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Performance and Accountability  
Series

January 1999

# Major Management Challenges and Program Risks

National Aeronautics and  
Space Administration



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United States  
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Comptroller General  
of the United States

January 1999

The President of the Senate  
The Speaker of the House of Representatives

This report addresses the major performance and management challenges that have limited the effectiveness of the National Aeronautics and Space Administration (NASA) in carrying out its mission. It also addresses corrective actions that NASA has taken or initiated on these challenges, including the progress the agency has made in evaluating its field centers' procurement activities based on international quality standards and its own procurement surveys. Since 1990, we have identified a number of significant management problems at NASA. These problems are the results of serious deficiencies in financial management systems, continuing threats to the International Space Station Program that translate into higher program costs, and a lack of closure in the implementation of cooperative efforts with the Department of Defense regarding aerospace test facilities.

To date, NASA has made progress in resolving these challenges. For example, in the contract management area—an important activity in light of the agency's annual procurement budget of over \$12 billion—NASA has made progress in developing systems to correct contract management weaknesses. However, NASA has not implemented its integrated financial management system. Agencywide implementation is now scheduled for June 1,

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2000. The agency recognizes that such a system must be implemented to fix a number of problems, including decentralized, nonintegrated systems with policies, procedures, and practices that are unique to its field centers. Consequently, until corrective actions are completed—such as a fully operational integrated financial management system—we believe that NASA's contract management remains a high-risk area.

This report is part of a special series entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U. S. Postal Service. The series also includes a governmentwide report that draws from the agency-specific reports to identify the performance and management challenges requiring attention across the federal government. As a companion volume to this series, GAO is issuing an update to those government operations and programs that its work has identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. High-risk government operations are also identified and discussed in detail in the appropriate performance and accountability series agency reports.

The performance and accountability series was done at the request of the Majority Leader of the House of Representatives, Dick Armey; the Chairman of the House Government Reform Committee, Dan Burton; the

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Chairman of the House Budget Committee, John Kasich; the Chairman of the Senate Committee on Governmental Affairs, Fred Thompson; the Chairman of the Senate Budget Committee, Pete Domenici; and Senator Larry Craig. The series was subsequently cosponsored by the Ranking Minority Member of the House Government Reform Committee, Henry A. Waxman; the Ranking Minority Member, Subcommittee on Government Management, Information and Technology, House Government Reform Committee, Dennis J. Kucinich; Senator Joseph I. Lieberman; and Senator Carl Levin.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, the Administrator of the National Aeronautics and Space Administration, and the heads of other major departments and agencies.

A handwritten signature in black ink, appearing to read "D.M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General of  
the United States

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## Overview

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The National Aeronautics and Space Administration (NASA) conducts research for the solution of problems of flight within and outside the Earth's atmosphere and develops, constructs, tests, and operates aeronautical and space vehicles. It conducts activities required for the exploration of space with manned and unmanned vehicles and coordinates the use of the scientific and engineering resources of the United States with other nations engaged in aeronautical and space activities for peaceful purposes. For example, in December 1998, NASA successfully coupled in orbit the first two elements of the International Space Station. Recently, NASA's budget has been between \$13 and \$14 billion annually. NASA spends more than \$12 billion annually for goods and services, mostly on contracts with businesses and other organizations.

Since 1990, we have identified a number of major management challenges at NASA. Currently, three challenges continue to warrant NASA attention.

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## The Challenges

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### Weaknesses in Contract Management

NASA's contract management function encompasses several processes, including financial management and oversight. Both of these processes require accurate and reliable information. However, NASA lacks adequate systems and processes to oversee procurement activities and to produce accurate and reliable management information in a timely manner.

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### Controlling International Space Station Costs

Characterized as one of the most challenging engineering feats ever attempted, the International Space Station Program is expected to culminate in 2004 in a football field-sized laboratory manned by up to seven crewmembers. However, until the space station is completed, NASA will continue to face challenges in controlling the cost and schedule of the program. In May 1998, we reported that since 1995, the life-cycle cost for the station had increased almost \$2 billion, to \$95.6 billion. At the time of our report, the final assembly date of the station had slipped from June 2002 to December 2003.

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## Overview

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### Following Through on Aerospace Test Facilities Cooperative Efforts

NASA and the Department of Defense (DOD) agreed in 1996 to form joint working groups for aerospace test facilities to coordinate investments to avoid unnecessary duplication, coordinate test schedules to spread workload across the facilities, and develop standardized business processes. However, the agencies' promise of closer cooperation and the development of a national perspective on aerospace test facilities remains largely unfulfilled because NASA and DOD (1) have not convened most joint test facility working groups on a regular basis, (2) have competed with each other to test engines for new rockets, and (3) have not prepared a congressionally required joint plan on rocket propulsion test facilities.

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### Progress and Next Steps

NASA has made progress in meeting these challenges. In the contract management area, it has made progress in developing systems to correct contract management weaknesses. NASA still has not implemented its integrated financial management system. However, until NASA's integrated financial management system is operational, the agency's contract management should remain a high-risk area. Regarding space station challenges, since our May 1998 report, the final assembly date has slipped to



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## Overview

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July 2004. The prime contractor's performance and Russia's problems with funding its portion contributed to the cost increase and schedule delay in the space station program. We are currently reviewing both the cost of and Russia's involvement with the space station. As to the promise of greater cooperation and the development of a national perspective on aerospace test facilities, NASA and DOD have agreed to go beyond cooperative working groups in aeronautics and jointly manage their aeronautical test facilities. However, they have not reached agreement on key aspects of a management organization.

NASA's corrective actions on its management challenges should be viewed in the context of its efforts to respond to the Government Performance and Results Act of 1993. In a case in point, our review of NASA's 1999 annual performance plan found that the agency did not recognize major management challenges and associated corrective actions. NASA has indicated that it will continually improve the content of its annual performance plan.

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## Key Contacts

Louis J. Rodrigues, Director  
Defense Acquisitions Issues

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Overview

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National Defense and International  
Affairs Division  
(202) 512-4841  
rodriguezl.nsiad@gao.gov

Allen Li, Associate Director  
Defense Acquisitions Issues  
National Defense and International  
Affairs Division  
(202) 512-4841  
lia.nsiad@gao.gov

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## Major Performance and Management Issues

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Over the years, we have documented major management problems in NASA. This report summarizes our findings concerning several weaknesses in NASA's contract management, the challenges NASA faces controlling the space station's cost and schedule, and the efforts by NASA and DOD to coordinate their aerospace test facilities.

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### Weaknesses in Contract Management

NASA spends more than \$12 billion annually for goods and services, mostly on contracts with businesses and other organizations. To adequately manage these expenditures, NASA requires systems and processes to oversee procurement activities and to routinely produce accurate and reliable management information. In 1990, we identified NASA's contract management as an area at high risk. At that time, we began a special effort to review and report on federal program areas that our work had identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. In 1992, we reported that the agency had ineffective systems and processes for overseeing contractors' activities and that NASA field centers had failed to comply with contract management requirements.

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**Major Performance and Management  
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In July 1998, we reported that NASA was developing systems to provide it with the oversight and information needed to improve its contract management. In addition, we reported that NASA had made progress evaluating its field centers' procurement activities based on international quality standards and its own procurement surveys. We also reported, however, that NASA had delayed implementation of its integrated financial management system and not implemented its new system for measuring procurement performance.

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**NASA Delayed  
Implementation of  
Integrated Financial  
Management System**

In its August 1997 Integrated Financial Management Project Management Plan, NASA stated that its financial management environment comprised decentralized, nonintegrated systems with policies, procedures, and practices that are unique to its field centers. NASA stated that for the most part, data formats were not standardized, automated systems are not interfaced, and on-line financial information was not readily available to program managers. In addition, NASA pointed out, the cost to maintain these systems was high since both data and software were replicated at each field center.

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NASA's new integrated financial management system is intended to fix these problems. It offers the promise of providing reliable and timely information. However, its implementation has been delayed. In May 1998, NASA and its contractor, KPMG Peat Marwick LLP, signed a contract modification delaying initial implementation of the financial management system at Marshall Space Flight Center and Dryden Flight Research Center from October 1, 1998, to June 1, 1999. The modification also postponed agencywide implementation from July 1, 1999, to June 1, 2000.

According to a NASA official, KPMG has had difficulties upgrading its software to support new technologies and to meet all federal requirements. These difficulties have been especially prevalent in two systems that are directly related to contract management, namely, the core financial and procurement systems. The core financial system, according to NASA, is the "backbone" of the integrated financial management system and is to provide common processing routines, including budget execution and funds control; support for common data for critical financial management functions affecting the entire agency; and maintenance of the required general ledger control over

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**Major Performance and Management  
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financial transactions and resource balances. In addition, it is to provide data for the measurement of financial performance, analysis, full cost management, financial reporting, and preparation of financial statements. The procurement system, according to NASA, will support an end-to-end acquisition process. Specifically, it will prepare and track the status of procurement requests, purchase orders, and contracts; record and validate the receipt of goods and services; and provide information to the core financial system.

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**NASA Is  
Implementing Its  
New System for  
Measuring  
Procurement  
Performance**

In response to our March 1997 report on NASA's contract management and our observation on the agency's need to produce accurate and reliable procurement-related information, a NASA official stated in an August 27, 1997, letter that NASA was "actively working on performance measures in order to determine our metric needs and how best they can be used to measure performance." In an October 3, 1997, letter, a NASA official stated that NASA's Procurement Quality Assessment Initiative would involve "the development of measurable performance metrics, the benchmarking of these metrics," and the development of both NASA Headquarters and agencywide

procurement customer surveys. According to a NASA official, the purpose of the metrics initiative is to determine a family of performance metrics that will help procurement managers measure and improve the performance of their organizations. The purpose of the customer survey is to periodically assess customer satisfaction with field centers' procurement office support in areas of timeliness, quality, and service.

In May 1998, the NASA Headquarters Office of Procurement forwarded a draft of customer survey to the senior procurement officers at its field centers for comment. The final version of the survey was approved in October. The customer survey is presently undergoing in-house testing prior to dissemination to the center procurement customers in early January 1999. A NASA official said that the customer survey will be conducted annually.

In August, the agency circulated a draft metrics report for review and comment by NASA's senior procurement officials at its field centers. The final metrics report was approved by the Acting Associate Administrator for Procurement on November 19, 1998, and transmitted to the

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**Major Performance and Management  
Issues**

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centers' senior procurement officials the same day. In the transmittal memorandum, he said that the revised system of procurement measures will be implemented effective fiscal year 1999.

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**NASA Has Made  
Progress in  
Evaluating  
Procurement at Its  
Field Centers**

NASA requires a quality management system for itself and its suppliers that, at a minimum, complies with the International Organization for Standardization (ISO) 9000 series of standards, which includes a standard for purchasing. The ISO 9000 series consists, in part, of 20 quality management and assurance standards. The general purchasing standard states that the supplier (for example, NASA's field centers' procurement offices) shall establish and maintain documented procedures to ensure that purchased products conform to specified requirements. To this end, NASA has hired contractors to annually evaluate its field centers' compliance with these standards.

To prepare for ISO 9000 certification, the field centers' personnel conduct internal audits, including audits of the centers' compliance with the purchasing standard. To date, NASA's contractors have certified Johnson Space Center, Johnson's White Sands Test Facility,



Marshall Space Flight Center, and Kennedy Space Center as having complied with the ISO 9000 standards. All field centers are to be certified by the end of fiscal year 1999.

NASA Headquarters also conducts procurement management surveys of its field centers' procurement activities. Before 1998, such surveys were performed in addition to the field centers' own procurement self-assessments, which are now being replaced by the ISO 9000-related internal audits. NASA plans to survey either Goddard or Johnson field center each year because each of these centers has the largest amounts of procurement activity and to survey other centers at least once every 3 years. NASA Headquarters completed surveys at Dryden, Goddard, Langley, and Stennis field centers in fiscal year 1997 and at Johnson, Lewis, and Marshall field centers in fiscal year 1998. Also, the Langley field center was resurveyed in fiscal year 1998.

In April 1998, NASA's procurement officers agreed that a combination of ISO 9000 external and internal audits and procurement surveys should provide sufficient confidence in the soundness of NASA's procurement system. They also agreed to periodically sample for review a random

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**Major Performance and Management  
Issues**

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number of procurement actions. On September 30, 1998, NASA's Acting Associate Administrator for Procurement issued guidance to the procurement officers for the random reviews. The guidance stated that, at a minimum, the random reviews should be performed semiannually.

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**Contract  
Management Should  
Remain a High-Risk  
Area**

NASA has made progress in correcting weaknesses in contract management. However, a critical component of evaluating NASA's ability to manage contracts is the establishment of a financial management system and its integration with full cost accounting. Until the financial management system is operational, performance assessments relying on cost data may be incomplete. Because implementation of the financial management system has been delayed, we believe that NASA's contract management should remain a high-risk area. We will continue to monitor NASA's future progress in the contract management area.

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**Controlling  
International  
Space Station  
Costs**

NASA and its international partners—Japan, Canada, the European Space Agency, and Russia—are building a space station as a permanently orbiting laboratory to conduct research on materials and life sciences, to

observe the earth, and to provide for commercial purposes under nearly weightless conditions. In December 1998, NASA astronauts successfully coupled in orbit the first two elements of the space station.

Since the space station project was first approved in the mid-1980s, NASA has had to redesign the station several times to meet decreasing budgets. The most recent major redesign was in 1993. At about the same time, the Russians became a partner in the program. Since 1993, NASA and its partners have made progress in developing and constructing space station elements, and early flight hardware has been delivered to U.S. and Russian launch sites.

In September 1997, we reported that the cost and schedule performance of the station's prime contractor had continued to steadily worsen and that program financial reserves for contingencies had deteriorated, principally because of program uncertainties and cost overruns. We also reported that NASA had questioned the accuracy of the prime contractor's reported estimate of a cost overrun at completion. On the basis of an internal review, the prime contractor more than doubled its estimate of the total cost growth at contract completion, from

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\$278 million to \$600 million. We also reported that NASA had become concerned with Russia's ability to provide steady and adequate funding to meet its commitments.

In May 1998, we reported that the life-cycle cost estimate to develop, operate, and decommission the station had increased by about \$2 billion since 1995, to about \$95.6 billion. The major component of this increase was in the development cost of the station, which increased from \$17.4 billion to \$21.9 billion. The increase in development cost was offset by a dramatic reduction in NASA's estimate of the shuttle support costs for the station. We also reported that the final assembly date of the station had slipped from June 2002 to December 2003 and a number of potential program changes could further increase costs, including additional schedule delays and the need for more shuttle launches. In addition, we continued to report that station financial reserves might be inadequate, considering that the development phase was still about 6 years from completion.

Since May 1998, the program has continued to face cost and schedule challenges and the effects of funding shortfalls in Russia. NASA continues to identify cost growth and limited

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**Major Performance and Management  
Issues**

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reserves as major program concerns and is now giving added attention to problems with contractors other than prime contractors. Regarding the prime contractor's performance, its latest estimate of a cost overrun at completion has increased from \$600 million to over \$780 million. In addition, the concerns we expressed in May 1998 regarding potential threats to the program have, in fact, occurred. For example, in October 1998, NASA and its partners revised the official assembly sequence, adding additional shuttle flights and extending the final assembly date of the station to July 2004.

Regarding Russia's funding shortfalls, in September 1998, NASA sought congressional support for its plan to transfer \$60 million from within the agency to the Russian Space Agency in return for goods and services, to help ensure the timely completion of Russian components. NASA also said that the Russian Space Agency could need an additional \$600 million in funding transfers. As an added consequence of Russia's funding problems, NASA has identified more than \$500 million in new U.S.-built hardware and shuttle modifications to lessen dependence on Russia during station assembly and operations. The total amount of U.S. funds

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**Major Performance and Management  
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that will ultimately be needed to support Russian participation is uncertain at this time.

With the exception that NASA assumes the space station partners will meet their own schedules, the agency's performance plan responding to the Results Act does not explain how NASA will address external factors that could affect performance. This is particularly important for budgetary programmatic priorities, such as the space station, which could consume a large portion of future resources and affect implementation of other NASA programs.

On the basis of a request from the Chairs of the Senate Committee on Commerce, Science, and Transportation and the Committee's Subcommittee on Science, Technology and Space, we are pursuing both the cost of and Russia's involvement with the space station program.

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**Following  
Through on  
Aerospace Test  
Facilities  
Cooperative  
Efforts**

NASA is cooperating with DOD to address issues of mutual interest regarding investment in, and use of, aerospace test facilities. This cooperation was initiated under the auspices of the joint NASA/DOD Aeronautics and Astronautics Coordinating

Board. In April 1996, NASA and DOD agreed to form joint working groups, called alliances, for six types of major test facilities: wind tunnels, aeropropulsion test cells, rocket engine test stands, space environmental simulation chambers, arc-heaters, and hypervelocity gas guns and ballistic ranges. The working groups were formed to coordinate investments to avoid unnecessary duplication, coordinate test schedules to spread the workload across facilities, and develop standardized and common business processes. In September 1996, the Congress added to this effort by requiring NASA and DOD to prepare a joint plan on rocket propulsion test facilities.

In March 1998, we reported that the agencies' promise of closer cooperation and the development of a national perspective on aerospace test facilities remained largely unfulfilled because NASA and DOD (1) had not convened most test facility working groups, (2) have competed with each other to test engines for new rockets, and (3) had not prepared a congressionally required joint plan on rocket propulsion test facilities. We also reported that although NASA and DOD had agreed to go beyond cooperative working groups in aeronautics and jointly manage their aeronautical test facilities, they had not

yet reached agreement on key aspects of a management organization.

NASA and DOD took 20 months to negotiate and sign agreements formally establishing the six test facility-related cooperative working groups. During that time, only the space environmental simulation working group met regularly and conducted business. The already established rocket propulsion working group met only once during this period, despite a desire by some members to meet regularly. NASA and DOD officials did not regularly convene the other four working groups in the absence of approved charters. Since our March 1998, report, according to a DOD official, a joint meeting attended by representatives of all the NASA/DOD test working groups, except the wind tunnel working group, was held in May 1998 at the Air Force's Arnold Engineering Development Center. The wind tunnel working group held an organizing meeting on June 30, 1998, and its first full meeting on August 5, 1998. In addition to the joint meeting, a NASA official said that the rocket propulsion test and the space environmental simulation working groups met on a quarterly basis in 1998.

Despite the formation of the rocket propulsion working group, NASA and DOD



have competed against each other to test engines for new rocket programs. A principal arena of competition is the next phase of the Air Force's Evolved Expendable Launch Vehicle Program. In particular, the Air Force spent millions of dollars to upgrade a test stand on the assumption that it, not NASA, would test the new launch vehicle's engines.

On November 19, 1998, a NASA official said that DOD and NASA has still not prepared the legislatively mandated joint plan to coordinate rocket propulsion test facilities. However, he added that the rocket propulsion test working group is performing joint planning and preparing guidance to ensure the best use of each agency's test facilities.

In October 1997, NASA and Air Force officials took a step toward creating a national perspective on test facilities in the aeronautics area. Specifically, they reached an understanding on the scope and approach for joint strategic management of their aeronautical test facilities, including a new management organization to be called the National Aeronautical Test Alliance. However, as of our March 1998 report, they had not resolved basic issues, such as the

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organization's structure and authority. On December 9, 1998, a NASA official said that NASA and DOD expect to establish the new alliance soon because NASA has signed the charter for the alliance and DOD currently has it in final review. He added that once the charter is signed, the wind tunnel and aeropropulsion test working groups will merge into the new alliance. Ultimately, if the National Aeronautical Test Alliance is successful, its adaption to other types of test facilities could be considered.

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**Relationship  
Between NASA's  
Corrective  
Actions and the  
Results Act**

NASA's corrective actions on its management challenges should be viewed in the context of its strategic and performance plans. The agency pursued strategic planning prior to its being required by the Results Act. However, our review of the draft strategic plan NASA submitted to the Congress in response to the Results Act showed that the plan did not fully address all key elements required by the Act. Also, the plan did not discuss major management challenges and problems, such as a long-standing weakness in contract management and the lack of a fully integrated accounting system, that could affect NASA's ability to fulfill its mission. Our review of NASA's 1999 performance plan found that it also did not

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**Major Performance and Management  
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recognize major management challenges and associated corrective actions. Further, the performance plan should better link performance goals and measures to the program activities in the agency's budget and show that NASA coordinated the plan with agencies having complementary activities. In responding to our review, NASA stated that it will continually improve the content of its annual performance plan.

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## Related GAO Products

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### Contract Management

NASA Procurement: Status of Efforts to Improve Oversight (GAO/NSIAD-98-198R, July 13, 1998).

NASA: Major Management Challenges (GAO/T-NSIAD-97-178, July 24, 1997).

High-Risk Program: Information on Selected High-Risk Areas (GAO/HR-97-30, May 16, 1997).

NASA Procurement: Contract Management Oversight (GAO/NSIAD-97-114R, Mar. 18, 1997).

NASA: Procurement Assessments (GAO/NSIAD-97-80R, Feb. 4, 1997).

NASA: Contract Management (GAO/NSIAD-96-95R, Feb. 16, 1996).

NASA Budgets: Gap Between Funding Requirements and Projected Budgets (GAO/NSIAD-95-155BR, May 12, 1995).

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### International Space Station

Space Station: U.S. Life-Cycle Funding Requirements (GAO/T-NSIAD-98-212, June 24, 1998).

International Space Station: U.S. Life-Cycle Funding Requirements (GAO/NSIAD-98-147, May 22, 1998).

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Space Station: Cost Control Problems  
(GAO/T-NSIAD-98-54, Nov. 5, 1997).

Space Station: Deteriorating Cost and  
Schedule Performance Under the Prime  
Contract (GAO/T-NSIAD-97-262, Sept. 18, 1997).

Space Station: Cost Control Problems Are  
Worsening (GAO/NSIAD-97-213, Sept. 16, 1997).

Space Station: Cost Control Problems  
Continue to Worsen (GAO/T-NSIAD-97-177,  
June 18, 1997).

NASA: Major Management Challenges  
(GAO/T-NSIAD-97-178, July 24, 1997).

Space Station: Cost Control Difficulties  
Continue (GAO/T-NSIAD-96-210, July 24, 1996).

Space Station: Cost Control Difficulties  
Continue (GAO/NSIAD-96-135, July 17, 1996).

Space Station: Estimated Total U.S. Funding  
Requirements (GAO/NSIAD-95-163, June 12,  
1995).

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NASA and DOD  
Aerospace Test  
Facilities

Aerospace Testing: Promise of Closer  
NASA/DOD Cooperation Remains Largely  
Unfulfilled (GAO/NSIAD-98-52, Mar. 11, 1998).

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Best Practices: Elements Critical to Reducing Successfully Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

NASA: Major Management Challenges (GAO/T-NSIAD-97-178, July 24, 1997).

NASA Facilities: Challenges to Achieving Reductions and Efficiencies (GAO/T-NSIAD-96-238, Sept. 11, 1996).

NASA Infrastructure: Challenges to Achieving Reductions and Efficiencies (GAO/NSIAD-96-187, Sept. 9, 1996).

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