, disseminate information on promising approaches, and, through technical assistance or other means, facilitate their adoption.

Reducing the Cost and Preserving the Integrity of the Student Loan Program

Guaranteed student loans have helped millions of students receive an education they might not have received otherwise, and most borrowers have repaid or are repaying their loan obligations. The Federal Family Education Loan Program (formerly known as the Guaranteed Student Loan Program) provides access to a postsecondary education for those who cannot otherwise afford it. The program operates on the premise that once educated, the borrowers will earn income sufficient to repay their loans. In 1991, the program generated about 4.8 million new loans, totaling over \$13 billion for students attending over 7,500 schools. These loans were provided by 7,800 lenders and administered by 46 state or private nonprofit guaranty agencies.

Despite its success in providing federal assistance to an ever-increasing pool of eligible students, the program has been plagued by many problems. It is inordinately complex and cumbersome, lacks sufficient oversight, and places most of the financial risk on the federal government; controls to minimize that risk are inadequate. Loan defaults have skyrocketed—totaling \$3.6 billion in 1991—as students assume debt burdens they are often unable or

unwilling to repay, especially when schools fail to provide a quality education and thereby lessen the opportunity for gainful employment.

The Department's Office of Inspector General, the Office of Management and Budget, and our own reports have documented accountability problems that have contributed to defaults, fraud, and mismanagement. The Congress and the Department, recognizing the need to strengthen program integrity, have made substantial legislative and regulatory reforms to fix the existing program. For example, the Congress established a direct loan demonstration project that could ultimately save billions of dollars and simplify program administration. In addition, the new administration favors changes that may provide students with additional access to postsecondary education while also reducing their debt burden. This would be accomplished by forgiving some or all loan repayments through voluntary national service or by easing the burden through income-contingent repayments.

Regardless of the program's structure, there are serious problems in the Department's financial and management systems. The

Department lacks proper systems and controls to adequately manage its multibillion-dollar student assistance programs, and problems erupting from these programs could eventually overwhelm any potential reform measures. For example, the Department's student loan information systems contain data that are not always useful, timely, or accurate, thereby limiting their use for compliance and evaluation purposes. As a result, millions of dollars have been loaned to borrowers for amounts exceeding statutory limits or to borrowers who are already in default and, therefore, ineligible for additional loans.

The Department must continue to improve program management and reduce the government's risk. Potential improvements are covered in greater detail in our high-risk series report on guaranteed student loans. The Department must also move cautiously toward implementing the direct student loan demonstration program that could simplify program administration and save federal money.

Implementing
Direct Loans
Successfully
Rests on
Achieving
Improvements

The Higher Education Amendments of 1992 authorized a direct loan demonstration program to determine if the current guaranteed student loan delivery structure—with lenders and guaranty agencies making and servicing loans—could be simplified and program costs reduced. Under the demonstration, the Department becomes the lender and schools are responsible for loan origination.

We believe that a direct student loan demonstration has merit because of the potential savings it could achieve. We estimate that switching from guaranteed to direct student loans could save the federal government about \$4.8 billion—in present value terms—within the first 5 years of implementation. Direct lending would achieve these savings by (1) enabling the government to partially offset program costs with borrowers' interest payments, (2) reducing the cost of subsidizing students' interest charges, and (3) eliminating interest subsidies to commercial lenders.

We found that schools have mixed views about their ability to administer a direct loan program. But they share severe reservations concerning the Department's ability to manage the program. For direct lending to

**Reducing the Cost and Preserving the
Integrity of the Student Loan Program**

succeed, the Department needs to forge an effective partnership with postsecondary educational institutions and others who may originate loans and to provide strong program leadership. Poor management by the Department could trigger more loan defaults, for example, which would substantially erode potential cost savings.

Strengthening Departmental Management

Long-standing management problems and deficiencies could undermine the ability of the Secretary to successfully implement education reforms. The Department of Education has lacked a clear management vision and effective management systems. Without well-defined management goals and the Secretary's focus on management, the Department cannot effectively align its activities to support major policy initiatives, carry out its programs, or correct identified problems. Past Secretaries have not built an organization that could implement major policy initiatives. Moreover, the Department's management problems have erupted periodically, becoming the focus of congressional and media attention, and diverting previous Secretaries from their goals. Significant changes to the Department's management systems should be a top priority.

In our 1988 transition report, we recommended establishing a Secretarial-level strategic management system. This has not been done. As a result, there are no systematic, Department-wide processes for planning, organizing, or monitoring for results and quality improvement. Although the outgoing Secretary and Deputy Secretary took initial

steps to improve operations, much more needs to be accomplished.

The Department's management support systems need attention because they do not provide key information to gauge the success of departmental programs. For example, the Department cannot say whether and to what degree those with disabilities receive federally funded rehabilitation services; nor can the Department identify students who, after defaulting on loans, receive new ones. Attempts to correct deficiencies in financial management—including those in student financial assistance programs—have been short-lived. The Department must have information and financial management systems that provide needed data and protect the federal government's financial interests from waste, fraud, and mismanagement. Corrective actions will require new systems and revised regulations, or legislation, or both. Thus, these actions may extend over several years.

The Department has a full slate of ongoing responsibilities and may not be poised to implement new ones. Between 1981 and 1991, the Department's work force declined by 33 percent; yet the number of programs

that the Department manages has increased from 150 to 220. Furthermore, the Department inadequately recruits, trains, and manages its staff. It cannot ensure it has the work force needed to implement Secretarial initiatives and to monitor ongoing programs and policies. For example, the shortage of qualified staff has contributed to problems in information and financial management, program monitoring, and technical assistance. The ability of the Department to do its job is diminished by its long-standing practice of filling key positions with managers who lack technical qualifications.

The Department's effectiveness has been further weakened by overly centralized decision-making and by excluding career employees from management problem solving. The Department's 1:37 ratio of political appointees to career employees is the highest among cabinet-level departments. Former administrations' attempts to abolish the Department and reductions-in-force have weakened the morale of many employees. Without adequate attention to human resource problems, the Department will be unable to achieve its goals effectively.

Related GAO Products

Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

Student Loans: Direct Loans Could Save Billions in First 5 Years With Proper Implementation (GAO/HRD-93-27, Nov. 24, 1992).

Department of Education: The Eisenhower Math and Science State Grant Program (GAO/HRD-93-25, Nov. 10, 1992).

Compensatory Education: Chapter 1 Funds in Eight Districts Used for Classroom Services (GAO/HRD-92-136FS, Sept. 30, 1992).

Integrating Human Services: Linking At-Risk Families With Services More Successful Than System Reform Efforts (GAO/HRD-92-108, Sept. 24, 1992).

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, July 28, 1992).

Guaranteed Student Loans: Prompt Payment of Origination Fees Could Reduce Costs (GAO/HRD-92-61, July 24, 1992).

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

National Assessment Technical Quality
(GAO/PEMD-92-22R, Mar. 11, 1992).

Vocational Rehabilitation: Clearer Guidance Could Help Focus Services on Those With Severe Disabilities (GAO/HRD-92-12, Nov. 26, 1991).

Student Loans: Direct Loans Could Save Money and Simplify Program Administration
(GAO/HRD-91-144BR, Sept. 27, 1991).

Student Financial Aid: Education Can Do More to Screen Schools Before Students Receive Aid (GAO/HRD-91-145, Sept. 27, 1991).

Transition From School to Work: Linking Education and Worksite Training
(GAO/HRD-91-105, Aug. 2, 1991).

Within-School Discrimination: Inadequate Title VI Enforcement by the Office for Civil Rights (GAO/HRD-91-85, July 22, 1991).

Related GAO Products

Department of Education: Monitoring of State Formula Grants by Office of Special Education Programs (GAO/HRD-91-91FS, Apr. 15, 1991).

Education Grants Management: Management Actions Initiated to Correct Material Weaknesses (GAO/HRD-91-72, Feb. 26, 1991).

Training Strategies: Preparing Noncollege Youth for Employment in the U.S. and Foreign Countries (GAO/HRD-90-88, May 11, 1990).

Early Childhood Education: What Are the Costs of High-Quality Programs? (GAO/HRD-90-43BR, Jan. 24, 1990).

Education Issues (GAO/OCG-89-18TR, Nov. 1988).

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

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December 1992

Labor Issues





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

**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 labor. These issues include (1) improving the skills of America's workers by addressing the school-to-work transition of youth, helping the economically disadvantaged obtain training, and facilitating the reemployment of dislocated workers; (2) assessing the ability of the unemployment insurance system to meet its objectives; (3) improving the Occupational Safety and Health Administration's enforcement efforts; and (4) addressing financial and management concerns relating to the Pension Benefit Guaranty Corporation.

As part of our high-risk series on program areas vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Pension Benefit Guaranty Corporation (GAO/HR-93-5).

The GAO products upon which this transition series 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 Secretaries-designate of Labor and Education.

A handwritten signature in black ink that reads 'Charles A. Bowsher'.

Charles A. Bowsher

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Labor Issues

The American workplace is changing in response to international competition. Economic change, coupled with the adoption of new technologies and the restructuring of work, is resulting in worker dislocation and shifts in the skill demands for new workers. Increasingly, companies are looking for workers with greater technical skills and workers who are versatile and able to adapt to changing conditions—by learning new skills, changing their roles in the workplace, working in teams, sharing management responsibilities, and solving problems. Labor needs to help current and future workers adapt to this changing workplace to foster the United States' competitive position in world markets.

The challenges facing Labor are great. First, many of the nation's youth are leaving school poorly prepared for this new work world. We estimate that about one in three youth aged 16 to 24 will not have the skills needed to meet employer requirements for entry-level, semiskilled, high-wage occupations. Second, the nation already has a large group of the economically disadvantaged—between 10 and 39 million—who lack necessary skills. Third, 900,000 or more workers annually are at

least temporarily dislocated and often need retraining or help finding a new job.

To address these needs, the Congress and the new Secretary must deal with an uncoordinated system of 125 employment training programs spread across 14 departments and agencies with over \$16 billion in annual funding. Many of these programs tend to suffer from inadequate federal and state oversight, inefficient service to those in need, improper program expenditures and, in some programs, questionable effectiveness.

In addition, Labor needs to ensure that workers have access to unemployment insurance benefits when they need them and to the pensions due them when they retire. The ability of the Unemployment Insurance system to provide income assistance to the unemployed and help stabilize the economy during recessions has eroded. The aggregate liability in the 85,000 plans PBGC insures is over \$900 billion. Collectively, these insured plans have over \$1.3 trillion in assets. However, about \$40 billion of the liabilities do not have matching assets, and at least \$13 billion of this amount is in plans of financially troubled companies. PBGC has a current deficit of \$2.3 billion, and PBGC's

most pessimistic projection is that the deficit could reach \$17.9 billion by 2001.

In addressing these issues, the Congress and Labor need to make sure that employers do not take shortcuts on workers' health and safety in misguided efforts to save money. Annually, about 1.7 million workers are disabled by on-the-job injuries, and about 110,000 die from work-related causes. A total of 2,000 inspectors safeguard 88 million workers in the nation's 6 million worksites. OSHA, together with its state counterparts, must find innovative solutions to ensure safe and healthful workplaces.

Improving the Skills of American Workers

The United States' ability to compete in the international marketplace depends to a great extent on the skills of its workers. Federal programs for preparing the nation's youth for the workplace and for upgrading the skills of economically disadvantaged workers and dislocated workers are fragmented. The 125 federal employment training programs for adults and out-of-school youth—with funding of \$16.3 billion in fiscal year 1991—often operate in isolation and create a difficult maze for service providers and the unemployed. Many of these programs also tend to suffer from inadequate federal and state oversight, inefficient service delivery, improper program expenditures and, in some programs, questionable effectiveness.

The Congress and the new administration need to focus on creating a more coherent, effective, and accountable employment training system. Department of Labor programs that are important to this effort cover at least three areas:

- improving the school-to-work transition for youth,

- helping the economically disadvantaged get the necessary skills to enter the mainstream work force, and
- facilitating the reemployment of workers dislocated by economic adjustments and policy changes.

Helping Students Transition From School to Work

Many of America's youth have been leaving high school poorly prepared for the world of work. Given the profound changes taking place in workplaces in the United States and abroad, they may be even less prepared for the workplace of the future. In contrast to the United States' lack of policy on youth, this nation's principal foreign competitors emphasize that all youth be prepared for work and be ready to adapt to workplace changes.

U.S. school systems have a curriculum geared to serving college-bound youth; yet only 30 percent of U.S. graduates go on to a 4-year college. Those not heading for college often are carried along in undemanding or poor quality programs that frequently do not give the students skills employers need. In addition, many students drop out of school and do not graduate.

We estimate that about one in three youth aged 16 to 24 will not have the skills needed to meet employer requirements for entry-level, semiskilled, high-wage occupations—5.5 million high school dropouts and 3.8 million youth who lack high school competencies. In the past, these youth—even though they had few skills and limited language and computation skills—could eventually get entry-level positions in semiskilled, higher-wage occupations. Now, these kinds of jobs are increasingly being phased out; getting jobs with high-wage potential requires high skills. In addition, employers want employees who are versatile and able to adapt to changing conditions not only by learning new skills, but also by changing their roles in the workplace—by working in teams, sharing management responsibilities, and solving problems.

The challenge facing the Congress and the incoming administration is how to adapt the nation's education and training systems to more effectively prepare youth for the world of work. While the Department of Education is responsible for elementary and secondary education, overlap exists with the Department of Labor in secondary and postsecondary skill training. (For issues

relating to the Department of Education, see the transition series report, Education Issues (GAO/OCG-93-18TR, Dec. 1992.) The magnitude of the problem requires strong federal leadership in many areas, but we see a need for Labor efforts, combined with those of Education and the Congress, to focus, in particular, on

- fostering the development of closer school-employer linkages to provide youth with structured work experience, instructional programs that meet employer needs, and preparation for occupations in demand and
- developing national data and conducting evaluations to identify and promote effective transition strategies.

On the basis of our studies of foreign approaches for improving the school-to-work transition, we suggested expansion of school-employer linkages, particularly apprenticeship-type programs. However, specific foreign approaches may not be readily transferable because they have evolved in different contexts. For example, about two-thirds of German youth are served by the German apprenticeship system, while apprenticeships in the United

States are primarily programs for those already working—the average age of U.S. apprentices is 29. In addition, the U.S. apprenticeship system is primarily limited to the building trades and some metal trades occupations, while the German system involves 380 occupational areas covering essentially all nonprofessional career options.

Modifying the nation's apprenticeship system to serve large numbers of youth likely could be difficult, yet adding apprenticeship-type programs to the educational system shows promise. Our studies of apprenticeship-type programs, which have strong links to employers, have identified three basic types of programs. For example, high-quality cooperative education is one such program that provides high school juniors and seniors with work experience and on-the-job training, together with job-related classroom instruction. Students learn about the working world, acquire job skills, and often are offered permanent employment with their co-op employer. Similarly, school-to-apprenticeship programs offer high school seniors structured skill training, but they have the additional benefit of being tied into the formal apprenticeship system. High

school academy programs operate as schools-within-schools and provide training in a series of occupations related to a single industry. For example, the Academy of Applied Electrical Science, housed in Philadelphia's Thomas Edison High School, trains youth for careers in the electrical trades. Programs are developed with extensive input from employers and often involve practical "hands on" experience.

The Congress together with the new administration from both the Departments of Labor and Education could build on promising approaches that already exist in the United States—such as cooperative education, youth apprenticeship, and high school academies—rather than create a totally new program or attempt to impose a single, foreign-derived solution. Apprenticeship-type training is, however, only one part of the strategy. The Congress and the new administration need to address other elements, such as career education and competency-based skill standards, to develop an integrated, comprehensive youth school-to-work transition strategy. To that end, we are conducting a study that will describe model comprehensive school-to-work transition strategies.

Some of America's foreign competitors, notably Germany, maintain quality occupational training by using competency testing and certifying that trainees meet national standards. Employers view certificates as evidence that trainees have achieved particular skill levels. In the United States, certificates often certify course completion and not necessarily the attainment of skills. It is now recognized that the United States needs to move toward the use of competency-based skill standards and certification. The Departments of Labor and Education have started such efforts. We are currently studying the development and use of occupational skill standards and certification systems. We are looking at the barriers that existing systems have had to overcome, how federal efforts could facilitate the development and adoption of new systems, and how the two Departments are working together in their efforts to foster the development and use of skill standards.

Finally, many students, their parents, and employers are unaware of the potential benefits of alternative approaches to the transition to work. Because high school cooperative education, like vocational education, has a reputation as a "dumping ground" for academically weak students,

parents, students, and teachers often avoid these programs. Yet we found high-quality programs at 15 sites in eight states. The actual extent of high-quality programs is unknown because, in part, the Department of Education no longer collects information on them. The challenge is to find ways to evaluate existing programs, disseminate information on promising approaches, and, through technical assistance or other means, facilitate their adoption.

Providing
Employment and
Training
Assistance to
Economically
Disadvantaged
Workers

A total of 65 programs provide employment training assistance to the economically disadvantaged. The Job Training Partnership Act (JTPA), enacted in 1982 and amended in 1992, is the federal government's principal employment training program. JTPA, administered by the Department of Labor, is a highly decentralized program that has a \$4 billion annual budget and encompasses many programs, including the Job Corps, dislocated worker programs, and summer youth programs. Most JTPA participants receive job training services through programs run by the 56 states and territories and over 600 local programs. In addition to Labor, other departments are major players in providing employment training opportunities. The Job Opportunities and

Basic Skills program, which is administered by the Department of Health and Human Services, funds \$1 billion in employment training programs, while Education's Pell grant program makes available over \$2 billion in funding for postsecondary training.

The Congress and the new administration can make these programs work better to improve the delivery of employment and training services by ensuring the effective implementation of the 1992 amendments to JTPA, integrating services provided by numerous programs, evaluating intervention strategies, and seeking more effective approaches.

Our work on JTPA has revealed many shortcomings in program operations that we noted in our 1988 transition report; many were addressed by amendments to the program that were signed into law in September 1992. The issues addressed by the legislation include the lack of targeting of the program's limited resources, abuses in on-the-job training contracts, weak program evaluation and oversight, limited data collection, and disparities in the services provided to minorities and women. For the most part, the amendments take effect

July 1, 1993. The new Secretary of Labor will need to oversee the initiation of these changes and ensure that they are fully implemented and adequately monitored.

Federal efforts to upgrade the skills of economically disadvantaged workers are carried out through 65 different programs. In addition to JTPA, other programs targeted on the economically disadvantaged are administered by 12 federal departments and independent agencies. These myriad programs do not function as a comprehensive, cohesive system, but often operate in isolation. It is time to look at how the federal programs could work together as a system to more effectively provide employment training assistance to the economically disadvantaged. A key institution is the Employment Service, whose performance we have found to be uneven, but whose 1,700 offices nationwide could play a central role in making the programs operate as a system. Our ongoing work will provide options for the new administration and the Congress to consider as they look across the federal training programs and search for ways to enhance their coordination, cooperation, and integration to ensure that their services more

fully benefit the economically disadvantaged.

JTPA is viewed as a relatively successful program because most of those who enroll in the program get jobs. However, we do not know how well these individuals would have done without JTPA assistance, or the long-term benefits of such training. Initial results from a study of JTPA's effectiveness suggest that, on a short-term basis, the program may not be effective for youth and may be only marginally effective for adults.¹

As long-term results from the evaluation are reported and as the recent legislative changes to JTPA are implemented, the Congress and the new administration should (1) monitor their results, (2) examine the appropriateness of current training interventions, and (3) consider pursuing alternative approaches to achieving more effective outcomes. These actions do not necessarily mean designing new programs, but rather analyzing the reasons for the results so that corrective actions can be taken. As we have recommended in the past, Labor has recently made extensive changes to its data collection on program

¹The National JTPA Study: Title IIA Impacts on Earnings and Employment at 18 Months, Executive Summary, Abt Associates Inc., May 1992.

participants, services provided, and outcomes achieved. These changes will enhance Labor's ability to evaluate the program's effectiveness and identify ways to improve it.

Assisting Dislocated Workers

As the American economy continually adjusts to changing product demand and competitive conditions, different sectors of the economy grow while others decline, resulting in the dislocation of an average of 900,000 workers annually over the last 10 years. Progress on the North America Free Trade Agreement, the recession, and the restructuring that many companies are undertaking to streamline their organizations have heightened concerns about the adequacy of dislocated worker programs.

Two programs have been established specifically to assist dislocated workers in their transition to reemployment—the Trade Adjustment Assistance and the Economic Dislocation and Worker Adjustment Assistance programs. The Trade Adjustment Assistance (TAA) program is an entitlement that assists workers who lose their jobs because of increased imports. The Economic Dislocation and Worker Adjustment Assistance program (EDWAA) provides

assistance to all workers regardless of the reason for the dislocation. Together the programs served about 325,000 workers at a cost of \$540 million in 1990. The two programs provide similar reemployment services—skill training and job search assistance—except that the program for import-impacted workers has an extended income support feature.

Helping dislocated workers who need assistance to upgrade their skills so that they can find new jobs should be a key part of any strategy considered by the Congress and the new administration for strengthening the competitive position of American business in the international marketplace. On the basis of our work on the two primary assistance programs for dislocated workers, we believe that the Congress and the new administration need to

- streamline the process for determining eligibility for the Trade Adjustment Assistance program to ensure access to benefits;
- ensure that projects provide a comprehensive mix of services to meet the varied needs of individual dislocated workers, coordinate the services provided by

the programs, and provide the assistance in a timely manner; and

- develop adequate data-gathering systems that track participant progress and monitor program performance, and to ensure that programs are effective, conduct evaluations that determine how well the affected individuals would have done without the programs.

Our assessment of the Trade Adjustment Assistance certification process showed that most of Labor's investigations to determine if imports had contributed to the loss of employment were flawed, thus jeopardizing workers' access to benefits. To be eligible for the TAA program, a worker must be a member of a group of workers that Labor certifies as import impacted. We found that 63 percent of the investigations for petitions filed in 1990 and 1991 had (1) incomplete, inaccurate, or unsubstantiated data collected from the company; (2) incorrect or omitted analyses of trade statistics; or (3) inadequate or omitted customer surveys. Many of the flaws were the result of the pressure to complete the investigations in 60 days, pressing investigators to take shortcuts in collecting and analyzing data. We have suggested that the Congress consider

alternatives for streamlining the process or changing some of the requirements that workers need to satisfy to be certified as import impacted.

We noted in our 1988 transition report that successful dislocated worker assistance projects had certain similar characteristics, such as tailoring assistance and reaching workers at or near the time of layoff. Our recent work has raised questions about the assistance efforts provided under the Trade Adjustment Assistance and the Economic Dislocation and Worker Adjustment Assistance programs that the Congress and the new administration need to address:

- The mix of services offered by the two dislocated worker assistance programs has been limited in some instances; as a result, the services participants received may not have been tailored to their specific needs. For example, the Trade Adjustment Assistance program offers participants classroom training in a variety of occupations, but generally it does not offer the option of on-the-job training. In contrast, in some EDWAA projects, participants may be offered on-the-job training positions, but nothing in the way of basic skills training.

- The two programs generally are slow in reaching workers. For example, in two of the three states we studied, less than 10 percent of workers received assistance from TAA within 15 weeks of their layoff; in each of the three states, EDWAA reached less than 60 percent of workers within 15 weeks.
- In addition, improved coordination has the potential to make services more widely available. Improved coordination between the programs could mean that workers awaiting Labor's certification as trade-impacted could begin receiving assistance from EDWAA.

We found that neither the Trade Adjustment Assistance nor the Economic Dislocation and Worker Adjustment Assistance program gather sufficient information to adequately track participant progress, monitor program performance, or evaluate their effect. Labor recently adopted new reporting requirements for the EDWAA program, but these have not been extended to TAA. For the Congress and the new administration to effectively evaluate the performance of both these programs, data on TAA participants, services, and outcomes will also be needed. In addition, an evaluation of what would

**Improving the Skills of American
Workers**

have happened to participants in the absence
of these programs needs to be conducted.

Assessing the Adequacy of the Unemployment Insurance System

The Unemployment Insurance (UI) system is this country's primary means of providing income assistance to unemployed workers. Through a combined federal-state partnership, the system provides benefits to unemployed workers who are ready, willing, and able to work and who meet their state's eligibility requirements. Ninety-seven percent of the wage and salary workers in the United States are covered under this program. Its principal objectives are to (1) temporarily replace a portion of the lost wages of workers who are unemployed and (2) help stabilize the economy during recessions by providing the unemployed with a portion of their former purchasing power.

During fiscal year 1991, over \$24 billion in benefits was paid to over 10 million unemployed workers. Some workers received extended benefits for 13 weeks more than the usual 26 weeks, because of the long period of high unemployment in their states. In addition, because the extended benefits program was not activated in many states, a temporary, federally funded emergency program was enacted.

The ability of the Unemployment Insurance program to meet its objectives of temporary

and partial wage replacement and economic stabilization has been eroding. In 1952, nearly 55 percent of the unemployed received UI benefits, but that percentage decreased to 29 percent in 1984 and remained at historically low levels through the 1980s. The percentage of the unemployed receiving benefits, which usually rises during recessions, reached 40 percent in 1991, still some 10 percentage points lower than in most recent recessions. Also, if the UI reciprocity rate and benefit payments were at the same level as during the 1974-75 period, about \$20 billion more in UI benefits would have been available to help stabilize the economy and maintain a portion of the incomes of the unemployed. We are conducting a study to determine factors associated with the declining proportion of the unemployed receiving benefits and the effects of this decline on the system's ability to meet its objectives.

As the economy begins to pull out of recession, the states will need to rebuild their reserves to levels adequate to withstand future recessions. This is an appropriate time for the Congress and the new administration to carefully assess the Unemployment Insurance system's ability to meet its objectives of stabilizing the

**Assessing the Adequacy of the
Unemployment Insurance System**

economy and providing the unemployed with partial wage replacement and to evaluate whether system modification is needed to improve its ability to meet these objectives.

Improving the Occupational Safety and Health Administration's (OSHA) Enforcement Efforts

The Occupational Safety and Health Administration (OSHA) states that it operates workplace safety and health programs under its approval cover about 6 million worksites and 88 million employees. OSHA and the state agencies, armed with a total of 2,000 inspectors, must find innovative solutions to ensure that employees' workplaces are safe and healthful. Improvement is clearly needed—an estimated 1.7 million disabling on-the-job injuries occur each year and 390,000 new cases of occupational diseases are identified annually. In addition, an estimated 10,500 workers die each year from on-the-job injuries, and another 100,000 workers lose their lives to work-related diseases.

The Congress has considered legislative solutions to some of OSHA's difficulties. Although the Comprehensive Occupational Safety and Health Reform Act failed to become law in 1992, OSHA reform legislation remains a priority item for the next congressional session. The Congress and the new administration need to ensure that OSHA finds ways to expedite the setting of safety and health standards and improve the effectiveness of its inspection and hazard abatement programs. In addition, OSHA must

Improving the Occupational Safety and
Health Administration's (OSHA)
Enforcement Efforts

explore innovative enforcement strategies, such as encouraging employers to identify and correct workplace hazards even without an OSHA inspection, given its limited capability to conduct inspections.

Employees continue to be exposed to many hazardous work practices, conditions, and substances because of delays by OSHA in meeting its statutory responsibility to issue safety and health standards. Since 1971, OSHA has promulgated fewer than 30 health and 40 safety standards, and it routinely takes up to 10 years from the time it recognizes the need to regulate until the regulation is finalized. One attempt to speed up the process was recently rejected in judicial review. OSHA had updated the permissible exposure limits for over 400 substances in one rulemaking effort, taking less than 2 years. However, the court ruled that OSHA could not change multiple exposure levels without providing support for each change.

We identified this issue in our 1988 transition report as an area in which OSHA should take action, although Labor has made little improvement since then. The Congress and the new administration need to explore other options to expedite the standard-

**Improving the Occupational Safety and
Health Administration's (OSHA)
Enforcement Efforts**

setting process, such as those contained in legislation considered in the 102nd Congress.

Over the past 4 years, we have identified changes that could make OSHA's enforcement efforts more productive by

- using more accurate data on injuries and illnesses and data about specific worksites, not just about which industries are most hazardous, to better target employers for inspection;
- requiring employers to confirm that they have corrected the identified hazards after being cited for violations of safety and health standards; and
- assessing penalties that could reasonably be expected to deter employers from violating safety and health standards.

With a ratio of one inspector to 3,000 worksites, OSHA and the state agencies must find ways to extend their impact far beyond the limited number of worksites they can directly inspect. OSHA and the states need to encourage employers to voluntarily identify and correct workplace hazards without an OSHA inspection. One way to do this is through the formation of comprehensive

worksite safety and health programs. After reviewing the experience in states that require employers to have such programs, which sometimes include required joint labor-management safety and health committees, we (1) suggested that high-risk employers be required to have comprehensive safety and health programs and (2) recommended that OSHA use evaluation studies to determine whether other groups of employers should be required to have these programs.

If OSHA is going to identify ways to increase its effectiveness, it will have to increase its emphasis on evaluation. Again, little progress has been made in recent years as OSHA continues to devote few resources to collecting information on the impact of its policies and program activities or those of the state-operated safety and health programs. Thus, its managers are limited in their ability to make informed decisions, plan effectively, and identify program activities that need to be improved to increase program effectiveness. The new administration needs to develop an information and evaluation strategy to improve program effectiveness.

Addressing Financial Concerns Relating to the Pension Benefit Guaranty Corporation (PBGC)

The Pension Benefit Guaranty Corporation (PBGC) was established by the Employee Retirement Income Security Act of 1974 to insure retirement benefits promised by private defined-benefit pension plans. The aggregate liability in the 85,000 plans PBGC insures is over \$900 billion. Collectively, these insured plans have over \$1.3 trillion in assets. However, about \$40 billion of the liabilities do not have matching assets, and at least \$13 billion of this amount is in plans of financially troubled companies. PBGC has a current deficit of \$2.3 billion, and PBGC's most pessimistic projection is that the deficit could reach \$17.9 billion by 2001. The financial issues facing PBGC are covered in more detail in our high-risk report.

The major threat to the Pension Benefit Guaranty Corporation is from seriously underfunded pension plans that could terminate in the near future. A sudden sequence of terminations of large underfunded plans would burden PBGC administratively and might impair its ability to meet its financial obligations without spending down its asset base. The current deficit will be a burden on future taxpayers if available assets are insufficient to pay insured benefits.

**Addressing Financial Concerns
Relating to the Pension Benefit
Guaranty Corporation (PBGC)**

Premiums paid by covered plans do not reflect the insurance risk to PBGC. The fixed premium probably overcharges well-funded plans for the risk PBGC assumes in insuring them; the capped variable premium undercharges underfunded plans.

In recent years the agency has taken strong actions to manage some of the larger liabilities, such as the LTV Corporation, to reduce PBGC's exposure. On the other hand, PBGC has never produced auditable financial statements, the premium collection system has not operated properly, and the computer systems have been designed in a haphazard fashion.

The new administration needs to (1) ensure that PBGC continues to monitor financially troubled companies as in the cases of the TWA bankruptcy and the financial negotiations between Chrysler and its creditors and (2) address PBGC's long-standing management problems. In addition, the Congress needs to strengthen the funding standards for underfunded pension plans and adjust premiums to better reflect risks.

Related GAO Products

Improving the Skills of American Workers

Dislocated Workers: Improvements Needed in Trade Adjustment Assistance Certification Process (GAO/HRD-93-36, Oct. 19, 1992).

Dislocated Workers: Comparison of Assistance Programs (GAO/HRD-92-153BR, Sept. 10, 1992).

Job Training Partnership Act: Actions Needed to Improve Participant Support Services (GAO/HRD-92-124, June 12, 1992).

Apprenticeship Training: Administration, Use, and Equal Opportunity (GAO/HRD-92-43, Mar. 4, 1992).

Job Training Partnership Act: Racial and Gender Disparities in Services (GAO/HRD-91-148, Sept. 20, 1991).

Transition From School to Work: Linking Education and Worksite Training (GAO/HRD-91-105, Aug. 2, 1991).

Job Training Partnership Act: Inadequate Oversight Leaves Program Vulnerable to Waste, Abuse, and Mismanagement (GAO/HRD-91-97, July 30, 1991).

Training Strategies: Preparing Noncollege Youth for Employment in the U.S. and

Related GAO Products

Foreign Countries (GAO/HRD-90-88, May 11, 1990).

Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs (GAO/HRD-89-52, June 9, 1989).

Assessing the Adequacy of the Unemployment Insurance System

Unemployment Insurance: Adequacy of State Trust Fund Reserves (GAO/T-HRD-91-7, Feb. 20, 1991).

Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988).

Improving OSHA's Enforcement Efforts

Occupational Safety and Health: Worksite Safety and Health Programs Show Promise (GAO/HRD-92-68, May 19, 1992).

Occupational Safety and Health: Penalties for Violations Are Well Below Maximum Allowable Penalties (GAO/HRD-92-48, Apr. 6, 1992).

Occupational Safety and Health: OSHA Action Needed to Improve Compliance With Hazard Communication Standard (GAO/HRD-92-8, Nov. 26, 1991).

Related GAO Products

Occupational Safety and Health: OSHA Policy Changes Needed to Confirm That Employers Abate Serious Hazards (GAO/HRD-91-35, May 8, 1991).

Occupational Safety and Health: Options for Improving Safety and Health in the Workplace (GAO/HRD-90-66BR, Aug. 24, 1990).

Occupational Safety and Health: Assuring Accuracy in Employer Injury and Illness Records (GAO/HRD-89-23, Dec. 30, 1988).

Addressing
Financial
Concerns
Relating to the
Pension Benefit
Guaranty
Corporation
(PBGC)

Pension Benefit Guaranty Corporation
(GAO/HR-93-5, Dec. 1992).

General Labor
Issues

Department of Labor Issues (GAO/OCG-89-21TR,
Nov. 1988).

Transition Series

Economics

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

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

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).

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).

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).

Transition Series

Foreign Affairs Issues (GAO/OCG-93-26TR).

NASA Issues (GAO/OCG-93-27TR).

General Services Issues (GAO/OCG-93-28TR).

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December 1992

Health and Human Services Issues





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

**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 areas of health and human services. The issues include (1) strengthening the social security system, (2) reforming the nation's welfare system, (3) keeping families intact and protecting children from abuse and neglect, and (4) adequately safeguarding the nation's food and drug supply.

Another report in this transition series, Health Care Reform (GAO/OCG-93-8TR, Dec. 1992), discusses shaping an effective approach to national health care reform. Also, as part of our high-risk series on program areas vulnerable to fraud, waste, 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 Health and Human Services.

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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Health and Human Services Issues

The Department of Health and Human Services (HHS) oversees hundreds of federal programs that are vital to the health and welfare of virtually every American. Its programs help ensure adequate health care; provide income security for the aged, poor, and disabled; help the disadvantaged become productive citizens; protect children and other vulnerable populations; and safeguard the nation's food and drug supply. HHS's fiscal year 1992 budget was about \$550 billion, or nearly 37 percent of the federal government's total budget. About 86 percent of these funds were for social security, Medicare, and Medicaid.

The new administration and the 103rd Congress will have to deal with several significant social policy issues. We discussed some of these issues in our 1988 transition series report; others appear for the first time in this report. Among the more important issues demanding attention are the following.

- Health care is one of the greatest current domestic challenges. Issues include ensuring adequate access to health care; controlling health care costs; and curbing Medicare funds lost through fraud, waste, and abuse. Because of the importance of these issues,

we discuss them in a separate transition series report on health care reform and in a high-risk series report on Medicare.

- Second, public confidence in social security programs has eroded and must be restored. To bolster the public's confidence, the trust funds need to continue growing to a level sufficient to withstand economic downturns. In addition, workers need to know what their benefits will be and have assurance that those benefits will be there when they need them. Social security services must be delivered more efficiently and effectively, particularly in view of the unprecedented number of "baby boomers" whose retirement will impose a great demand on the system. Service for the disabled has already deteriorated to the point that claimants must wait up to 4 months for a disability decision, and the situation is worsening. Also, the disability program is rapidly running out of money and may need major reforms.
- Third, without closer attention to states' implementation efforts, the major welfare reform effort of the late 1980s may fail. Legislation enacted then was designed to help dependent families achieve self-sufficiency through work. Its implementation, however, has been slowed

by skyrocketing caseloads and state budget constraints. The new administration and the Congress will need to ensure that fledgling programs associated with welfare reform are properly implemented. As states' welfare reform efforts are evaluated and their outcomes and impacts analyzed, changes based on successful experiments should be instituted to reshape the program.

- Finally, child welfare programs, designed for a different era, need to be changed. More children live in poverty—one in five—than ever before, reported cases of child abuse and neglect are at record levels, and the foster care system is struggling to accommodate increasing caseloads. The new administration and the Congress need to focus on prevention and early intervention programs to help keep families intact. Also, an active federal strategy for collecting data, disseminating information about best practices, and evaluating child welfare programs is needed. Local governments need this information to support their efforts to provide the most appropriate services at the right time and in the right place.

These and other issues will demand strong leadership from the Congress and HHS. With resources limited, HHS and state and local

governments will need to work smarter and work together to effectively manage and operate health and human services programs.

Bolstering the Public's Confidence in Social Security and Ensuring High-Quality Services

Sooner or later in their lives, nearly all citizens will be touched by the social security system. For most aged and disabled Americans, social security is a key source of income support. In 1991, about \$263 billion in social security benefits was paid to more than 40 million beneficiaries. In recent years, however, the public's confidence in the social security system has eroded. Many are concerned that monies will not be there to pay their benefits in the future.

To help build the public's confidence in the social security system, the Social Security Administration (SSA) should take steps to ensure an adequate contingency reserve and provide workers with a tangible sense of what their benefits will be. In addition, to ensure high-quality services, SSA must modernize its computer systems and strategically manage its resources. SSA's computer modernization could cost billions of dollars over the next 10 years. SSA also needs to expand its research information about the disability and supplemental security income programs in order to strengthen program evaluation and management and enable it to consider alternative program designs.

**Gaining the
Public's
Confidence**

After SSA's well-publicized financial difficulties in the early 1980s, many people believe that social security funds will not be sufficient to pay their benefits when they retire. In recent years, actions have been taken to build the public's confidence in the social security system. These actions include changing the methods of financing the trust fund, requiring that annual statements of personal earnings and benefits be provided to individuals, and making financial management improvements, such as preparing annual audited financial statements of SSA.

To further build public confidence, the social security trust fund needs to grow to a level sufficient to withstand economic downturns. Current financing plans for the social security trust fund, which envision accumulating a \$5.5 trillion reserve by 2025, set contribution rates higher than necessary to pay current benefits. This plan has been controversial. Some believe that if the reserves add to national savings or are used for government activities that enhance future economic growth, the burden of financing future retirement costs can be reduced. Others, however, doubt that the reserves will be used for these purposes and believe that the system should be financed

on a pay-as-you-go basis, in which annual revenues closely match annual benefit payments and the trust funds provide protection against economic downturns.¹ If a decision is made to return to a pay-as-you-go system, we believe that the trust funds should be maintained at a level adequate to pay benefits for 1 to 1-1/2 years. This level would be sufficient to offset the reduction in tax revenues that accompanies economic downturns, thus assuring the public that the system is sound.

In 1990, the Congress mandated that SSA provide an annual statement of personal earnings and benefits to individuals on request. Beginning in 1995, SSA will have to provide statements to all individuals aged 60 and over and, by October 1999, annually to all workers covered under social security. This latter requirement will add very substantially to SSA's work load. It is important that SSA meet this challenge in order to enhance the public's confidence in the social security system. These statements will provide workers with a tangible sense of the benefits they will receive in the future. Given other anticipated work load increases discussed below, SSA needs to develop and

¹Our transition series report Budget Issues (GAO/OCG-93-1TR, Dec. 1992) discusses the relationship between the social security trust fund surplus and the federal deficit.

implement a workable strategy for sending these statements to all workers.

Ensuring
High-Quality
Services

Another factor that will dramatically increase SSA's work load is the impending baby-boom generation retirement. SSA is also experiencing significant increases in disability cases, and major delays in processing already exist. At the same time, given the budgetary constraints faced by all federal agencies, funding for program administration will be limited, placing greater pressure on SSA's management to provide high-quality public service at minimum cost. To meet this challenge, SSA must (1) gain a greater understanding of the public's expectations, (2) logically sequence its implementation of critical agency plans, (3) reengineer its work processes to enhance service delivery, (4) identify and train the staff it needs to provide high-quality services, and (5) enhance its research information to better understand current trends and consider alternative program designs.

Understanding the
Public's
Expectations

Since 1989, SSA has made progress in using strategic management to set agencywide goals, establish priorities, guide budget

decisions, and measure performance. However, in developing its service objectives and priorities, SSA ignored a fundamental tenet of effective planning: that meeting the public's expectations—not internal needs—is the measure of service quality. SSA proceeded without involving the public, interest groups, or congressional committees, leaving the agency without assurance that its objectives and priorities corresponded with the public's expectations. As a result, SSA may spend its scarce resources on service objectives that it thinks are important but the public does not.

**Sequencing
Implementation of
Agency Plans**

SSA's strategic management also does not provide a framework for the completion or correct sequencing of critical agencywide plans—such as plans for operations service delivery, human resources, facilities, and information systems. Correct sequencing is necessary to ensure that plans for new computer systems and facilities, for example, are based on an operations service delivery plan that sets forth how SSA will conduct business in the future.

**Reengineering Work
Processes**

To economically and efficiently meet its future service demands, SSA will need to

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modernize its information systems. If these systems are not enhanced, SSA believes it will need about 17,000 additional staff. SSA has taken a number of steps essential to developing automated information systems. However, much remains to be done to fully justify SSA's systems modernization plans, which could cost from \$5 billion to \$10 billion over the next 10 years. Specifically, SSA has not completed its operations service delivery plan on how it will conduct work in the future, including the identification of alternative work processes. In addition, SSA has not fully justified the costs and benefits of proposed systems enhancements. Until it takes these actions, SSA could be acquiring new technologies to automate old processes, rather than developing new, cost-effective information systems based on more efficient work processes.

**Training Staff to
Deliver Quality
Services**

SSA has taken a number of steps to improve its work force. However, it does not have a human resource plan identifying the type and number of personnel needed to accomplish its service objectives given the anticipated work-load increase and use of automation. SSA needs a well-trained work force and a positive work environment to

effectively prepare for and handle its future challenges. But, management has not placed priority on training newly promoted supervisors and managers for leadership positions. Also, SSA may not be devoting sufficient training funds to certain operational areas. For example, field office employees say they lack the training needed to apply agency policy and use computer systems fully. SSA will be challenged to develop these critically important training programs in an environment of general budget constraints, including reductions in its training budget. A human resource plan covering long- and short-term initiatives for training, improvements to the work environment, and planning for management succession could ensure the coordination and continuity of initiatives and the achievement of desired improvements.

**Developing
Research
Information on
Disabilities**

Since 1984, caseloads and costs have risen rapidly in SSA's Disability Insurance and Supplemental Security Income programs. The agency is having trouble (1) processing disability claims in a timely manner and (2) performing legally required reviews of the beneficiary rolls to ensure that beneficiaries continue to be eligible. Furthermore, SSA lacks adequate research information to

understand current trends and consider alternative designs for these programs. In addition, the Americans with Disabilities Act places a much greater emphasis on enabling disabled persons to work than SSA's current programs do. To succeed in meeting the act's challenge, the agency will need a focused research program to direct its rehabilitation efforts.

**Improving SSA's
Operations**

In these times of tight budgets, the Congress has been looking for opportunities to restrain the growth in federal agencies' administrative costs. Thus, SSA should not expect any increase in funding and should take steps to operate more efficiently with the resources it has. The actions it takes should contribute both to improving the quality of its services and reducing future administrative costs. To move in this direction, SSA needs to

- implement comprehensive strategic management that involves the public and the Congress in establishing the agency's priorities and direction, and ensures successful implementation of agencywide initiatives;

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- ensure that its plans for modernizing information systems adequately consider their costs and benefits as well as alternative, more efficient work processes;
- develop a human resource plan to guide the hiring and training of the personnel needed to accomplish the agency's long-range objectives and coordinate current work-force initiatives; and
- acquire the information necessary to support program evaluation and consideration of policy alternatives for its disability and supplemental security income programs.

Exercising Stronger Leadership to Achieve Welfare Reform

With the passage of the Family Support Act of 1988 (FSA), the nation adopted a new approach to taking care of its poor. The act reflects a new political consensus on the goal of means-tested, family-focused programs. It emphasizes greater parental responsibility by encouraging work efforts and increased cooperation with child support enforcement, instead of primarily providing cash assistance. In fiscal year 1991, the federal and state governments provided over \$20 billion in cash assistance to needy families with children through the Aid to Families with Dependent Children (AFDC) program.

This welfare reform effort, however, has gotten off to a rocky start. While progress has been made, it has been uneven as economic conditions have worsened in many states since FSA's enactment. States have experienced unprecedented growth in AFDC caseloads, high unemployment rates, and increased child support caseloads and Medicaid costs amid revenue shortfalls, creating serious and possibly long-term budget problems.

Implementation of FSA is still in its early stages, and care must be taken to fully establish the programs, develop information

systems, assess performance, and evaluate results. Without stronger leadership, direction, and oversight from HHS, current welfare reform efforts may falter or fail. To help states keep welfare reform on track and increase the number of welfare-dependent families that become self-sufficient, HHS needs to

- intensify its efforts to ensure that states develop the automated data systems needed to provide high-quality and timely services to welfare clients, effectively manage increasing caseloads, and provide the information that management needs to measure progress and set effective policies;
- establish program performance standards based on outcome in addition to process-oriented measures to achieve desired program results; and
- work with states to identify practices that help families achieve self-sufficiency and disseminate information about them.

**Intensifying
Efforts to
Improve Data and
Data Systems**

Several federal programs essential to helping children and families achieve economic self-sufficiency lack national data and automated data systems. Data collected on a

nationwide basis are needed to evaluate these programs and provide a basis for making policy changes. However, inaccurate and incomplete data are being collected in several programs, including the child support enforcement, Job Opportunities and Basic Skills Training (JOBS), and transitional child care and medical benefits programs. For example, data are lacking to determine the outcomes of the transitional benefit programs that are focused on helping families move from welfare dependency to self-sufficiency. Unless HHS renews its data collection and evaluation efforts, the Congress will have insufficient information with which to judge the effectiveness of these programs.

HHS's Administration for Children and Families (ACF) also needs to work more closely with states to develop automated data systems. These systems could help states provide high-quality services to welfare clients, better manage increasing caseloads, and provide information needed to assess policies. However, ACF's inadequate oversight of and assistance to states have resulted in wasted federal and state moneys. For example, ACF allowed several states to develop severely flawed child support enforcement systems at a cost of millions of

dollars in federal funds before these efforts were redirected. Federal funding for development of state systems expires in 1995, and it is unlikely that all states will have developed effective systems by then. In addition, ACF has not been effectively monitoring states' efforts to develop automated eligibility systems for AFDC and Medicaid programs, allowing millions of dollars to be spent on systems that either do not work or do not meet functional requirements.

Developing Goal-Oriented Program Performance Standards

Process-oriented measures, such as how many people participated or the percentage of cases completed within a given time, are used to assess states' performance and reward them in the JOBS and child support enforcement programs. These measures, however, do not always bring about desired program outcomes like obtaining support for children or helping families achieve self-sufficiency. States need outcome-oriented performance standards to achieve program goals and improve their operations.

The Family Support Act mandates that, by October 1993, the Secretary of HHS submit recommendations for JOBS performance

standards to the Congress. Also, although not legislatively required to do so, HHS is beginning to work with states to develop similar performance standards for the child support enforcement program. To date, however, progress has been slow. ACF needs to move expeditiously to develop outcome-oriented performance standards if it is to meet the October 1993 deadline.

Identifying and Sharing Effective Initiatives

In keeping with the flexibility afforded them, states have been experimenting with different approaches to operating their AFDC, child support enforcement, and JOBS programs. Welfare reform initiatives have proliferated as most states confront economic difficulties. States need a way to share and capitalize on each other's experiences. To further the federal and state partnership inherent in most federally funded human services programs, HHS should play a much more active role in identifying the more effective practices, disseminating information about them, and helping states implement them.

Expanding States' Use of Child Welfare Funds

Among its responsibilities for child welfare services, HHS provides states with funding to ensure the welfare of children that a state determines are at-risk of being removed from their homes. In recent years, reported cases of child abuse and neglect and foster care caseloads and expenditures have grown against a backdrop of state fiscal crises. This foster care growth is expected to continue because of the increased number of very young, drug-exposed children who may stay longer and need more expensive treatment. Some states have tried prevention and early intervention services, such as intensive in-home skill training in parenting and crisis management for at-risk families. These services show promise and could slow caseload growth, but states are finding it increasingly difficult to finance them.

Current legislation provides limited funding for prevention and early intervention efforts. Titles IV-B and XX of the Social Security Act provide modest funding that states can use for these activities; foster care funds available under Title IV-E of the act cannot be used in this way. Providing states with greater flexibility to use Title IV-E funds for prevention and early intervention efforts could encourage them to select the most appropriate child welfare services. ACF and

states should place greater emphasis on prevention and early intervention activities in an attempt to keep families intact and hold down future federal and state child welfare costs.

HHS should also move aggressively to issue regulations establishing a national foster care information system to provide outcome-oriented data on child welfare services in general and on foster care in particular, so that informed decisions can be made about the most appropriate care for individual children. Such a system was legislatively mandated in 1986 and was to be completed by October 1991. However, as a result of HHS's delays in issuing final regulations, little progress has been made in developing the system.

Other actions that HHS could take to help reduce the growing number of children in foster care and keep families intact include

- establishing outcome-oriented performance standards for the child welfare program to help identify what does and does not work and encourage states to adopt more effective practices, and

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Funds**

- serving as a clearinghouse on better practices for states to use in operating their programs, including disseminating information on effective caseworker and foster parent recruitment, training, and retention and on adoption outreach.

Allocating FDA's Resources Efficiently and Establishing a Regulation Tracking System

The Food and Drug Administration undertakes a wide range of responsibilities—such as protecting the nation against impure and unsafe foods, drugs, cosmetics, and medical devices—with a modest amount of resources. From 1980 through 1989, FDA's staff decreased by 587, or almost 8 percent, while the Congress enacted 13 new laws expanding the agency's responsibilities. FDA estimates that it will need a budget of \$1.4 billion in 1994 to meet its responsibilities—a substantial increase over its \$800 million 1993 budget. While recent legislation permitting FDA to collect user fees to support review of new drug applications should provide some relief, no additional funding is available to meet other responsibilities, such as medical device regulation despite a growing backlog of applications for approval of new devices.

As part of its increased responsibilities, FDA was required to issue numerous new regulations to implement legislation. We found, however, long delays and a lack of overall direction in the agency's process for developing regulations. FDA agreed in principle with our recommendation that it create an agencywide system for tracking regulation development, but it has not yet

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done so. FDA needs to establish this system to efficiently manage its regulatory process.

In the past, FDA has had trouble assessing its needs and assigning priorities to its activities. Recently, however, the agency completed a detailed needs assessment, looking 5 years into the future, that could enable it to allocate its resources efficiently. This assessment describes the resources FDA needs to reach specific goals by 1997. To help FDA fulfill its many responsibilities with existing staff, the Congress should ensure that FDA uses the goals of this needs assessment as the basis for setting priorities agencywide and allocating the resources the Congress provides.

Structural flaws in the federal government's food safety system have been widely reported. Such flaws can affect the public's health and erode consumers' confidence in the federal government's ability to ensure food safety and quality. Many of these flaws can be attributed to the fragmentation of responsibility for food safety and quality among several federal agencies. The recent controversy between the Department of Agriculture and FDA over nutrition labeling for food products illustrates the jurisdictional problems associated with this

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fragmentation. The need for a uniform, risk-based inspection system to ensure a safe food supply is discussed in another report in this transition series, Food and Agriculture Issues (GAO/OCG-93-15TR, Dec. 1992).

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