

[COMMITTEE PRINT]

ADDRESSING GOVERNMENT WASTE, FRAUD, AND ABUSE

SUBMISSION BY HOUSE COMMITTEES
AND THE
U.S. GENERAL ACCOUNTING OFFICE

PURSUANT TO SECTION 301 OF H. CON. RES. 95

COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES



SEPTEMBER 2003

Serial No. CP-2

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WASHINGTON : 2003

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CHAIRMAN'S INTRODUCTION

The problems of waste, fraud, and abuse in government programs have never been easy to resolve. Government lacks the built-in incentives that drive commercial enterprises, constantly, to reduce waste and improve efficiency. Over the years, therefore, Congress has created watchdogs, such as the General Accounting Office [GAO] and the Inspectors General, to track down systemic failures in government management. It has written laws, such as the Chief Financial Officers Act of 1990, and the Government Performance and Results Act of 1993, calling for regular measurements of government activities and expenditures. From time to time, various appropriating and authorizing committees have performed oversight of programs in their jurisdictions. Three years ago, the Budget Committee itself conducted its own examination of the continuing problems of waste, fraud, and abuse.

But the need is especially acute today, with America facing the uncompromising requirements of winning the war against international terrorism, protecting Americans at home, and promoting sustained economic growth and job creation. Given these obligations, along with the myriad other demands on government resources, Congress and the President must do everything possible to assure that government funds are managed responsibly.

This year the House of Representatives has advanced this ongoing effort to another stage. The conference report on the budget resolution for fiscal year 2004 (H. Con. Res. 95) formally required House authorizing committees to investigate programs in their respective jurisdictions, identify instances of waste, fraud, and abuse, and recommend ways of reducing or eliminating it. The resolution also called for a report on the subject from GAO.

This committee print contains the findings of the House committees and GAO as submitted to the Budget Committee.

As implied above, this report is neither the beginning nor the end of anything. It is continuation of efforts that have been going on for years and that must continue for years in the future. Government waste cannot be eliminated by a single agency, or a single legislative vehicle, or a single report. It will be reduced only by the constant and ongoing work of those who maintain a simple, fundamental belief: that Congress has a moral obligation to manage the public's money responsibly.

JIM NUSSLE,
Chairman.

GAO

United States General Accounting Office

Report to Committees on the Budget

August 2003

**OPPORTUNITIES
FOR OVERSIGHT
AND IMPROVED USE
OF TAXPAYER
FUNDS**

**Examples from
Selected GAO Work**



GAO-03-1006

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

Comptroller General
of the United States

August 1, 2003

The Honorable Jim Nussle
Chairman
The Honorable John Spratt
Ranking Minority Member
Committee on the Budget
House of Representatives

The Honorable Don Nickles
Chairman
The Honorable Kent Conrad
Ranking Minority Member
Committee on the Budget
United States Senate

This report is submitted pursuant to section 301(e) of the Concurrent Resolution on the Budget for Fiscal Year 2004,¹ which directs the Comptroller General to submit to the Committees on the Budget a comprehensive report identifying instances in which the committees of jurisdiction may make legislative changes to improve the economy, efficiency, and effectiveness of federal programs within their jurisdiction.

In this report, we highlight opportunities for and specific examples of legislative and administrative change that might yield budgetary savings. We identify illustrative examples from GAO work of changes or steps that would improve the economy, efficiency, and effectiveness of given programs, sorted by budget function. We indicate whether an example appeared in our 2002 report, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*,² and whether a Congressional Budget Office (CBO) estimate was included in that report. Each specific example included in this report is not presented as the only way to address the significant economy, efficiency, and effectiveness issues identified in our reviews of federal programs and operations but rather as one of many possible approaches available to the

¹H.R. Rep. No. 108-71, Sec. 301(e) (2003).

²U.S. General Accounting Office, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*, GAO-02-576 (Washington, D.C.: Apr. 26, 2002).

Congress. The inclusion of a specific example does not mean we endorse it as the only feasible or appropriate approach.

We drew on GAO's work that highlights opportunities to improve the economy, efficiency, and effectiveness of government programs. The report is based on program design and operational issues that we have identified in reports for the Congress. Major risks and challenges faced by federal agencies are summarized in the Performance and Accountability Series.³ The High-Risk Series⁴ is designed to help the Congress focus its attention on the most important issues and challenges facing the federal government.

Although we derived the examples presented in this report from our existing body of work, there are similarities between the specific examples presented here and those presented by CBO's annual spending and revenue options report. To assist the Congress, we also have listed GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report.⁵ We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

Addressing the myriad of issues reflected in this volume will help improve economy, efficiency, and effectiveness and reduce costs. The budget process should prompt us to periodically focus not only on new proposals but on existing programs. Hard questions need to be asked not only about the economy and efficiency of our existing programs, but about their need, fit, relevance, priority and sustainability in the 21st century. Given the fiscal challenges the United States faces in both the near and the longer term, tough choices will be required in connection with what government does, how it does business, and sometimes even who does the federal government's business.

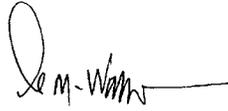
We are also sending copies of this report to other interested committees of the Congress. Copies will be made available to others upon request.

³U.S. General Accounting Office, *Major Management Challenges and Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: January 2003).

⁴U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

⁵Congressional Budget Office, *Budget Options* (Washington, D.C.: March 2003).

This report was prepared under the coordination of Paul L. Posner, Managing Director and Susan J. Irving, Director, Federal Budget Analysis, Strategic Issues, who may be reached at (202) 512-9573 or (202) 512-9142, respectively. The examples provided in the appendix draw on work from across GAO. Specific questions about individual examples may be directed to the GAO contact listed with each example.

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

David M. Walker
Comptroller General
of the United States

Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

This appendix is organized by budget function. The following two sections are included, where available, for each budget function.

Examples from Selected GAO Work

We identify illustrative examples based on GAO's work that highlight opportunities to improve the economy, efficiency, and effectiveness of federal programs. We indicate whether an example appeared in our 2002 report *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*¹ and whether a CBO estimate was included in that report.

CBO Options Where Related GAO Work Is Identified

We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report.² Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

¹U.S. General Accounting Office, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*, GAO-02-576 (Washington, D.C.: Apr. 26, 2002).

²Congressional Budget Office, *Budget Options* (Washington, D.C.: March 2003).

050 National Defense

Examples from Selected GAO Work

Reduce the Number of Carrier Battle Group Expansions and Upgrades

Limit Commitment to Production of the F/A-22 Fighter until Operational Testing Is Complete

Reassess the Need for the Selective Service System

Consolidate Military Exchange Stores

Reorganize C-130 Reserve Squadrons

Acquire Conventionally Rather Than Nuclear-Powered Aircraft Carriers

Improve the Administration of Defense Health Care

Seek Additional Opportunities for VA and DOD to Increase Joint Activities to Enhance Services to Beneficiaries and Reduce Costs

Continue Defense Infrastructure Reform

Reduce Funding for Renovation and Replacement of Military Housing until DOD Completes Housing Needs Assessment

Improve DOD Procurement Practices Regarding Canceling Orders

Reduce Planned Military Construction Costs for Barracks

Take a Strategic Approach to Department of Defense Acquisition of Services

Address Overpayments to Defense Contractors

CBO Options Where Related GAO Work Is Identified

050-05 Cancel the Army's Comanche Helicopter Program

050-10 Reduce Purchases of the Air Force's F/A-22 Fighter

050-11 Slow the Schedule of the F-35 Joint Strike Fighter Program

Appendix I
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

050-19 Replace Military Personnel in Some Support Positions with Civilian
Employees of the Department of Defense

050-22 Have the Departments of Defense and Veterans Affairs Purchase
Drugs Jointly

Examples from
 Selected GAO Work

Reduce the Number of
 Carrier Battle Group
 Expansions and Upgrades

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Aircraft carrier battle groups are the centerpiece of the Navy's surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single navy carrier battle group is about \$2 billion (in fiscal year 2000 dollars) and is likely to increase as older units are replaced and modernized. The Navy has several costly ongoing carrier-related programs: two nuclear-powered Nimitz-class carriers are under construction (\$9.6 billion); a research and development program (\$3.6 billion) for a new nuclear-powered carrier design is underway; the second ship of the 10-ship Nimitz-class began its 3-year refueling complex overhaul in 2001 (\$2.5 billion) and the third ship is scheduled to begin in 2005; AEGIS destroyers are being procured and the next generation of surface combatants is being designed; and carrier-based aircraft are expected to be replaced/upgraded by a new generation of strike fighters and mission support aircraft throughout the next decade.

Our analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier battle groups' traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on battle groups centered around increasingly capable amphibious assault ships, surface combatants and Trident SSGNs for overseas presence and crisis response. In the past, CBO concluded that savings could be achieved if the Congress chose to retire one aircraft carrier, the CVN-70, and one active air wing in 2005.

Appendix I
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report ³	Yes.
Related GAO Products	<p><i>Force Structure: Options for Enhancing the Navy's Attack Submarine Force.</i> GAO-02-97. Washington, D.C.: November 14, 2001.</p> <p><i>Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers.</i> GAO/NSIAD-98-1. Washington, D.C.: August 27, 1998.</p> <p><i>Aircraft Acquisition: Affordability of DOD's Investment Strategy.</i> GAO/NSIAD-97-88. Washington, D.C.: September 8, 1997.</p> <p><i>Surface Combatants: Navy Faces Challenges Sustaining Its Current Program.</i> GAO/NSIAD-97-57. Washington, D.C.: May 21, 1997.</p> <p><i>Cruise Missiles: Proven Capability Should Affect Aircraft and Force Structure Requirements.</i> GAO/NSIAD-95-116. Washington, D.C.: April 20, 1995.</p> <p><i>Navy's Aircraft Carrier Program: Investment Strategy Options.</i> GAO/NSIAD-95-17. Washington, D.C.: January 1, 1995.</p> <p><i>Navy Carrier Battle Groups: The Structure and Affordability of the Future Force.</i> GAO/NSIAD-93-74. Washington, D.C.: February 25, 1993.</p>
GAO Contact	Henry L. Hinton, Jr., (202) 512-4300

³Throughout this document, "GAO's 2002 Budget Implications Report" refers to U.S. General Accounting Office, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*, GAO-02-576 (Washington, D.C.: Apr. 26, 2002).

Limit Commitment to
 Production of the F/A-22
 Fighter until Operational
 Testing Is Complete

Primary agency	Department of Defense
Account	Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

The fiscal year 2003 Defense Appropriations Act provided funds for low-rate initial production of 20 F/A-22 aircraft, and DOD plans to procure 22 aircraft in fiscal year 2004, 24 aircraft in fiscal year 2005, 26 aircraft in fiscal year 2006, and begin full-rate production of 32 aircraft in fiscal year 2007.

In several reports over the last 8 years, and as recently as March 2003, GAO concluded that the Department of Defense (DOD) should minimize commitments to F/A-22 production until completion of operational testing, now planned for fiscal year 2004. Limiting initial production rates until completion of operational testing affords the opportunity to confirm the stability and soundness of a new system before committing large amounts of production funding to purchase aircraft. In the past, buying production articles before they could be adequately tested has resulted in buying systems that require modifications to achieve satisfactory performance. The F/A-22 development program did not meet key performance, schedule, and cost goals in fiscal year 2002. We reported in March 2003 that the program continues to address technical problems that have limited the performance of test aircraft, including excessive movement or "buffeting" of the vertical tail fins, weakening of materials in the horizontal tail, and instability of avionics software. Air Force officials cannot predict when they will resolve the avionics problem.

Further, commercial and DOD best practices have shown that completing a system's testing prior to producing significant quantities will substantially lower the risk of costly fixes and retrofits. Conversely, lower production rates could increase average procurement cost over the life of the program and, if the Air Force maintains its plan to procure 276 production aircraft, lead to difficulties in completing the production program within the production cost estimate.

Low-rate initial production of 20 aircraft has been approved by the Congress for fiscal year 2003. The Air Force subsequently determined that 21 aircraft could be purchased for the amount of funding provided in the

Appendix I
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

fiscal year 2003 defense appropriations act. To avoid the acceleration of production until completion of operational testing, low-rate initial production could be maintained at 21 aircraft through fiscal year 2004. If the Congress were to limit funding to no more than 21 aircraft in fiscal year 2004, and then proceed with the planned acceleration of production to 24 aircraft in fiscal year 2005, 26 aircraft in 2006, and 32 aircraft in 2007, budget savings could be achieved.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No—the number of aircraft associated with this option has increased since the CBO estimates were published.

Related GAO Products

Best Practices: Better Acquisition Outcomes Are Possible If DOD Can Apply Lessons from F/A-22 Program. GAO-03-645T, Washington, D.C.: April 11, 2003.

Tactical Aircraft: Status of the F/A-22 Program. GAO-03-603T, Washington, D.C.: April 2, 2003.

Tactical Aircraft: DOD Should Reconsider Decision to Increase F/A-22 Production Rates While Development Risks Continue. GAO-03-431, Washington, D.C.: March 14, 2003.

Tactical Aircraft: DOD Needs to Better Inform Congress about Implications of Continuing F/A-22 Cost Growth. GAO-03-280, Washington, D.C.: February 28, 2003.

Tactical Aircraft: F/A-22 Delays Indicate Initial Production Rates Should Be Lower to Reduce Risks. GAO-02-298, Washington, D.C.: March 5, 2002.

Tactical Aircraft: Continuing Difficulty Keeping F-22 Production Costs Within the Congressional Limitation. GAO-01-782, Washington, D.C.: July 16, 2001.

Tactical Aircraft: F-22 Development and Testing Delays Indicate Need for Limit on Low-Rate Production. GAO-01-310, Washington, D.C.: March 15, 2001.

Defense Acquisitions: Recent F-22 Production Cost Estimates Exceeded Congressional Limitation. GAO/NSIAD-00-178, Washington, D.C.: August 15, 2000.

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Defense Acquisitions: Progress in Meeting F-22 Cost and Schedule Goals. GAO/T-NSIAD-00-58. Washington, D.C.: December 7, 1999.

Fiscal Year 2000 Budget: DOD's Procurement and RDT&E Programs. GAO/NSIAD-99-233R. Washington, D.C.: September 23, 1999.

Defense Acquisitions: Progress of the F-22 and F/A-18E/F Engineering and Manufacturing Development Programs. GAO/T-NSIAD-99-113. Washington, D.C.: March 17, 1999.

F-22 Aircraft: Issues in Achieving Engineering and Manufacturing Development Goals. GAO/NSIAD-99-55. Washington, D.C.: March 15, 1999.

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F-22 Aircraft: Progress of the Engineering and Manufacturing Development Program. GAO/T-NSIAD-98-137. Washington, D.C.: March 25, 1998.

F-22 Aircraft: Progress in Achieving Engineering and Manufacturing Development Goals. GAO/NSIAD-98-67. Washington, D.C.: March 10, 1998.

Aircraft Acquisition: Affordability of DOD's Investment Strategy. GAO/NSIAD-97-88. Washington, D.C.: September 8, 1997.

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Tactical Aircraft: Concurrency in Development and Production of F-22 Aircraft Should Be Reduced. GAO/NSIAD-95-59. Washington, D.C.: April 19, 1995.

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Tactical Aircraft: F-15 Replacement Is Premature As Currently Planned. GAO/NSIAD-94-118. Washington, D.C.: March 25, 1994.

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GAO Contact

Allen Li, (202) 512-4841

Reassess the Need for the
 Selective Service System

Primary agency	Department of Defense
Spending type	Discretionary
Budget subfunction	054/Defense-related activities

No one has been drafted since 1973 and the advent of the all-volunteer force. Since 1980, after the Soviet invasion of Afghanistan, males from ages of 18 through 26 have continued registering with the Selective Service System for a potential draft in the event of a national emergency. However, it would still require congressional action to actually draft anyone into the military. A return to a military draft seems unlikely. One reason for this is that any recruiting shortfalls represent only a minute percentage of the over 13 million males of draft age and it would be very difficult to ensure a fair and equitable draft to cover such shortfalls. The likelihood of the United States engaging in a manpower-intensive conflict in the future is very remote, so alternative approaches to a draft could be devised to fill personnel needs.

Supporters of continuing registration maintain that it is a relatively inexpensive insurance policy in case the government underestimates the threat level the U.S. military may face in a future contingency. Supporters also contend that registration maintains the link between the military and society-at-large and reinforces the notion that citizenship involves an obligation to the nation. They also maintain that it would ensure a fair and equitable draft should one need to be reinstated in the future. Nevertheless, it was estimated in 1997 that it would take a little more than a year and cost about \$23 million (or about 1 year's appropriation) to bring the Selective Service System back from a "deep standby" status. In the past, CBO concluded that savings could be achieved if the Congress chose to terminate the Selective Service System.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Product

Selective Service: Cost and Implications of Two Alternatives to the Present System. GAO/NSIAD-97-225. Washington, D.C.: September 10, 1997.

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GAO Contact

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Consolidate Military
 Exchange Stores

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Since 1968, studies by GAO, the Department of Defense (DOD), and others have concluded that financial benefits could be achieved through consolidation of military exchange stores into a single entity. The Office of the Secretary of Defense in a decision memorandum dated May 9, 2003, decided that a single optimized Armed Service exchange system would best serve the department and exchange patrons. DOD has established a task force to produce, within 24 months, a plan to consolidate the three exchange systems (Army and Air Forces Exchange Service, Navy Exchange, and the Marine Corps Exchange) into one. The consolidation will affect management and "back room" operations of the exchanges. However, it will be transparent to the exchange workers and shoppers as sailors, for example, will still go to a Navy Exchange. The director of this effort believes it is too early in the process to estimate savings from the consolidation. While savings are expected to accrue to the exchange system and benefit Morale, Welfare and Recreation funding, it appears that any savings to appropriation accounts would be limited because the exchanges only indirectly receive benefits from appropriated funds. For example, they do not pay (1) rent for use of properties owned by the U.S. government, (2) the salaries of military personnel working for the exchanges, and (3) utilities associated with overseas exchanges. Significant savings to appropriated funds are likely to result only to the extent that reductions occur in military personnel and facilities. It is not clear at this point to what extent, if any, that will occur as part of this effort.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Defense Management: Industry Practices Can Help Military Exchanges Better Assure That Their Goods Are Not Made by Child or Forced Labor.
 GAO-02-256. Washington, D.C.: January 31, 2002.

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Excess Equipment for Former Castle AFB (EXMART). GAO/NSIAD-98-94R. Washington, D.C.: February 27, 1998.

Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action. GAO/NSIAD-94-120. Washington, D.C.: February 28, 1994.

GAO Contact

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Reorganize C-130 Reserve
 Squadrons

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Currently, the majority of the Air Force's C-130 aircraft are in the reserve component—that is, assigned to the Air Force Reserve and the Air National Guard. Typically, reserve component wings are organized in one squadron of 8 C-130 aircraft. However, active Air Force wings flying the same aircraft are generally organized in two to three squadrons of 14 C-130 aircraft. Given this organizational approach, reserve component C-130 aircraft are widely dispersed throughout the continental United States, Hawaii, and Alaska.

The Air Force could reduce costs and meet peacetime and wartime commitments if it reorganized its reserve component C-130 aircraft into larger squadrons and wings at fewer locations. These savings would primarily result from fewer people being needed to operate these aircraft. For example, we reported in 1998 that redistributing 16 C-130 aircraft from two 8-aircraft reserve wings to one 16-aircraft reserve wing could save about \$11 million dollars annually. This reorganization could eliminate about 155 full-time positions and 245 part-time positions; the decrease in full-time positions is especially significant, since the savings associated with these positions represents about \$8 million, or 75 percent of the total savings. Fewer people would be needed in areas such as wing headquarters, logistics, operations, and support group staffs as well as maintenance, support, and military police squadrons.⁴

Several alternatives could be developed to redistribute existing reserve component C-130 aircraft into larger squadrons. Sufficient personnel could be recruited for the larger squadrons, and most locations' facilities could be inexpensively expanded to accommodate the unit sizes. Overall savings will depend on the organizational model selected, but each should produce

⁴To the extent that alternatives are selected that would cause civilian personnel reductions that exceed the thresholds established in 10 U.S.C. 2687, the department would have to follow the procedures provided in that section.

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	savings to help make additional funding available for force modernization. The alternative that requires the most reorganizing would increase the squadron size to 16 aircraft for the C-130 by redistributing aircraft from 13 C-130 squadrons to other squadrons.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Product	<i>Air Force Aircraft: Reorganizing Mobility Aircraft Units Could Reduce Costs.</i> GAO/NSIAD-98-55. Washington, D.C.: January 21, 1998.
GAO Contact	Henry L. Hinton, Jr., (202) 512-4300

Acquire Conventionally
 Rather Than Nuclear-
 Powered Aircraft Carriers

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Throughout the 1960s and most of the 1970s, the Navy pursued a goal of creating a fleet of nuclear carrier task forces. The centerpiece of these task forces, the nuclear-powered aircraft carrier, would be escorted by nuclear-powered surface combatants and nuclear-powered submarines. In deciding to build nuclear-powered surface combatants, the Navy believed that the greatest benefit would be achieved when all the combatant ships in the task force were nuclear-powered. However, the Navy stopped building nuclear-powered surface combatants after 1975 because of the high cost. The last nuclear-powered surface combatants were decommissioned in the late 1990s because they were not cost-effective to operate and maintain.

Our analysis shows that both conventional and nuclear aircraft carriers have been effective in fulfilling U.S. forward presence, crisis response, and war-fighting requirements and share many characteristics and capabilities. Conventionally and nuclear-powered carriers both have the same standard air wing and train to the same mission requirements. Each type of carrier offers certain advantages. For example, conventionally powered carriers spend less time in extended maintenance and, as a result, can provide more forward presence coverage. By the same token, nuclear carriers can store larger quantities of aviation fuel and munitions and, as a result, are less dependent upon at-sea replenishment. There was little difference in the operational effectiveness of nuclear and conventional carriers in the 1991 Persian Gulf War.

The United States maintains a continuous presence in the Pacific region by homeporting a conventionally powered carrier in Japan. If the Navy switches to an all-nuclear carrier force, it would need to homeport a nuclear-powered carrier there to maintain the current level of worldwide overseas presence with a 12-carrier force. Homeporting a nuclear-powered carrier in Japan could prove difficult and costly because of the need for

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support facilities, infrastructure improvements, and additional personnel.⁶ The United States would need a larger carrier force if it wanted to maintain a similar level of presence in the Pacific region with nuclear-powered carriers homeported in the United States. During fiscal year 2003, a new nuclear-powered carrier replaced a retiring conventionally powered carrier, leaving a mix of 10 nuclear and 2 conventionally powered carriers.

The life-cycle costs—investment, operating and support, and inactivation and disposal costs—are greater for nuclear-powered carriers than conventionally powered carriers. Our analysis, based on historical and projected costs, shows that life-cycle costs for conventionally powered and nuclear-powered carriers (for a notional 50-year service life) are estimated at \$14.1 billion and \$22.2 billion (in fiscal year 1997 dollars), respectively.

In assessing design concepts for the next class of aircraft carriers—and consistent with the Navy's objectives to reduce life-cycle costs by 20 percent—our analysis indicates that national security requirements can be met at less cost with conventionally powered carriers rather than nuclear-powered carriers. In the past, CBO concluded that savings could be achieved if the Congress chose to acquire a conventionally powered carrier in 2007 instead of a nuclear-powered carrier.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers. GAO/NSIAD-98-1. Washington, D.C.: August 27, 1998.

Nuclear Waste: Impediments to Completing the Yucca Mountain Repository Project. GAO/RCED-97-30. Washington, D.C.: January 17, 1997.

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force. GAO/NSIAD-93-74. Washington, D.C.: February 25, 1993.

⁶The State Department has noted that the entry of nuclear-powered vessels into Japanese ports remains sensitive in Japan and there would have to be careful consultations with the government of Japan should the U.S. Government wish to homeport a nuclear-powered carrier in Japan.

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Nuclear-Powered Ships: Accounting for Shipyard Costs and Nuclear Waste Disposal Plans. GAO/NSIAD-92-256. Washington, D.C.: July 1, 1992.

GAO Contact

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Improve the Administration
 of Defense Health Care

Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these separate, costly systems perform many of the same administrative, management, and operational functions.

Numerous studies since 1949, with the most recent completed in 2001, have reviewed whether a central entity should be created within the Department of Defense (DOD) for the centralized management and administration of the three systems. Most of these studies encouraged some form of organizational consolidation. A Defense health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicate administrative, management, and operational functions. No specific budget estimate can be developed until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

Although in the past CBO agreed that improving the administration of Defense health care had the potential to create savings, it could not develop a savings estimate without a specific legislative proposal.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
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No.

Related GAO Products

Defense Health Care: TRICARE Resource Sharing Program Failing to Achieve Expected Savings. GAO/HEHS-97-130. Washington, D.C.: August 22, 1997.

Defense Health Care: Actions Under Way to Address Many TRICARE Contract Change Order Problems. GAO/HEHS-97-141. Washington, D.C.: July 14, 1997.

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TRICARE Administrative Prices in the Northwest Region May Be Too High. GAO/HEHS-97-149R. Washington, D.C.: June 24, 1997.

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain. GAO/HEHS-96-128. Washington, D.C.: June 14, 1996.

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain. GAO/HEHS-95-142. Washington, D.C.: August 3, 1995.

Defense Health Care: DOD's Managed Care Program Continues to Face Challenges. GAO/HEHS-95-117. Washington, D.C.: March 28, 1995.

Defense Health Care: Issues and Challenges Confronting Military Medicine. GAO/HEHS-95-104. Washington, D.C.: March 22, 1995.

GAO Contact

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Seek Additional
 Opportunities for VA and
 DOD to Increase Joint
 Activities to Enhance
 Services to Beneficiaries
 and Reduce Costs

Primary agencies	Department of Defense Department of Veterans Affairs
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

Together, the Department of Veterans Affairs (VA) and the Department of Defense (DOD) provide health care services to more than 12 million beneficiaries at a cost of about \$34 billion annually. To promote more cost-effective use of these health care resources and more efficient delivery of care, in 1982 the Congress passed the VA and DOD Health Resources Sharing and Emergency Operations Act (Sharing Act). Specifically, the act authorizes VA medical centers (VAMC) and military treatment facilities (MTF) to become partners and enter into sharing agreements to buy, sell, and barter medical and support services.

VA and DOD continue to be hampered by long-standing barriers, including inconsistent reimbursement and budgeting policies and burdensome agreement approval processes. These long-standing barriers, along with changes in how VA and DOD provide medical care, present challenges for future collaboration and cost efficiencies. Although VA and DOD have taken some actions to address these barriers and seek more opportunities to maximize resources, challenges still remain. In a February 2002 staff report to the House Committee on Veterans' Affairs, new opportunities for enhancing sharing authority between the VA and DOD were discussed and legislation recommended to achieve more VA and DOD resource sharing. Further, in May 2003, the President's Task Force to Improve Health Care Delivery For Our Nation's Veterans submitted its final report, which includes a series of recommendations to remove barriers and improve collaboration between VA and DOD. It is too early to determine what impact the findings and recommendations of the Presidential Task Force will have on joint activities between VA and DOD.

VA and DOD sharing partners generally believe the sharing program yielded benefits in both dollar savings and qualitative gains. Recognizing joint purchasing as an area where efficiencies could be achieved, in June 1999, VA and DOD signed a memorandum of agreement to combine their buying power and eliminate contracting redundancies for certain items, including

pharmaceuticals and medical and surgical supplies. In 2001, we reported that VA and DOD saved over \$170 million annually by jointly procuring pharmaceuticals. However, as we testified in June 2002, VA and DOD had not awarded joint contracts for medical and surgical supplies, as envisioned by their memorandum of agreement. In fiscal year 2001, VA spent about \$500 million and DOD spent about \$240 million for medical and surgical supplies. Our analysis of about 100 identical medical and surgical items that VA and DOD now contract for separately indicates that jointly purchasing these items will yield additional savings, although we were unable to quantify the full potential. For example, in fiscal year 2001, if VA had collaborated with DOD and obtained a discounted price from one of DOD's regions for needle and syringe disposal containers, VA could have saved tens of thousands of dollars on this one item alone. Similarly, DOD could have realized additional savings if it had obtained VA's lower national contract price on one type of intravenous tubing.

While it is difficult to quantify the potential savings that joint contracting and other shared approaches could yield, as we reported in 2002, these savings could be meaningful given that VA's and DOD's separate approaches to procuring surgical and medical supplies have yielded an estimated \$19 million annually in savings. However, much needs to be done to take advantage of additional savings opportunities. At this point, neither department has accurate, reliable, and comprehensive procurement information—a basic requirement for identifying potential medical and surgical items to standardize. Furthermore, because DOD has opted to follow a regional rather than a national approach to standardization, opportunities for national joint procurement will be more difficult to achieve.

Other types of potential sharing exist to maximize each system's capacities and result in the most effective delivery of health care. For example, having DOD use VA's consolidated mail outpatient pharmacies could yield additional significant savings. VA and DOD need to continue to work together to determine an appropriate course of action to ensure that resource-sharing opportunities are realized to the maximum extent possible.

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Related GAO Products	<p><i>VA and Defense Health Care: Potential Exists for Savings through Joint Purchasing of Medical and Surgical Supplies.</i> GAO-02-872T. Washington, D.C.: June 26, 2002.</p> <p><i>DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs.</i> GAO-01-588. Washington, D.C.: May 25, 2001.</p> <p><i>DOD and VA Health Care: Jointly Buying and Mailing Out Pharmaceuticals Could Save Millions of Dollars.</i> GAO/T-HEHS-00-121. Washington, D.C.: May 25, 2000.</p> <p><i>VA and Defense Health Care: Rethinking of Resource Sharing Strategies Is Needed.</i> GAO/T-HEHS-00-117. Washington, D.C.: May 17, 2000.</p> <p><i>VA and Defense Health Care: Evolving Systems Require Rethinking of Resource Sharing Strategies.</i> GAO/HEHS-00-52. Washington, D.C.: May 17, 2000.</p>
GAO Contact	Cynthia A. Bascetta, (202) 512-7101

Continue Defense
 Infrastructure Reform

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Although the Department of Defense (DOD) has made significant reductions in defense force structure and military spending since the end of the Cold War, it has not achieved commensurate reductions in infrastructure⁶ costs. We previously reported that the proportion of planned infrastructure funding in DOD's budgets would remain relatively constant at about 60 percent through 2005. DOD recognized that it must make better use of its scarce resources and announced a major reform effort—the Defense Reform Initiative (DRI). This effort began in November 1997. A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives aimed at substantially streamlining and improving the economy and efficiency of DOD's business operations and support activities. The resulting savings were expected to help DOD modernize its war fighting forces.

While the administration has not continued the formal DRI program, it has recognized the need to continue reform efforts. Secretary of Defense Rumsfeld announced on June 18, 2001, the creation of two new management committees to recommend ways to improve DOD's business activities and transform the U.S. military into a 21st century fighting force. The Senior Executive Committee, which includes the Secretary and deputy secretaries of Defense and the service secretaries, is expected to meet monthly and use its members' unique qualifications as business leaders to recommend changes to DOD's business practices. The second committee, the Business Initiative Council, also includes the service secretaries but is chaired by the Under Secretary of Defense for Acquisition, Technology, and Logistics. Its mission is to recommend good business practices and achieve cost savings that will help pay for other DOD priorities. Although the

⁶DOD defines infrastructure as those activities that provide support services to mission programs, such as combat forces, and primarily operate from fixed locations. They include such program elements as installation support, acquisition infrastructure, central logistics, central training, central medical, and central personnel.

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agendas of these committees are not clear at this time, their members have endorsed several initiatives that were part of the DRI program (e.g., family housing and utilities privatization) and indicated that they would consider 25 other areas that impact readiness and quality of life. They also emphasized that the committees do not intend to conduct another study. Rather, they will execute those initiatives or ideas that have already been researched and offer opportunities to fundamentally change DOD's business practices and reduce infrastructure costs.

Despite the change in the management structure, a number of old initiatives continue. However, progress in achieving the goals is mixed, as the following illustrate.

- A major efficiency initiative is to subject 226,000 government positions to public-private competition using OMB Circular A-76 or to subject those positions to alternative sourcing such as partnering or divestiture. Competitive sourcing is one of the five governmentwide initiatives in the *President's Management Agenda*. Under this initiative, OMB has directed agencies to compete 15 percent of positions deemed commercial in their fiscal year 2000 Federal Activities Inventory Reform Act inventories by the end of fiscal year 2003, with the ultimate goal of at least 50 percent through fiscal year 2008. DOD expects that they will meet these goals predominately through A-76 competitions. DOD has not attached savings targets to these goals, although it has in the past. Nevertheless, we have noted that these efforts can produce significant savings regardless of whether governmental organizations or private contractors win the competitions. However, we have raised questions about the precision of DOD's past savings estimates and the likelihood that the savings will not be realized as quickly as DOD projected.
- DOD has initiated a program to demolish and dispose of over 80 million square feet of excess buildings on military facilities. The military services were each given a demolition goal and expect to meet their goals and complete the program by 2003.
- Closing unneeded research development test and evaluation (RDT&E) facilities has proved to be more difficult. DOD's RDT&E infrastructure consists of 131 facilities that develop and test military technologies. Over the years, DOD has tried to reduce the size of its RDT&E infrastructure. In addition, DOD reduced its RDT&E personnel by about 40,000 between fiscal years 1990 and 1997, saving an estimated \$2.4 billion annually in personnel costs. Despite these reductions, the

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RDT&E infrastructure continues to have excess capacity. DOD estimates that excess capacity, in terms of square footage, is between 20 percent and 60 percent, depending on the military service and the method of estimation used. Moreover, DOD has stated that estimated personnel reductions are somewhat inflated because many government employees were replaced by on-site contractor employees who are conducting essentially the same tasks as government employees.

- Privatizing utilities has also proved to be more complicated and costly than anticipated and, consequently, progress has been very limited. The department established the goal of privatizing utility systems on military bases by September 30, 2003. However, as of March 2003, almost 6 years after the goal was established, DOD had privatized only 38 of the approximately 1,700 systems being considered for privatization under existing legislation. The effort has proven to be more complex, time-consuming, and expensive than originally anticipated. Although exact costs are not known, DOD estimates that it could cost hundreds of millions of dollars to complete required feasibility and environmental studies and upgrade the facilities to make them attractive to private investors. Additionally, instead of realizing significant savings, as once envisioned, the program might instead increase costs to the department's operations and maintenance budgets to pay for privatized utility services. By not privatizing, however, DOD faces large capital costs (possibly in the billions) to repair the utility systems and ensure they continue to operate at an acceptable level. DOD sees privatization as a way to use private resources to finance these needed capital repairs and to get out of a business that is clearly not central to its mission.
- Privatizing family housing through private sector financing, ownership, operation, and maintenance has also experienced delays. Since the program began, the department has awarded a small number of contracts. DOD has not implemented a departmentwide standard process for determining housing requirements. DOD and the services have worked to develop the framework for this process, but technical concerns—such as standards for affordable housing and commuting distance—have stalled its adoption. Also, DOD's life-cycle cost analyses for housing privatization have been incomplete and inaccurate, and have overstated savings. Moreover, increasing military members' housing allowance to secure private sector housing may be a better alternative to more quickly increase the availability of quality housing to military members.

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The administration also continues to emphasize the need for at least one additional base realignment and closure round in 2005 to reduce unneeded infrastructure and free up funds for readiness, weapon modernization, and other needs.⁷ DOD projects that additional base closure rounds could save several billion dollars annually once realignment and closure actions are completed and the costs of implementing the actions are offset by savings. While we have previously raised questions about the precision of DOD's savings estimate, our work has nevertheless shown that the department will realize net annual recurring savings once initial investment costs from implementing realignment and closure decisions have been offset.

Undoubtedly, opportunities remain for DOD to reduce its infrastructure costs through additional strategic sourcing, streamlining, consolidating, and possibly privatizing. However, DOD needs a plan and investment strategy to maximize the results of these efforts. In particular, a comprehensive integrated consolidation and downsizing plan that sets goals, identifies specific initiatives, and sets priorities across DOD is needed to guide and sustain reform efforts. Ongoing DRI initiatives from the previous administration as well as initiatives involving the 25 business areas being evaluated by the Business Initiatives Council need to be addressed by the plan. Savings for this option cannot be fully estimated until such a plan is developed.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Defense Management: New Management Reform Program Still Evolving. GAO-03-58. Washington, D.C.: December 12, 2002.

Major Management Challenges and Program Risks, Department of Defense. GAO-01-244. Washington, D.C.: January 2001.

Future Years Defense Program: Risks in Operation and Maintenance and Procurement Programs. GAO-01-33. Washington, D.C.: October 5, 2000.

⁷The National Defense Authorization Act for Fiscal Year 2002 authorized another Base Realignment and Closure (BRAC) round to be conducted in 2005.

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Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative. GAO/NSIAD-99-169. Washington, D.C.: August 4, 1999.

Defense Reform Initiative: Organization, Status and Challenges. GAO/NSIAD-99-87. Washington, D.C.: April 21, 1999.

Defense Reform Initiative: Progress, Opportunities, and Challenges. GAO/TNSIAD-99-95. Washington, D.C.: March 2, 1999.

Force Structure: A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan. GAO/NSIAD-99-73. Washington, D.C.: February 26, 1999.

Major Management Challenges and Program Risks: Department of Defense. GAO/OCG-99-4. Washington, D.C.: January 1999.

Army Industrial Facilities: Workforce Requirements and Related Issues Affecting Depots and Arsenal. GAO/NSIAD-99-31. Washington, D.C.: November 30, 1998.

Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure. GAO/NSIAD-99-17. Washington, D.C.: November 13, 1998.

Defense Infrastructure: Challenges Facing DOD in Implementing Reform Initiatives. GAO/TNSIAD-98-115. Washington, D.C.: March 18, 1998.

Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure. GAO/NSIAD/RCED-98-23. Washington, D.C.: January 8, 1998.

Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution. GAO/NSIAD-98-26. Washington, D.C.: October 23, 1997.

1997 Defense Reform Bill: Observations on H.R. 1778. GAO/TNSIAD-97-187. Washington, D.C.: June 17, 1997.

Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs. GAO/NSIAD-97-125. Washington, D.C.: May 13, 1997.

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DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste. GAO/T-NSIAD/AIMD-97-143. Washington, D.C.: May 1, 1997.

Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes. GAO/T-NSIAD-97-140. Washington, D.C.: April 8, 1997.

Defense Budget: Observations on Infrastructure Activities. GAO/NSIAD-97-127BR. Washington, D.C.: April 4, 1997.

GAO Contact

Henry L. Hinton, Jr., (202) 512-4300

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 Opportunities to Improve the Economy,
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Reduce Funding for
 Renovation and
 Replacement of Military
 Housing until DOD
 Completes Housing
 Assessment

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

One of the Department of Defense's (DOD's) most pressing problems is its outsized and decaying infrastructure, and this problem is prominent in the family housing program. By DOD's March 2002 estimates, about 60 percent of military housing is inadequate and would require as much as \$16 billion to renovate or replace using traditional military construction. Efforts to use private contractors to build and operate housing are off to a slow start and may require a long-term (50 years or more) commitment from the government. DOD's policy is to rely on the private sector first for housing, but military members that receive a cash allowance to live in private sector housing must often pay out-of-pocket costs also. These additional costs have been a significant disincentive for living in civilian housing. However, in 2001, an initiative started to eliminate the service members' out-of-pocket costs for living in civilian housing by fiscal year 2005. While the full impact of this initiative on military housing requirements is not known, it will provide added incentive for service members to move into civilian housing, thereby reducing the potential need for DOD constructed housing.

Despite efforts to improve the quality and availability of housing for military families, DOD has not implemented a departmentwide standard process for determining military housing requirements. A requirements-setting process that first considers the housing available around installations would likely decrease the amount of needed military housing. Without an accurate requirements-setting process based on the availability of private sector housing, DOD will continue to have inadequate information with which to make decisions about where it should renovate, build, or seek to privatize military housing. Increasing the housing allowance heightens the urgency for a consistent process to determine military housing requirements because it is expected to increase demand for civilian housing, and lessen the demand for military housing. Considerable evidence suggests that it is less expensive to provide allowances for military personnel to live within the civilian market than to provide military housing. While overall program costs are increasing significantly over the short term to cover increased allowances, DOD could

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save money in the longer term by encouraging more personnel to move into civilian housing. In the meantime, without an accurate determination of military housing needs, the department may spend millions of dollars to construct, renovate, or privatize housing that in some locations is unnecessary.

In order to better ensure that DOD's renovation and replacement of military housing is needed, the Congress may wish to reduce spending on noncritical housing construction and renovation until DOD completes a full needs assessment to determine if less expensive alternatives exist in the private market. Such a needs assessment would better enable DOD to target its limited financial resources to where military housing needs are most immediate. In the past, CBO could not estimate the savings for this option unless the funds needed for noncritical construction and renovation projects were identified. Although CBO agreed some savings would result from this option, it estimated that some of those savings would be offset in future years by additional spending for projects that are delayed but ultimately funded.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Product

Military Housing: DOD Needs to Address Long-Standing Requirements Determination Problems. GAO-01-889. Washington, D.C.: August 3, 2001.

GAO Contact

Barry W. Holman, (202) 512-8412

Improve DOD Procurement
 Practices Regarding
 Canceling Orders

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

As of September 30, 2001, Department of Defense (DOD) records showed that the department had inventory on order valued at about \$1.6 billion that would not have been ordered based on current requirements. We have issued several reports in the past few years highlighting weaknesses in the department's requirements determination processes for materials and its procedures for canceling orders for items that are no longer needed. For example, we reported in May 2001 that the Army was unable to accurately identify its requirements for war reserve spare parts because (1) it was not using the best available data concerning the rate at which spares would be consumed during wartime and (2) a potential mismatch existed between how the Army determined spare parts requirements for war reserves and how the Army plans to repair equipment on the battlefield.

Additional budgetary savings in this area can be anticipated because the department has a number of initiatives underway to better define spare parts requirements and to more efficiently cancel orders for items it determines are no longer needed.

The Congress may wish to continue to monitor the DOD's annual reports on the value of its unneeded inventory in order to ensure that the value continues to decrease. In addition, the Congress could consider requiring that the department's logistics transformation initiatives include (1) enhancements to its models for computing inventory requirements to ensure greater accuracy and (2) more efficient procedures for canceling orders it determines are no longer needed.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Product

Major Management Challenges and Program Risks: Department of Defense. GAO-03-98. Washington, D.C.: January 2003.

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GAO Contact

William Solis, (202) 512-8365

Reduce Planned Military
 Construction Costs for
 Barracks

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

In January 2003, GAO reported that over the next few years the military services plan to eliminate barracks with gang latrines and provide private sleeping rooms (to meet the Department of Defense's (DOD) 1+1 barracks design standard) for all permanent party service members. The Navy has an additional goal to provide barracks for sailors who currently live aboard ships when in homeport. To implement these goals, the services plan to spend about \$6 billion over the next 7 years to construct new barracks.

GAO reported that the *DOD Housing Management* manual, which provides policy guidance about who should live in barracks, appears to be out of date and is under revision, and the military services have adopted different barracks occupancy requirements. The rationale for the services' requirements, and in particular for the requirement that more experienced junior service members live in barracks, appears to be a matter of military judgment and preference with less emphasis on systematic, objective analyses. Requiring more personnel (more pay grades) to live in barracks than is justified results in increased barracks program and construction costs and may be inconsistent with DOD's policy to maximize reliance on civilian housing to the extent this policy is applied to barracks. There are also quality-of-life implications because most junior service members prefer to live off base. GAO reported that the timely resolution of these matters could potentially affect future budget decisions by reducing the number of new barracks to construct.

GAO recommended that DOD revise its barracks occupancy guidance based, at least in part, on the results of objective, systematic analyses to determine who should be required to live in barracks on base or permitted to reside off base and seek to ensure greater consistency in requirements among the military services to the extent practical. DOD agreed, in principle, to base the department's barracks policy revision and the services' barracks occupancy requirements—at least in part—on the results of systematic analyses, but left unclear the extent to which it is likely to do so. GAO continues to believe that, given the variations noted in

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the report, the services requirements determinations should be supported with more objective analyses to the extent practical. If the Congress required DOD to revise its barracks occupancy guidance according to GAO recommendations, then future construction and operation costs for barracks could be significantly lowered.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No, this is a new example.

Related GAO Product

Military Housing: Opportunity for Reducing Planned Military Construction Costs for Barracks. GAO-03-25TR. Washington, D.C.: January 7, 2003.

GAO Contact

Barry W. Holman, (202) 512-8412

Take a Strategic Approach
 to Department of Defense
 Acquisition of Services

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military

Over the last decade, much of the Department of Defense's (DOD) management control of the billions it has spent in procuring services has been inefficient and ineffective. Today, DOD spending on a wide range of services—such as information technology, administrative support, and research and development—is approaching \$100 billion annually. All too often, our work—and the work of the DOD Inspector General—has found that DOD organizations have not clearly defined service contract requirements nor adequately pursued competition. Award of these contracts has been widely dispersed, and DOD or the military services have had limited control on a servicewide or DOD-wide basis. Recent legislation requires DOD to improve procurement practices to achieve savings and other benefits.

Like the federal government, private companies increasingly rely on services and also struggle with methods to better manage their purchasing. To reduce costs and more effectively procure services, many companies have adopted a strategic approach—centralizing and reorganizing their operations to get the best value for the company as a whole—that is based on the implementation of a variety of best practices. These range from learning much more about their service spending to buying services on an enterprisewide rather than business unit basis.

A strategic approach pulls together participants from a variety of places within an organization who recommend changes that can constrain rising acquisition costs. These changes can include analyzing spending to identify opportunities to leverage their buying power; instituting companywide purchasing of specific services; reshaping a decentralized process to follow a more center-led, strategic approach; and increasing the involvement of the enterprise procurement organization, including working across units to help identify service needs, select providers, and manage contractor performance.

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Studies have reported significant cost savings in the private sector, with some companies achieving reported savings of 10 to 20 percent of their total procurement costs through the use of a strategic approach to buying goods and services. A recent *Purchasing Magazine* poll finds that companies employing procurement best practices—including employing effective spend analysis processes—are routinely delivering a 3 percent to 7 percent savings on their procurement costs.

One option for achieving significant savings is for DOD to adopt the very same strategic approach and practices employed by the private sector. In response to recent legislation requiring management improvements in service contracts, DOD is beginning a pilot to analyze spending data from a DOD-wide perspective. The pilot is expected to identify 5 to 10 categories of smaller service requirements that can be consolidated for large-scale savings opportunities and other efficiencies over the current decentralized contracting environment. Although moving in the right direction, DOD has not yet adopted best practices to the same extent as the companies we studied. Whether DOD can adopt these practices depends on its ability to make long-term management changes necessary to implement a more strategic approach to service contracts. DOD cites a number of challenges that may hamper adoption of these practices. These include the size and complexity of DOD's service needs, the fragmentation of spending data across multiple financial and procurement systems, and socioeconomic goals for contracting with small businesses that may constrain its ability to consolidate smaller requirements into larger contracts.

While seemingly daunting, each of the challenges to be faced by DOD has been faced and overcome by private sector companies. Given that DOD's spending on service contracts is approaching \$100 billion annually, the potential benefits of overcoming the challenges and using best practices to establish an effective spending analysis program are significant—achieving total spending perspective across DOD; making the business case for collaboration in joint purchasing rather than fragmented purchasing; organizing an effective management structure to assign accountability and exercise oversight; and identifying potentially billions of dollars in procurement savings opportunities by leveraging buying power.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

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Opportunities to Improve the Economy,
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Related GAO Products

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings. GAO-03-661. Washington, D.C.: June 10, 2003.

Sourcing and Acquisition: Challenges Facing the Department of Defense. GAO-03-574T. Washington, D.C.: March 19, 2003.

Major Management Challenges and Program Risks: Department of Defense. GAO-03-98. Washington, D.C.: January 2003.

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services. GAO-02-230. Washington, D.C.: January 18, 2002.

Contract Management: Trends and Challenges in Acquiring Services. GAO-01-753T. Washington, D.C.: May 22, 2001.

GAO Contact

David E. Cooper, (617) 788-0555

Address Overpayments to
 Defense Contractors

Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

Ensuring prompt, proper, and accurate payments is a key element of a sound contract management process. Yet, for the Department of Defense (DOD), completing such basic tasks has long been a challenge. GAO first reported problems with contractor overpayments in 1994. That report, and those issued subsequently, noted that contractors were refunding hundreds of millions of dollars to DOD each year, for a total of about \$6.7 billion between fiscal year 1994 and 2001. GAO also found that a substantial portion of overpayments was not repaid promptly—in some cases for years. As an example, in a 1999 review of 13 contractors, GAO found that it took about a year, on average, before overpayments of \$56.2 million were refunded to DOD. The time taken for repayment ranged from 2 weeks to nearly 6 years.

While DOD has a number of initiatives underway to address its payment problems, it will be some time before the problems are resolved. Until then, DOD contractors will continue receiving a sizable amount of cash beyond what is intended to finance and pay for the goods and services DOD is purchasing. In effect, such overpayments provide an interest-free loan to contractors.

In December 2001, in response to GAO's work, the Federal Acquisition Regulation (FAR) was revised to require contractors receiving overpayments on invoice payments to notify the government and seek instructions for disposing of the overpayment. However, the revision does not address overpayments stemming from financing payments⁸—although GAO found that most overpayments involve contracts with financing

⁸Contract payments involve payments for the delivery of goods and services and financing payments. Financing payments include (1) progress payments to cover a contractor's costs as they are incurred during the construction of facilities or the production of major weapons systems and (2) performance-based payments that are based on the accomplishment of particular events or milestones—typically used on production contracts.

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payments. In June 2003, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council were proposing to require contractors to notify the government when they received overpayments stemming from either invoice or financing payments on commercial item and non-commercial item contracts.

While we have recommended that the Secretary of Defense require contractors to promptly notify the government of overpayments made to them, given the extent of the overpayment problem, one option is for the Congress to require contractors to notify the government of overpayments when they become aware of them, for all types of contracts, and to return the money promptly upon becoming aware of the overpayments. Additional steps could be taken to create incentives for contractors to refund money they have not earned. For example, a requirement could be established for contractors to pay interest on overpayments at the discretion of DOD on a facts and circumstances basis if they do not return the money promptly.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. However, CBO indicated it could probably make an estimate for this example.

Related GAO Products

Major Management Challenges and Program Risks: Department of Defense. GAO-03-98. Washington, D.C.: January 2003.

Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems. GAO-02-749. Washington, D.C.: August 9, 2002.

DOD Contract Management: Overpayments Continue and Management and Accounting Issues Remain. GAO-02-635. Washington, D.C.: May 30, 2002.

Department of Defense: Status of Achieving Outcomes and Addressing Major Management Challenges. GAO-01-783. Washington, D.C.: June 25, 2001.

Contract Management: Excess Payments and Underpayments Continue to Be a Problem at DOD. GAO-01-309. Washington, D.C.: February 22, 2001.

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DOD Contract Management: Greater Attention Needed to Identify and Recover Overpayments. GAO/NSIAD-99-131. Washington, D.C.: July 19, 1999.

Recovery Auditing: Reducing Overpayments, Achieving Accountability, and the Government Waste Corrections Act of 1999. GAO/T-NSIAD-99-213. Washington, D.C.: June 29, 1999.

DOD Procurement: Millions in Contract Payment Errors Not Detected and Resolved Promptly. GAO/NSIAD-96-8. Washington, D.C.: October 6, 1995.

GAO Contact

David E. Cooper, (617) 788-0555

CBO Options Where
Related GAO Work Is
Identified⁹

050-05 Cancel the Army's
Comanche Helicopter
Program

Related GAO Product *Defense Acquisition: Comanche Program Objectives Need to Be Revised to More Achievable Levels.* GAO-01-450. Washington, D.C.: June 7, 2001.

GAO Contact William Graveline, (256) 922-7514

050-10 Reduce Purchases of
the Air Force's F/A-22
Fighter

Related GAO Products *Tactical Aircraft: DOD Should Reconsider Decision to Increase F/A-22 Production Rates While Development Risks Continue.* GAO-03-431. Washington, D.C.: March 14, 2003.

Tactical Aircraft: DOD Needs to Better Inform Congress about Implications of Continuing F/A-22 Cost Growth. GAO-03-280. Washington, D.C.: February 28, 2003.

GAO Contact Michael Hazard, (937) 258-7917

⁹We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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050-11 Slow the Schedule of
the F-35 Joint Strike Fighter
Program

Related GAO Product *Joint Strike Fighter Acquisition: Mature Critical Technologies Needed to Reduce Risk.* GAO-02-39. Washington, D.C.: October 19, 2001.

GAO Contact Brian Mullins, (202) 512-4384

050-19 Replace Military
Personnel in Some Support
Positions with Civilian
Employees of the
Department of Defense

Related GAO Product *DOD Competitive Sourcing: Some Progress, but Continuing Challenges Remain in Meeting Program Goals.* GAO/NSIAD-00-106. Washington, D.C.: August 8, 2000.

GAO Contact Barry W. Holman, (202) 512-5581

050-22 Have the
Departments of Defense and
Veterans Affairs Purchase
Drugs Jointly

Related GAO Products *VA and DOD Health Care: Factors Contributing to Reduced Pharmacy Costs and Continuing Challenges.* GAO-02-969T. Washington, D.C.: July 22, 2002.

DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs. GAO-01-588. Washington, D.C.: May 25, 2001.

GAO Contact Cynthia A. Bascetta, (202) 512-7101

150 International
Affairs

Examples from Selected GAO Work

Eliminate U.S. Contributions to Administrative Costs in Rogue States

Streamline U.S. Overseas Presence

CBO Options Where Related GAO Work Is Identified

150-01 Eliminate the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency

150-02 End the United States' Capital Subscriptions to the European Bank for Reconstruction and Development

Examples from Selected GAO Work

Eliminate U.S. Contributions to Administrative Costs in Rogue States

Primary agency	Department of State
Account	International Organizations and Programs (19-1005)
Spending type	Discretionary
Budget subfunction	151/International development and humanitarian assistance

International organizations, such as the United Nations Development Program, fund projects in countries that are legislatively prohibited from receiving U.S. funding under section 307 of the Foreign Assistance Act of 1961, as amended. The list of countries varies over time but has included Afghanistan, Burma, Cuba, Iran, Iraq, Libya, Serbia, and Syria. To comply with the legislation, the Department of State withholds from its voluntary contributions to international organizations the U.S. share of funding for projects in these countries.

However, the department does not withhold administrative expenditures associated with the operation of field offices in these countries. Consequently, a portion of the U.S. contribution still goes to projects in states prohibited from receiving U.S. funds. We did not attempt to calculate the total amount that the United States contributes to all international organizations for administrative expenses in rogue states. However, in 1998 GAO estimated that the amount for one United Nations organization, the United Nations Development Program, was about \$600,000.

The Department of State has indicated that it would not, as a matter of policy, withhold U.S. contributions to United Nations organizations for administrative expenses in these countries. The department believes the legislative restriction invites politicization and contradicts the principle of universality for participating in United Nations organizations.

Savings may be achieved if the Department of State were to include field office administrative costs when calculating the amount of U.S.

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withholdings for all international organizations that are subject to section 307 of the Foreign Assistance Act of 1961.

CBO 5-Year Cost Estimate
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No.

Related GAO Products

Multilateral Organizations: U.S. Contributions to International Organizations for Fiscal Years 1993-95. GAO/NSIAD-97-42. Washington, D.C.: May 1, 1997.

International Organizations: U.S. Participation in the United Nations Development Program. GAO/NSIAD-97-8. Washington, D.C.: April 17, 1997.

GAO Contact

Susan S. Westin, (202) 512-4128

Streamline U.S. Overseas
 Presence

Primary agency	Department of State
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	153/Conduct of foreign affairs

The U.S. overseas presence at more than 260 overseas posts consists of more than 90,000 people (including dependents). The workforce has been estimated at as many as 60,000 personnel representing over 30 U.S. agencies. The Department of State employs about a third of the U.S. workforce overseas and its embassies and consulates have become bases for the operations of agencies involved in hundreds of activities. U.S. direct hire staffing levels have increased over the years, most notably in the nonforeign affairs agencies.

The costs of overseas operations and related security requirements are directly linked to the size of the overseas workforce. By reducing the number of employees at posts where U.S. interests are lower priority, consolidating functions, establishing regional centers, or relocating personnel to the United States, the costs of overseas operations could be significantly reduced. The average annual cost of an American at a post overseas varies by location, but can cost several hundred thousand dollars, not including salary. The costs to station an American overseas have been estimated to be about two times as much as for Washington-based staff. In addition, reductions in the number of personnel overseas could substantially enhance the safety of Americans and other U.S. employees, reduce the costly security demands placed on the State Department, and help control the costs of new embassy construction estimated to cost as much as \$16 billion.

Since the mid-1990s, we have encouraged actions to reevaluate overseas staffing requirements and levels. In late 1999, the Overseas Presence Advisory Panel concluded that substantial monetary savings and reductions in security vulnerabilities could be achieved through streamlining posts. In August 2001, *The President's Management Agenda* noted that the U.S. overseas presence is costly, increasingly complex, and of growing security concern. *The President's Management Agenda* concluded that cost and security considerations demand that the overseas staffing process be improved. We have developed a rightsizing framework

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that encourages overseas staffing decisions to be based on a full consideration of cost, security, and mission factors. In the past, CBO estimated that savings could be achieved if the Congress chose to reduce overseas staffing by 1 percent, either through domestic reallocation or elimination.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

Embassy Construction: Process for Determining Staffing Requirements Needs Improvement. GAO-03-411. Washington, D.C.: April 7, 2003.

Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries. GAO-03-396. Washington, D.C.: April 7, 2003.

Overseas Presence: Systematic Processes Needed to Rightsize Posts and Guide Embassy Construction. GAO-03-582T. Washington, D.C.: April 7, 2003.

Overseas Presence: Conditions of Overseas Diplomatic Facilities. GAO-03-557T. Washington, D.C.: March 20, 2003.

GAO Contact

Jess T. Ford, (202) 512-4128

CBO Options Where
Related GAO Work Is
Identified¹⁰

150-01 Eliminate the Export-
Import Bank, the Overseas
Private Investment
Corporation, and the Trade
and Development Agency

Related GAO Product

Export Promotion: Mixed Progress in Achieving a Governmentwide Strategy. GAO-02-850. Washington, D.C.: September 4, 2002.

GAO Contact

Ginny Hughes, (202) 512-5481

150-02 End the United
States' Capital
Subscriptions to the
European Bank for
Reconstruction and
Development

Related GAO Product

Foreign Assistance: International Efforts to Aid Russia's Transition Have Had Mixed Results. GAO-01-8. Washington, D.C.: November 1, 2000.

GAO Contact

Celia Thomas, (202) 512-8987

¹⁰We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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250 General Science,
Space, and Technology

Example from Selected GAO Work

Continue Oversight of the International Space Station and Related Support
Systems

Example from Selected GAO Work

Continue Oversight of the International Space Station and Related Support Systems

Primary agency	National Aeronautics and Space Administration
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	252/Space flight, research, and supporting activities

Recent events associated with the National Aeronautics and Space Administration's (NASA) human space flight programs have generated major congressional concern. First, the Space Launch Initiative—a planned \$4.8 billion research and development effort—was significantly downsized in November 2002. This decision made the prospect of a Shuttle replacement unlikely for the foreseeable future and necessitated investment in extending the life of the Shuttle fleet. Second, the tragic loss of Shuttle Columbia has engendered intense scrutiny by the Columbia Accident Investigation Board and NASA's congressional oversight committees into various aspects of the agency's activities—from budgetary decisions to emphasis on flight safety. Third, the uncertain status of the unfinished International Space Station (ISS) is worrisome. Construction has halted due to postponement of shuttle flights and a crew size larger than three is still being negotiated among the international partners. As a result, the projected scientific benefits from this orbital laboratory have been further delayed.

The Congress is well aware of the challenges NASA faces in developing, building, and transporting crew to the ISS—challenges that have in the past resulted in schedule delays and higher program cost estimates to complete development. Although assembly of the ISS is well underway, it warrants continued congressional oversight because the ISS will impose continued demands on future budgets and will require critical decisions on Shuttle modernization and replacement efforts. As NASA returns the Space Shuttle fleet to safe flight by incorporating the accident board's recommendations and more clearly defines the future of human space

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	flight and commensurate financial commitments, continued congressional oversight will help to ensure that NASA's priorities and supporting funding are appropriately matched.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<p><i>NASA: Major Management Challenges and Program Risks.</i> GAO-03-849T. Washington, D.C.: June 12, 2003.</p> <p><i>Major Management Challenges and Program Risks: National Aeronautics and Space Administration.</i> GAO-03-114. Washington, D.C.: January 1, 2003.</p> <p><i>Relocation of Space Shuttle Major Modification Work.</i> GAO-03-294R. Washington, D.C.: December 2, 2002.</p> <p><i>Space Transportation: Challenges Facing NASA's Space Launch Initiative.</i> GAO-02-1020. Washington, D.C.: September 17, 2002.</p> <p><i>NASA Management Challenges: Human Capital and Other Critical Areas Need to be Addressed.</i> GAO-02-945T. Washington, D.C.: July 18, 2002.</p> <p><i>Space Station: Actions Under Way to Manage Cost, but Significant Challenges Remain.</i> GAO-02-735. Washington, D.C.: July 17, 2002.</p> <p><i>NASA: Compliance With Cost Limits Cannot Be Verified.</i> GAO-02-504R. Washington, D.C.: April 10, 2002.</p>
GAO Contact	Allen Li, (202) 512-4841

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270 Energy

Examples from Selected GAO Work

Corporatize or Divest Selected Power Marketing Administrations

Recover Power Marketing Administrations' Costs

Increase Nuclear Waste Disposal Fees

Recover Federal Investment in Successfully Commercialized Technologies

Reduce the Costs of the Rural Utilities Service's Electricity and
Telecommunications Loan Programs

Examples from Selected GAO Work

Corporatize or Divest Selected Power Marketing Administrations

Primary agency	Department of Energy
Spending type	Direct

The federal government began to market electricity after the Congress authorized the construction of dams and established major water projects, primarily in the 1930s to the 1960s. The Department of Energy's (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Our March 1998 report identified options that the Congress and other policymakers can pursue to address concerns about the role of three PMAs—Southeastern, Southwestern, and Western—in emerging restructured markets or to manage them in a more business-like fashion. Our work has demonstrated that, although federal laws and regulations generally require that the PMAs recover the full costs of building, operating, and maintaining the federal power plants and transmission assets, in some cases federal statutes and DOE's rules are ambiguous about or prohibit the recovery of certain costs. For fiscal years 1992 through 1996, the federal government incurred a net cost of \$1.5 billion from its involvement in the electricity-related activities of Southeastern, Southwestern, and Western. We also reported that the appropriated and other debt that is recoverable through the PMAs' power sales totaled about \$22 billion at the end of fiscal year 1997 and included nearly \$2.5 billion in irrigation costs. In addition, our work has demonstrated that the availability of federal power plants to generate electricity has been below that of nonfederal plants because the federal planning and budgeting processes do not always ensure that funds are available to make repairs when needed.

Our March 1998 report outlined three general options to address the federal role in restructuring markets: (1) maintaining the status quo of federal ownership and operation of the power generating projects, (2) maintaining

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the federal ownership of these assets but improving how they are operated (an example of which is reorganizing the PMAs to operate as federally owned corporations), and (3) divesting these assets. The third option would eliminate the government's presence in a commercial activity and, depending on a divestiture's terms and conditions and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury. Corporatization or divestitures of government assets have been accomplished in the United States and also overseas, and corporatization could serve as an interim step toward ultimate divestiture. Our March 1997 report concluded that divesting the federal hydropower assets would be complicated but not impossible. Such a transaction would need to balance the multiple purposes of the water project as well as other claims on the water.

CBO estimated previously that divesting the federal hydropower assets for Southeastern, Southwestern, and Western would result in budgetary savings. The savings assumed that the divestiture would not occur for 2 years and was based on the net present value of outstanding debt for the Southeastern, Southwestern, and Western PMAs.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus. GAO/T-AIMD-00-73. Washington, D.C.: February 1, 2000.

Potential Candidates for Congressional Oversight. GAO/OGC-00-3R. Washington, D.C.: November 1, 1999.

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry. GAO/T-RCED/AIMD-99-229. Washington, D.C.: June 24, 1999.

Federal Power: PMA Rate Impacts by Service Area. GAO/RCED-99-55. Washington, D.C.: January 28, 1999.

Federal Power: Regional Effects of Changes in PMAs' Rates. GAO/RCED-99-15. Washington, D.C.: November 16, 1998.

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Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry. GAO/RCED-98-43. Washington, D.C.: March 6, 1998.

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses. GAO/AIMD-97-110 and 110A. Washington, D.C.: September 19, 1997.

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources. GAO/RCED-97-48. Washington, D.C.: March 31, 1997.

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities. GAO/AIMD-96-145. Washington, D.C.: September 19, 1996.

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program. GAO/T-RCED-96-142. Washington, D.C.: May 2, 1996.

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Recover Power Marketing
 Administrations' Costs

Primary agency	Department of Energy
Spending type	Direct

Four of the Department of Energy's (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Except for Bonneville, these PMAs receive annual appropriations to cover operating and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets.¹¹ Federal law requires the PMAs to repay these appropriations as well as the power-related O&M and the capital appropriations expended by the operating agencies generating the power.

Current monitoring activities do not ensure that the federal government recovers the full cost of its power-related activities from the beneficiaries of federal power. The full cost of the power-related activities—which are to be recovered under DOE policy—include all direct and indirect costs incurred by the federal government in producing, transmitting, and marketing federal power. Neither DOE nor the Federal Energy Regulatory Commission, which reviews the PMAs' rate proposals, is effectively monitoring the rate-making process and the amounts due and repayments made to ensure their accuracy, completeness, and timeliness. Unrecovered power-related costs relate to (1) Civil Service Retirement System (CSRS) pensions and postretirement health benefits, (2) life insurance benefits, (3) certain workers' compensation benefits, and (4) interest on some of the federal appropriations used to construct certain projects. The full magnitude of the underrecovery of power-related costs is unknown. Until an effective monitoring system is implemented, the federal government will continue to be exposed to financial loss due to the underrecovery of power-related costs.

¹¹In 1974, the Congress stopped providing Bonneville with annual appropriations and instead provided it with a revolving fund maintained by the Treasury; however, Bonneville remains responsible for repaying its debt prior to 1974 and debt stemming from appropriations expended by the operating agencies on power-related expenses.

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The federal government is also incurring other substantial net costs annually—the amount by which the full costs of providing electric power exceed the revenues from the sale of power—from the electricity-related activities of the PMAs. Although the PMAs are generally required to recover all costs, favorable financing terms and the lack of specific requirements to recover certain costs have resulted in net costs to the federal government because these PMAs' electricity rates do not recover all costs that are to be repaid through the sale of power. It is important to note that the PMAs were generally following applicable laws and regulations applying to the recovery of costs; however, in some cases, federal statutes and an applicable DOE order are ambiguous about or prohibit the recovery of certain costs.

In part because the PMAs sell power generated almost exclusively from hydropower, are not required to earn a profit, and do not fully recover the government's costs in their rates, they are generally able to sell power more cheaply than other providers. Southeastern, Southwestern, and Western sold wholesale power to their preference customers, such as public entities and rural cooperatives, from 1990 through 1995, at average rates from 40 to 50 percent below the rates nonfederal utilities charged. If the PMAs were authorized to charge market rates for power in conjunction with federal restructuring legislation, some preference customers who now purchase power from the PMAs at rates that are less than those available from other sources would see their rates increase. However, we have reported that slightly more than two-thirds of the preference customers, which are located in varying portions of 29 states, that purchased power directly from Southeastern, Southwestern, and Western would experience small or no rate increases—increases of one-half cent per kilowatt hour or less—if those PMAs charged market rates.

The Congress and/or the Secretary of Energy may wish to consider directing the PMAs to more fully recover power-related costs or revising DOE's policy on high-interest debt repayment. We have recommended a number of specific actions aimed at enhancing DOE's oversight. For example, changes could be implemented to recover the full costs to the federal government of providing postretirement health benefits and pensions for current employees and operating agency employees engaged in producing and marketing the power sold by the PMAs. We and CBO agree that several PMAs have begun to address some of these actions. The Congress has the option of requiring the PMAs to sell their power at market rates to better ensure the full recovery of the appropriated and other debt that is recoverable through the PMAs' power sales. This debt totaled about

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\$22 billion at the end of fiscal year 1997 and included nearly \$2.5 billion in irrigation costs that are to be recovered through the PMAs' power sales. This option would likely also lead to more efficient management of the taxpayers' assets.

Although in the past, CBO agreed that savings would occur if the PMAs were directed to fully recover power-related costs or set their power at market rates, it could not develop an estimate for this option without a specific proposal.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance. GAO/T-AIMD-00-96. Washington, D.C.: February 17, 2000.

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry. GAO/T-RCED/AIMD-99-229. Washington, D.C.: June 24, 1999.

Federal Power: PMA Rate Impacts, by Service Area. GAO/RCED-99-55. Washington, D.C.: January 28, 1999.

Federal Power: Regional Effects of Changes in PMAs' Rates. GAO/RCED-99-15. Washington, D.C.: November 16, 1998.

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring. GAO/AIMD-98-164. Washington, D.C.: June 30, 1998.

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Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses. GAO/AIMD-97-110 and 110A. Washington, D.C.: September 19, 1997.

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources. GAO/RCED-97-48. Washington, D.C.: March 31, 1997.

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Federal Power: Outages Reduce the Reliability of Hydroelectric Power Plants in the Southeast. GAO/TRCED-96-180. Washington, D.C.: July 25, 1996.

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program. GAO/TRCED-96-142. Washington, D.C.: May 2, 1996.

Federal Electric Power: Operating and Financial Status of DOE's Power Marketing Administrations. GAO/RCED/AIMD-96-9FS. Washington, D.C.: October 13, 1995.

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Increase Nuclear Waste
 Disposal Fees

Primary agency	Department of Energy
Spending type	Direct

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, the Congress should amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Status of Actions to Improve DOE User-Fee Assessments. GAO/RCED-92-165. Washington, D.C.: June 10, 1992.

Changes Needed in DOE User-Fee Assessments. GAO/TRCED-91-52. Washington, D.C.: May 8, 1991.

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall. GAO/RCED-90-65. Washington, D.C.: June 7, 1990.

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 Programs

Recover Federal Investment
 in Successfully
 Commercialized
 Technologies

Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

The Department of Energy (DOE) and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. In June 1996, we reported that DOE generally does not require repayment of its investment in technologies that are successfully commercialized. Our review identified four DOE programs that require industry repayment if the technologies are ultimately commercialized. The offices in which we focused most of our work planned to devote about \$8 billion in federal funds to cost-shared projects over their lifetime, of which about \$2.5 billion would be subject to repayment.

Our June 1996 report discussed the advantages and disadvantages of having a repayment policy and pointed out that many of the disadvantages can be mitigated by structuring a flexible repayment requirement with the disadvantages in mind. It also discussed the types of programs and projects that would be the most appropriate or suitable for repayment of the federal investment.

Because opportunities exist for substantial repayment in some of DOE's programs, requiring repayment under a flexible policy would allow the government to share in the benefits of successfully commercialized technologies that could amount to significant cost savings. However, repayment provisions would only apply to future technology development projects not yet negotiated with industry.

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Related GAO Product	<i>Energy Research: Opportunities Exist to Recover Federal Investment in Technology Development Projects.</i> GAO/RCED-96-141. Washington, D.C.: June 26, 1996.
GAO Contacts	Bob Robinson, (202) 512-3841 Jim Wells, (202) 512-3841

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 Programs

Reduce the Costs of the
 Rural Utilities Service's
 Electricity and
 Telecommunications Loan
 Programs

Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	271/Energy supply

The Rural Utilities Service (RUS), created by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994), was established to provide loan funds intended to assist in the development of the utility infrastructure in the nation's rural areas. RUS finances the construction, improvement, and repair of electrical, telecommunications, and water and waste facility systems through direct loans and through repayment guarantees on loans made by other lenders. According to the Financial Statements For Fiscal Year 2002 of Rural Development (the U.S. Department of Agriculture agency responsible for administering RUS), RUS loans receivable totaled about \$39.5 billion as of September 30, 2002. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have significant financial problems with the electricity loan program. For example, since fiscal year 1992, RUS wrote off the debt of 9 electricity loan borrowers totaling more than \$4.9 billion.

RUS needs to take steps to increase the effectiveness and reduce the costs of its loan programs. RUS could, for example, (1) target loans to borrowers that provide services to areas with low populations, (2) target subsidized direct loans to borrowers that have a financial need for the agency's assistance, and (3) graduate the agency's financially viable borrowers from direct loans to commercial credit. Also, to reduce its vulnerability to losses, RUS could (1) establish loan and indebtedness limits, (2) set the repayment guarantee at a level below 100 percent, and (3) prohibit loans to delinquent borrowers or to borrowers who have caused the agency to incur loan losses. In the past, CBO could not develop an estimate for this option unless specific proposals to improve efficiency were identified.

CBO 5-Year Cost Estimate
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Related GAO Products

Rural Utilities Service: Status of Electric Loan Portfolio. GAO/AIMD-99-264R. Washington, D.C.: August 17, 1999.

Rural Water Projects: Federal Assistance Criteria and Potential Benefits of the Proposed Lewis and Clark Project. GAO/T-RCED-99-252. Washington, D.C.: July 29, 1999.

Rural Water Projects: Identifying Benefits of the Proposed Lewis and Clark Project. GAO/RCED-99-115. Washington, D.C.: May 28, 1999.

Rural Water Projects: Federal Assistance Criteria Related to the Fort Peck Reservation Rural Water Project. GAO/T-RCED-98-230. Washington, D.C.: June 18, 1998.

Rural Utilities Service: Risk Assessment for the Electric Loan Portfolio. GAO/T-AIMD-98-123. Washington, D.C.: March 30, 1998.

Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively. GAO/AIMD-98-42. Washington, D.C.: January 21, 1998.

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses. GAO/AIMD-97-110. Washington, D.C.: September 19, 1997.

Rural Development: Financial Condition of the Rural Utilities Service's Electricity Loan Portfolio. GAO/T-RCED-97-198. Washington, D.C.: July 8, 1997.

Rural Development: Financial Condition of the Rural Utilities Service's Loan Portfolio. GAO/RCED-97-82. Washington, D.C.: April 11, 1997.

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**300 Natural Resources
and Environment**

Examples from Selected GAO Work

Terminate Land-Exchange Programs

Deny Additional Funding for Commercial Fisheries Buyback Programs

Revise the Mining Law of 1872

Reexamine Federal Policies for Subsidizing Water for Agriculture and Rural
Uses

Reassess Federal Land Management Agencies Functions and Programs

Examples from Selected GAO Work

Terminate Land-Exchange Programs

Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	302/Conservation and land management

The Bureau of Land Management (BLM) and the Forest Service have long used land exchanges—trading federal lands for lands that are owned by corporations, individuals, or state or local governments—as a tool for acquiring nonfederal land and conveying federal land. By law, for an exchange to occur, the estimated value of the nonfederal land must be within 25 percent of the estimated value of the federal land, the public interest must be well served, and certain other exchange requirements must be met. Recognizing the importance of land exchanges in supplementing the federal funds that were available for purchasing land, the Congress, in 1988, passed legislation to facilitate and expedite land exchanges. Between fiscal years 1989 and 1999, BLM and the Forest Service acquired about 1,500 total square miles of land through land exchanges.

Several fundamental issues create significant problems in the use of land exchanges. For instance, in 1998, the cognizant inspectors general identified exchanges in which lands were inappropriately valued and the public interest was not well served. Also, although current law does not authorize BLM to retain or use proceeds from selling federal land, BLM sold federal land and retained the sales proceeds in escrow accounts. Further, BLM did not track these sales proceeds in its financial management system. At least some of BLM's and the Forest Service's continuing problems may reflect inherent underlying difficulties associated with exchanging land—rather than buying and selling land for cash. In fiscal year 2002, BLM contracted with the Appraisal Foundation to conduct a review of the agency's appraisal organization, policies, and procedures. The Appraisal Foundation's report listed numerous problems with BLM's

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appraisal process and concluded "violations of law may have occurred." The report contained seven principal recommendations including the recommendation that the "previously recommended moratorium on BLM land exchanges be implemented immediately." The Foundation performed a similar evaluation for the U.S. Department of Agriculture (USDA) Forest Service in 2000. That study resulted in a number of recommendations, which the Foundation noted, "have been successfully implemented." In most circumstances, cash-based transactions would be simpler and less costly.

While both agencies have taken steps to improve their land-exchange programs, the many controversies and problems associated with their programs reflect, in part, the difficulties and inefficiencies inherent in these exchange programs. On the basis of these difficulties and inefficiencies, the Congress may wish to consider directing both agencies to terminate their land-exchange programs. In the past, CBO was unable to develop a savings estimate for this option.

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Included in GAO's 2002
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Related GAO Products

National Park Service: Federal Taxpayers Could Have Benefited More From Potomac Yard Land Exchange. GAO-01-292. Washington, D.C.: March 15, 2001.

BLM and the Forest Service: Land Exchanges Need to Reflect Appropriate Value and Serve the Public Interest. GAO/RCED-00-73. Washington, D.C.: June 22, 2000.

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Deny Additional Funding for
 Commercial Fisheries
 Buyback Programs

Primary agency	Department of Commerce
Account	Operations, Research, and Facilities (13-1450)
Spending type	Discretionary
Budget subfunction	306/Other natural resources

Fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available for harvest. In response to this growing imbalance, the federal government has provided \$140 million from 1994 to 2002 to purchase fishing permits, fishing vessels, and related gear from fishermen, thereby reducing the capacity of fishermen to harvest fish. Generally, the government designed these purchases, called buybacks, to achieve multiple goals, such as reducing the capacity to harvest fish, providing economic assistance to fishermen, and improving the conservation of fish. Coastal states issue permits and develop and enforce regulations for fishing in waters that are near their shores. In areas outside state jurisdiction, the National Marine Fisheries Service (NMFS) within the Department of Commerce is responsible for issuing permits and developing and enforcing regulations for harvesting fish. Because excessive fishing capacity has been a continuing problem in many fisheries, several additional buybacks have been proposed that, if implemented, would be in excess of \$250 million.

GAO found that buyback programs in three fisheries we evaluated removed from 10 to 24 percent of their respective fishing capacities. However, the experiences of these three cases demonstrate that the long-term effectiveness of buyback programs depends upon whether previously inactive fishermen or buyback beneficiaries return to the fishery. For example, while 79 boats were sold in the New England buyback, 62 previously inactive boats have begun catching groundfish since the buyback. In addition, several buyback participants purchased boats with buyback funds and returned to the fishery. Long-term effectiveness of buyback programs may also depend on whether fishermen have incentives to increase remaining fishing capacity in a fishery. Importantly, buyback programs by themselves do not address the root cause of excess fishing capacity, that being the ongoing incentives fishermen have to invest in larger or better equipped fishing vessels in order to catch fish before someone else does.

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The problems of past buyback programs should be addressed as part of the design of any future programs. Given the experiences of buyback programs to date—both in terms of their limited effects on reducing fishing capacity and in terms of their inability to effectively address the root causes of over-fishing—one option the Congress may wish to consider is denying additional funding for proposed programs until these fundamental weaknesses are resolved. In the past, CBO could not develop a savings estimate without a more specific proposal.

CBO 5-Year Cost Estimate
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No.

Related GAO Products

Commercial Fisheries: Effectiveness of Fishing Buyback Programs Can Be Improved. GAO-01-609T. Washington, D.C.: May 10, 2001.

Commercial Fisheries: Entry of Fishermen Limits Benefits of Buyback Programs. GAO/RCED-00-120. Washington, D.C.: June 14, 2000.

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Revise the Mining Law of
 1872

Primary agencies	Department of the Interior Department of Agriculture
Spending type	Direct

The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for \$2.50 or \$5.00 an acre—amounts that do not necessarily reflect the market value of such lands today. Since 1872, the federal government has patented more than 3 million acres of mining claims (an area about the size of Connecticut), and some patent holders have reaped huge profits by reselling their lands. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands.

Among the options that are available are to prohibit the issuance of new patents, require the payment of fair market value for a patent, or otherwise modify the requirements for patenting. Legislation could also be enacted to impose royalties on hardrock minerals extracted from federal lands, such as a 5 percent royalty on net smelter returns.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Bureau of Land Management: Improper Charges Made to Mining Law Administration Program. GAO-01-491T. Washington, D.C.: March 29, 2001.

Bureau of Land Management: Improper Charges Made to Mining Law Administration Program. GAO-01-356. Washington, D.C.: March 8, 2001.

National Park Service: Agency Should Recover Costs of Validity Examinations for Mining Claims. GAO/RCE-D-00-265. Washington, D.C.: September 19, 2000.

Review of the Bureau of Land Management's Administration and Use of Mining Maintenance Fees. GAO/AIMD-00-184R. Washington, D.C.: June 2, 2000.

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Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries. GAO/RCED-93-109. Washington, D.C.: March 29, 1993.

Natural Resources Management Issues. GAO/OCG-93-17TR. Washington, D.C.: December 1992.

Mineral Resources: Value of Hardrock Minerals Extracted From and Remaining on Federal Lands. GAO/RCED-92-192. Washington, D.C.: August 24, 1992.

Federal Land Management: The Mining Law of 1872 Needs Revision. GAO/RCED-89-72. Washington, D.C.: March 10, 1989.

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Reexamine Federal Policies
 for Subsidizing Water for
 Agriculture and Rural Uses

Primary agency	Department of the Interior
Spending type	Direct

Federal water programs to promote efficient use of finite water resources for the nation's agricultural and rural water systems have been used to provide higher subsidies than Congress may have intended. To improve the effectiveness and efficiency of federal water programs, the Congress could consider several options to reduce duplication or inconsistencies.

The Congress could, for example, consider collecting the full costs of federal water for large farms. Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized 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 interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the act. According to the Department of Interior, a portion of the acreage served by the Bureau of Reclamation was used to produce crops that were also eligible for USDA commodity subsidies. Farmers received the water subsidy for using irrigated water from Interior as well as USDA subsidies per crop production. Another option would be for the Congress to consider restructuring the subsidies for crops produced with federally subsidized water.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Rural Water Projects: Federal Assistance Criteria and Potential Benefits of the Proposed Lewis and Clark Project. GAO/RCED-99-252T. Washington, D.C.: July 29, 1999.

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Rural Water Projects: Identifying the Benefits of the Proposed Lewis and Clark Project. GAO/RCED-99-115. Washington, D.C.: May 28, 1999.

Rural Water Projects: Federal Assistance Criteria Related to the Lewis and Clark Rural Water Project. GAO/RCED-98-231T. Washington, D.C.: June 18, 1998.

Rural Water Projects: Federal Assistance Criteria Related to the Fort Peck Reservation Rural Water Project. GAO/RCED-98-230. Washington, D.C.: June 18, 1998.

Rural Water Projects: Federal Assistance Criteria. GAO/RCED-98-204R. Washington, D.C.: May 29, 1998.

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Stoan Program. GAO/RCED-96-142. Washington, D.C.: May 2, 1996.

Rural Development: Patchwork of Federal Water and Sewer Programs Is Difficult to Use. GAO/RCED-95-160BR. Washington, D.C.: April 13, 1995.

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers. GAO/RCED-94-8. Washington, D.C.: April 19, 1994.

Natural Resources Management Issues. GAO/OCG-93-17TR. Washington, D.C.: December 1992.

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed. GAO/RCED-91-175. Washington, D.C.: August 22, 1991.

Water Subsidies: The Westhaven Trust Reinforces the Need to Change Reclamation Law. GAO/RCED-90-198. Washington, D.C.: June 5, 1990.

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit. GAO/RCED-90-6. Washington, D.C.: October 12, 1989.

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Reassess Federal Land
 Management Agencies'
 Functions and Programs

Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	302/Conservation and land management

The responsibilities of the four major federal land management agencies—the National Park Service, the Bureau of Land Management (BLM), the Fish and Wildlife Service within the Department of the Interior, and the Forest Service within the Department of Agriculture—have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments—the federal government's increased emphasis on downsizing and budgetary constraint and scientists' increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies operate.

Two basic strategies have been proposed to improve federal land management: (1) streamlining the existing structure by coordinating and integrating functions, systems, activities, programs, and field locations and (2) reorganizing the structure by combining agencies. The two strategies are not mutually exclusive and some prior proposals have encompassed both.

Over the last several years, the Forest Service and BLM have colocated some offices or shared space with other federal agencies. They have also pursued other means of streamlining, sharing resources, and saving rental costs. However, no significant legislation has been enacted to streamline or reorganize federal land management agencies and the four major federal land management agencies have not, to date, developed a strategy to coordinate and integrate their functions, systems, activities, and programs.

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In the past, CBO was unable to estimate savings without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed, due to shared resources among the four major land management agencies. Savings would depend on the extent of a workforce restructuring and implementation proposal.

CBO 5-Year Cost Estimate
Included in GAO's 2002
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No.

Related GAO Products

Wildland Fires: Better Information Needed on Effectiveness of Emergency Stabilization and Rehabilitation Treatments. GAO-03-430. Washington, D.C.: April 4, 2003.

Severe Wildland Fires: Leadership and Accountability Needed to Reduce Risks to Communities and Resources. GAO-02-259. Washington, D.C.: January 31, 2002.

The National Fire Plan: Federal Agencies Are Not Organized to Effectively and Efficiently Implement the Plan. GAO-01-1022T. Washington, D.C.: July 31, 2001.

Land Management Agencies: Ongoing Initiative to Share Activities and Facilities Needs Management Attention. GAO-01-50. Washington, D.C.: November 21, 2000.

Federal Wildfire Activities: Current Strategy and Issues Needing Attention. GAO/RCED-99-223. Washington, D.C.: August 13, 1999.

Land Management: The Forest Service's and BLM's Organizational Structures and Responsibilities. GAO/RCED-99-227. Washington, D.C.: July 29, 1999.

Ecosystem Planning: Northwest Forest and Interior Columbia River Basin Plans Demonstrate Improvements in Land-Use Planning. GAO/RCED-99-64. Washington, D.C.: May 26, 1999.

Land Management Agencies: Revenue Sharing Payments to States and Counties. GAO/RCED-98-261. Washington, D.C.: September 17, 1998.

Federal Land Management: Streamlining and Reorganization Issues. GAO/RCED-96-209. Washington, D.C.: June 27, 1996.

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Efficiency, and Effectiveness of Federal
Programs

National Park Service: Better Management and Broader Restructuring Efforts Are Needed. GAO/T-RCED-95-101. Washington, D.C.: February 9, 1995.

Forestry Functions: Unresolved Issues Affect Forest Service and BLM Organizations in Western Oregon. GAO/RCED-94-124. Washington, D.C.: May 17, 1994.

Forest Service Management: Issues to Be Considered in Developing a New Stewardship Strategy. GAO/T-RCED-94-116. Washington, D.C.: February 1, 1994.

GAO Contacts

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350 Agriculture

Examples from Selected GAO Work

Terminate or Significantly Reduce the U.S. Department of Agriculture's
Market Access Program

Consolidate Common Administrative Functions at the U.S. Department of
Agriculture

Further Consolidate the U.S. Department of Agriculture's County Offices

**Examples from
 Selected GAO Work**

**Terminate or Significantly
 Reduce the U.S. Department
 of Agriculture's Market
 Access Program**

Primary agency	Department of Agriculture
Account	Commodity Credit Corporation (12-4338)
Spending type	Mandatory
Budget subfunction	351/Farm income stabilization

The Market Access Program is an export promotion program operated by the Foreign Agricultural Service of the Department of Agriculture. The program subsidizes the promotion of U.S. agricultural products in overseas markets. Through a cost-sharing arrangement, the program helps fund overseas promotions conducted by U.S. agricultural producers, cooperatives, exporters, and trade associations. Under the Farm Security and Rural Development Act of 2002, authorized funding for the program has increased from \$100 million in fiscal year 2002 to \$110 million in fiscal year 2003, \$125 million in fiscal year 2004, \$140 million in fiscal year 2005, and rising to \$200 million in fiscal years 2006 and 2007. About three-quarters of the program budget supports generic promotions, with the remaining funds supporting brand-name promotions.

Beginning in fiscal year 1993, the Congress directed that changes be made to the program in order to increase the emphasis on small businesses, establish a graduation limit, and certify that program funds supplement, not supplant, private sector expenditures. From fiscal year 1994 through fiscal year 1997, program reforms resulted in increases to the number of small businesses participating in the program as well as small businesses' share of program funds. In addition, in 1998, the Foreign Agricultural Service prohibited direct and indirect assistance to large companies for brand-name promotions unless the assistance was provided through cooperatives and certain associations. The Service also implemented a 5-year graduation requirement for brand-name promotional activities but waived this requirement for cooperatives. As a result, promotional activities by cooperatives for brand-name products remained eligible for program funding.

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Questions remain about the overall economic benefits derived from the Market Access Program. Estimates of the program's macroeconomic impact developed by the Foreign Agricultural Service are overstated and rely on a methodology that is inconsistent with Office of Management and Budget cost/benefit guidelines. In addition, the evidence from market-level studies is inconclusive regarding program impact on specific commodities in specific markets. Furthermore, it is difficult to ensure that funds for promotional activities are in addition to private sector expenditures because it is hard to determine what would have been spent in the absence of program funds.

The Conference Report on the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 directed the Secretary of Agriculture to submit a report that, among other things, estimates the economic impact of the Market Access Program, analyzes the costs and benefits of the program in a manner consistent with government cost/benefit guidelines, and evaluates the additional spending of participants and additional exports resulting from the program. The Foreign Agricultural Service has not completed this report. Absent convincing evidence that the program has a positive economic impact, results in increased exports that would not have occurred without the program, and supplements and does not supplant private sector expenditures, the Congress might choose to terminate the program or significantly reduce its funding. In the past, CBO estimated that savings could be achieved if the Market Access Program was eliminated.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact. GAO/NSLAD-99-38. Washington, D.C.: April 5, 1999.

U.S. Agricultural Exports: Strong Growth Likely, but U.S. Export Assistance Programs' Contribution Uncertain. GAO/NSIAD-97-260. Washington, D.C.: September 30, 1997.

Farm Bill Export Options. GAO/GGD-95-39R. Washington, D.C.: December 15, 1995.

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Agricultural Trade: Competitor Countries' Foreign Market Development Program. GAO/T-GGD-95-184. Washington, D.C.: June 14, 1995.

International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program. GAO/GGD-93-125. Washington, D.C.: July 7, 1993.

U.S. Department of Agriculture: Improvements Needed in Market Promotion Program. GAO/T-GGD-93-17. Washington, D.C.: March 25, 1993.

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Consolidate Common
 Administrative Functions at
 the U.S. Department of
 Agriculture

Primary agency	Department of Agriculture
Accounts	Multiple
Spending types	Discretionary/Direct
Budget subfunction	352/Agricultural research and services

In accordance with the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, the U.S. Department of Agriculture (USDA) has engaged in a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service by the Farm Service Agency, the Natural Resources and Conservation Service, and the agencies in the Rural Development mission. USDA's efforts consist of five interrelated initiatives: (1) collocating the agencies' county and state offices, (2) merging the agencies' administrative functions at the state and headquarters level under a single support organization, (3) redesigning agencies' business processes, (4) modernizing information technology, and (5) changing the agencies' cultures to improve customer services.

USDA's progress in these initiatives has been mixed. For example, despite the agencies' collocation of county offices, little has changed in how the three agencies serve their customers. Each of its agencies emphasizes a different client base and the delivery of different programs. Consequently, little has changed in how the three agencies work together to serve their customers, particularly in terms of cross-servicing and sharing of information. On the other hand, USDA has made substantial progress in deploying personal computers and a telecommunications network to link its service centers, and deployed a shared network server. However, the full range of service delivery efficiencies has not yet been realized because the agencies' program applications are not fully integrated and all service center employees have not been trained to use the system.

In terms of merging and streamlining administrative functions, some progress has been made in sharing space and equipment and agreeing upon some common human capital practices. However, to further streamline its organization, increase efficiency, and reduce overhead costs associated with running separate offices, USDA could do more to combine agencies' support functions, such as legislative and legal affairs and public information, into a single office serving the needs of all mission component agencies. In addition, even though USDA has developed a plan to converge

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administrative functions for county-based agencies, a number of obstacles need to be overcome if the plan is to be successfully implemented, including the selection of a strong leadership team to implement the convergence plan. In the past, CBO agreed that this option could potentially yield savings, but did not develop a savings estimate due to uncertainty of the extent to which improved efficiencies actually could lead to budgetary savings.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Major Management Challenges and Program Risks: Department of Agriculture. GAO/00-96. Washington, D.C.: January 2003.

U.S. Department of Agriculture: State Office Collocation. GAO/RCED-00-208R. Washington, D.C.: June 30, 2000.

USDA Reorganization: Progress Mixed in Modernizing the Delivery of Services. GAO/RCED-00-43. Washington, D.C.: February 3, 2000.

U.S. Department of Agriculture: Administrative Streamlining is Expected to Continue Through 2002. GAO/RCED-99-34. Washington, D.C.: December 11, 1998.

U.S. Department of Agriculture: Update on Reorganization and Streamlining Efforts. GAO/RCED-97-186R. Washington, D.C.: June 24, 1997.

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Further Consolidate the U.S.
 Department of Agriculture's
 County Offices

Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	351/Farm income stabilization

The U.S. Department of Agriculture (USDA) maintains a field office structure that dates back to the 1930s when transportation and communication systems limited the geographic boundaries covered by a single field office and when there were a greater number of small, widely disbursed, family-owned farms. In 1933, the United States had more than 6 million farmers; today the number of farms in the United States is less than 2 million and a small fraction of these produce more than 70 percent of the nation's agricultural output. About one-third of USDA's over 100,000 employees are involved in delivering the \$55 billion a year farm program. As the client base for the USDA programs changes and as technology offers opportunities for program delivery efficiencies, USDA needs to consider alternative program delivery approaches. In this regard, the service center agencies need to reassess the types of services they now provide and how they can work more efficiently to deliver these services in the future with fewer office locations.

At various times, the Congress has attempted to reduce the number of county offices serving farmers and/or reduce county office staffing. The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994) directed the Secretary of Agriculture to streamline departmental operations by consolidating county offices. In response to the Agriculture Reorganization Act, USDA has closed over 1,000 county office locations and reduced staffing at its county offices. However, as the agency states in its September 2001 *Food and Agricultural Policy: Taking Stock for the New Century*, "Further actions are necessary to ensure that the USDA farm service structure is appropriately sized, configured, and located for efficient provision of the new services demanded by a rapidly evolving food and agriculture system."

USDA could further consolidate its county office field structure, for example, by closing more of its small county offices. Criteria for determining which small county offices to close could include the

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(1) distance from another county office, (2) time spent on administrative duties, and (3) number of farmers who receive USDA financial benefits. Although in the past CBO agreed that closing offices that serve few farmers would produce savings, it could not develop a savings estimate without a specific proposal.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Major Management Challenges and Program Risks: Department of Agriculture. GAO-03-96. Washington, D.C.: January 2003.

USDA Reorganization: Progress Mixed in Modernizing the Delivery of Services. GAO/RCED-00-43. Washington, D.C.: February 3, 2000.

Farm Service Agency: Characteristics of Small County Offices. GAO/RCED-99-102. Washington, D.C.: May 28, 1999.

U.S. Department of Agriculture: Status of Closing and Consolidating County Offices. GAO/T-RCED-98-250. Washington, D.C.: July 29, 1998.

Farm Programs: Service to Farmers Will Likely Change as Farm Service Agency Continues to Reduce Staff and Close Offices. GAO/RCED-98-136. Washington, D.C.: May 1, 1998.

Farm Programs: Administrative Requirements Reduced and Further Program Delivery Changes Possible. GAO/RCED-98-98. Washington, D.C.: April 20, 1998.

Farm Programs: Impact of the 1996 Farm Act on County Office Workload. GAO/RCED-97-214. Washington, D.C.: August 19, 1997.

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**370 Commerce and
Housing Credit**

Examples from Selected GAO Work

Recapture Interest on Rural Housing Loans

Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac

Reduce Federal Housing Administration's Insurance Coverage

Merging U.S. Department of Agriculture and Department of Housing and Urban Development Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs

Consolidate Homeless Assistance Programs

Reorganize and Consolidate Small Business Administration's Administrative Structure

Improve Reviews of Small Business Administration's Preferred Lenders

CBO Options Where Related GAO Work Is Identified

370-01 End the Credit Subsidy for the Small Business Administration's Major Business Loan Guarantee Programs

370-05 Charge All Banks and Thrifts Deposit Insurance Premiums

Examples from
 Selected GAO Work

Recapture Interest on Rural
 Housing Loans

Primary agency	Department of Agriculture
Account	Rural Housing Insurance Fund (12-2081)
Spending type	Direct
Budget subfunction	371/Mortgage credit

The Housing Act of 1949, as amended, requires U.S. Department of Agriculture's (USDA) Rural Housing Service (RHS) to recapture a portion of the subsidy provided over the life of direct housing loans it makes when the borrower sells or vacates a property. The rationale is that because taxpayers paid a portion of the mortgage, they are entitled to a portion of the property's appreciation. Because recapture is not mandated when homes are refinanced, RHS's policy allows borrowers who pay off direct RHS loans but continue to occupy the properties to defer the payments for recapturing the subsidies. As of July 31, 1999, RHS's records showed that about \$140 million was owed by borrowers who had refinanced their mortgages but continued to occupy the properties. RHS does not charge interest on the amounts owed by these borrowers.

Legislative changes could be made to allow RHS to charge market rate interest on recapture amounts owed by borrowers to help recoup the government's administrative and borrowing costs. Actual savings could differ depending on how this proposal would affect the rate at which homes are sold.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Product

Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement. GAO/RCED-96-11. Washington, D.C.: November 16, 1995.

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Require Self-Financing of
 Mission Oversight by Fannie
 Mae and Freddie Mac

Primary agency	Department of Housing and Urban Development
Account	Office of Federal Housing Enterprise Oversight, Salaries and Expenses (86- 5272)
Spending type	Direct
Budget subfunction	371/Mortgage credit

The Congress established and chartered the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) as government-sponsored enterprises. These enterprises are privately-owned corporations chartered to enhance the availability of mortgage credit across the nation. The Congress also charged the Department of Housing and Urban Development (HUD) with mission oversight responsibility for the enterprises, which includes ensuring that housing goals established by HUD result in enhanced housing opportunities for certain groups of borrowers.

Other federal organizations responsible for regulating government-sponsored enterprises are financed by assessments on the regulated entities. However, HUD's mission oversight expenditures are funded with taxpayer dollars from HUD's appropriations. Accordingly, HUD's capability to strengthen its enterprise housing mission oversight may be limited because resources that could be used for that purpose must compete with other priorities. For example, HUD's capacity to implement a program to verify housing goal data, which would necessarily involve a commitment of additional resources, may be limited.

Requiring Fannie Mae and Freddie Mac to reimburse HUD for mission oversight expenditures would not only result in budgetary savings but would also enable HUD to strengthen its oversight activities.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

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Related GAO Products

Housing Enterprises: The Roles of Fannie Mae and Freddie Mac in the U.S. Housing Finance System. T-GGD-00-182. Washington, D.C.: July 25, 2000.

Federal Housing Enterprises: HUD's Mission Oversight Needs to Be Strengthened. GAO/GGD-98-173. Washington, D.C.: July 28, 1998.

Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator. GAO/GGD-97-139. Washington, D.C.: July 9, 1997.

Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks. GAO/GGD-91-90. Washington, D.C.: May 22, 1991.

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Reduce Federal Housing
 Administration's Insurance
 Coverage

Primary agency	Department of Housing and Urban Development
Account	FHA-Mutual Mortgage Insurance Program Account (66-0183)
Spending types	Discretionary/Direct
Budget subfunction	371/Mortgage credit

Through its Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD) insures private lenders against nearly all losses resulting from foreclosures on single-family homes insured under its Mutual Mortgage Insurance Fund. The Department of Veterans Affairs (VA) also operates a single-family mortgage guaranty program. However, unlike FHA, VA covers only 25 to 50 percent of the original loan amount against losses incurred when borrowers default on loans, leaving lenders responsible for any remaining losses.

In May 1997, GAO reported that reducing FHA's insurance coverage to the level permitted for VA home loans would likely reduce the Fund's exposure to financial losses, thereby improving its financial health. As a result, the Fund's ability to maintain financial self-sufficiency in an uncertain future would be enhanced. For example, if insurance coverage on FHA's 1995 loans was reduced to VA's levels and a 14 percent volume reduction in lending was assumed, GAO estimated that the economic value of the loans would increase by \$52 million to \$79 million. Economic value provides an estimate of the profitability of FHA loans, which is important because estimated increases in economic value due to legislative changes allow additional mandatory spending authorizations to be made, other revenues to be reduced, or projected savings in the federal budget to be realized. Reducing FHA's insurance coverage would likely improve the financial health of the Fund because the reduction in claim payments resulting from lowered insurance coverage would more than offset the decrease in premium income resulting from reduced lending volume.

Legislative changes could be made to reduce FHA's insurance coverage. Savings under this option would depend on future economic conditions, the volume of loans made, how higher risk and lower risk borrowers would be identified for exclusion from the program, and whether some losses may be shifted from FHA to the Government National Mortgage Association. In

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addition, reducing FHA's insurance coverage does pose trade-offs affecting lenders, borrowers, and FHA's role, such as diminishing the federal role in stabilizing markets. Low-income, first-time, and minority home buyers and those individuals purchasing older homes are most likely to experience greater difficulty in obtaining a home mortgage.

In the past, CBO could not provide a savings estimate for this option because the amount of potential savings would depend on the reaction of lenders and the resulting demand for FHA's products.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Mortgage Financing: Changes in the Performance of FHA-Insured Loans. GAO-02-773. Washington, D.C.: July 10, 2002.

Mortgage Financing: FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes. GAO-01-460. Washington, D.C.: February 28, 2001.

Homeownership: Potential Effects of Reducing FHA's Insurance Coverage for Home Mortgages. GAO/RCED-97-93. Washington, D.C.: May 1, 1997.

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Merging U.S. Department of
 Agriculture and Department
 of Housing and Urban
 Development Single-Family
 Insured Lending Programs
 and Multifamily Portfolio
 Management Programs

Primary agencies	Department of Agriculture Department of Housing and Urban Development
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunction	371/Mortgage credit

The U.S. Department of Agriculture (USDA), primarily through its Rural Housing Service (RHS), has jurisdiction over most federal rural housing programs. HUD, primarily through its Federal Housing Administration (FHA), has jurisdiction over the major nationwide federal housing programs. As the distinctions between rural and urban life have blurred and federal budgets have tightened, the need for the separate rural housing programs, first created in the mid-1930s to stimulate the rural economy and assist needy rural families, is questionable.

Similarities exist between the RHS and FHA programs for delivering rural housing, and efficiencies could be achieved by merging the two programs. For instance, RHS's single-family guaranteed loan program and FHA's single-family insured loan program both primarily target low- and moderate-income households, use the same qualifying ratios, and operate in the same markets. Even though RHS's program offers more attractive terms for the borrower and is available only in rural areas, whereas FHA's program is available nationwide, both programs could be offered through the same network of lenders. Adapting each one's best practices for use by the other and eliminating inconsistencies in the rules applicable to private owners under the current programs would improve the efficiency with which the federal government delivers rural housing programs.

As we reported, to optimize the federal role in rural housing, the Congress may wish to consider requiring USDA and HUD to examine the benefits and costs of merging those programs that serve similar markets and provide similar products. As a first step, the Congress could consider requiring RHS and HUD to explore merging their single-family insured lending programs and multifamily portfolio management programs, taking advantage of the best practices of each and ensuring that targeted populations are not adversely affected. In the past, CBO could not estimate savings for this option without a more specific proposal.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Product	<i>Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development.</i> GAO/RCED-00-241. Washington, D.C.: September 15, 2000.
GAO Contact	Thomas J. McCool, (202) 512-8678

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Consolidate Homeless
 Assistance Programs

Primary agency	Department of Housing and Urban Development
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunctions	Multiple

In 1987, the Congress passed the Stewart B. McKinney Act (P.L. 100-77) to provide a comprehensive federal response to address the multiple needs of homeless people. The act encompassed both existing and new programs, including those providing emergency food and shelter, those offering long-term housing and supportive services, and those designed to demonstrate effective approaches for providing homeless people with services. Over the years, some of the original McKinney programs have been consolidated or eliminated, and some new programs have been added. Today homeless people receive assistance through these programs as well as other federal programs that are not authorized under the McKinney Act but are nevertheless specifically targeted to serve the homeless population. In February 1999, we reported that seven federal agencies administer 16 programs that are targeted to serve the homeless population. In fiscal year 1997, these agencies obligated over \$1.2 billion for homeless assistance programs, and the programs administered by the Department of Housing and Urban Development (HUD) accounted for about 70 percent of this total.

While these federal programs offer a wide range of services to the homeless population, some of these services appear similar. For example, food and nutrition services can be provided to homeless people through eight different programs administered by five different agencies. Moreover, our work at the state and local level has found that state and local government officials generally believe that the federal government has not done a good job of coordinating its various homeless assistance programs. This perceived lack of coordination could adversely affect the ability of states and localities to integrate their own programs. Also, we reported that, because different homeless assistance programs have varying sets of eligibility and funding requirements, they can cause coordination difficulties for the federal agencies administering them as well as administrative and coordination burdens for the states and communities that have to apply for and use these funds.

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The Congress may wish to consider consolidating all homeless assistance programs under HUD because HUD (1) has taken a leadership role in the area of homelessness, (2) has developed a well-respected approach for delivering homeless assistance programs called the Continuum of Care, and (3) is responsible for administering most of the funds for programs targeted to the homeless. Consolidating all of the homeless assistance programs under HUD should result in administrative and operational efficiencies at the federal level as well as reduce the administrative and coordination burdens of state and local governments. In the past, CBO was unable to estimate the potential savings for this option without a specific legislative proposal.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Homelessness: Improving Program Coordination and Client Access to Program. GAO-02-485T. Washington, D.C.: March 6, 2002.

Homelessness: Consolidating HUD's McKinney Act Programs. GAO/RCED-00-187. Washington, D.C.: May 23, 2000.

Homelessness: State and Local Efforts to Integrate and Evaluate Homeless Assistance Programs. GAO/RCED-99-178. Washington, D.C.: June 29, 1999.

Homelessness: Coordination and Evaluation of Programs Are Essential. GAO/RCED-99-49. Washington, D.C.: February 26, 1999.

Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution. GAO/RCED-94-37. Washington, D.C.: May 31, 1994.

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Reorganize and Consolidate
 Small Business
 Administration's
 Administrative Structure

Primary agency	Small Business Administration
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	376/Other advancement of commerce

The Small Business Administration's (SBA) complicated and overlapping organizational relationships and a field structure that does not consistently match mission requirements have combined to impede staff efforts to deliver services effectively. Some of the complex organizational relationships stem from legislative requirement. Others result from past SBA realignment efforts that changed how the agency performs its functions but left aspects of the previous structure intact.

For example, district staff working on SBA loan programs report to their district management, while loan processing and servicing center staff report directly to the Office of Capital Access in headquarters. Yet, district office loan program staffs sometimes need to work with the loan processing and servicing centers to get information or to expedite loans for lenders in their district. Because loan processing and servicing centers report directly to the Office of Capital Access, requests that are directed to the centers sometimes must go from the district through the Office of Capital Access then back to the centers. District managers and staff said that sometimes they cannot get answers to questions when lenders call and that they have trouble expediting loans because they lack authority to direct the centers to take any action. Lender association representatives said that the lines of authority between headquarters and the field can be confusing and that practices vary from district to district.

In 2002, GAO reported that SBA drafted a 5-year workforce transformation plan. The draft plan recognizes SBA's need to restructure its workforce, privatize noncore functions, adjust incentives and goals, and streamline its headquarters' operation. Improvements in SBA's organizational structure could lead to savings in human capital and office space costs.

Some options that the Congress could consider to assist SBA in its transformation effort include

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- rescinding or combining some of the legislatively mandated offices, programs, or aspects of existing programs,
- rescinding some of the reporting relationships, grades, or types of appointments for senior SBA officials, and
- giving the agency the ability to close or consolidate some of its inefficiently located field offices.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Products

Small Business Administration: Workforce Transformation Plan Is Evolving. GAO-02-931T. Washington, D.C.: July 16, 2002.

Small Business Administration: Current Structure Presents Challenges for Service Delivery. GAO-02-17. Washington, D.C.: October 26, 2001.

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Improve Reviews of Small
 Business Administration's
 Preferred Lenders

Primary agency	Small Business Administration
Account	Business Loans Program Account (73-1154)
Spending types	Direct/Discretionary
Budget subfunction	376/Other advancement of commerce

The Small Business Administration's (SBA) largest business loan program, the "7(a) program," is intended to serve small business borrowers who cannot otherwise obtain financing under reasonable terms and conditions from the private sector. As of September 30, 2002, SBA had a total portfolio of about \$46 billion, including \$42 billion in direct and guaranteed small business loans and other guarantees. SBA delegates full authority to preferred lenders to make loans without prior SBA approval. In fiscal year 2002, preferred lenders approved 55 percent of the dollar value of all 7(a) loans—about \$7 billion. Because SBA guarantees up to 85 percent of the 7(a) loans made by its lending partners, there is risk to SBA if the loans are not repaid. The default rate for each of the last 3 fiscal years has been around 14 percent.

SBA is required by law to review preferred lenders at least annually. SBA has made progress in developing its lender oversight program, but it has not fully developed effective oversight programs that assess lenders' decisions on borrowers' creditworthiness and eligibility and the impact of lenders' decisions regarding risk posed to SBA's portfolio.

SBA should incorporate strategies into its reviews of preferred lenders to adequately measure the financial risk lenders pose to SBA, develop specific criteria to apply to the "credit elsewhere" standard,¹² and perform qualitative assessments of lenders' performance and lending decisions. Implementation of these recommendations could lead to lower defaults on 7(a) loans and/or a smaller 7(a) loan program.

¹²The "credit elsewhere" standard is a test to determine whether the borrower can obtain credit without the SBA guarantee.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No, this is a new example. CBO could not develop an estimate for this example.
Related GAO Product	<i>Small Business Administration: Progress Made but Improvements Needed in Lender Oversight.</i> GAO-03-90. Washington, D.C.: December 9, 2002.
GAO Contact	Davi D'Agostino, (202) 512-8678

**CBO Options Where
Related GAO Work Is
Identified¹³**

**370-01 End the Credit
Subsidy for the Small
Business Administration's
Major Business Loan
Guarantee Programs**

Related GAO Products

Small Business Administration: Progress Made but Improvements Needed in Lender Oversight. GAO-03-90. Washington, D.C.: December 9, 2002.

Small Business Administration: Section 7(a) General Business Loans Credit Subsidy Estimates. GAO-01-1095R. Washington, D.C.: August 21, 2001.

GAO Contacts

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Linda Calbom, (202) 512-8341

**370-05 Charge All Banks and
Thrifts Deposit Insurance
Premiums**

Related GAO Product

Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts. GAO/AIMD-95-84. Washington, D.C.: March 3, 1995.

¹³We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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GAO Contact

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400 Transportation

Examples from Selected GAO Work

- Eliminate the Pulsed Fast Neutron Analysis Inspection System
- Develop a Passenger Intercity Rail Policy to Meet National Goals
- Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs
- Increase Aircraft Registration Fees to Enable the Federal Aviation Administration to Recover Actual Costs
- Apply Cost Benefit Analysis to Replacement Plans for Airport Surveillance Radars
- Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities
- Convert Some Support Officer Positions to Civilian Status

CBO Options Where Related GAO Work Is Identified

- 400-01 Reduce Federal Subsidies for Amtrak
- 400-02 Eliminate the Essential Air Service Program
- 400-03 Eliminate Grants to Large and Medium-Sized Hub Airports
- 400-04 Increase Fees for Certificates and Registrations Issued by the Federal Aviation Administration
- 400-08 Eliminate Funding for the "New Starts" Transit Program

Examples from
 Selected GAO Work

Eliminate the Pulsed Fast
 Neutron Analysis Inspection
 System

Primary agency	Multiple
Account	FAA—Research, Engineering and Development (69-8108)
Spending type	Discretionary
Budget subfunction	402/Air transportation

One type of technology under development for detecting explosives and narcotics is a pulsed fast neutron analysis (PFNA) inspection system. PFNA is designed to directly and automatically detect and measure the presence of specific materials (e.g., cocaine) by exposing their constituent chemical elements to short bursts of subatomic particles called neutrons. As we reported in our April 1999 report, officials from the government agencies responsible for developing PFNA still do not believe that the current PFNA system would meet their operational requirements because it is too expensive (estimated at between \$10 million to \$15 million per unit to acquire) and too large for operational use in most ports of entry or other sites. Those responsible agencies are the Bureau of Customs and Border Protection (CBP), Transportation Security Administration (TSA), and Department of Defense (DOD).¹⁴ However, at the direction of the Congress,¹⁵ DOD is currently leading a joint effort with CBP and TSA to conduct an operational evaluation of PFNA at the Ysleta border crossing in El Paso, Texas. This evaluation will test PFNA's ability to detect drugs,

¹⁴Previously we included the views of U.S. Customs Service and Federal Aviation Administration (FAA) officials. However, since our last budgetary implications report in April 2002, Customs and its responsibilities were transferred to CBP and TSA assumed the PFNA program from FAA. CBP and TSA are part of the Department of Homeland Security, which was established in November 2002. In addition, the DOD Counterdrug Technology Development Program Office assumed responsibility for the PFNA program from the Office of the Assistant Secretary of Defense for Special Operations and Low Intensity Conflict.

¹⁵Senate Report 107-109, *Department of Defense Appropriation Bill, 2002*, and *Supplemental Appropriations, 2002*, December 5, 2001, page 155.

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explosives, chemical warfare agents, currency, and nuclear materials. It is currently scheduled for completion by June 2004 and estimated to cost \$13.9 million to the government, which includes \$8.5 million for a firm, fixed-price contract with PFNA's manufacturer, The Ancore Corporation, to deliver a system to Ysleta and provide support and maintenance for the test. The \$13.9 million total consists of \$5.4 million from DOD, \$3.5 million from TSA, and \$5 million from CBP.

DOD officials stated that its lead role in the joint Ysleta operational test is as an independent evaluator and does not indicate an endorsement of the system for use by DOD. CBP officials question whether PFNA will be a viable and affordable technology for widespread use but stated that PFNA shows enough promise that CBP agreed to help fund the joint operational test. Similarly, while TSA officials do not believe the current PFNA system will meet operational requirements for maritime and land applications, they stated that a definitive assessment would be made at the completion of the joint test. For aviation applications, TSA has decided to pursue a cooperative agreement with The Ancore Corporation to test a PFNA system design in the laboratory, which could lead to an operational test at an airport if the system meets specific detection criteria. TSA officials stated that dates and costs for this separate effort would not be available until after The Ancore Corporation completes its systems development.

One option is for the Congress to eliminate the PFNA. In the past, CBO estimated that savings could be achieved if the PFNA was eliminated.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Product :

Terrorism and Drug Trafficking: Testing Status and Views on Operational Viability of Pulsed Fast Neutron Analysis Technology.
GAO/GGD-99-54. Washington, D.C.: April 13, 1999.

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Develop a Passenger
 Intercity Rail Policy to Meet
 National Goals

Primary agency	National Railroad Passenger Corporation
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	401/Ground transportation

The National Railroad Passenger Corporation (Amtrak) operates the nation's intercity passenger rail service. As a private corporation, it operates trains in 46 states, serving about 23.4 million riders (about 64,000 per day). Amtrak plays only a small part in the nation's overall transportation system with the exception of some short-distance routes. It has sizeable market shares (compared to travel by air) between certain relatively close cities. However, by far, the automobile dominates most intercity travel. Like major national intercity passenger rail systems outside the United States, Amtrak receives government support. Since Amtrak's creation in 1970, the federal government has provided Amtrak with operating and capital assistance and in the past 5 years, it has provided Amtrak an average of about \$1 billion each year.

Throughout its existence, Amtrak's financial condition has never been strong and the corporation has been on the edge of bankruptcy several times, most recently in 2002. Current levels of federal funding are not sufficient to support the existing level of intercity passenger rail service being provided by Amtrak. Amtrak has indicated that it will need about \$2 billion annually—about twice the amount provided in recent years—in federal operating and capital assistance over the next few years to stabilize its system and to cover operating losses. Additional assistance would be needed to expand or enhance service or develop high-speed rail corridors.

Amtrak and the administration have offered differing views on Amtrak and the future of intercity passenger rail service in America. Amtrak focuses primarily on the importance of Amtrak's receiving the funding it needs to improve the condition of its equipment, its reliability and utilization, and its infrastructure. In contrast, the administration is looking toward a fundamental restructuring of the manner in which federal assistance is provided for intercity passenger rail service that it argues will create a rail service driven by sound economics, competition, and a long-term partnership between states and the federal government to sustain an economically viable system.

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An evaluation framework could be useful to help the Congress consider intercity passenger rail policy. Based on extensive analyses of federal investment approaches across a broad stratum of national activities, we have found that the key components of a framework for evaluating federal investments include (1) establishing clear, nonconflicting goals, (2) establishing the roles of governmental and private entities, (3) establishing funding approaches that focus on and provide incentives for results and accountability, and (4) ensuring that the strategies developed address diverse stakeholder interests and limit unintended consequences.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

Intercity Passenger Rail: Issues for Consideration in Developing an Intercity Passenger Rail Policy. GAO-03-712T. Washington, D.C.: April 30, 2003.

Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation. GAO-02-871. Washington, D.C.: September 20, 2002.

Intercity Passenger Rail: Amtrak Needs to Improve Its Decisionmaking Process for Its Route and Service Proposals. GAO-02-398. Washington, D.C.: April 12, 2002.

Intercity Passenger Rail: Congress Faces Critical Decisions in Developing a National Policy. GAO-02-522T. Washington, D.C.: April 11, 2002.

GAO Contact

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Eliminate Cargo Preference
 Laws to Reduce Federal
 Transportation Costs

Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	403/Water transportation

Cargo preference laws require that certain government-owned or financed cargo shipped internationally be carried on U.S.-flagged vessels. Cargo preference laws are intended to guarantee a minimum amount of business for the U.S.-flagged vessels. These vessels are required by law to be crewed by U.S. mariners, are generally required to be built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. In addition, U.S.-flag carriers commit to providing capacity in times of national emergencies.

The effect of cargo preference laws has been mixed. These laws appear to have had a substantial impact on the U.S. merchant marine industry by providing an incentive for vessels to remain in the U.S. fleet. However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. For fiscal years 1989 through 1993, four federal agencies—the Departments of Defense, Agriculture, Energy, and the Agency for International Development—were responsible for more than 99 percent of the government cargo subject to cargo preference laws. Cargo preference laws increased these federal agencies' transportation costs by an estimated \$578 million per year in fiscal years 1989 through 1993 over the cost of using foreign-flagged vessels. If the laws were eliminated, savings could be achieved.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Management Reform: Implementation of the National Performance Review's Recommendations. GAO/OCG-95-1. Washington, D.C.: December 5, 1994.

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Maritime Industry: Cargo Preference Laws—Their Estimated Costs and Effects. GAO/RCED-95-34. Washington, D.C.: November 30, 1994.

Cargo Preference: Effects of U.S. Export-Import Cargo Preference Laws on Exporters. GAO/GGD-95-2BR. Washington, D.C.: October 31, 1994.

Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs. GAO/GGD-94-215. Washington, D.C.: September 29, 1994.

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Increase Aircraft
 Registration Fees to Enable
 the Federal Aviation
 Administration to Recover
 Actual Costs

Primary agency	Department of Transportation
Spending type	Direct

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a \$5 fee. As of the end of fiscal year 1999, 355,518 aircraft were registered in the United States. In fiscal year 1999, 54,329 certificate registrations were issued.

In 1993, we reported that the Federal Aviation Administration (FAA) was not fully recovering the cost of processing aircraft registration applications and estimated that, by not increasing fees since 1968 to recover costs, FAA had foregone about \$6.5 million in additional revenue. To recover the costs of services provided to aircraft registrants, we have recommended that FAA increase its aircraft registration fees to more accurately reflect actual costs. FAA plans to coordinate aircraft registration changes with the Drug Enforcement Agency and the U.S. Customs Service by the end of 2004. If those two agencies approve the proposed changes, FAA will prepare legislation for congressional approval for a rate increase for registration fees. FAA plans to complete changes to its aircraft registration system by mid-2005.

If the FAA recovers the full cost of processing aircraft registration applications, additional revenue could be achieved.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Product

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft.
 GAO/RCED-93-135. Washington, D.C.: June 18, 1993.

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Apply Cost-Benefit Analysis
 to Replacement Plans for
 Airport Surveillance Radars

Primary agency	Department of Transportation
Account	Facilities and Equipment (69-8107)
Spending type	Discretionary
Budget subfunction	402/Air transportation

Before installing an airport surveillance radar (ASR), the Federal Aviation Administration (FAA) typically conducts cost-benefit studies to determine whether it will be cost effective. In addition to the \$5 million cost of the new radars, other costs may be incurred for auxiliary equipment and infrastructure modifications. Benefits of these improvements include travelers' time saved through potential reductions in aircraft delays and lives saved and injuries avoided through reduced risk of midair and terrain collisions. Because there is a direct correlation between projected air traffic operations and the potential benefits associated with radar installation, airports with higher air traffic projections would receive more benefit from a radar than those with lower projections.

In 1999, FAA had planned to install technologically advanced ASR-11 radars to replace its model ASR-7 and ASR-8 radars at 101 airports, without applying its cost-benefit criteria. FAA's rationale for not applying its cost-benefit criteria to these 101 airports was its belief that discontinuing radar operations at airports that no longer qualify could lead to public perceptions that safety was being reduced, even if safety was not compromised. However, some of these airports may no longer qualify for a radar based on FAA's cost-benefit criteria and 75 of them have less air traffic than an airport whose radar request FAA has denied using its cost-benefit criteria. Furthermore, at some of these airports, the circumstances that originally justified a radar no longer exist.

GAO recommended that FAA apply its cost-benefit criteria to all 101 airports where it plans to replace the ASR-7 and ASR-8 radars and determine whether those airports had a continuing operational need for radar. In response to GAO's recommendation, FAA asked its regional offices to verify the operational need for radars at the 75 airports that had less traffic than the airport whose radar was denied. As of May 2003, FAA was still planning to replace aging ASR-7/8 systems with ASR-11 radar without the cost-benefit analysis. FAA said the analysis was used to determine the siting of eight other new ASR-11 radar systems. We continue

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to believe that savings may result if FAA were to perform the cost-benefit studies at the 101 airports.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Product

Air Traffic Control: Surveillance Radar Request for the Cherry Capital Airport. GAO/RCED-98-118. Washington, D.C.: May 28, 1998.

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Close, Consolidate, or
 Privatize Some Coast Guard
 Operating and Training
 Facilities

Primary agency	Department of Homeland Security
Account	United States Coast Guard (70-0600)
Spending type	Discretionary
Budget subfunctions	Multiple

The Coast Guard could achieve budget savings by downsizing its facilities. The Coast Guard abandoned plans to close its Curtis Bay facility in 1988, when GAO reported that it lacked supporting data. While the cost effectiveness of this facility had been questioned, the Coast Guard had not conducted a detailed study to compare the facility's cost effectiveness with that of commercial shipyards. In fiscal year 1996, GAO testified that the Coast Guard could save \$6 million by closing or consolidating over 20 small boat stations. Also in 1996, GAO recommended that the Coast Guard consider other alternatives—such as privatization—to operate its vessel traffic service centers, which cost \$20.2 million to operate in fiscal year 1999. Furthermore, in fiscal 1995, GAO recommended that the Coast Guard close one of its large training centers in Petaluma, Cal.—at a savings of \$9 million annually. The Coast Guard agreed that this may be possible but did not close it largely because of public opposition.

Given the serious budget constraints the Coast Guard now faces and the fundamental challenges in being able to accomplish new homeland security responsibilities it has been given while maintaining levels of effort in its traditional missions, it will need to achieve significant budgetary savings to offset the increased budgetary needs of the future. Closing, consolidating, or privatizing training and operating facilities, including the Curtis Bay facility, 20 small boat stations, the vessel traffic service centers, and one of its training centers in Petaluma, Cal., would help the Coast Guard to achieve these required savings. While in the past, CBO agreed that closing, consolidating, or privatizing Coast Guard facilities could yield savings, it could not develop an estimate without specific proposals.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
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No.

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Related GAO Products

Coast Guard: Challenges During the Transition to the Department of Homeland Security. GAO-03-594T. Washington, D.C.: April 1, 2003.

Coast Guard: Comprehensive Blueprint Needed to Balance and Monitor Resource Use and Measure Performance for All Missions. GAO-03-544T. Washington, D.C.: March 12, 2003.

Coast Guard: Strategy Needed for Setting and Monitoring Levels of Effort for All Missions. GAO-03-155. Washington, D.C.: November 12, 2002.

Coast Guard: Budget Challenges for 2001 and Beyond. GAO/T-RCED-00-103. Washington, D.C.: March 15, 2000.

Coast Guard: Review of Administrative and Support Functions. GAO/RCED-99-62R. Washington, D.C.: March 10, 1999.

Coast Guard: Challenges for Addressing Budget Constraints. GAO/RCED-97-110. Washington, D.C.: May 14, 1997.

Marine Safety: Coast Guard Should Address Alternatives as It Proceeds With VTS 2000. GAO/RCED-96-83. Washington, D.C.: April 22, 1996.

Coast Guard: Issues Related to the Fiscal Year 1996 Budget Request. GAO/T-RCED-95-130. Washington, D.C.: March 13, 1995.

Coast Guard: Improved Process Exists to Evaluate Changes to Small Boat Stations. GAO/RCED-94-147. Washington, D.C.: April 1, 1994.

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Convert Some Support
 Officer Positions to Civilian
 Status

Primary agency	Department of Homeland Security
Account	United States Coast Guard (70-0600)
Spending type	Discretionary
Budget subfunctions	Multiple

The Coast Guard uses officers in operational positions—to command boats, ships, and aircraft that can be deployed during times of war—and in support positions, such as personnel, public affairs, data processing, and financial management. Military standard personnel costs are paid out of the Coast Guard's discretionary budget and include all pay and allowances, permanent change of station costs, training costs, and active-duty medical costs associated with each pay grade. Certain allowances—housing and subsistence—are provided to military personnel tax free. Additionally, military retirement costs are funded by an annual permanent appropriation separate from the Coast Guard's discretionary budget. Civilian standard personnel costs are also paid out of the Coast Guard's discretionary budget and include basic, locality, overtime, and special pay as well as the costs associated with permanent change of station, training, health insurance, life insurance, and the accrued cost of civilian retirement.

Of 5,760 commissioned officer positions in the Coast Guard's workforce (as of the end of fiscal year 1999), GAO selectively evaluated nearly 1,000 in 75 units likely to have support positions. Of these positions, GAO found about 800 in which officers were performing duties that offered opportunities for conversion to civilian positions. Such positions include those in, among other things, personnel, public affairs, civil rights, and data processing. In comparing all of the relevant costs associated with military and civilian positions, GAO found that employing active-duty commissioned officers in the positions we reviewed is, on average, 21 percent more costly than filling the same positions with comparable civilian employees. The cost differential is based on a comparison of average annual pay, benefits, and expenses associated with the Coast Guard's commissioned officers at different military ranks and federal civilian employees at comparable civilian grades for fiscal year 1999.

From July 31, 2001 through February 28, 2003, the Coast Guard had converted 68 commissioned officer positions to civilian positions. Converting support positions currently filled by military officers to civilian

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status would reduce costs associated with delivering these services with no apparent impact on performance. By converting commissioned officer positions to civilian positions, savings would accrue to the federal government in the form of retirement savings, tax advantage savings, and savings to the Coast Guard's discretionary budget. In the past, CBO agreed that this option would lead to savings, but that those savings would primarily result from differences between military and civilian retirement plans. Consequently, the budgetary savings resulting from this shift would not begin until "new" civilian employees began to retire, which will occur after the 5-year projection period.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Product

Coast Guard Workforce Mix: Phased-In Conversion of Some Support Officer Positions Would Produce Savings. GAO/RCED-00-60. Washington, D.C.: March 1, 2000.

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**CBO Options Where
 Related GAO Work Is
 Identified¹⁶**

**400-01 Reduce Federal
 Subsidies for Amtrak**
Related GAO Products

Intercity Passenger Rail: Potential Financial Issues in the Event That Amtrak Undergoes Liquidation. GAO-02-871. Washington, D.C.: September 20, 2002.

Intercity Passenger Rail: Amtrak Needs to Improve Its Decisionmaking Process for Its Route and Service Proposals. GAO-02-398. Washington, D.C.: April 12, 2002.

Intercity Passenger Rail: The Congress Faces Critical Decisions About the Role of and Funding for Intercity Passenger Rail Systems. GAO-01-320T. Washington, D.C.: July 25, 2001.

High-Speed Rail Investment Act of 2001. GAO-01-756R. Washington, D.C.: June 25, 2001.

Intercity Passenger Rail: Amtrak Will Continue to Have Difficulty Controlling Its Costs and Meeting Capital Needs. GAO/RCED-00-188. Washington, D.C.: May 31, 2000.

GAO Contact

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¹⁶We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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400-02 Eliminate the
Essential Air Service
Program

Related GAO Products

Commercial Aviation: Issues Regarding Federal Assistance for Enhancing Air Service to Small Communities. GAO-03-540T. Washington, D.C.: March 11, 2003.

Commercial Aviation: Factors Affecting Efforts to Improve Air Service at Small Community Airports. GAO-03-330. Washington, D.C.: January 17, 2003.

Options to Enhance the Long-Term Viability of the Essential Air Service Program. GAO-02-997R. Washington, D.C.: August 30, 2002.

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400-03 Eliminate Grants to
Large and Medium-Sized
Hub Airports

Related GAO Products

Airport Finance: Past Funding Levels May Not Be Sufficient to Cover Airports' Planned Capital Development. GAO-03-497T. Washington, D.C.: February 25, 2003.

Aviation Finance: Implementation of General Aviation Entitlement Grants. GAO-03-347. Washington, D.C.: February 11, 2003.

Aviation Infrastructure: Challenges Related to Building Runways and Actions to Address Them. GAO-03-164. Washington, D.C.: January 30, 2003.

Airport Finance: Using Airport Grant Funds for Security Projects Has Affected Some Development Projects. GAO-03-27. Washington, D.C.: October 15, 2002.

Aviation Finance: Distribution of Airport Grant Funds Complied with Statutory Requirements. GAO-02-283. Washington, D.C.: April 30, 2002.

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400-04 Increase Fees for
Certificates and
Registrations Issued by the
Federal Aviation
Administration

Related GAO Product *Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft.*
GAO/RCED-93-135. Washington, D.C.: June 18, 1993.

GAO Contact Gerald Dillingham, (202) 512-4803

400-08 Eliminate Funding
for the "New Starts" Transit
Program

Related GAO Products *Mass Transit: Status of New Starts Program and Potential for Bus Rapid
Transit Projects.* GAO-02-840T. Washington, D.C.: June 20, 2002.
Mass Transit: FTA's New Starts Commitments for Fiscal Year 2003. GAO-
02-603. Washington, D.C.: April 30, 2002.

GAO Contact Katherine Siggerud, (202) 512-6570

**450 Community and
Regional Development**

Examples from Selected GAO Work

Limit Eligibility for Federal Emergency Management Agency Public Assistance

Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss

Eliminate Flood Insurance for Certain Repeatedly Flooded Properties

Consolidate or Terminate the Department of Commerce's Trade Adjustment Assistance for Firms Program

Improve Federal Foreclosure and Property Sales Processes

CBO Options Where Related GAO Work Is Identified

450-02 Eliminate Region-Specific Development Agencies

450-05 Drop Flood Insurance for Certain Repeatedly Flooded Properties

Examples from
 Selected GAO Work

Limit Eligibility for Federal
 Emergency Management
 Agency Public Assistance

Primary agency	Department of Homeland Security
Account	Emergency Preparedness and Response (70-0700)
Spending type	Discretionary
Budget subfunctions	Multiple

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. Many private nonprofit organizations, such as schools, hospitals, and utilities, are also eligible for assistance. From 1990 through 2001, FEMA has expended over \$39 billion (in fiscal year 2001 dollars) in disaster assistance, over half of which was spent for public assistance projects such as repairs of roads, government buildings, utilities, and hospitals damaged in declared disasters.

A number of options identified by program officials in FEMA's 10 regional offices, if implemented, could reduce program costs. The agency has acted to address some of these options. However, FEMA has not addressed some other identified options, stating that congressional direction would be needed for the agency to change policies. These include eliminating the eligibility for facilities not actively used to deliver government services, postdisaster beach renourishment, as well as increasing the damage threshold for replacing a facility.¹⁷ In addition, program costs could be reduced by policy changes such as eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—or eliminating funding for publicly owned recreational facilities (e.g., boat docks, piers, and golf

¹⁷FEMA will now pay to replace rather than repair buildings if the repair costs would be more than 50 percent of the estimated replacement cost.

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	courses) which generate portions of their operational revenue through user fees, rents, admission charges, or similar fees. In the past, CBO estimated that eliminating eligibility for all private nonprofit organizations would yield budgetary savings.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Products	<p><i>Disaster Assistance: Improvement Needed in Disaster Declaration Criteria and Eligibility Assurance Procedures.</i> GAO-01-837. Washington, D.C.: August 31, 2001.</p> <p><i>Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them.</i> GAO/T-RCED-98-139. Washington, D.C.: March 26, 1998.</p> <p><i>Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance.</i> GAO/RCED-96-118. Washington, D.C.: May 23, 1996.</p> <p><i>Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance.</i> GAO/T-RCED-96-166. Washington, D.C.: April 30, 1996.</p>
GAO Contact	JayEtta Z. Hecker, (202) 512-8984

Eliminate the Flood
 Insurance Subsidy on
 Properties That Suffer the
 Greatest Flood Loss

Primary agency	Department of Homeland Security
Account	National Flood Insurance (70-4236)
Spending type	Mandatory
Budget subfunction	453/Disaster relief and insurance

The National Flood Insurance Program is not actuarially sound because approximately 30 percent of the 4.3 million policies in force are subsidized. Federal Insurance Administration officials estimate that total premium income from subsidized policyholders is about \$500 million less than it would be if these rates had been actuarially based and participation had remained the same. According to a Federal Insurance Administration official, if true actuarial rates were charged, insurance rates on currently subsidized policies would need to rise, on average, slightly more than twofold (to an annual average premium of about \$1,500 to \$1,600). Significant rate increases for subsidized policies, including charging actuarial rates, would likely cause some owners of properties built before the publication of the Flood Insurance Rate Map to cancel their flood insurance. However, the ultimate cost or savings to the federal government would depend on the actions of property owners. If these property owners, who suffer the greatest flood loss, canceled their insurance and subsequently suffered losses due to future floods, they could apply for low-interest loans from the Small Business Administration or grants from FEMA, which would increase the overall cost to the federal government.

FEMA received a May 1999 contractor's study concerning the economic effects of eliminating subsidized rates, and in June 2000 the agency transmitted the study to the Congress with recommendations for reducing the subsidy. According to FEMA, it is analyzing the impacts of specific alternatives for carrying out the recommendations, as well as working with stakeholders to refine and develop a comprehensive strategy to help it decide how to implement the study's recommendations. Some of the recommendations for reducing the subsidy depend on legislative change. In light of the potential savings associated with addressing this issue, FEMA should develop and advance legislative options for eliminating the National Flood Insurance Program's subsidy for properties that are more likely to suffer losses.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Products	<i>Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program.</i> GAO/T-RCED-00-23. Washington, D.C.: October 27, 1999. <i>Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program.</i> GAO/T-RCED-99-280. Washington, D.C.: August 25, 1999. <i>Flood Insurance: Financial Resources May Not Be Sufficient to Meet Future Expected Losses.</i> GAO/RCED-94-80. Washington, D.C.: March 21, 1994.
GAO Contact	JayEtta Z. Hecker, (202) 512-8984

Eliminate Flood Insurance
 for Certain Repeatedly
 Flooded Properties

Primary agency	Department of Homeland Security
Account	National Flood Insurance (70-4236)
Spending type	Mandatory
Budget subfunction	453/Disaster relief and insurance

Repetitive flood losses are one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program (NFIP). A repetitive-loss property is one that has two or more losses greater than \$1,000 each within any 10-year period. In 2002, approximately 45,000 buildings insured under the NFIP have been flooded on more than one occasion and have received flood insurance claims payments of \$1,000 or more for each loss. As we reported in July 2001, these repetitive losses account for about 38 percent of all program claims historically (about \$200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time, from 1 to 2 percent. The cost of these multiple-loss properties over the years to the program has been \$3.8 billion. Under its repetitive-loss strategy, the Federal Insurance Administration intends to target for mitigation the most flood-prone repetitive-loss properties, such as those that are currently insured and have had four or more losses, by acquiring, relocating, or elevating them. The Federal Emergency Management Agency (FEMA) reports NFIP paid out over \$800 million in claims for the most vulnerable repetitive loss properties (about 10,000) over the last 21 years.

One option that would increase savings would be for FEMA to consider eliminating flood insurance for certain repeatedly flooded properties. In its fiscal year 2002 budget proposal, FEMA requested to transfer \$20 million in fees from the NFIP to increase the number of buyouts of properties that suffer repetitive losses.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Flood Insurance: Information on the Financial Condition of the National Flood Insurance Program. GAO-01-992T. Washington, D.C.: July 19, 2001.

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Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program. GAO/T-RCED-00-23. Washington, D.C.: October 27, 1999.

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program. GAO/T-RCED-99-280. Washington, D.C.: August 25, 1999.

GAO Contact

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Consolidate or Terminate
 the Department of
 Commerce's Trade
 Adjustment Assistance for
 Firms Program

Primary agency	Department of Commerce
Account	Economic Development Assistance Programs (13-2050)
Spending type	Discretionary
Budget subfunction	452/Area and regional development

The Trade Adjustment Assistance (TAA) for firms program is administered by the Department of Commerce's Economic Development Administration. This \$11 million program (obligations in fiscal year 2002) is designed to assist domestic firms that have been adversely affected by imports. Twelve regional centers help firms become certified for benefits, assess their economic viability, and develop business recovery plans.

For fiscal years 1995 through 1999, an average of 157 firms were annually certified as eligible for assistance and 127 (an average of 11 for each regional center) had certified recovery plans. During this period, however, most of the program funding—61 percent—was used to fund operational and administrative costs at the 12 regional centers, including helping firms become certified for assistance and developing firm-specific recovery plans. The remainder—an annual average of \$3.8 million, or approximately 39 percent of the total—was used to fund direct technical assistance. The Economic Development Administration added performance measures in fiscal year 2002 to better track outcomes of the assistance provided by the regional centers. However, we have not evaluated whether these new data are sufficient to assess how the program is helping firms adjust to import competition.

Given the lack of information on the impact of the program, the Congress may wish to consider several options for this program. First, the Congress may wish to have the Department of Commerce consolidate the regional centers and therefore reduce administrative and overhead costs. Another alternative would be to collocate the TAA centers with an existing program such as the Department of Commerce's Manufacturing Extension Partnership, reducing overhead and perhaps providing some synergy with other government efforts to assist firms. In the past, CBO estimated that budgetary savings would occur if the Congress chooses to terminate the TAA for Firms Program.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Product	<i>Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear.</i> GAO-01-12. Washington, D.C.: December 15, 2000.
GAO Contact	Loren Yager, (202) 512-4128

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Improve Federal
 Foreclosure and Property
 Sales Processes

Primary agencies	Department of Housing and Urban Development Department of Veterans Affairs
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunctions	Multiple

Opportunities exist to reduce the time necessary to sell foreclosed properties and minimize costs to the federal government. Federal programs in the Department of Housing and Urban Development's Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Department of Agriculture's Rural Housing Service (RHS) promote mortgage financing for, among other groups, low-income, first-time, minority, veteran, and rural home buyers. Fannie Mae and Freddie Mac are private corporations chartered by the Congress that also promote mortgage financing and home ownership opportunities. Although these programs have expanded home ownership opportunities, many home owners fall behind in their mortgage payments each year due to unemployment, health problems, or the death of a provider. When mortgage lenders cannot assist home owners in meeting their payments, FHA, VA, RHS, Fannie Mae, and Freddie Mac (the organizations) may instruct the lenders to begin foreclosure proceedings. Once foreclosure proceedings have been initiated, it is generally in the best interests of the organizations and communities that foreclosed properties are adequately maintained and resold as quickly as feasible. Otherwise, property conditions can deteriorate, thereby resulting in lower sales prices, which could limit the government's ability to recover the costs that it incurs.¹⁸ In addition, vacant and poorly maintained properties that are on the market for extended periods contribute to neighborhood decay.

FHA procedures can delay the initiation of critical steps necessary to preserve the value of foreclosed properties and to sell them quickly. While

¹⁸Generally, FHA, VA, and RHS pay claims to mortgage servicers to cover the outstanding loan balances on foreclosed mortgages and interest and other expenses. If foreclosed properties are resold at relatively low prices, then the organizations' ability to recover their claim payments may be limited.

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Fannie Mae, Freddie Mac, VA, and RHS designate one entity as responsible for the custody, maintenance, and sale of foreclosed properties. FHA divides these responsibilities between its mortgage servicers and management and marketing contractors. We found that FHA's divided approach to foreclosed property custody can prevent the initiation of critical maintenance necessary to make properties attractive to potential buyers, such as the timely removal of all exterior and interior debris, and results in disputes between servicers and contractors. Because FHA's divided approach delays maintenance and other steps necessary to preserve the value and marketability of foreclosed properties, the properties may be sold at lower prices than would otherwise be the case. In fact, we estimated that FHA takes about 55 to 110 days longer to sell foreclosed properties than the other organizations. In a June 2003 conversation, an FHA official said that the agency continues to consider unified custody as the best means of managing its inventory of foreclosed properties. Given legal and other complexities associated with changing its approach to selling foreclosed properties, FHA does not expect to complete its ongoing review of the best means of implementing unified custody until October 2004.

FHA and VA together spent about \$31.5 million in 2000 on new title insurance policies to help establish that they had clear title to foreclosed properties, while Fannie Mae, Freddie Mac, and RHS generally did not purchase new title insurance policies. Neither FHA nor VA collects data to determine the need for these expenditures, and available information suggests they are not cost effective. In 1995, VA's Office of Inspector General (OIG) issued a report that questioned whether VA's title insurance expenditures offered value to the government, and VA has not implemented recommendations contained in the report to assess the expenditures' cost effectiveness. In addition, Fannie Mae, Freddie Mac, and RHS report few title-related problems when they sell foreclosed properties. We make recommendations that FHA and VA collect additional data and reevaluate the cost effectiveness of their title insurance expenditures. In a June 2003 conversation, an FHA official said that FHA expects to complete its review of purchasing title insurance during the foreclosure process by October 2004. In a June 2003 conversation, a VA official said that the department expects to complete its review during the fall of 2003.

As an option, Congress may wish to consider enacting legislation to establish unified custody as a priority for the sale of foreclosed properties that FHA takes into its inventory and directing the agency to complete its

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review of the best means of implementing unified custody by the close of fiscal year 2004.

As an option, Congress may wish to consider enacting legislation directing FHA and VA to complete their ongoing reviews of the cost effectiveness of purchasing new title insurance policies during the foreclosure process by the close of fiscal year 2004.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Product

Single-Family Housing: Opportunities to Improve Federal Foreclosure and Property Sales Processes. GAO-02-305. Washington, D.C.: April 17, 2002.

GAO Contact

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**CBO Options Where
Related GAO Work Is
Identified¹⁹**

**450-02 Eliminate Region-
Specific Development
Agencies**

Related GAO Products

Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities. GAO/RCED/GGD-00-220. Washington, D.C.: September 29, 2000.

Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus. GAO/T-AIMD-00-73. Washington, D.C.: February 1, 2000.

GAO Contact

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**450-05 Drop Flood
Insurance for Certain
Repeatedly Flooded
Properties**

Related GAO Products

Flood Insurance: Challenges Facing the National Flood Insurance Program, Statement for the Record. GAO-03-606T. Washington, D.C.: April 1, 2003.

Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown. GAO-02-396. Washington, D.C.: June 21, 2002.

¹⁹We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program. GAO/TRCED-00-23. Washington, D.C.: October 27, 1999.

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program. GAO/TRCED-99-280. Washington, D.C.: August 25, 1999.

Flood Insurance: Financial Resources May Not Be Sufficient to Meet Future Expected Losses. GAO/RCED-94-80. Washington, D.C.: March 21, 1994.

GAO Contact

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**500 Education,
Training, Employment,
and Social Services**

CBO Options Where Related GAO Work Is Identified

500-02 Repeal the Safe and Drug-Free Schools and Communities Act

500-11 Eliminate the Senior Community Service Employment Program

**CBO Options Where
 Related GAO Work Is
 Identified²⁰**

**500-02 Repeal the Safe and
 Drug-Free Schools and
 Communities Act**

Related GAO Product

Safe and Drug-Free Schools: Balancing Accountability With State and Local Flexibility. GAO/HEHS-98-3. Washington, D.C.: October 10, 1997.

GAO Contact

 Marnie S. Shaul, (202) 512-6778

**500-11 Eliminate the Senior
 Community Service
 Employment Program**

Related GAO Product

Older Workers: Employment Assistance Focuses on Subsidized Jobs and Job Search, but Revised Performance Measures Could Improve Access to Other Services. GAO-03-350. Washington, D.C.: January 24, 2003.

GAO Contact

 Sigurd R. Nilsen, (202) 512-7033

²⁰We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

550 Health

Examples from Selected GAO Work

Improve Fairness of Medicaid Matching Formula

Charge Beneficiaries for Food Inspection Costs

Implement Risk-Based Meat and Poultry Inspections at USDA

Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government

Create a Uniform Federal Mechanism for Food Safety

Control Provider Enrollment Fraud in Medicaid

Eliminate Federal Funding for SCHIP Covering Adults without Children

CBO Option Where Related GAO Work Is Identified

550-06 Require All States to Comply with New Rules About Medicaid's Upper Payment Limit by 2004

Examples from
 Selected GAO Work

Improve Fairness of
 Medicaid Matching Formula

Primary agency	Department of Health and Human Services
Account	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services

The Medicaid program provides medical assistance to low-income, aged, blind, or disabled individuals. The federal government and the states share the financing of the program through an open-ended matching grant whereby federal outlays rise with the cost and use of Medicaid services. The federal share of the program costs varies inversely with state per capita income. Consequently, high-income states pay a larger share of the benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent.

Since 1986, we have issued numerous reports and testimonies that identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid, we believe that the fairness of the matching formula in the open ended program could be improved by replacing the per capita income factor with four factors—the number of people living below the official poverty line, the total taxable resources of the state, cost differences associated with the demographic composition of state caseloads, and differences in health care costs across states. These changes could redirect federal funding to states with the highest concentration of people in poverty and the least capability of funding these needs from state resources.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
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Yes.

Related GAO Products

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending. GAO/HEHS-99-29R. Washington, D.C.: February 19, 1999.

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Medicaid Matching Formula: Effects of Need Indicators on New York's Funding. GAO/HEHS-97-152R. Washington, D.C.: June 9, 1997.

Medicaid: Matching Formula's Performance and Potential Modifications. GAO/T-HEHS-95-226. Washington, D.C.: July 27, 1995.

Medicaid Formula: Fairness Could Be Improved. GAO/T-HRD-91-5. Washington, D.C.: December 7, 1990.

GAO Contact

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Charge Beneficiaries for
 Food Inspection Costs

Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety

User fees—charges individuals or firms pay for services they receive from the federal government—are not new but play an increasingly important role in financing federal programs, particularly since the Balanced Budget Act of 1985. In general, federal food inspection agencies have charged user fees only to beneficiaries of premarket reviews, such as the grading of grain and other commodities for quality. Federal food inspection agencies generally do not charge user fees or fully cover the cost of services provided for (1) compliance inspections of meat, poultry, domestic foods, and processing facilities to ensure adherence to safety regulations, (2) import inspections and export certifications to ensure that food products in international trade meet specified standards, and (3) standards setting and other support services essential to these functions. Office of Management and Budget (OMB) Circular A-25, *User Charges*, states that user fees should be charged to cover the full cost of federal services when the service recipient receives special benefits beyond those received by the general public. The U.S. Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) provides a special benefit to meat and poultry slaughter and processing plants that incidentally benefits the general public.

USDA inspection agencies recovered through user fees only about \$403 million of the \$1.3 billion they spent in 2002 to inspect, test, grade, and approve agricultural commodities and products. Federal appropriations have traditionally funded the agencies' remaining inspection expenses.

CBO 5-Year Cost Estimate
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Yes.

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Related GAO Products

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness. GAO/RCED-98-224. Washington, D.C.: August 6, 1998.

Food-Related Services: Opportunities Exist to Recover Costs by Charging Beneficiaries. GAO/RCED-97-57. Washington, D.C.: March 20, 1997.

Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply. GAO/RCED-92-152. Washington, D.C.: June 26, 1992.

GAO Contacts

Bob Robinson, (202) 512-3841
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Implement Risk-Based Meat
 and Poultry Inspections at
 USDA

Primary agency	Department of Agriculture
Account	Food Safety and Inspection Service (12-3700)
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety

Foodborne illness in the United States is extensive and expensive. Foodborne diseases cause about 76 million illnesses, 325,000 hospitalizations, and 5,200 deaths annually. In terms of medical costs and productivity losses, illness from just the five principal foodborne pathogens alone costs the nation about \$7 billion annually, according to U.S. Department of Agriculture (USDA) estimates.

USDA's meat and poultry inspection system does not efficiently and effectively use its resources to protect the public from foodborne illness. USDA's system is hampered by inflexible legal requirements and relies on outdated, labor-intensive inspection methods. Under current law, each of the over 8 billion livestock and bird carcasses slaughtered annually must be inspected. Further, USDA's Food Safety and Inspection Service (FSIS) states that current law requires it to inspect each of the approximately 6,000 processing plants at least once during each operating shift. While these inspections consume most of FSIS's budget (\$730 million in 2002), they are unable to detect microbial contamination, such as listeria, E. coli, and salmonella. While USDA has increased its microbial testing, it has not been successful in implementing regulatory changes in inspection practices—inspectors still rely on their sense of sight, smell, and touch to make judgments about disease conditions, contamination, and sanitation.

Legislative revisions could allow FSIS to emphasize risk-based inspections. Much of the funding used to fulfill current meat and poultry inspection activities could be redirected to support more effective food safety initiatives, such as increasing the frequency of inspections at high-risk food plants. In the past, CBO agreed that this option could potentially yield savings, but could not develop an estimate without specific proposals.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<p><i>Food Safety: Overview of Federal and State Expenditures.</i> GAO-01-177. Washington, D.C.: February 20, 2001.</p> <p><i>Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness.</i> GAO/RCED-98-224. Washington, D.C.: August 6, 1998.</p> <p><i>Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry.</i> GAO/RCED-94-192. Washington, D.C.: September 26, 1994.</p> <p><i>Food Safety and Quality: Uniform Risk-Based Inspection System Needed to Ensure Safe Food Supply.</i> GAO/RCED-92-152. Washington, D.C.: June 26, 1992.</p>
GAO Contacts	Bob Robinson, (202) 512-3841 Lawrence J. Dyckman, (202) 512-3841

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Prevent States from Using
 Illusory Approaches to Shift
 Medicaid Program Costs to
 the Federal Government

Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services

Since 1993, we have reported on a number of state financing schemes that inappropriately shift Medicaid costs to the federal government. In an early report, we documented that Michigan, Texas, and Tennessee used illusory financing approaches to obtain about \$800 million in federal Medicaid funds without effectively committing their share of matching funds. Under these approaches, facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. For the period from fiscal year 1991 to fiscal year 1995, Michigan alone reduced its share of Medicaid costs by almost \$1.8 billion through financing partnerships with medical providers and local units of government. Our analysis of Michigan's transactions showed that even though legislation curtailed certain creative financing practices, the state was able to reduce its share of Medicaid costs at the expense of the federal government by \$428 million through other mechanisms. We subsequently reported on similar schemes involving state psychiatric hospitals and local government facilities, such as county nursing homes.

The state schemes that involve excessive federal payments have been restricted by (1) the Omnibus Budget Reconciliation Act of 1993 that limits such payments to unreimbursed Medicaid and uninsured costs for state-owned facilities, (2) the Balanced Budget Act of 1997 that further limits Medicaid payments to state psychiatric hospitals, and (3) the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000,²¹ which mandated that the Health Care Financing Administration (HCFA)

²¹SCHIP is the State Children's Health Insurance Program.

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issue regulations to curtail financing schemes involving excessive payments to local government providers.

Despite these legislative and regulatory restrictions, states continue to develop schemes to draw down federal Medicaid payments that grossly exceed costs. Moreover, the Centers for Medicare & Medicaid Services (formerly HCFA) do not verify that such moneys are used for the purposes for which they were obtained.

We believe that the Medicaid program should not allow states to benefit from illusory arrangements and that Medicaid funds should only be used to help cover the costs of medical care incurred by those medical facilities that provide care to Medicaid beneficiaries. We believe the Congress should continue its legislative efforts to minimize the likelihood that states can develop arrangements that claim excessive federal Medicaid payments and that inappropriately shift Medicaid costs to the federal government. Specifically, the Congress should consider legislation that would prohibit Medicaid payments that exceed costs to any government-owned facility.

Savings are difficult to estimate for this option because national data on these practices are not readily available. In addition, Medicaid spending is influenced by the use of waivers from federal requirements, which allows states to alter Medicaid financing formulas. Future requests and use of waivers by states are uncertain.

CBO 5-Year Cost Estimate
Included in GAO's 2002
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No.

Related GAO Products

Major Management Challenges and Program Risks: Department of Health and Human Services. GAO-03-101. Washington, D.C.: January 2003.

Medicaid and SCHIP: Recent HHS Approvals of Demonstration Waiver Projects Raise Concerns. GAO-02-817. Washington, D.C.: July 12, 2002.

Medicaid: HCFA Reversed Its Position and Approved Additional State Financing Schemes. GAO-02-147. Washington, D.C.: October 30, 2001.

Medicaid: State Financing Schemes Again Drive Up Federal Payments. GAO/T-HEHS-00-193. Washington, D.C.: September 6, 2000.

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Medicaid: Managed Care and Individual Hospital Limits for Disproportionate Share Hospital Payments. GAO/HEHS-98-73R. Washington, D.C.: January 28, 1998.

Medicaid: Disproportionate Share Payments to State Psychiatric Hospitals. GAO/HEHS-98-52. Washington, D.C.: January 23, 1998.

Medicaid: Disproportionate Share Hospital Payments to Institutions for Mental Disease. GAO/HEHS-97-181R. Washington, D.C.: July 15, 1997.

State Medicaid Financing Practices. GAO/HEHS-96-76R. Washington, D.C.: January 23, 1996.

Michigan Financing Arrangements. GAO/HEHS-95-146R. Washington, D.C.: May 5, 1995.

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government. GAO/HEHS-94-133. Washington, D.C.: August 1, 1994.

Medicaid: The Texas Disproportionate Share Program Favors Public Hospitals. GAO/HRD-93-86. Washington, D.C.: March 30, 1993.

GAO Contact

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Create a Uniform Federal
 Mechanism for Food Safety

Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety

A multitude of agencies oversee food safety, with two agencies accounting for most federal spending on, and regulatory responsibilities for, food safety. The Food Safety and Inspection Service (FSIS), under the U.S. Department of Agriculture (USDA), is responsible for the safety of meat, poultry, eggs, and some egg products, while the Food and Drug Administration (FDA), under the Department of Health and Human Services (HHS), is responsible for the safety of most other foods.

The current food safety system emerged from a patchwork of often archaic laws and grew into a structure that actually hampers efforts to address existing and emerging food safety risks. Moreover, the current regulatory framework addresses only a segment—primarily food processing—of the continuum of activities that bring food from the farm to the table. Finally, scientific and technical advances in the production of food, such as the development of genetically modified foods, have further complicated the responsibilities of the existing federal food safety structure. Indeed, the food safety system suffers from gaps, overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

The Congress could consider the following options to improve the effectiveness and efficiency of the federal food safety system and ensure a comprehensive farm-to-table approach—one that starts with growers and extends to retailers. One option would be to consolidate federal food safety agencies and activities under a single, independent, risk-based food safety agency responsible for administering a uniform set of laws. A second option would be to consolidate food safety activities in an existing department, such as USDA or HHS. In the past, CBO agreed that these options could potentially yield savings, but could not develop savings estimates due to the uncertainty of the extent to which improved efficiencies could actually lead to budgetary savings.

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CBO 5-Year Cost Estimate
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No.

Related GAO Products

Food Safety: CDC Is Working to Address Limitations in Several of Its Foodborne Surveillance Systems. GAO-01-973. Washington, D.C.: September 7, 2001.

Food Safety: Federal Oversight of Shellfish Safety Needs Improvement. GAO-01-702. Washington, D.C.: July 9, 2001.

Food Safety: Overview of Federal and State Expenditures. GAO-01-177. Washington, D.C.: February 20, 2001.

Food Safety: Federal Oversight of Seafood Does Not Sufficiently Protect Consumers. GAO-01-204. Washington, D.C.: January 31, 2001.

Food Safety: Actions Needed by USDA and FDA to Ensure That Companies Promptly Carry Out Recalls. GAO/RCED-00-195. Washington, D.C.: August 17, 2000.

Food Safety: Improvements Needed in Overseeing the Safety of Dietary Supplements and "Functional Foods." GAO/RCED-00-156. Washington, D.C.: July 11, 2000.

Meat and Poultry: Improved Oversight and Training Will Strengthen New Food Safety System. GAO/RCED-00-16. Washington, D.C.: December 8, 1999.

Food Safety: Agencies Should Further Test Plans for Responding to Deliberate Contamination. GAO/RCED-00-3. Washington, D.C.: October 27, 1999.

Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System. GAO/RCED-99-256. Washington, D.C.: August 4, 1999.

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness. GAO/RCED-98-224. Washington, D.C.: August 6, 1998.

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Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable. GAO/RCED-98-103. Washington, D.C.: April 30, 1998.

Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food. GAO/RCED-94-192. Washington, D.C.: September 26, 1994.

Food Safety and Quality: Uniform Risk-Based Inspection System Needed to Ensure Safe Food Supply. GAO/RCED-92-152. Washington, D.C.: June 26, 1992.

GAO Contacts

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Control Provider
 Enrollment Fraud in
 Medicaid

Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services

Recent investigations of fraud in the California Medicaid program, which could exceed \$1 billion in program losses, involve cases in which closer scrutiny would have raised questions about the legitimacy of the providers involved. State Medicaid programs are responsible for processing millions of providers' claims each year, making it impossible to perform detailed checks on a significant portion of them. While most providers bill appropriately, states need enrollment procedures to help prevent entry into Medicaid by providers intent on committing fraud. Preventing such providers from billing the program is more efficient than attempted recovery once payments have already been made.

Our July 2000 testimony highlighted several Medicaid programs that have comprehensive procedures to check the legitimacy of providers before they can bill the program. These states check that a provider has a valid license (if required) and no criminal record, has not been excluded from other federal health programs, and practices from a legitimate business location. However, only nine states report that they conduct all of these checks. In addition, we found that many states poorly control provider billing numbers. They either allow providers to bill indefinitely or fail to cancel inactive numbers. Since billing numbers are necessary to submit claims, poor control of them may allow fraudulent providers to obtain other providers' numbers and bill the program inappropriately.

At present, the federal government has no uniform or minimum requirements in approving providers' applications. As a result, we believe that it would be beneficial for the Centers for Medicare and Medicaid Services (CMS)—the agency formerly called the Health Care Financing Administration (HCFA)—to assist states in developing effective provider enrollment procedures. If states could limit entrance of even a small percentage of dishonest providers by adopting such procedures, future Medicaid costs would be reduced substantially. CMS has a work group that is considering options for a limited pilot project to study coordinating aspects of Medicaid and Medicare provider enrollment activities. However,

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in the past CBO could not develop an estimate of the savings for this option without specific strategies. Moreover, savings would be net of the additional resources required to implement such procedures.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Medicaid: State Efforts to Control Improper Payment Vary. GAO-01-662. Washington, D.C.: June 7, 2001.

Medicaid: HCFA and States Could Work Together to Better Ensure the Integrity of Providers. GAO/T-HEHS-00-159. Washington, D.C.: July 18, 2000.

Medicaid: Federal and State Leadership Needed to Control Fraud and Abuse. GAO/T-HEHS-00-30. Washington, D.C.: November 9, 1999.

Health Care: Fraud Schemes Committed by Career Criminals and Organized Criminal Groups and Impact on Consumers and Legitimate Health Care Providers. GAO/OSI-00-1R. Washington, D.C.: October 5, 1999.

Medicaid Fraud and Abuse: Stronger Action Needed to Remove Excluded Providers From Federal Health Programs. GAO/HEHS-97-63. Washington, D.C.: March 31, 1997.

Fraud and Abuse: Providers Excluded From Medicaid Continue to Participate in Federal Health Programs. GAO/T-HEHS-96-205. Washington, D.C.: September 5, 1996.

Prescription Drugs and Medicaid: Automated Review Systems Can Help Promote Safety, Save Money. GAO/AIMD-96-72. Washington, D.C.: June 11, 1996.

GAO Contact

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**Eliminate Federal Funding
 for SCHIP Covering Adults
 without Children**

Primary agency	Department of Health and Human Services
Account	State Children's Health Insurance Fund (75-0515)
Spending type	Mandatory
Budget subfunction	551/Health care service

In July 2002, we reported both legal and policy concerns about the extent to which the Department of Health and Human Services (HHS) has ensured that approved demonstration waivers, authorized under Section 1115 of the Social Security Act, were consistent with the goals and fiscal integrity of the Medicaid and State Children's Health Insurance Program (SCHIP). The legal concern was that HHS approved a waiver to allow a state to use unspent SCHIP funding to cover adults without children, despite the program's statutory objective of expanding health coverage to low-income children. We also reported policy concerns that approved waivers may increase the federal liability for program expenditures. Specifically, despite HHS's oversight responsibilities for ensuring that states' demonstration programs do not put the federal government at risk for spending more on Medicaid than it would have without such programs, two of the four approved waivers we reviewed could potentially cost the federal government at least \$330 million more than if they had not been approved. We recommended that the Congress consider amending title XXI of the Social Security Act to specify that SCHIP funds are not available to provide health insurance coverage for childless adults. We also recommended that the Secretary of HHS better ensure that valid methods are used to demonstrate budget neutrality and appropriately adjust the federal obligation for the reviewed waivers.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. However, CBO indicated it could probably make an estimate for this example.

Related GAO Product

Medicaid and SCHIP: Recent HHS Approvals of Demonstration Waiver Projects Raise Concerns. GAO-02-817. Washington, D.C.: July 12, 2002.

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CBO Option Where
Related GAO Work Is
Identified²²

550-06 Require All States to
Comply with New Rules
About Medicaid's Upper
Payment Limit by 2004

Related GAO Products

Major Management Challenges and Program Risks: Department of Health and Human Services. GAO-03-101. Washington, D.C.: January 2003.

Medicaid: HCFA Reversed Its Position and Approved Additional State Financing Schemes. GAO-02-147. Washington, D.C.: October 30, 2001.

Medicaid: State Financing Schemes Again Drive Up Federal Payments. GAO/T-HEHS-00-193. Washington, D.C.: September 6, 2000.

GAO Contacts

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²²We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

570 Medicare

Examples from Selected GAO Work

Reassess Medicare Incentive Payments in Health Care Shortage Areas

Adjust Medicare Payment Rates to Reflect Changing Technology, Costs, and Market Prices

Increase Medicare Program Safeguard Funding

Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments

Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System

Eliminate Medicare Competitive Sourcing Restrictions

Change Pricing Formula for Medicare-Covered Drugs and Biologicals

CBO Options Where Related GAO Work Is Identified

570-10 Reduce Medicare Payments for Currently Covered Prescription Drugs

570-11 Require Competitive Bidding for High-Volume Items of Durable Medical Equipment

570-15 Simplify and Limit Medicare's Cost-Sharing Requirements

570-19 Reduce Medicare Payments for Home Health Care

Examples from
 Selected GAO Work

Reassess Medicare
 Incentive Payments in
 Health Care Shortage Areas

Primary agency	Department of Health and Human Services
Account	Federal Supplemental Insurance Trust Fund Account (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare

The Medicare Incentive Payment program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services cause access problems for Medicare beneficiaries in underserved areas. The program pays physicians a 10-percent bonus payment for Medicare services they provide in areas identified by the Department of Health and Human Services (HHS) as having a shortage of primary care physicians. In 1997, bonus payments paid from the Medicare Supplemental Medical Insurance trust fund amounted to over \$90 million.

This program, however, may not be the most appropriate means of addressing medical underservice.

- The need for this program may have changed; since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. In addition, surveys of Medicare beneficiaries who have access problems, including those who may live in underserved areas, generally cite reasons other than the unavailability of a physician—such as the cost of services not paid by Medicare—for their access problems.
- The relatively small bonus payments most physicians receive—a median payment of \$341 for the year in 1996—are unlikely to have a significant impact on physician recruitment and retention.
- Specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply, while shortages of specialists, if any, have not been determined.

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- The program provides no incentives or assurances that physicians receiving bonuses will actually treat people who have problems obtaining health care.
- Centers for Medicare & Medicaid Services—formerly the Health Care Financing Administration—oversight of the program also has limitations that allow physicians and other providers to receive and retain bonus payments claimed in error.

HHS has acknowledged problems in the program and agrees that making incentive payments to specialists in urban areas appears to be unnecessary. The department has stated that it is clear that certain structural changes to this program are necessary to better target incentive payments to rural areas with the highest degree of shortage.

If the Congress determines that this program is not an appropriate vehicle for addressing medical underservice, then termination is a reasonable option. However, if it is decided to continue the program, then the Congress could consider reforms that clarify the program's goals and better structure the program to link limited federal funds to intended outcomes. For example, if the program's goal is to improve access to primary care services in underserved rural areas, the bonus payments should be limited to physicians providing primary care services to underserved populations in rural areas with the greatest need. Better targeting of the payments and evaluations would also be needed to provide assurances that the payments are achieving their intended outcomes.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Physician Shortage Areas: Medicare Incentive Payments Not an Effective Approach to Improve Access. GAO/HEHS-99-36. Washington, D.C.: February 26, 1999.

Health Care Shortage Areas: Designations Not a Useful Tool for Directing Resources to the Underserved. GAO/HEHS-95-200. Washington, D.C.: September 8, 1995.

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Adjust Medicare Payment
 Rates to Reflect Changing
 Technology, Costs, and
 Market Prices

Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare

Medicare's supplementary medical insurance program (Medicare Part B) spent almost \$7 billion for durable medical equipment, prosthetics, orthotics, and supplies in 2002 on behalf of its beneficiaries. For most medical equipment and supplies, Medicare payments are primarily based on historical charges, indexed forward, rather than current costs or market prices.

We have reported that Medicare payments for some medical equipment and supplies are out of line with actual market prices. This can occur when providers' costs for some procedures, equipment, and supplies have declined over time as competition and efficiencies increased. For example, when Medicare sets its payment rates for new items, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as the equipment improves, utilization increases, and experience in using the equipment results in efficiencies. In other cases, medical innovations and advances have increased the cost of some procedures and products. However, Medicare did not have a process to routinely and systematically review these factors and make timely adjustments to the Medicare payment rates. In fact, through the years, the Congress has legislatively adjusted Medicare rates for some products and services, such as home oxygen, clinical laboratory tests, intraocular lenses, computed tomography scans, and magnetic resonance imaging scans.

To address problems with excessive payments, the Balanced Budget Act of 1997 provided the Health Care Financing Administration (HCFA)—the agency now called the Centers for Medicare & Medicaid Services (CMS)—the authority to use a streamlined process for adjusting Medicare Part B payments by up to 15 percent per year. (This revised authority does not extend to adjusting Medicare payments for physician services.) The agency issued an interim final rule to implement its authority in December 2002. However, in the rule, the agency severely limited its ability to use its new authority to bring its payment rates into line with market prices by

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indicating that it would adjust Medicare payment rates only when they were at least 15 percent above or below a realistic and equitable amount.

An additional limitation to effectively using this new authority is that CMS frequently does not know specifically what Medicare is paying for. CMS does not require suppliers to identify on Medicare claims the specific items billed. Instead, suppliers are required to use CMS billing codes, most of which cover a broad range of products of various types, qualities, and market prices. For example, one Medicare billing code is used for more than 200 different urological catheters, even though some of these catheters sell at a fraction of the price of others billed under the same code. Unless Medicare claims contain more product-specific information, CMS cannot track what items are billed to ensure that each billing code is used for products of comparable quality and price. Although the health care industry is increasingly using more specific universal product numbers and bar codes for inventory control, CMS does not currently require suppliers to use these identifiers on Medicare claims.

Several options could help to better align Medicare fees with actual costs and market prices. One option would be for the Congress to give CMS the authority to implement competitive bidding for durable medical equipment, prosthetics, orthotics, and supplies. Competitive bidding uses the dynamics of the marketplace to create incentives for providers to provide items and services efficiently. In the Balanced Budget Act of 1997, the Congress required the agency to test competitive bidding for Part B services and supplies (except for physician services) through a demonstration. In the spring of 1999, HCFA selected competing suppliers to provide oxygen supplies and other supplies and equipment to beneficiaries in Polk County, Fla. In 2000, HCFA began competitive bidding in a second site—three counties near San Antonio, Tex.—for oxygen supplies, nebulizer inhalation drugs, and other equipment. The new payment rates for the items bid averaged 17 to 22 percent below existing Medicare rates for those states. Despite this reduction in the amount paid, the demonstration's evaluators found little evidence of problems with beneficiary access to products. In addition, the demonstration required bidders to meet more stringent quality standards than are customary in the Medicare program. CMS's authority to conduct these competitive bidding demonstrations ended December 31, 2002. Without new legislative authority, the agency cannot use a competitive bidding approach.

A second option for paying more appropriately for medical equipment and supplies would be to base Medicare payments on the lower of the fee

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schedule allowance or the lowest amount a provider has agreed to accept from other payers. CMS would also need legislative authority to pursue this option. Yet another approach would be to develop separate fee schedules that distinguish between wholesale and retail acquisition to ensure that large suppliers do not receive inappropriately large Medicare reimbursements. Although none of these options specifically targets expensive, evolving technologies, we believe significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

In 2002, CBO agreed that aligning Medicare payment rates with costs and market prices could yield savings and estimated that giving CMS authority to conduct competitive bidding for durable medical equipment, prosthetics, orthotics and supplies could result in a net reduction of Medicare spending of \$5.8 billion from fiscal years 2003 through 2012.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Medicare: Challenges Remain in Setting Payments for Medical Equipment and Supplies and Covered Drugs. GAO-02-833T. Washington, D.C.: June 12, 2002.

Medicare Payments: Use of Revised "Inherent Reasonableness" Process Generally Appropriate. GAO/HEHS-00-79. Washington, D.C.: July 5, 2000.

Medicare: Access to Home Oxygen Largely Unchanged; Closer HCFA Monitoring Needed. GAO/HEHS-99-56. Washington, D.C.: April 5, 1999.

Medicare: Progress to Date in Implementing Certain Major Balanced Budget Act Reforms. GAO/T-HEHS-99-87. Washington, D.C.: March 17, 1999.

Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies. GAO/HEHS-98-102. Washington, D.C.: May 12, 1998.

Medicare: Home Oxygen Program Warrants Continued HCFA Attention. GAO/HEHS-98-17. Washington, D.C.: November 7, 1997.

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Medicare: Problems Affecting HCFA's Ability to Set Appropriate Reimbursement Rates for Medical Equipment and Supplies. GAO/HEHS-97-157R. Washington, D.C.: June 17, 1997.

Medicare: Comparison of Medicare and VA Payment Rates for Home Oxygen. GAO/HEHS-97-120R. Washington, D.C.: May 15, 1997.

Medicare Spending: Modern Management Strategies Needed to Curb Billions in Unnecessary Payments. GAO/HEHS-95-210. Washington, D.C.: September 19, 1995.

Medicare High Spending Growth Calls for Aggressive Action. GAO/HEHS-95-75. Washington, D.C.: February 6, 1995.

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

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Increase Medicare Program
 Safeguard Funding

Primary agency	Department of Health and Human Services
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunction	571/Medicare

Medicare program safeguard activities designed to combat fraud, waste, and abuse have historically returned about \$10 in savings for each dollar spent, and Centers for Medicare & Medicaid Services (CMS) reported a return of \$16 for each dollar spent in fiscal year 2002. These types of activities include pre- and post-payment medical review of claims to determine if services are medically necessary and appropriate, audits, and fraud unit investigations. The Health Insurance Portability and Accountability Act of 1996 established the Medicare Integrity Program (MIP) and provided the agency now called CMS with increased funding for program safeguard activities. CMS has taken a number of actions under MIP to promote more efficient and effective contractor safeguard operations.

While funding has increased, in 2002 it remained below program safeguard funding levels in the previous decade, adjusted for inflation. Comparing program safeguard expenditures from fiscal years 1995 through 1998—2 years before and after MIP implementation—shows that expenditures increased by more than one-quarter to \$544.6 million. However, in constant 1998 dollars, the amount spent on program safeguards per claim processed is still almost one-third less than was spent in fiscal year 1989. Further, the combined effects of increased claims volume of 3 to 5 percent annually in recent years and inflation will erode part of the benefits of increased funding authorized for future years. In response to reduced resources, contractors apply fewer or less stringent payment controls resulting in payment of claims that otherwise would not be paid.

We believe that additional program safeguard funding might better protect Medicare from erroneous payments and yield net savings. As a result, we have suggested that the Congress consider increasing the agency's MIP funds to allow an expansion of postpayment medical review and other effective program safeguard activities. However, CMS needs a better understanding of costs and savings from particular activities—such as desk reviews and cost audits. It also needs to consistently code savings from

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	different activities to understand their relative value, as well as determine which contractors are realizing the highest return on investment from their program safeguard activities. Therefore, we also recommended that CMS evaluate the effectiveness of prepayment and postpayment activities to determine the relative benefits of various safeguards.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<p><i>Major Management Challenges and Program Risks: Department of Health and Human Services.</i> GAO-03-101. Washington, D.C.: January 2003.</p> <p><i>Medicare: Opportunities and Challenges in Contracting for Program Safeguards.</i> GAO-01-616. Washington, D.C.: May 18, 2001.</p> <p><i>Major Management Challenges and Program Risks: Department of Health and Human Services.</i> GAO-01-247. Washington, D.C.: January 2001.</p> <p><i>Medicare: HCFA Could Do More to Identify and Collect Overpayments.</i> GAO/HEHS/AIMD-00-304. Washington, D.C.: September 7, 2000.</p> <p><i>Medicare: Health Care Fraud and Abuse Control Program Financial Reports for Fiscal Years 1998 and 1999.</i> GAO/AIMD-00-257R. Washington, D.C.: July 31, 2000.</p> <p><i>Medicare Contractors: Further Improvement Needed in Headquarters and Regional Office Oversight.</i> GAO/HEHS-00-46. Washington, D.C.: March 23, 2000.</p> <p><i>Medicare: Program Safeguard Activities Expand, but Results Difficult to Measure.</i> GAO/HEHS-99-165. Washington, D.C.: August 4, 1999.</p> <p><i>Medicare Contractors: Despite Its Efforts, HCFA Cannot Assure Their Effectiveness or Integrity.</i> GAO/HEHS-99-115. Washington, D.C.: July 14, 1999.</p> <p><i>Medicare: Improprieties by Contractors Compromised Medicare Program Integrity.</i> GAO/OSI-99-7. Washington, D.C.: July 14, 1999.</p> <p><i>Medicare: Fraud and Abuse Control Pose a Continuing Challenge.</i> GAO/HEHS-98-215R. Washington, D.C.: July 15, 1998.</p>

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Medicare: Health Care Fraud and Abuse Control Program Financial Report for Fiscal Year 1997. GAO/AIMD-98-157. Washington, D.C.: June 1, 1998.

Medicare: HCFA's Use of Anti-Fraud-and-Abuse Funding and Authorities. GAO/HEHS-98-160. Washington, D.C.: June 1, 1998.

Medicare: Improper Activities by Mid-Delta Home Health. GAO/OSI-98-5. Washington, D.C.: March 12, 1998.

Medicare Home Health: Success of Balanced Budget Act Cost Controls Depends on Effective and Timely Implementation. GAO/T-HEHS-98-41. Washington, D.C.: October 29, 1997.

Medicare: Recent Legislation to Minimize Fraud and Abuse Requires Effective Implementation. GAO/T-HEHS-98-9. Washington, D.C.: October 9, 1997.

Medicare Fraud and Abuse: Summary and Analysis of Reform in the Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997. GAO/HEHS-98-18R. Washington, D.C.: October 9, 1997.

Medicare: Control Over Fraud and Abuse Remains Elusive. GAO/T-HEHS-97-165. Washington, D.C.: June 26, 1997.

Nursing Homes: Too Early to Assess New Efforts to Control Fraud and Abuse. GAO/T-HEHS-97-114. Washington, D.C.: April 16, 1997.

Medicare: Inherent Program Risks and Management Challenges Require Continued Federal Attention. GAO/T-HEHS-97-89. Washington, D.C.: March 4, 1997.

Medicare. GAO/HR-97-10. Washington, D.C.: February 1, 1997.

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Modify the New Skilled
 Nursing Facility Payment
 Method to Ensure
 Appropriate Payments

Primary agency	Department of Health and Human Services
Account	Federal Hospital Insurance Trust Fund (20-8005)
Spending type	Direct
Budget subfunction	571/Medicare

The Balanced Budget Act of 1997 mandated the implementation of a prospective payment system (PPS) for skilled nursing facilities (SNF) to help address concerns about dramatic growth in Medicare spending for these services. A PPS provides incentives to deliver services efficiently by paying providers—regardless of their costs—fixed, predetermined rates that vary according to expected patient service needs. The Health Care Financing Administration (HCFA), now called the Centers for Medicare & Medicaid Services (CMS), began phasing in such a system for SNFs in July 1998.

However, problems with the design of the PPS, the services excluded from the daily rate, and inadequate data used to establish rates could compromise Medicare's ability to stem spending growth while maintaining beneficiary access. We are concerned that the PPS preserves the opportunity for providers to increase their compensation by supplying unnecessary services, such as additional therapy services, and by changing their patient assessment practices to qualify patients into higher paying payment categories. Consistent with the PPS incentives to minimize costs, SNFs have provided fewer therapy services to patients categorized into rehabilitation payment groups. Without adequate adjustments, this could result in payments for some categories of patients that are higher relative to service costs than payments for other groups of patients. We are also concerned that increases in payments intended to encourage SNFs to increase their nursing staff appear to have been ineffective in increasing staffing ratios. In addition, excluding certain services from the daily rate, and paying for them separately, may encourage service provision and unnecessarily increase Medicare spending. For example, some services are excluded only when provided in hospital outpatient departments, which may encourage providers to use this setting when other, less costly ambulatory settings could be appropriate. Furthermore, the payment rates were computed using data that may overstate the reasonable cost of

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providing care and may not appropriately reflect the differences in costs for patients with different care needs.

Changes in beneficiary eligibility and inadequate planned oversight of claims for payment may undermine efforts to control Medicare spending on SNF services. As part of the PPS, Medicare appears to have changed the process for determining eligibility for the Medicare SNF benefit. Beneficiaries with certain care needs are automatically eligible for the SNF benefit, while other beneficiaries with different care needs are required to be reviewed to ensure that they meet the eligibility criteria. This could expand the number of beneficiaries who will be covered. The planned oversight of claims to determine if a beneficiary is entitled to Medicare coverage and how much payment a SNF should receive is insufficient, increasing the potential to compromise expected savings.

We believe that CMS should modify the SNF PPS regulations to address these concerns. Medicare needs to ensure that the payment rates reflect only necessary services that the facilities actually provide. It also needs to establish a process to review the services that are included and excluded from the PPS. CMS should also increase its vigilance over claims review and provider oversight so that payments are appropriate and made only for eligible beneficiaries.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Skilled Nursing Facilities: Available Data Show Average Nursing Staff Time Changed Little after Medicare Payment Increase. GAO-03-176. Washington, D.C.: November 13, 2002.

Skilled Nursing Facilities: Providers Have Responded to Medicare Payment System By Changing Practices. GAO-02-841. Washington, D.C.: August 23, 2002.

Skilled Nursing Facilities: Services Excluded From Medicare's Daily Rate Need to be Reevaluated. GAO-01-816. Washington, D.C.: August 22, 2001.

Nursing Homes: Aggregate Medicare Payments Are Adequate Despite Bankruptcies. GAO/T-HEHS-00-192. Washington, D.C.: September 5, 2000.

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Skilled Nursing Facilities: Medicare Payments Changes Require Provider Adjustments But Maintain Access. GAO/HEHS-00-23. Washington, D.C.: December 14, 1999.

Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments. GAO/T-HEHS-00-14. Washington, D.C.: October 1, 1999.

Skilled Nursing Facilities: Medicare Payments Need to Better Account for Nontherapy Ancillary Cost Variation. GAO/HEHS-99-185. Washington, D.C.: September 30, 1999.

Medicare Post-Acute Care: Better Information Needed Before Modifying BBA Reforms. GAO/T-HEHS-99-192. Washington, D.C.: September 15, 1999.

Balanced Budget Act: Any Proposed Fee-for-Service Payment Modifications Need Thorough Evaluation. GAO/T-HEHS-99-139. Washington, D.C.: June 10, 1999.

Medicare: Progress to Date in Implementing Certain Major Balanced Budget Act Reforms. GAO/T-HEHS-99-87. Washington, D.C.: March 17, 1999.

Balanced Budget Act: Implementation of Key Medicare Mandates Must Evolve to Fulfill Congressional Objectives. GAO/T-HEHS-98-214. Washington, D.C.: July 16, 1998.

Long-Term Care: Baby Boom Generation Presents Financing Challenges. GAO/T-HEHS-98-107. Washington, D.C.: March 9, 1998.

Medicare Post-Acute Care: Home Health and Skilled Nursing Facility Cost Growth and Proposals for Prospective Payment. GAO/T-HEHS-97-90. Washington, D.C.: March 4, 1997.

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Implement Risk-Sharing in
 Conjunction with Medicare
 Home Health Agency
 Prospective Payment
 System

Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare

Medicare spending for home health care rose from \$3.7 billion in 1990 to \$17.8 billion in 1997—an annual growth rate of over 25 percent—making it one of the fastest growing components of the Medicare program. This spending growth was primarily due to more beneficiaries receiving services and more visits provided per user, because Medicare’s cost-based payment method reimbursed home health agencies (HHA) for each visit provided. To control spending, the Balanced Budget Act of 1997 (BBA) required the implementation of a prospective payment system (PPS) for home health agencies. Beginning October 1, 2000, Medicare paid a fixed, predetermined amount for each 60-day episode of care, adjusted for patient characteristics that affect the costs of providing care. Under this system, agencies will be rewarded financially for keeping their per-episode costs below the payment rate and thus will have a strong incentive to reduce the number of visits provided during an episode and to shift to a less costly mix of visits.

However, under an episode-based payment system, HHAs will have an incentive to provide the minimum number of visits necessary to receive a full episode payment, or to lower the number of visits provided below that used to develop the episode payment, thereby increasing their profits. While the episode payment was set based on the assumption that about 32 visits would be provided, agencies can provide as few as 5 visits. In fact, since the PPS, agencies have reduced the number of visits provided to beneficiaries and furnished on average about 22 visits per episode by the first half of 2001. As a result, the Medicare program is paying HHAs for services that beneficiaries did not receive and on average considerably more than the estimated costs of care beneficiaries are receiving. Some HHAs that face extraordinary costs not accounted for by the payment groups, however, may be financially disadvantaged.

In order to reduce these incentives, the Congress could require CMS to implement a risk-sharing arrangement, in which total Medicare PPS payments to an HHA are adjusted at year-end in light of the provider’s

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actual costs, to mitigate any unintended consequences of the payment change. Such an arrangement could moderate the incentive to manipulate services to maximize profits and the uncertainties associated with payment rates that are based on averages when so little is known about appropriate patterns of home health care. Limiting an HHA's losses or gains would help protect the industry, the Medicare program, and beneficiaries from possible negative effects of the PPS until more is known about how best to design the PPS and the most appropriate home health treatment patterns.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Medicare Home Health Care: Payments to Home Health Agencies Are Considerably Higher than Costs. GAO-02-663. Washington, D.C.: May 6, 2002.

Medicare Home Health Care: Prospective Payment System Could Reverse Recent Declines in Spending. GAO/HEHS-00-176. Washington, D.C.: September 8, 2000.

Medicare Home Health Care: Prospective Payment System Will Need Refinement as Data Become Available. GAO/HEHS-00-9. Washington, D.C.: April 7, 2000.

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Eliminate Medicare
 Competitive Sourcing
 Restrictions

Primary agency	Department of Health and Human Services
Account	Program Management (75-0511)
Spending type	Discretionary
Budget subfunction	571/Medicare

Medicare is a federal health insurance program designed to assist elderly and disabled beneficiaries. Hospital insurance, or Part A, covers inpatient hospital, skilled nursing facility, hospice care, and certain home health services. Supplemental medical insurance, or Part B, covers physician and outpatient hospital services, laboratory and other services. Claims are paid by a network of 49 claims administration contractors called fiscal intermediaries and carriers. Fiscal intermediaries process claims from hospitals and other institutional providers, generally for Part A services, while carriers process Part B claims. The fiscal intermediaries' and carriers' responsibilities include reviewing and paying claims, maintaining program safeguards to prevent inappropriate payment, and educating and responding to provider and beneficiary concerns.

Medicare contracting for fiscal intermediaries and carriers differs from that of most federal programs. Most federal agencies, under the Competition in Contracting Act and its implementing regulations known as the Federal Acquisition Regulation (FAR), generally may contract with any qualified entity for any authorized purpose so long as that entity is not debarred from government contracting and the contract is not for what is essentially a government function. The FAR generally requires agencies to conduct full and open competition for contracts, allows contractors to earn profits, and requires contractors to perform until the end of the contract term.

The Secretary of the Department of Health and Human Services (HHS), however, is authorized to enter into contracts with fiscal intermediaries and carriers without regard to federal procurement statutes under Social Security Act provisions that originated when Medicare was established. There is no full and open competition for fiscal intermediary or carrier contracts. Rather, fiscal intermediaries are selected in a process called nomination by provider associations, such as the American Hospital Association. Because the statutory language authorizing Medicare claims administration contracting described a set of functions to be performed, claims administration contractors have generally been expected to perform

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the full set of functions, except when the Congress gave specific authority to contract separately for a function. The Social Security Act also generally calls for the use of cost-based reimbursement contracts under which contractors are reimbursed for necessary and proper costs of carrying out Medicare activities, but the act does not expressly provide for profit. Furthermore, the Medicare statute limits the government's ability to terminate these contracts at its convenience, while allowing the claims administration contractors to terminate their contracts without penalty by providing the government with 180 days notice.

Freeing the Medicare program to directly choose contractors on a competitive basis from a broader array of entities able to perform needed tasks would enable Medicare to benefit from efficiency and performance improvements related to competition. Allowing Medicare to have contractors specialize in specific functions rather than assume all claims-related activities, as is the case now, also could lead to greater efficiency and better performance.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Major Management Challenges and Program Risks: Department of Health and Human Services. GAO-03-101. Washington, D.C.: January 2003.

Medicare: Improvements Needed in Provider Communications and Contracting Procedures. GAO-01-1141T. Washington, D.C.: September 25, 2001.

Medicare: Comments on HHS' Claims Administration Contracting Reform Proposal. GAO-01-1046R. Washington, D.C.: August 17, 2001.

Medicare Contracting Reform: Opportunities and Challenges in Contracting for Claims Administration Services. GAO-01-918T. Washington, D.C.: June 28, 2001.

Medicare Contractors: Despite Its Efforts, HCFA Cannot Ensure Their Effectiveness or Integrity. GAO/HEHS-99-115. Washington, D.C.: July 14, 1999.

GAO Contact

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Change Pricing Formula for
 Medicare-Covered Drugs
 and Biologicals

Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare

While Medicare does not have a comprehensive outpatient drug benefit, certain drugs and biologicals are covered under Part B of the program. In general, drugs are covered if they cannot be self-administered and are related to a physician's services, such as cancer chemotherapy, or are provided in conjunction with covered durable medical equipment. In addition, Medicare covers selected immunizations and certain drugs that can be self-administered, such as blood clotting factors.

Medicare spending for drugs and biologicals—by the program and its beneficiaries through their copayments—has been increasing rapidly. Between 1997 and 2001, spending more than doubled—from \$2.76 billion to \$6.41 billion.

Medicare bases its reimbursement to physicians and other providers of drugs on average wholesale price (AWP). Manufacturers periodically report AWP to publishers of drug pricing data. Medicare carriers, the contractors responsible for paying Part B claims, use published AWP to determine the Medicare-allowed payment level, which is 95 percent of the AWP.

Physicians and other providers of Medicare-covered drugs are able to obtain these drugs at prices significantly below current Medicare payments. We reported in 2001 that the difference between widely available prices and AWP for physician-administered drugs in a GAO sample study varied from 13 percent to 34 percent. For a sample of pharmacy-supplier-provided drugs, prices ranged from 14 percent to 85 percent. In 2003, we reported that the two main types of suppliers of blood clotting factor to beneficiaries also were able to obtain the product at prices considerably below the Medicare payment.

Medicare could achieve significant savings on Part B drug benefits if it reimbursed providers at levels that reflected actual acquisition costs.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<p><i>Medicare: Payment for Blood Clotting Factor Exceeds Providers' Acquisition Cost.</i> GAO-03-184. Washington, D.C.: January 10, 2003.</p> <p><i>Major Management Challenges and Program Risks: Department of Health and Human Services.</i> GAO-03-101. Washington, D.C.: January 2003.</p> <p><i>Medicare: Challenges Remain in Setting Payments for Medical Equipment and Supplies and Covered Drugs.</i> GAO-02-833T. Washington, D.C.: June 12, 2002.</p> <p><i>Medicare Outpatient Drugs: Program Payments Should Better Reflect Market Prices.</i> GAO-02-531T. Washington, D.C.: March 14, 2002.</p> <p><i>Medicare: Payments for Covered Outpatient Drugs Exceed Providers' Cost.</i> GAO-01-1118. Washington, D.C.: September 21, 2001.</p> <p><i>Medicare Part B Drugs: Program Payments Should Reflect Market Prices.</i> GAO-01-1142T. Washington, D.C.: September 21, 2001.</p>
GAO Contact	William J. Scanlon, (202) 512-7114

**CBO Options Where
 Related GAO Work Is
 Identified²³**

**570-10 Reduce Medicare
 Payments for Currently
 Covered Prescription Drugs**
Related GAO Products

Medicare: Payment for Blood Clotting Factor Exceeds Providers' Acquisition Cost. GAO-03-184. Washington, D.C.: January 10, 2003.

Medicare: Challenges Remain in Setting Payments for Medical Equipment and Supplies and Covered Drugs. GAO-02-833T. Washington, D.C.: June 12, 2002.

Medicare Outpatient Drugs: Program Payments Should Better Reflect Market Prices. GAO-02-531T. Washington, D.C.: March 14, 2002.

Medicare: Payments for Covered Outpatient Drugs Exceed Providers' Cost. GAO-01-1118. September 21, 2001.

GAO Contact

Laura A. Dummit, (202) 512-7119

²³We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

570-11 Require Competitive
Bidding for High-Volume
Items of Durable Medical
Equipment

Related GAO Product *Medicare: Challenges Remain in Setting Payments for Medical
Equipment and Supplies and Covered Drugs.* GAO-02-833T. Washington,
D.C.: June 12, 2002.

GAO Contacts Leslie G. Aronovitz, (312) 220-7600
Sheila Avruch, (202) 512-7277

570-15 Simplify and Limit
Medicare's Cost-Sharing
Requirements

Related GAO Products *Medicare Reform: Modernization Requires Comprehensive Program
View.* GAO-01-862T. Washington, D.C.: June 14, 2001.

*Medicare: Cost-Sharing Policies Problematic for Beneficiaries and
Program.* GAO-01-713T. Washington, D.C.: May 9, 2001.

GAO Contact Laura A. Dummit, (202) 512-7119

570-19 Reduce Medicare
Payments for Home Health
Care

Related GAO Products *Medicare: Utilization of Home Health Care by State.* GAO-02-782R.
Washington, D.C.: May 23, 2002.

*Medicare Home Health Care: Payments to Home Health Agencies Are
Considerably Higher than Costs.* GAO-02-663. Washington, D.C.: May 6,
2002.

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Medicare Home Health Care: Prospective Payment System Could Reverse Recent Declines in Spending. GAO/HEHS-00-176. Washington, D.C.: September 8, 2000.

GAO Contact

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600 Income Security

Examples from Selected GAO Work

Develop Comprehensive Return-to-Work Strategies for People with Disabilities

Revise Benefit Payments under the Federal Employees' Compensation Act

Increase Congressional Oversight of PBGC's Budget

Share the Savings from Bond Refundings

Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections

Improve Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs

Improve Social Security Benefit Payment Controls

Simplify Supplemental Security Income Recipient Living Arrangements

Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems

Obtain and Share Information on Medical Providers and Middlemen to Reduce Improper Payments to Supplemental Security Income Recipients

Sustain/Expand Range of SSI Program Integrity Activities

Revise Government Pension Offset (GPO) Exemption

Better Congressional Oversight of PRWORA's Fugitive Felon Provisions

Improve the Administrative Oversight of Food Assistance Programs

CBO Option Where Related GAO Work Is Identified

600-07 Reduce the Federal Matching Rate for Administrative and Training Costs in the Foster Care and Adoption Assistance Programs

Examples from
 Selected GAO Work

Develop Comprehensive
 Return-to-Work Strategies
 for People with Disabilities

Primary agency	Social Security Administration
Accounts	Multiple
Spending type	Direct
Budget subfunctions	Multiple

The Social Security Administration (SSA) operates the Disability Insurance (DI) and Supplemental Security Income (SSI) programs—the nation’s two largest federal programs providing cash benefits to people with disabilities. For fiscal year 2002, DI benefits paid to disabled workers totaled about \$59.9 billion and SSI benefits paid to beneficiaries with disabilities amounted to about \$26.2 billion. SSA data show that over the past 10 years, the size of the working-age disabled beneficiary population increased 38 percent, from about 6.0 million to 8.2 million. Such growth has raised concerns that are compounded by the fact that few DI beneficiaries ever leave the disability rolls by returning to work.

We found that return-to-work strategies and practices may hold potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and, at the same time, reducing benefit payments. Our analysis of practices advocated and implemented by the private sector in the United States and by social insurance programs in Germany and Sweden revealed three common strategies in the design of their return-to-work programs: intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return-to-work, identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals, and structure cash and medical benefits to encourage people with disabilities to return to work.

In line with placing greater emphasis on return-to-work, we recommended that the Commissioner of SSA develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, earlier

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identification and provision of necessary return-to-work assistance for applicants and beneficiaries, and cash and medical benefits that make work more financially advantageous. SSA has stepped up its return-to-work efforts, in part, in response to mandates from the Ticket to Work and Work Incentives Improvement Act of 1999, which contains provisions to safeguard medical coverage for workers with disabilities, enhance vocational rehabilitation services for beneficiaries, and demonstrate the effectiveness of allowing working beneficiaries to keep more of their earnings. For example, SSA has (1) recruited more than 400 public or private entities to provide vocational rehabilitation, employment, and other support services to beneficiaries under the Ticket to Work Program; (2) raised and indexed to a measure of wage growth the limit on the amount a DI beneficiary can earn from work and still receive benefits to encourage people with disabilities to work; (3) funded 12 state partnership agreements that are intended to help the states develop services to increase beneficiary employment; (4) provided funding to more than 100 community-based organizations to help provide work incentives planning and assistance to beneficiaries; and (5) completed a pilot study on the deployment of work incentive specialists to SSA field offices and is determining how to best implement the position nationally. Further, SSA has progressed in researching issues related to return-to-work through its Disability Research Institute. Research that is underway includes (1) designing a demonstration to provide earlier return-to-work services to DI applicants who are likely to be found eligible; (2) exploring the paths DI applicants and beneficiaries took to the benefit program to determine whether SSA might be able to redirect some applicants to work rather than a prolonged stay on the benefit rolls; (3) examining how the onset of disability early in life affects later employment outcomes; and (4) analyzing and facilitating the transition to employment of youths with disabilities.

While these efforts represent positive steps in trying to return people with disabilities to work, SSA still needs to move forward in developing a comprehensive return-to-work strategy. Such a strategy is likely to require improvements to staff skill levels and areas of expertise, as well as changes to the disability determination process. It will also require fundamental changes to the underlying philosophy and direction of the DI and SSI programs, as well as legislative changes in some cases. Policymakers will need to carefully weigh the implications of such changes. Nevertheless, we remain concerned that the absence of such a strategy may hinder SSA's efforts to make significant strides in the return-to-work area. An improved return-to-work strategy could benefit both the beneficiaries who want to work and the American taxpayer.

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Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

SSA Disability: SGA Levels Appear to Affect the Work Behavior of Relatively Few Beneficiaries, but More Data Needed. GAO-02-224. Washington, D.C.: January 16, 2002.

SSA Disability: Other Programs May Provide Lessons for Improving Return-to-Work Efforts. GAO-01-153. Washington, D.C.: January 12, 2001.

Social Security Disability: Other Programs May Provide Lessons for Improving Return-to-Work Efforts. GAO/T-HEHS-00-151. Washington, D.C.: July 13, 2000.

Social Security Disability: Multiple Factors Affect Return to Work. GAO/T-HEHS-99-82. Washington, D.C.: March 11, 1999.

Social Security Disability Insurance: Multiple Factors Affect Beneficiaries' Ability to Return to Work. GAO/HEHS-98-39. Washington, D.C.: January 12, 1998.

Social Security: Disability Programs Lag in Promoting Return to Work. GAO/HEHS-97-46. Washington, D.C.: March 17, 1997.

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment. GAO/HEHS-96-126. Washington, D.C.: September 3, 1996.

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs. GAO/HEHS-96-133. Washington, D.C.: July 11, 1996.

SSA Disability: Program Redesign Necessary to Encourage Return to Work. GAO/HEHS-96-62. Washington, D.C.: April 24, 1996.

GAO Contact

Robert E. Robertson, (202) 512-7215

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Revise Benefit Payments
 under the Federal
 Employees' Compensation
 Act

Primary agency	Department of Labor
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunction	609/Other income security

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). Several GAO reviews have identified ways in which benefit payment policies can be revised to better address eligibility and/or need or to bring FECA benefits more in line with other federal and state workers' compensation laws.

Basing FECA Compensation on
 Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66 and two thirds percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. We reported that nearly 30 percent of the more than 23,000 beneficiaries included in our analyses received FECA compensation benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were from 90 to 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers' compensation program analysts are reluctant to take a position on what the "correct" level of workers' compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide adequate income, but not so high as to discourage an employee's return-to-work when he or she is no longer disabled. The 1972 *Report of the National Commission on State Workmen's Compensation Laws* recommended that workers' weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state's maximum weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee's gross pay at the time of

injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee's actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employees from returning to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings. In the past, CBO estimated the savings that would occur, assuming that the new FECA benefit formula would equal 80 percent of spendable earnings and that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits. Fewer savings would be achieved if a higher percentage of spendable earnings were used as the basis for computing FECA benefits.

Revising Benefits for Retirement-
Eligible Beneficiaries

Retirement-eligible federal workers who continue to be disabled as a result of work-related injuries could receive tax-free workers' compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. We reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

We identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a FECA annuity. In the past, CBO estimated that savings would occur, assuming that such an annuity would equal two-thirds of the previously provided FECA compensation benefit, and that the annuity would begin following the disabled individual's eligibility for retirement benefits. Assuming that changes in benefits would be made prospectively, additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits.

FECA Cases Involving Third Parties

FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to injuries for which third parties were responsible. We recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third-party recoveries. In the past, CBO estimated that savings would occur if the Congress redefined COP so that it could be included in amounts employees are required to reimburse the government when they recover damages from third parties.

Comparability of FECA and Other Compensation Laws

We identified three major ways in which FECA differs from other federal and state workers' compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 2003, maximum authorized weekly FECA benefits were equal to \$1,596, 75 percent of the base salary of a GS-15, step 10. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only six states

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authorize additional benefits for dependents (about \$5-\$10) benefit amounts per week per dependent. However, one state authorizes an additional flat rate of \$25 per week for dependents, regardless of the number of dependents. In all cases, the total benefits are not to exceed maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, in the past, CBO estimated that savings would occur by eliminating augmented compensation benefits for dependents and establishing a 5-day waiting period immediately following the injury, and before the continuation of pay period.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits. GAO/GGD-98-174. Washington, D.C.: August 17, 1998.

Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries. GAO/GGD-96-138BR. Washington, D.C.: August 14, 1996.

Workers' Compensation: Selected Comparisons of Federal and State Laws. GAO/GGD-96-76. Washington, D.C.: April 3, 1996.

Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government. GAO/GGD-95-135. Washington, D.C.: June 8, 1995.

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Increase Congressional
 Oversight of PBGC's Budget

Primary agency	Department of Labor
Account	Pension Benefit Guaranty Corporation fund (16-4204)
Spending types	Direct/Discretionary
Budget subfunction	601/General retirement and disability insurance

The Pension Benefit Guaranty Corporation (PBGC) insures the benefits of about 44 million participants against default of their employer-sponsored defined benefit pension plans. Established in 1974 as a self-financing government corporation, PBGC's primary responsibility is to assume administration of underfunded plans that either terminate or become insolvent. In 2002, about 345,000 retirees received more than \$1.5 billion in benefit payments from PBGC. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for almost half of its workforce.

PBGC is self-financing in that it receives no general revenues. Its operating budget of \$227 million is financed with funds from two sources: (1) insurance premiums paid by plan sponsors and (2) trust assets. However, the portion of its budget allocated to administrative expenses has been subject to a statutory limitation since 1985. The Congress revised this limitation on two occasions to provide PBGC more flexibility to address workload increases that followed several large pension plan failures. These revisions exempted from any limitation all expenses incurred in connection with the termination and management of pension plans and provided PBGC with discretion to determine which functions and activities qualified as such. Over time, PBGC has expanded the range of activities and functions classified as nonlimitation expenses and uses these resources to fund nearly all of its operations. This has resulted in a steep increase in PBGC's nonlimitation budget from \$29 million in fiscal year 1989 to \$215.5 million in fiscal year 2002. During this period, PBGC's limitation budget decreased from \$40 million to \$11.7 million.

In 2000, we reported that PBGC's failure to strategically manage its longer term contracting needs, as well as weaknesses in its contractor selection and oversight processes, could result in the corporation paying too much for procured services. We also noted that PBGC's budget structure provides

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it with substantial flexibility to use nonlimitation funds that are not directly subject to congressional review and approval. This budgetary treatment shields most corporation spending for administration and operations from congressional scrutiny, creating a potentially favorable environment for management weaknesses. Also, we have reported that PBGC does not have a reliable basis for estimating its administrative expenses subject to the legislative limitation. As a result, PBGC's estimates for its activities covered by the limitation are not meaningful and thus are ineffective in controlling administrative costs. In addition, PBGC does not have a meaningful basis for reporting adherence to the limitation, since it does not accumulate and allocate actual expenses for activities subject to the limitation.

As a means of strengthening its oversight over PBGC's budget and operations, the Congress could act to restrict the range of activities to be supported by nonlimitation funds. This, however, would likely require a similar increase in PBGC's limitation budget in which the Congress has direct appropriation oversight. Thus, more of PBGC's spending for operational activities and functions would fall within the normal congressional appropriations process. Although this approach would not necessarily reduce PBGC's administrative spending initially, strengthened oversight could result in management improvements, more efficient use of funds, and slower spending growth in the future. In the past, CBO was unable able to estimate savings from this option without a more specific proposal.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Pension Benefit Guaranty Corporation: Statutory Limitation on Administrative Expenses Does Not Provide Meaningful Control. GAO-03-301. Washington, D.C.: February 28, 2003.

Pension Benefit Guaranty Corporation: Contracting Management Needs Improvement. GAO/HEHS-00-130. Washington, D.C.: September 18, 2000.

GAO Contact

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Share the Savings from
 Bond Refundings

Primary agency	Department of Housing and Urban Development
Account	Housing Certificate Fund (86-0319)
Spending types	Discretionary/Direct
Budget subfunction	604/Housing assistance

During the 1970s and early 1980s, the Department of Housing and Urban Development (HUD) administered programs to develop housing for low-income households using various types of financing arrangements and long-term Section 8 rental housing assistance contracts. While some properties were financed by loans and grants from HUD, others were financed by bonds issued by state and local housing finance agencies. During the late 1970s and early 1980s, the cost to finance housing development rose to unprecedented levels. In response, HUD authorized higher Section 8 rental assistance payments to cover the higher bond financing costs, first in 1980 and then in 1981. Since then, as interest rates declined, many state and local housing finance agencies have refunded the bonds they issued and issued new bonds at lower interest rates. This action has generated substantial savings for the state agencies. These savings represent the difference between the amounts needed to repay the original bonds and the lower amounts needed to repay the new bonds. Agencies typically use these savings to provide affordable housing in their states.

In 1999, we reported that HUD had not issued clear guidance on when state agencies are required to share the savings associated with bond refundings with the federal government. The need for clearer guidance specifically relates to state agency compliance with the bond refunding provisions in an October 1992 amendment to Section 1012 of the McKinney Act. The amendment was unclear as to whether the states were required to share the savings from bond refundings with the federal government for all properties covered by Section 8 rental assistance contracts that were entered into from 1979 through 1984. In the absence of clear guidance from HUD, we found that some state agencies have shared the savings from bond refunding for such properties with the federal government while other agencies have retained the savings.

Legislative changes could be made to clarify the Congress's intent that state agencies should be required to share bond refunding savings with the

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	federal government for all properties covered by Section 8 rental assistance contracts entered into from 1979 through 1984.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Product	<i>Multifamily Housing: HUD Missed Opportunities to Reduce Costs on Its Uninsured Section 8 Portfolio.</i> GAO/RCED-99-217. Washington, D.C.: July 30, 1999.
GAO Contact	Thomas J. McCool, (202) 512-8678

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Implement a Service Fee for
 Successful Non-Temporary
 Assistance for Needy
 Families Child Support
 Enforcement Collections

Primary agency	Department of Health and Human Services
Account	Payments to States for Child Support Enforcement and Family Support Programs (75-1501)
Spending type	Direct
Budget subfunction	609/Other income security

The Child Support Enforcement program is a Federal/state/local partnership designed to obtain child support for both families eligible for Temporary Assistance for Needy Families (TANF) and non-TANF families. The services provided to clients include locating noncustodial parents, establishing paternity and support orders, and collecting and distributing child support payments. From fiscal years 1984 through 1998, non-TANF caseloads and costs rose about 500 percent and 1200 percent, respectively. For fiscal years 1999 through 2002, non-TANF cases represented about 80 percent of the total caseload.

The federal government pays 66 percent of the Child Support Enforcement program costs. While states have the authority to fully recover the costs of their services, states have exercised their discretion and most have charged only minimal application and service fees. Since 1992, we have reported on opportunities to defray some of the costs of child support programs. Based on this work, we believe that mandatory application fees should be dropped and that states should be mandated to charge a minimum percentage service fee on successful collections for non-TANF families. Congressional action is necessary to put such a requirement in place. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed. The costs recovered from such a service fee would be determined by the percentage rate set by the Congress. For example, in the past, CBO estimated that if the Congress set the service fee at 5 percent for each successful non-TANF child support collection, the federal government could recover \$2 billion in 5 years.

CBO 5-Year Cost Estimate
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Yes.

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Related GAO Products

Child Support Enforcement: Clear Guidance Would Help Ensure Proper Access to Information and Use of Wage Withholding by Private Firms. GAO-02-349, March 26, 2002.

Child Support Enforcement: Effects of Declining Welfare Caseloads Are Beginning to Emerge. GAO/HEHS-99-105. Washington, D.C.: June 30, 1999.

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare. GAO/HEHS-98-168. Washington, D.C.: August 3, 1998.

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices. GAO/HEHS-97-4. Washington, D.C.: December 16, 1996.

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results. GAO/HEHS/GGD-97-14. Washington, D.C.: October 25, 1996.

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments. GAO/HEHS-97-11. Washington, D.C.: October 23, 1996.

Child Support Enforcement: States and Localities Move to Privatized Services. GAO/HEHS-96-43FS. Washington, D.C.: November 20, 1995.

Child Support Enforcement: Opportunity to Reduce Federal and State Costs. GAO/HEHS-95-181. Washington, D.C.: June 13, 1995.

GAO Contact

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Improve Reporting of DOD
 Reserve Employee Payroll
 Data to State
 Unemployment Insurance
 Programs

Primary agency	Department of Labor
Account	Unemployment Trust Fund 20-8042
Spending type	Direct
Budget subfunctions	Multiple

The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system were also among the 800,000 personnel who participated in National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, and the Air Force Reserve) in fiscal year 2002.

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. Our 1996 analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states in our analysis, we estimate that UI claimants who were active participants in the Reserve failed to report over \$7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately \$3.6 million, of which federal trust fund losses were about \$1.2 million. We expect that the federal and state trust fund losses from all UI programs are much greater because the seven states we reviewed accounted for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

The Department of Defense and the Department of Transportation's Coast Guard have acted to ensure that reservists are reminded of their responsibility to report income from reserve activity to state UI agencies. All reservists now receive an annual notice with their leave and earnings

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statements reminding them of their duty to disclose their affiliation and any Reserve related earnings when filing an UI claim. In addition, the Department of Labor has issued a directive to all state employment security agencies to ensure that they inform prospective and continuing UI benefit claimants of their responsibility to report Reserve-related income.

These actions should improve general reservist compliance with state UI program income reporting requirements. However, to detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income regularly. DOD has stated that it will develop an action plan to provide such data to the state UI programs. However, completion of this plan was delayed because of other competing agency priorities and a recognition that the task was more complex than originally envisioned.

It is important to note that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs we analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

DOD reports that, given its effort to ensure any action taken be cost-effective and commensurate with potential savings, it does not intend to take further action to respond to this recommendation. According to DOD, 13 states effectively exempt Reserve wages from any unemployment insurance payment offset, and there could be significant costs associated with providing automated data on the earnings of part-time reservists. We do not agree that implementation costs would necessarily outweigh savings. We found millions of dollars in unemployment insurance overpayments for just 7 states and 27 percent of the reservists, which would likely lead to even greater levels of overpayments for the remaining states that offset reservist wages. The potential for overpayments may be even greater given current national security conditions that involve a greater role for reservists.

In the past, CBO estimated that budgetary savings would result from the reduction in overpayments if DOD was required to report Reserve payroll and personnel data to states on a quarterly basis.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Product	<i>Unemployment Insurance: Millions in Benefits Overpaid to Military Reservists.</i> GAO/HEHS-96-101. Washington, D.C.: August 5, 1996.
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Improve Social Security
 Benefit Payment Controls

Primary agency	Social Security Administration
Account	Federal Old Age and Survivor's Insurance Trust Fund (20-8006)
Spending type	Direct
Budget subfunction	651/Social security

The Social Security Administration (SSA) is required by law to reduce social security benefits to persons who also receive a pension from noncovered employment (typically persons who work for the federal government or state and local governmental agencies). The Government Pension Offset provision requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually their spouse's). The Windfall Elimination Provision requires SSA to use a modified formula to calculate a person's earned social security benefit whenever a person also earned a pension through a substantial career in noncovered employment. The modified formula reduces the social security benefit significantly.

We found that SSA payment controls for these offsets were incomplete. For state and local retirees, SSA had no third-party pension data to verify whether persons were receiving a noncovered pension. At the time of our report (1998), an analysis of available data indicated that this lapse in payment controls for state and local government retirees cost the trust funds from \$129 million to \$323 million from 1978 to about 1995.

In 1998 we recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income on IRS tax form 1099R. IRS has subsequently advised SSA that it needs a technical amendment to the Tax Code to obtain the information SSA needs. This year, we testified that complete and accurate reporting of government pension income is still needed. Given the IRS response to our previous recommendation, we have provided the following matter for congressional consideration. "To facilitate complete and accurate reporting of government pension income, the Congress should consider giving IRS the authority to collect this information, which could perhaps be accomplished through a simple modification to a single form." We believe that millions of dollars in reduced overpayments could be achieved each year with better payment controls. However, it should be noted that these savings would be offset

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	<p>somehow by administrative costs associated with conducting additional computer matching at SSA. In the past, CBO estimated that improved payment controls could result in budgetary savings.</p>
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Products	<p><i>Social Security: Issues Relating to Noncoverage of Public Employees.</i> GAO-03-710T. Washington, D.C.: May 1, 2003.</p> <p><i>Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions.</i> GAO/HEHS-98-76. Washington, D.C.: April 30, 1998.</p>
GAO Contact	Barbara D. Bovbjerg, (202) 512-7215

Simplify Supplemental
 Security Income Recipient
 Living Arrangements

Primary agency	Social Security Administration
Account	Supplemental Security Income Program (28-0406)
Spending types	Direct/Discretionary
Budget subfunction	609/Other income security

The Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation's largest cash assistance program for the poor. Since its inception, the SSI program has been difficult to administer because, similar to other means tested programs, it relies on complicated criteria and policies to determine initial and continuing eligibility and benefit levels. One of the factors considered is the living arrangements of the beneficiary. When determining SSI eligibility and benefit amounts, SSA staff apply a complex set of policies to document an individual's living arrangements and any additional support they may be receiving from others. This process depends heavily on self-reporting by recipients of whether they live alone or with others; the relationships involved; the extent to which rent, food, utilities, and other household expenditures are shared; and exactly what portion of those expenses the individual pays. These numerous rules and policies have made living arrangement determinations one of the most complex and error prone aspects of the SSI program, and a major source of overpayments.

We have reported that SSA has not addressed long-standing SSI living arrangement verification problems, despite numerous internal and external studies and many years of quality reviews denoting this as an area prone to error and abuse. Some of the studies we reviewed recommended ways to simplify the process by eliminating many complex calculations and thereby making it less susceptible to manipulation by recipients. Other studies we reviewed suggested ways to make this aspect of the program less costly to taxpayers. In light of the potential cost savings associated with addressing this issue, we recommended in September 2002 that SSA identify and move forward in implementing cost-effective options for simplifying complex living arrangement policies, with particular attention to those policies most vulnerable to fraud, waste, and abuse. We also suggested that an effective approach may include pilot testing various simplification options to better assess their effects. SSA told us that it will use sophisticated computer

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simulations to assess the potential impacts of various proposals on recipients, but has not completed these efforts yet.

Although in the past CBO agreed that some changes that would simplify living arrangement policies have the potential to create savings, it could not develop a savings estimate without a specific legislative proposal.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, but Management Attention Should Continue. GAO-02-849. Washington, D.C.: September 16, 2002.

Supplemental Security Income: Status of Efforts to Improve Overpayment Detection and Recovery. GAO-02-962T. Washington, D.C.: July 25, 2002.

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity. GAO/HEHS-98-158. Washington, D.C.: September 14, 1998.

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Reduce Federal Funding
 Participation Rate for
 Automated Child Support
 Enforcement Systems

Primary agency	Department of Health and Human Services
Account	Payments to States for Child Support Enforcement and Family Support Programs (75-1501)
Spending type	Direct
Budget subfunction	609/Other income security

The Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE) oversees states' efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and nonwelfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. From fiscal year 1981 through fiscal year 2000, the states spent about \$5.3 billion to develop these systems, including about \$3.8 billion from the federal government.

The 90 percent funding participation rate was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. The federal government will continue to reimburse states' costs to operate these systems at the 66 percent rate established for administrative expenses. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) provided additional funding for the states to meet new systems requirements under this law. An 80 percent federal funding participation rate, with a total national funding cap of \$400 million, was authorized through fiscal year 2001. The 66 percent federal funding participation rate was continued for systems operation and administrative expenses.

The Congress could choose to reduce the federal funding participation rate for modification and operation of these systems from 66 percent to the 50

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	percent rate now common for such costs in other programs, such as Food Stamps and other welfare programs. In the past, CBO estimated that a reduced participation rate would produce budgetary savings.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Products	<p><i>Human Services: Federal Approval and Funding Processes for States' Information Systems.</i> GAO-02-347T. Washington, D.C.: July 9, 2002.</p> <p><i>Child Support Enforcement: Leadership Essential to Implementing Effective Automated Systems.</i> GAO/T-AIMD-97-162. Washington, D.C.: September 10, 1997.</p> <p><i>Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems.</i> GAO/AIMD-97-72. Washington, D.C.: June 30, 1997.</p>
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Obtain and Share
 Information on Medical
 Providers and Middlemen to
 Reduce Improper Payments to
 Supplemental Security
 Income Recipients

Primary agency	Social Security Administration
Account	Supplemental Security Income Program (28-0406)
Spending types	Direct/Discretionary
Budget subfunction	609/Other income security

The Supplemental Security Income (SSI) program guarantees a minimum level of income for needy, aged, blind, or disabled individuals. In fiscal year 2000, the SSI program paid 6.6 million recipients about \$31 billion in benefits.

Over the years, some SSI recipients may have improperly gained access to program benefits by feigning or exaggerating disabilities with the help of middlemen (particularly interpreters) and medical providers. Although it is not possible to know the exact number of beneficiaries who became eligible for benefits through these practices, analysis suggests that the SSI program is vulnerable to this type of fraud and abuse. First, in an April 1998 sample, GAO found that more than 60 percent of the SSI beneficiaries suffer from mental and physical impairments that are difficult to objectively verify. Second, medical providers who were investigated for defrauding Medicaid, Medicare, or private insurance companies provided at least some of the medical evidence for 6 percent of the 208,000 disabled SSI recipient cases we reviewed in six states. Third, over 96 percent of the 158 SSA officials and staff that we interviewed said that they believed that the practice of middlemen helping people improperly qualify for SSI benefits has continued. SSA has tried to address this problem by developing ways to better identify and assess the initial or continuing eligibility of applicants and recipients who may be feigning disabilities. The agency has not, however, taken steps to systematically obtain and distribute information on various medical providers and middlemen that would better help identify such applicants and recipients. These steps are important because past experiences have shown that a single middleman or medical provider can help hundreds of ineligible beneficiaries get on the rolls. Every individual who obtains benefits by feigning or exaggerating disabilities will cost the federal government an estimated \$122,000 in SSI and Medicaid benefits over the 10-year period 1999 through 2009.

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In order to reduce the number of improper claims under the SSI program, the Congress could consider requiring SSA to systematically obtain information on various middlemen and service providers and routinely share it throughout SSA. Such information could be collected from other government agencies and private entities that also face similar fraud and abuse issues as well as from SSA staff. SSA could use this information, for example, to determine which claims should receive increased scrutiny to prevent applicants from receiving improper benefits and to target investigations of current beneficiaries to determine if they should be removed from the program. Although in the past, CBO agreed that efforts to reduce fraud in the SSI program through greater information sharing about medical providers and middlemen have the potential to create savings, it could not develop a savings estimate without a specific legislative proposal.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

High-Risk Series: An Update. GAO-03-119. Washington, D.C.: January 2003.

High-Risk Series: An Update. GAO-01-263. Washington, D.C.: January 2001.

Supplemental Security Income: Additional Action Needed to Reduce Program Vulnerability to Fraud and Abuse. GAO/HEHS-99-151. Washington, D.C.: September 15, 1999.

Supplemental Security Income: Disability Program Vulnerable to Applicant Fraud When Middlemen Are Used. GAO/HEHS-95-116. Washington, D.C.: August 31, 1995.

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Sustain/Expand Range of
 SSI Program Integrity
 Activities

Primary agency	Social Security Administration
Account	Supplemental Security Income Program (28-0406)
Spending types	Direct/Discretionary
Budget subfunction	609/Other income security

The Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation's largest cash assistance program for the poor. Since its inception, the SSI program has been difficult and costly to administer because even small changes in income, available resources, or living arrangements can affect recipients' monthly benefit amounts or continued eligibility. To a significant extent, SSA relies heavily on recipients to accurately report important eligibility information. The agency also verifies certain income and resource information through computer matching with the records of other federal and state agencies. To determine whether a recipient remains eligible for SSI benefits, SSA also periodically conducts financial redetermination reviews, which involve personal contact with recipients to document their income, resources, living arrangements, and other eligibility factors. Recipients are reviewed at least every 6 years, but reviews may be more frequent if SSA determines that changes in eligibility are likely.

We recently reported that SSA has made a variety of changes to improve its ability to detect SSI payment errors and recover overpayments. We also noted that SSA officials had estimated that conducting substantially more redeterminations would yield hundreds of millions of dollars in additional overpayment detections and preventions annually. In 2001, SSA estimated that it would be cost beneficial to do another 2.5 million redeterminations. The additional reviews would produce \$1.1 billion in overpayment benefits (additional overpayment recoveries and future overpayments prevented). Subsequently, we recommended that SSA sustain and expand its program integrity activities. SSA plans to process 200,000 more financial redeterminations in 2003 than it did in 2002.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. However, CBO indicated it could probably make an estimate for this example.

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Related GAO Products

Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, but Management Attention Should Continue. GAO-02-849. Washington, D.C.: September 16, 2002.

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity. GAO/HEHS-98-158. Washington, D.C.: September 14, 1998.

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Revise Government Pension
 Offset (GPO) Exemption

Primary agency	Social Security Administration
Account	Federal Old-Age and Survivors Insurance Trust Fund (20-8006)
Spending types	Direct/Discretionary
Budget subfunction	651/Social security

The Social Security Administration (SSA) administers the Government Pension Offset (GPO) provision. The GPO requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually a spouse's). The GPO prevents workers from receiving a full Social Security spousal benefit in addition to a pension from government employment not covered by Social Security. However, the law provides an exemption from the GPO if an individual's last day of state/local employment is in a position that is covered by both Social Security and the state/local government's pension system. In these cases, the GPO will not apply and Social Security spousal benefits will not be reduced.

While we could not definitively confirm the extent nationwide that individuals are transferring positions to avoid the GPO, we found that in Texas and Georgia 4,819 individuals had performed work in positions covered by Social Security for short periods to qualify for the GPO last-day exemption. SSA officials also acknowledged that use of the exemption might be possible in some of the approximately 2,300 state and local government retirement plans in other states where such plans contain Social Security covered and noncovered positions. The transfers we identified in Texas and Georgia could increase long-term benefit payments from the Social Security Trust funds by \$450 million.²⁴ While this currently represents a relatively small percentage of the Social Security Trust funds, costs could increase significantly if the practice grows and begins to be adopted by other states and localities.

²⁴We calculated this figure by multiplying the number of last-day cases reported in Texas and Georgia (4,819) by SSA data on the average annual offset amount (\$4,800) and the average retiree's life expectancy upon receipt of spousal benefits (19.4 years). This estimate may over- underestimate costs due to the use of averages, the exclusion of inflation/cost-of-living/net present value adjustments, lost investment earnings by the Trust Funds, and other factors that may affect the receipt of spousal benefits.

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	Considering the potential for abuse of the last-day exemption and the likelihood for its increased use we believe that timely action is needed. In our report and testimony on this topic we presented a matter for congressional consideration that the last-day GPO exemption be revised to provide for a longer minimum time period, and the House has passed necessary legislation that is pending in the Senate. This action would provide an immediate "fix" to address possible abuses of the GPO exemption.
CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No, this is a new example. However, CBO indicated it could probably make an estimate for this example.
Related GAO Products	<i>Social Security: Congress Should Consider Revising the Government Pension Offset "Loophole."</i> GAO-03-498T. Washington, D.C.: February 27, 2003. <i>Social Security Administration: Revision to the Government Pension Offset Exemption Should Be Considered.</i> GAO-02-950. Washington, D.C.: August 15, 2002.
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Better Congressional
 Oversight of PRWORA's
 Fugitive Felon Provisions

Primary agencies	Multiple
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunctions	Multiple

In response to concerns that individuals wanted in connection with a felony, or violating terms of their parole or probation, could receive benefits from programs for the needy, the Congress added provisions to the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 that prohibit these individuals from receiving Supplemental Security Income (SSI) administered by the Social Security Administration (SSA), Food Stamp benefits administered by the Department of Agriculture (USDA), and Temporary Assistance to Needy Families (TANF) administered by the Department of Health and Human Services (HHS). These provisions also make fugitive felon⁶⁵ status grounds for termination of tenancy in many federal housing assistance programs, administered by the Department of Housing and Urban Development (HUD).

Since PRWORA was enacted, the SSI, Food Stamp, and TANF programs have identified over 110,000 beneficiaries who are fugitive felons—largely through computer matches of automated arrest warrant and recipient files. When these programs took the initiative or were in a position to match automated recipient and warrant data, many fugitive felons were identified, which led to substantial cost savings. SSA, for example, conducted the most comprehensive matches, comparing data from its entire SSI applicant and recipient files each month to warrant data it obtained from various federal, state, and local law enforcement agencies. As a result, SSA reported that, in 2000 and 2001, it identified more than 36,000 fugitive felons on the SSI rolls, incurring projected savings of over \$96 million.

Use of computer matches of benefit recipient and arrest warrant files to prevent fugitive felons from collecting benefits varies widely across programs, however. While SSA had by far the most comprehensive

⁶⁵Here, the term "fugitive felons" also refers to probation and parole violators.

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computer matching initiative, fewer than one-third of the state agencies administering the TANF and Food Stamp programs used periodic computer matching, to any extent. HUD had not conducted any matches of this kind, but our own match of HUD's recipient file and arrest warrant files in a single year turned up nearly 1,000 housing assistance recipients for whom there were arrest warrants in Ohio and Tennessee, alone. We estimated that HUD could have saved \$4.2 million annually in program costs if the housing assistance these individuals received had been terminated.

Given the savings SSA and some state Food Stamp and TANF programs have incurred using computer matching to identify and drop fugitive felons from their benefit rolls, and the potential savings we demonstrated HUD could achieve in the same way, use of computer matching for this purpose by additional state Food Stamp and TANF programs, as well as the HUD housing assistance program, represent opportunities for greater cost savings in this area.

Moreover, the law, as it applies to housing assistance programs, states that fugitive felon status is only grounds for termination of tenancy and not that fugitive felons are ineligible for housing assistance. Therefore, according to HUD officials, while public housing agencies and landlords have the authority to evict fugitive felons, they are not required to do so. This may explain why HUD has done little to ensure that fugitive felons do not receive housing assistance. The Congress should consider amending the Housing Act of 1937 to explicitly make fugitive felons ineligible for housing benefits.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No, this is a new example. However, CBO indicated it could probably make an estimate for this example.

Related GAO Products

Welfare Reform: Implementation of Fugitive Felon Provisions Should be Strengthened. GAO-02-716. Washington, D.C.: September 25, 2002.

Social Security Administration: Fugitive Felon Program Could Benefit from Better Use of Technology. GAO-02-346. Washington, D.C.: September 6, 2002.

Social Security Programs: The Scope of SSA's Authority to Deny Benefits to Fugitive Felons and to Release Information About OASI and DI Beneficiaries Who are Fugitive Felons. GAO-02-459R. Washington, D.C.: February 27, 2002.

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Improve the Administrative
 Oversight of Food
 Assistance Programs

Primary agency	Department of Agriculture
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunction	605 /Food and nutrition assistance

The U.S. Department of Agriculture (USDA) continues to face serious challenges in ensuring that eligible individuals receive the proper benefits from the food assistance programs administered by its Food and Nutrition Service. Each day, 1 in every 6 Americans receives nutrition assistance through 1 or more of the 15 programs administered by this agency. These programs, which accounted for slightly more than half of USDA's budget authority for fiscal year 2002, provide children and low-income adults with access to food, a healthful diet, and nutrition education. Specifically, for fiscal year 2002, the Congress appropriated about \$38.8 billion to operate these programs, including the Food Stamp Program and child nutrition programs, such as the school-breakfast and school-lunch programs. This high level of support dictates that USDA must continually address and minimize the amount of fraud and abuse occurring in these programs in order to ensure their integrity.

USDA's Food Stamp Program, the cornerstone of its nutrition assistance programs, provided 17.3 million individuals with more than \$15.5 billion in benefits in fiscal year 2001. As noted in the *President's Management Agenda*, USDA must continue to address the challenge of accurately issuing food stamp benefits to those who are eligible. Specifically, USDA estimated that about \$1.4 billion in erroneous payments were made to food stamp recipients in fiscal year 2001—about \$1 billion of the benefits issued were estimated to be overpayments and more than \$370 million of the benefits issued were estimated to be underpayments—an error rate of approximately 9 percent. To deal with the complexity of the Food Stamp Program and the high error rate, the 2002 Farm Bill contained a number of administrative and simplification reforms, such as allowing states to use greater flexibility in considering the income of recipients for eligibility purposes and to extend simplified reporting procedures for all program recipients.

In addition to ensuring that eligible individuals receive proper benefits, USDA faces the challenge of minimizing the illegal sale of benefits for

cash—a practice known as trafficking. Food Stamps are accepted by about 149,000 authorized retail food stores, and in a March 2000 report, estimated that stores trafficked about \$660 million, or about 3.5 cents of every dollar of food stamp benefits issued per year from 1996 through 1998. In addition, store owners generally do not pay the financial penalties assessed for trafficking. In May 1999, we reported that USDA and the courts collected only \$11.5 million, or about 13 percent, of the \$78 million in total penalties assessed against storeowners for violating food stamp regulations from 1993 through 1998.²⁶ USDA reduced the remaining amount owed by storeowners by about \$49 million, or about 55 percent, through waivers, adjustments, and write-offs. While weaknesses in debt collection practices contribute to low collection rates, USDA officials noted that these rates also reflect the difficulties involved in collecting this type of debt, including problems in locating storeowners who have been removed from the Food Stamp Program and the refusal of some storeowners to pay their debts.

Better use of information technology has the potential to help USDA minimize fraud, waste, and abuse in the Food Stamp Program. For example, in our May 1999 report we recommended that the Food and Nutrition Service make better use of data from electronic benefit transfers (EBT) to identify and assess penalties against storeowners who violate the Food Stamp Program's regulations. Also, we recommended in March 2000 that the Food and Nutrition Service work with the states to implement best practices for using EBT data to identify and take action against recipients engaged in trafficking of food stamp benefits.²⁷ The Food and Nutrition Service has taken some actions to implement our recommendations, such as assisting states in the use of EBT data to identify traffickers, and has other actions under way.

USDA also faces fraud and abuse challenges in other nutrition programs, including the Child and Adult Care Food Program (CACFP), which for fiscal year 2002 was funded at \$1.8 billion, and the National School Lunch and School Breakfast programs, which for that year were funded at \$7.4 billion. In fiscal year 2001, CACFP provided subsidized meals for a

²⁶U.S. General Accounting Office, *Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations*, GAO/RCED-99-91 (Washington, D.C.: May 11, 1999).

²⁷U.S. General Accounting Office, *Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits*, GAO/RCED-00-61 (Washington, D.C.: Mar. 7, 2000).

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daily average of 2.6 million participants in the care of about 215,000 day care providers. Over the years, USDA's Office of Inspector General (OIG) has identified examples of the intentional misuse of CACFP funds, including cases in which program sponsors created fictitious day care providers and inflated the number of meals served. In response to our November 1999 recommendation²⁸ and reports by the OIG, legislation was enacted in June 2000 to strengthen CACFP management controls and to reduce its vulnerability to fraud and abuse. As a result, the Food and Nutrition Service has intensified its management evaluations at the state and local levels and has trained its regional and state agency staff on revised management procedures.

Furthermore, in its strategic plan for fiscal years 2000 through 2005, USDA specifically identified the challenge it faces in ensuring that only eligible participants are provided benefits in the National School Lunch Program. In fiscal year 2001, this program provided nutritionally balanced, low-cost or free lunches for over 27 million children each school day in more than 98,000 public and nonprofit private schools and residential child care institutions. Data show that the number of children certified as eligible to receive free lunches in this program may be as much as 27 percent greater than the number of children estimated eligible for this benefit. However, these estimates are based on a broad review of certain Census data and are best seen as indicators of a problem rather than precise measures of program misuse. USDA has taken some initial steps to develop a cost-effective strategy to address this integrity issue, such as pilot-testing potential policy changes to improve the certification process, and other measures may be considered as the Congress moves to reauthorize this program.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No, this is a new option.

Related GAO Products

Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits. GAO/RCED-00-61. Washington, D.C.: March 7, 2000.

²⁸U.S. General Accounting Office, *Food Assistance: Efforts to Control Fraud and Abuse in the Child and Adult Care Food Program Should Be Strengthened*, GAO/RCED-00-12 (Washington, D.C.: Nov. 29, 1999).

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Food Assistance: Efforts to Control Fraud and Abuse in the Child and Adult Care Food Program Should Be Strengthened. GAO/RCED-00-12. Washington, D.C.: November 29, 1999.

Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations. GAO/RCED-99-91. Washington, D.C.: May 11, 1999.

GAO Contacts

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David Bellis, (415) 904-2272

**CBO Option Where
 Related GAO Work Is
 Identified²⁹**

600-07 Reduce the Federal
 Matching Rate for
 Administrative and Training
 Costs in the Foster Care and
 Adoption Assistance
 Programs

Related GAO Product

*Child Welfare: HHS Could Play a Greater Role in Helping Child Welfare
 Agencies Recruit and Retain Staff.* GAO-03-357. Washington, D.C.:
 March 31, 2003.

GAO Contact

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²⁹We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

700 Veterans Benefits and Services

Examples from Selected GAO Work

Revise VA's Disability Ratings Schedule to Better Reflect Veterans'
Economic Losses

Discontinue Veterans' Disability Compensation for Nonservice Connected
Diseases

Reassess Unneeded Health Care Assets within the Department of Veterans
Affairs

Reducing VA Inpatient Food and Laundry Service Costs

CBO Options Where Related GAO Work Is Identified

700-01 Narrow the Eligibility for Veterans' Disability Compensation to
Include Only Veterans with High-Rated Disabilities

700-02 Narrow the Eligibility for Veterans' Disability Compensation to
Veterans Whose Disabilities Are Related to Their Military Duties

700-03 Increase Beneficiaries' Cost Sharing for Care at Nursing Facilities
Operated by the Department of Veterans Affairs

Examples from Selected GAO Work

Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses

Primary agency	Department of Veterans Affairs
Account	Compensation and Pensions (36-0102)
Spending type	Direct
Budget subfunction	701/Income security for veterans

The Department of Veterans Affairs' (VA) disability program is required by law to compensate veterans for the average loss in earning capacity in civilian occupations that results from injuries or conditions incurred or aggravated during military service. Veterans with such service-connected disabilities are entitled to monthly cash benefits under this program even if they are working and regardless of the amount they earn. The amount of compensation received is based on disability ratings that VA assigns to the service-connected conditions. In fiscal year 2002, VA paid more than \$22 billion in compensation to more than 2.3 million veterans, and more than 300,000 veterans' survivors and children, for these service-connected disabilities.

The disability ratings schedule that VA uses is still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor. Although the ratings in the schedule have not changed substantially since 1945, dramatic changes have occurred in the labor market and in society. The results of an economic validation of the schedule conducted in the late 1960s indicated that ratings for many conditions did not reflect the actual average loss in earnings associated with them. Therefore, it is likely that some of the ratings in the schedule do not reflect the economic loss experienced by veterans today. Hence, the schedule may not equitably distribute compensation funds among disabled veterans.

The Congress may wish to consider directing VA to determine whether the ratings for conditions in the schedule correspond to veterans' average loss

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in earnings due to these conditions and adjust disability ratings accordingly. Generally accepted and widely used approaches exist to statistically estimate the effect of specific service-connected conditions on veterans' average earnings. These estimates could be used to set disability ratings in the schedule that are appropriate in today's socioeconomic environment. In 1997, we reported the cost to collect the data to produce these estimates was projected to be between \$5 million and \$10 million, which would be a small fraction of the more than \$22 billion VA paid in disability compensation to veterans and their families in fiscal year 2002. Any savings associated with this option would depend on how the new disability schedule alters payments to beneficiaries. A reexamination of the disability schedule could find that some conditions are overpaid while others may require increased payments. In the past, CBO was unable to estimate any costs or savings that could result because a specific proposal for revising the disability ratings schedule had not been presented.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

Department of Veterans Affairs: Key Management Challenges in Health and Disability Programs. GAO-03-756T. Washington, D.C.: May 8, 2003.

SSA and VA Disability Programs: Re-Examination of Disability Criteria Needed to Help Ensure Program Integrity. GAO-02-597. Washington, D.C.: August 9, 2002.

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses. GAO/IEHS-97-9. Washington, D.C.: January 7, 1997.

GAO Contact

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Discontinue Veterans'
 Disability Compensation for
 Nonservice Connected
 Diseases

Primary agency	Department of Veterans Affairs
Account	Compensation and Pensions (36-0102)
Spending type	Direct
Budget subfunction	701/Income security for veterans

In fiscal year 2002, the Department of Veterans Affairs (VA) paid more than \$18.5 billion in compensation to more than 2.3 million veterans for service-connected disabilities. A disease or injury resulting in disability is considered service-connected if it was incurred or aggravated during military service. No causal connection is required. In 1989, GAO reported on the U.S. practice of compensating veterans for conditions that were probably neither caused nor aggravated by military service. These conditions included diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis. In 1993, GAO reported that other countries were less likely to compensate veterans when diseases were unrelated to military service, when the relationship of the disease to military service could not be established, or for off-duty injuries such as those that happen while on vacation.

The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities. In 1996, the CBO reported that about 230,000 veterans were receiving about \$1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. In the past, CBO estimated that budgetary savings would occur if disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

SSA and VA Disability Programs: Re-Examination of Disability Criteria Needed to Help Ensure Program Integrity. GAO-02-597. Washington, D.C.: August 9, 2002.

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VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses. GAO/HEHS-97-9. Washington, D.C.: January 7, 1997.

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries. GAO/HRD-94-6. Washington, D.C.: November 24, 1993.

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service. GAO/HRD-89-60. Washington, D.C.: July 31, 1989.

GAO Contact

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Reassess Unneeded Health
 Care Assets within the
 Department of Veterans
 Affairs

Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans

The Department of Veterans Affairs (VA) health care system owns 4,900 buildings and 15,500 acres of land. Its health care delivery system includes over 160 major medical facilities and over 500 community based outpatient clinics. VA spends about a fourth of its \$23 billion budget to operate, maintain, and improve these assets. To improve the delivery of health care services, VA has shifted emphasis from inpatient to outpatient care in many instances and shortened lengths of stay when hospitalization was required. This change in health care delivery has resulted in excess inpatient capacity at many locations. As a result, VA's infrastructure is not efficiently aligned to meet veterans' needs. Without a realignment of its infrastructure, VA will continue to spend millions of dollars to operate unneeded VA facilities and miss the opportunity to reinvest the savings it could realize from asset realignment into better health care for all veterans.

In response to GAO concerns, VA initiated its Capital Asset Realignment for Enhanced Services (CARES) program to realign its assets and resources to better serve veterans. Any realignment—which could include facility closings—will take into consideration future directions in health care delivery, demographic projections, physical plant capacity, community health care capacity, and workforce requirements. VA plans to reinvest savings generated through the implementation of CARES to meet veterans' health care needs. VA plans to announce its proposed realignment plan by the end of calendar year 2003. Continued congressional oversight is warranted to review VA's plans and assess their impact on costs and services.

Although in the past CBO agreed that reducing unneeded health care assets at the VA had the potential to create savings, it could not develop a savings estimate without a specific legislative proposal.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<p><i>Department of Veterans Affairs: Key Management Challenges in Health and Disability Programs.</i> GAO-03-756T. Washington, D.C.: May 8, 2003.</p> <p><i>VA Health Care: Improved Planning Needed for Management of Excess Real Property.</i> GAO-03-326. Washington, D.C.: January 29, 2003.</p> <p><i>VA Health Care: VA Is Struggling to Address Asset Realignment Challenges.</i> GAO/T-HEHS-00-88. Washington, D.C.: April 5, 2000.</p> <p><i>VA Health Care: Improvements Needed in Capital Asset Planning and Budgeting.</i> GAO/HEHS-99-145. Washington, D.C.: August 13, 1999.</p> <p><i>VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process.</i> GAO/T-HEHS-99-173. Washington, D.C.: July 22, 1999.</p> <p><i>Veterans' Affairs: Progress and Challenges in Transforming Health Care.</i> GAO/T-HEHS-99-109. Washington, D.C.: April 15, 1999.</p> <p><i>VA Health Care: Capital Asset Planning and Budgeting Need Improvement.</i> GAO/T-HEHS-99-83. Washington, D.C.: March 10, 1999.</p> <p><i>VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services.</i> GAO/HEHS-98-64. Washington, D.C.: April 16, 1998.</p> <p><i>VA Health Care: Opportunities to Enhance Montgomery and Tuskegee Service Integration.</i> GAO/T-HEHS-97-191. Washington, D.C.: July 28, 1997.</p> <p><i>VA Health Care: Lessons Learned From Medical Facility Integrations.</i> GAO/T-HEHS-97-184. Washington, D.C.: July 24, 1997.</p> <p><i>Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department.</i> GAO/T-HEHS-97-97. Washington, D.C.: March 18, 1997.</p> <p><i>VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources.</i> GAO/HEHS-96-121. Washington, D.C.: July 25, 1996.</p>

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VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs. GAO/T-HEHS-96-99. Washington, D.C.: March 8, 1996.

VA Health Care: Challenges and Options for the Future. GAO/T-HEHS-95-147. Washington, D.C.: May 9, 1995.

GAO Contact

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Reducing VA Inpatient Food
 and Laundry Service Costs

Primary agency	Department of Veterans Affairs
Account	Medical Care (VA) (35-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans

The Department of Veterans Affairs (VA) provides inpatient food services and laundry processing for thousands of inpatients a day in hospitals, nursing homes, and domiciliaries. In fiscal year 1999, VA spent about \$324 million (food service) and \$52 million (laundry) for these activities and employed 7,000 Nutrition and Food Service (NFS) wage-grade workers, not including dietitians and 1,100 laundry processing workers. The NFS workers cook and prepare food, distribute food to patients, and retrieve and wash plates, trays, and utensils. The laundry processing workers sort, wash, dry, fold, and transport laundry.

As of November 2000, VA had consolidated 28 of its food production locations into 10, begun using less expensive Veterans Canteen Service (VCS) workers in 9 locations, and contracted out in 2 locations. For laundry services, VA had consolidated 116 of its laundries into 67 locations and used competitive sourcing to contract with the private sector in other locations.

VA has the potential to further reduce its inpatient food service and laundry costs by systematically assessing, at all its health care delivery locations, options it is already using at some of its health care locations. For example, VA could consolidate food production locations within a 90-minute driving distance of each other and laundry locations within a 4-hour driving distance of each other. VA could also use less expensive VCS employees at all inpatient food locations. In addition, competitive sourcing could be a cost effective alternative for providing both food and laundry services.

VA has established a plan to complete studies of competitive sourcing of 55,000 positions, including about 13,000 laundry and food service positions, by 2008. However, VA has suspended this effort, except for its Veterans

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Canteen Service,³⁰ because its general counsel determined that VA could not continue these studies using appropriations from the Veterans Health Administration without specific authorization from the Congress. VA plans to ask the Congress for authorization to carry out these studies.

In the past, CBO estimated that budgetary savings could occur if the Congress required VA to consolidate and competitively bid its food service and laundry operations and use VCS employees at all inpatient food locations.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

VA Health Care: Consolidations and Competitive Sourcing of Laundry Service Could Save Millions. GAO-01-61. Washington, D.C.: November 30, 2000.

VA Health Care: Expanding Food Service Initiatives Could Save Millions. GAO-01-64. Washington, D.C.: November 30, 2000.

VA Health Care: Laundry Service Operations and Costs. GAO/HEHS-00-16. Washington, D.C.: December 21, 1999.

VA Health Care: Food Service Operations and Costs at Inpatient Facilities. GAO/HEHS-00-17. Washington, D.C.: November 19, 1999.

GAO Contact

Cynthia A. Bascetta, (202) 512-7101

³⁰VA is continuing its competitive sourcing study of the Veterans Canteen Service because operations are funded from nonappropriated funds. The Canteen Service generates revenues from its sales of food and other retail items in its food court, and from retail operations in VA hospitals to fund operations. VA expects to complete the competitive sourcing study on the food service part of the Canteen Service during the fourth quarter of fiscal year 2003.

**CBO Options Where
 Related GAO Work Is
 Identified³¹**

700-01 Narrow the Eligibility
 for Veterans' Disability
 Compensation to Include
 Only Veterans with High-
 Rated Disabilities

Related GAO Product

*VA Disability Compensation: Disability Ratings May Not Reflect
 Veterans' Economic Losses.* GAO/HEHS-97-9. Washington, D.C.: January 7,
 1997.

GAO Contact

Cynthia A. Bascetta, (202) 512-7101

700-02 Narrow the Eligibility
 for Veterans' Disability
 Compensation to Veterans
 Whose Disabilities Are
 Related to Their Military
 Duties

Related GAO Products

*VA Disability Compensation: Disability Ratings May Not Reflect
 Veterans' Economic Losses.* GAO/HEHS-97-9. Washington, D.C.: January 7,
 1997.

³¹We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries. GAO/HRD-94-6. Washington, D.C.: November 24, 1993.

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service. GAO/HRD-89-60. Washington, D.C.: July 31, 1989.

GAO Contact Cynthia A. Bascetta, (202) 512-7101

700-03 Increase
Beneficiaries' Cost Sharing
for Care at Nursing
Facilities Operated by the
Department of Veterans
Affairs

Related GAO Products

VA Aid and Attendance Benefits: Effects of Revised HCFA Policy on Veterans' Use of Benefits. GAO/HEHS-97-72R. Washington, D.C.: March 3, 1997.

VA Health Care: Better Data Needed to Effectively Use Limited Nursing Home Resources. GAO/HEHS-97-27. Washington, D.C.: December 20, 1996.

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery. GAO/HRD-93-68. Washington, D.C.: July 27, 1993.

VA Health Care: Offsetting Long-Term Care Costs by Adopting State Copayment Practices. GAO/HRD-92-96. Washington, D.C.: August 12, 1992.

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**800 General
 Government; 900 Net
 Interest; and 999
 Multiple**

Examples from Selected GAO Work

- Prevent Delinquent Taxpayers from Benefiting from Federal Programs
- Target Funding Reductions in Formula Grant Programs
- Adjust Federal Grant Matching Requirements
- Replace the 1-Dollar Note with a 1-Dollar Coin
- Increase Fee Revenue from Federal Reserve Operations
- Recognize the Costs Up-front of Long-term Space Acquisitions
- Seek Alternative Ways to Address Federal Building Repair Needs
- Improper Benefit Payments Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared
- Better Target Infrastructure Investments to Meet Mission and Results-Oriented Goals
- Information Sharing Could Improve Accuracy of Workers Compensation Offset Payments
- Determine Feasibility of Locating Federal Facilities in Rural Areas
- Leverage Buying Power to Reduce Costs of Supplies and Services
- Consolidate Grants for First Responders to Improve Efficiency

CBO Options Where Related GAO Work Is Identified

- 800-03 Eliminate Federal Antidrug Advertising
- 920-03 Impose a Fee on the Investment Portfolios of Government-Sponsored Enterprises

Examples from
 Selected GAO Work

Prevent Delinquent
 Taxpayers from Benefiting
 from Federal Programs

Primary agency	Internal Revenue Service
Spending type	Direct

The federal government's operations are funded primarily through tax revenue collected from the nation's taxpayers. In fiscal year 2002, the federal government, through the Internal Revenue Service (IRS), collected over \$2 trillion in federal tax revenue to finance government operations. However, while most taxpayers comply with their tax obligation, a significant portion of taxpayers do not. Over time, this has led to unpaid taxes, penalties, and interest, which totaled about \$249 billion at the end of fiscal year 2002. Of this amount, the IRS estimates that only \$20 billion, or about 8 percent, will be collected.

A significant number of taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes receive significant federal benefits and other federal payments. In addition to Social Security Administration benefit payments, federal civilian retirement payments, and federal civilian salaries, payments on federal contracts and Small Business Administration loans are also provided to these delinquent taxpayers. Federal law, generally, does not prevent businesses or individuals from receiving federal payments or loans when they are delinquent in paying federal taxes.

The Office of Management and Budget's (OMB) Circular A-129, revised, provides policies for the administration of federal credit programs. These policies specifically direct agencies to determine whether applicants are delinquent on any federal debt, including tax debt, and to suspend the processing of credit applications if applicants have outstanding tax debt until such time as the applicant pays the debt or enters into a payment plan. Unfortunately, these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes.

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In order to fully realize this benefit, the Congress could enact legislation codifying the provisions of OMB Circular A-129, as revised, that relate to this matter. A key aspect of this legislation would be to ensure that IRS's efforts to modernize its business systems are successful in enabling it to generate timely and accurate information on the taxpayer's status to assist other agencies in making determinations about eligibility for federal benefits and payments.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

No.

Related GAO Products

Debt Collection: Barring Delinquent Taxpayers From Receiving Federal Contracts and Loan Assistance. GAO/T-GGD/AIMD-00-167. Washington, D.C.: May 9, 2000.

Unpaid Payroll Taxes: Billions in Delinquent Taxes and Penalty Assessments Are Owed. GAO/AIMD/GGD-99-211. Washington, D.C.: August 2, 1999.

Tax Administration: Billions in Self-Employment Taxes Are Owed. GAO/GGD-99-18. Washington, D.C.: February 19, 1999.

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Target Funding Reductions
 in Formula Grant Programs

Primary agencies	Multiple
Accounts	Multiple
Spending types	Discretionary/Direct
Budget subfunctions	Multiple

Many federal grant programs with formula-based distribution of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, as we pointed out in 1996 and in 1998,³² it is not uncommon that program recipients in areas with greater wealth and relatively lower needs may enjoy a higher level of services than available in harder pressed areas. Alternatively, these wealthier areas can provide the same level of services but at lower tax rates than harder pressed areas.

At a time when federal discretionary resources are increasingly constrained, better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas that are most vulnerable. For example, Medicaid reimburses approximately 57 percent of eligible state spending, with the federal share ranging from a minimum of 50 to a maximum of 77 percent depending on the per capita income of the state. There are a variety of ways in which budgetary savings could be achieved to improve the targeting of these programs, including the following:

- Reduce the minimum federal reimbursement rate to below 50 percent. This example would focus the burden of the reduced federal share on those states with the highest per capita income. To the extent that per capita income provides a reasonable basis for comparing state tax bases, this example would require states with the strongest tax bases to shoulder the burden of a reduced federal share.

³²U.S. General Accounting Office, *Deficit Reduction: Better Targeting Can Reduce Spending and Improve Programs and Services*, GAO/AMD-96-14 (Washington, D.C.: Jan. 16, 1996), and *School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts*, GAO/HEHS-98-92 (Washington, D.C.: June 16, 1998).

- Reduce federal reimbursement rates only for those states with comparatively low program needs and comparatively strong tax bases. Under this example, the matching formula could be revised to better reflect the relative number of people in need, geographic differences in the cost of services, and state tax bases. Under the revised formula, states with comparatively low need and strong tax bases would receive lower federal reimbursement rates while states with high needs and weak tax bases would continue to receive their current reimbursement percentage. This example would focus the burden of a reduced federal share in those states with the lowest need and the strongest ability to fund program services from state resources.

Many other formulas used to distribute federal grant funding do not recognize the different fiscal capacities of states to provide benefits from their own resources. Moreover, many of these formulas have not been reassessed for years or even decades. One option that would realize budgetary savings in nonentitlement programs such as these would be to revise the funding formula to reflect the strength of state tax bases. A new formula could be calibrated so that funding is maintained in states or local governments with weak tax bases in order to maintain needed program services but reduced in high tax base states to realize budgetary savings. Examples of these types of formula grant programs include the following.

- Federal Aid Highways: This program, the largest nonentitlement formula grant program, allocates funds among the states based on their historic share of funding. This approach reflects antiquated indicators of highway needs, such as postal road miles and the land area of the state.
- Community Development Block Grant: This program allocates funds among local governments based on housing age and condition, population, and poverty, and does not include a factor recognizing local wealth or fiscal capacity. For example, Greenwich, Conn., received five times more funding per person in poverty in 1995 than that provided to Camden, N.J., even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. This disparity is due to the formula's recognition of older housing stock and population and its exclusion of fiscal capacity indicators.

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An option that illustrates the potential savings from targeting formula grant programs is a 10 percent reduction in the aggregate total of all close-ended or capped formula grant programs exceeding \$1 billion.³⁹ In the past, CBO estimated that the savings achieved through this option could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, as the above examples indicate, the Congress may wish to determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

Yes.

Related GAO Products

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States. GAO/HEHS-99-69. Washington, D.C.: February 26, 1999.

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending. GAO/HEHS-99-29R. Washington, D.C.: February 19, 1999.

Welfare Reform: Early Fiscal Effect of the TANF Block Grant. GAO/AJMD-98-137. Washington, D.C.: August 22, 1998.

Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding. GAO/RCED-98-174. Washington, D.C.: June 19, 1998.

School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts. GAO/HEHS-98-92. Washington, D.C.: June 16, 1998.

School Finance: State and Federal Efforts to Target Poor Students. GAO/HEHS-98-36. Washington, D.C.: January 28, 1998.

School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts. GAO/HEHS-97-31. Washington, D.C.: February 5, 1997.

³⁹In the transportation function, several very small, close-ended grants could not be easily isolated in the baseline and these are included in the estimate.

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Efficiency, and Effectiveness of Federal
Programs

Federal Grants: Design Improvements Could Help Federal Resources Go Further. GAO/AIMD-97-7. Washington, D.C.: December 18, 1996.

Public Health: A Health Status Indicator for Targeting Federal Aid to States. GAO/HEHS-97-13. Washington, D.C.: November 13, 1996.

School Finance: Options for Improving Measures of Effort and Equity in Title I. GAO/HEHS-96-142. Washington, D.C.: August 30, 1996.

Highway Funding: Alternatives for Distributing Federal Funds. GAO/RCED-96-6. Washington, D.C.: November 28, 1995.

Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity. GAO/HEHS-96-26. Washington, D.C.: November 13, 1995.

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action. GAO/HEHS-96-4. Washington, D.C.: November 2, 1995.

GAO Contact

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Adjust Federal Grant
 Matching Requirements

Primary agencies	Multiple
Accounts	Multiple
Spending types	Discretionary/Direct
Budget subfunctions	Multiple

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to approximately 660 in 2001 with outlays of \$317 billion, about 17 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. Our review of economists' estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

Our 1996 analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important programs. Critics of this approach argue that such redesign would put a higher burden on states because they would have to finance a greater share of federally aided programs.

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The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the trade-off decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

We were unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, for example from 100 percent to 90 percent, a reduction unlikely to discourage states from participating in the program. In the past, CBO estimated that the introduction of a 10 percent matching requirement on some of the largest federal discretionary grant programs that at the time were 100 percent federally funded, and a corresponding 10 percent reduction from the appropriated grant levels, would result in budgetary savings. If such a change in match rates were combined with inflation-adjusted maintenance-of-effort requirements, states that choose to participate in the program would have to maintain the same or increased levels of program spending in order to receive federal funding.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Welfare Reform: Early Fiscal Effects of the TANF Block Grant.
 GAO/AIMD-98-137. Washington, D.C.: August 22, 1998.

Federal Grants: Design Improvements Could Help Federal Resources Go Further. GAO/AIMD-97-7. Washington, D.C.: December 18, 1996.

Block Grants: Issues in Designing Accountability Provisions.
 GAO/AIMD-95-226. Washington, D.C.: September 1, 1995.

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Replace the 1-Dollar Note
 with a 1-Dollar Coin

Primary agency	Department of the Treasury
Account	United States Mint Public Enterprise Fund (20-4159)
Spending type	Direct/Governmental Receipts
Budget subfunction	803/Central fiscal operations

Replacing the 1-dollar note with a new 1-dollar coin would save the government hundreds of millions of dollars annually. Substituting a dollar coin for a dollar note could yield over \$522 million of savings to the government per year, on average, over a 30-year period. The savings come about because a coin lasts longer than paper money, the Federal Reserve has lower processing costs with coins than paper money, and a coin would result in interest savings from the additional seigniorage earned on a coin (i.e., the difference between the face value of a coin and its production cost).

In the past, neither the Congress nor the executive branch has supported the replacement of the \$1 note with a coin. All western economies now use a coin for monetary transactions at the same value that Americans use the more costly paper note. These countries have demonstrated that public resistance to such a change can be managed and overcome. The United States released a new gold-colored dollar coin in 2000. While initial demand for the coin had been strong, for it to realize its savings potential, the note has to be eliminated. Most of the coins that were issued are being held by collectors and do not circulate. With proper congressional oversight, public resistance to elimination of the \$1 note could be overcome and public support for the coin improved. For example, the Congress could require the Treasury or the Federal Reserve to conduct a public awareness campaign, explaining the savings that could be achieved by eliminating the \$1 note. In addition, the Congress could require the Federal Reserve or the Department of the Treasury to designate a central spokesperson who would handle all public and press inquiries about the elimination of the \$1 note.

Even though this option would result in significant long-term savings, it would not yield savings over the first 5 years. First, seigniorage, which would lower interest costs to the government by either replacing the need

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to borrow from the public or allowing the government to pay down its accumulated debt more quickly, is not included in the savings estimate because it is not considered part of the budget. Second, while the initial 5-year window captures much of the additional cost for the U.S. Mint to produce and stockpile a sufficient number of 1-dollar coins for circulation, it includes only a fraction of the savings to the Federal Reserve System from lower production and processing costs.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

New Dollar Coin: Marketing Campaign Raised Public Awareness but Not Widespread Use. GAO-02-896. Washington, D.C.: September 13, 2002.

A Dollar Coin Could Save Millions. GAO/T-GGD-95-203. Washington, D.C.: July 13, 1995.

1-Dollar Coin Reintroduction Could Save Millions if It Replaced the 1-Dollar Note. GAO/T-GGD-95-146. Washington, D.C.: May 3, 1995.

1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed. GAO/GGD-93-56. Washington, D.C.: March 11, 1993.

National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies. GAO/GGD-90-88. Washington, D.C.: May 23, 1990.

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Increase Fee Revenue from
 Federal Reserve Operations

Primary agency	Federal Reserve Board
Spending type	Direct

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve's primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

One way to enhance the Federal Reserve's revenue would be to charge fees for bank examinations, thus increasing the Federal Reserve's return to taxpayers. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Taxpayers in effect bear the cost of these examinations, which total hundreds of millions of dollars annually. In the past, CBO estimated that budgetary savings could be achieved if fees were assessed similar to those charged national banks, with a credit allowed for fees paid to state regulators.

CBO 5-Year Cost Estimate
 Included in GAO's 2002
 Budgetary Implications Report

Yes.

Related GAO Products

Federal Reserve System: Update on GAO's 1996 Recommendations. GAO-02-774. Washington, D.C.: September 25, 2002.

Federal Reserve System: Current and Future Challenges Require Systemwide Attention. GAO/T-GGD-96-159. Washington, D.C.: July 26, 1996.

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Federal Reserve System: Current and Future Challenges Require Systemwide Attention. GAO/GGD-96-128. Washington, D.C.: June 17, 1996.

Federal Reserve Banks: Internal Control, Accounting, and Auditing Issues. GAO/AIMD-96-5. Washington, D.C.: February 9, 1996.

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Recognize the Costs Up-
 front of Long-term Space
 Acquisitions

Primary agency	General Services Administration
Account	Federal Buildings Fund (47-4542)
Spending type	Discretionary
Budget subfunction	804/General property and records management

Building ownership through construction or lease-purchase—where ownership of the asset is transferred to the government at the end of the lease period—is generally less costly than meeting agencies' long-term requirements through ordinary operating leases. However, we have reported over the last decade that the General Services Administration (GSA) relies heavily on operating leases to meet the long-term space needs of the federal government. In March 1999, we reported that for nine major operating lease acquisitions GSA proposed between fiscal years 1994 and 1996, construction would have been the least cost option in eight cases. In these eight cases, lease-purchase was estimated to be more costly than construction, but less than the operating lease option GSA proposed. For example, the present value cost for the operating lease to meet the Patent and Trademark Office's long-term requirements in northern Virginia was estimated to be about \$973 million. Construction was estimated to be \$925 million—or \$48 million less—and lease-purchase was estimated at \$935 million—or \$38 million less than the operating lease option. In total for these eight cases, construction and lease-purchase had cost advantages over operating leases estimated at about \$126 million and \$107 million, respectively.

Historically, the Federal Buildings Fund (FBF) has not generated sufficient revenue for constructing new office buildings. Operating leases have become an attractive option for GSA because the total costs do not have to be scored up-front for budget purposes and payments are spread out over time. However, as shown above, they are a costly alternative to ownership over the long-run. A lease-purchase would seem to be a desirable alternative from GSA's point of view. However, the budget scorekeeping rules established by the Budget Enforcement Act of 1990 (BEA) effectively prevent GSA from using this option. These scorekeeping rules require the total budget authority for lease-purchases and capital leases to be recognized and recorded up-front in the year that the acquisition is approved. Furthermore, we reported in August 2001 that the scorekeeping

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rules might result in shorter terms for some leases, which could result in higher costs than for longer term leases. The scorekeeping rules require the total budget authority for lease-purchases and capital leases to be recognized and recorded up-front in the year they are approved. Although GSA has viewed the up-front funding requirement as an impediment to meeting agency space needs in a cost-effective manner, it is generally recognized as an important tool for maintaining governmentwide fiscal control. That is, the rules prevent agencies and the Congress from committing the government to future payments that may exceed future resources and spending priorities.

Since lease-purchases are not an option for improving the cost effectiveness of space acquisition, an option that could result in long-term savings for the government would be to recognize that many operating leases are used for long-term needs and should be treated on the same basis as the ownership options. This would make such instruments comparable in the budget to direct federal ownership and would foster more cost-effective decision-making by the Office of Management and Budget and the Congress. Applying the principle of up-front full recognition of the long-term costs to all options for satisfying long-term space needs—construction, purchases, lease-purchases, or operating leases—is more likely to result in selecting the most cost-effective alternative than the current scoring rules.

It is important to note that there would be implementation challenges if this option is pursued. If discretionary spending caps similar to those contained in the expired BEA are enacted, their levels should take into account the additional budget authority that would be needed to fully fund capital up front. Also, for existing leases, the additional budget authority would need to be provided at once.³⁴ It also would be difficult to reach agreement on what constitutes long-term space needs that would warrant this up-front budgetary treatment. And finally, even though in the past CBO estimated that this option should result in long-term savings, it concluded that it would not yield savings over the first 5 years.

CBO 5-Year Cost Estimate
Included in GAO's 2002
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³⁴Existing contracts could also be "grandfathered" in as occurred under the lease-purchase rule.

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Related GAO Products	<p><i>High-Risk Series: Federal Real Property.</i> GAO-03-122. Washington, D.C.: January 2003.</p> <p><i>Budget Scoring Affects Some Lease Terms, but Full Extent Is Uncertain.</i> GAO-01-929. Washington, D.C.: August 31, 2001.</p> <p><i>Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed.</i> GAO-01-452. Washington, D.C.: April 12, 2001.</p> <p><i>General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction.</i> GAO/GGD-99-49R. Washington, D.C.: March 12, 1999.</p> <p><i>Space Acquisition Cost: Comparison of GSA Estimates for Three Alternatives.</i> GAO/GGD-97-148R. Washington, D.C.: August 6, 1997.</p> <p><i>Budget Issues: Budgeting for Federal Capital.</i> GAO/AIMD-97-5. Washington, D.C.: November 12, 1996.</p> <p><i>Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings.</i> GAO/T-AIMD-94-189. Washington, D.C.: September 20, 1994.</p> <p><i>Federal Office Space: Increased Ownership Would Result in Significant Savings.</i> GAO/GGD-90-11. Washington, D.C.: December 22, 1989.</p>
GAO Contact	Bernard L. Ungar, (202) 512-4232

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Seek Alternative Ways to
 Address Federal Building
 Repair Needs

Primary agency	General Services Administration
Account	Federal Building Fund (47-4542)
Spending type	Discretionary
Budget subfunction	804/General property and records management

The General Services Administration (GSA) is the federal government's real property manager, providing office space for most federal agencies. In this capacity, GSA is responsible for keeping the approximately 1,700 federal buildings it manages in good repair to ensure that the value of these assets is preserved and that tenants occupy safe and modern space. Many buildings in GSA's portfolio are more than 50 years old, monumental in design, and historically significant. Consequently, unlike a private sector company, GSA cannot always dispose of a building simply because it would be economically advantageous to do so. GSA identifies needed repairs through detailed building inspections and sorts them into three tiers based on costs. Repairs in the highest cost tier must be approved by the Office of Management and Budget (OMB) and then authorized for funding by the Congress. GSA receives annual authority for funding for repairs in the other two tiers.

In August 2002, we reported that the estimated backlog of GSA-identified repair and alteration needs in GSA-owned buildings was \$5.7 billion. A major reason for this large and growing backlog is the lack of available funding. For example, from 1995 through 2001, the Congress approved only 63 percent of the approximately \$6.8 billion GSA requested for repair and alteration projects.

Unless the Congress increases the funding available to GSA to address its backlog of repair and alteration needs, it is likely that this backlog will continue to grow given the age of the current federal inventory of buildings. Delaying or not performing needed repairs and alterations can have serious consequences, including health and safety concerns, and lead to higher operating costs associated with inefficient heating and cooling systems. Given the current and likely increasing demands on discretionary appropriations, the Congress may wish to grant GSA the authority to experiment with funding alternatives such as public-private partnerships, where such approaches would achieve the best economic value for the

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government. Furthermore, it seems reasonable to allow GSA to retain some of the proceeds from disposal of unneeded properties to cover the costs associated with disposal and for reinvestment in its portfolio, where a need exists. However, in considering whether to allow agencies to retain proceeds from real property transactions, it is important for the Congress to ensure that it maintains appropriate control and oversight over these funds, including the ability to redistribute these funds to accommodate changing needs.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Products

High-Risk Series: Federal Real Property. GAO-03-122. Washington, D.C.: January 2003.

General Services Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges. GAO-01-931. Washington, D.C.: August 3, 2001.

Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships. GAO-01-906. Washington, D.C.: July 25, 2001.

Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed. GAO-01-452. Washington, D.C.: April 12, 2001.

Federal Buildings: Billions are Needed for Repairs and Alterations. GAO/GGD-00-098. Washington, D.C.: March 30, 2000.

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**Improper Benefit Payments
 Could Be Avoided or More
 Quickly Detected if Data
 from Various Programs
 Were Shared**

Primary agencies	Multiple
Accounts	Multiple
Spending types	Direct/Discretionary
Budget subfunctions	Multiple

Many federally funded benefit and loan programs rely on applicants and current recipients to accurately report information, such as the amount of income they earn, that affects their eligibility for assistance. To the extent that such information is underreported or not reported at all, the federal government overpays benefits or provides loans to individuals who are ineligible. Others and we have demonstrated that federally funded benefit and loan programs, such as housing and higher education assistance, have made hundreds of millions of dollars in improper payments. Some of these payments were made improperly because the federal, state, and local entities that administer the programs sometimes lacked adequate, timely data needed to determine applicants' and current recipients' eligibility for assistance. Our previous work has demonstrated that improper payments can be avoided or detected more quickly by using data from other programs, or data maintained for other purposes, to verify self-reported information.

Federally funded benefit and loan programs provide cash or in-kind assistance to individuals who meet specified eligibility criteria. Because these programs require similar information to make eligibility determinations, it is more efficient to share the necessary data with one another rather than requiring each program to independently verify similar data. These programs may verify self-reported information by comparing their records with independent, third-party data sources from other federal or state agencies as well as private organizations. For example, benefit and loan programs can compare large amounts of information on applicants and recipients by using computers to match automated records. Electronic transmission of data and on-line access to agencies' databases are additional tools program administrators can use to share important information on applicants and recipients in a timely, efficient manner. If used consistently, they can help program administrators check the accuracy of individuals' self-reported statements as well as identify information relevant to eligibility that the applicants and recipients themselves have not provided.

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Various opportunities exist for federal, state, and local agencies to save taxpayer dollars by sharing information that affects individuals' eligibility for benefits. For example, the Department of Education's Office of Inspector General estimates that underreported income contributed to over \$100 million in excess Pell Grant awards in 2000. Access to Internal Revenue Service taxpayer information could have helped Education prevent some of these overpayments. Improper payments could also be avoided or detected more quickly in other programs. For example, four states and the District of Columbia estimate that they prevented about \$16 million in improper Temporary Assistance to Needy Children (TANF), Medicaid, and Food Stamp benefit payments by participating in the Public Assistance Reporting Information System (PARIS). PARIS could also help other states save program funds by identifying and preventing future improper payments.

The three federally funded benefit and loan programs we examined—TANF, Tenant-Based Section 8 and Public Housing, and student grants and loans—all use data sharing to varying degrees to verify information that applicants and current benefit recipients provide. However, the weaknesses in these programs' eligibility determination processes could be mitigated if additional data sources were available for sharing. For example, the Congress could grant the Department of Education access to IRS taxpayer data, which could reduce overpayments in student loan programs. In the past, CBO could not estimate savings without a more specific option.

CBO 5-Year Cost Estimate
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Related GAO Products

Public Assistance: PARIS Project Can Help States Reduce Improper Benefit Payments. GAO-01-935. Washington, D.C.: September 6, 2001.

The Challenge of Data Sharing: Results of a GAO-Sponsored Symposium on Benefit and Loan Programs. GAO-01-67. Washington, D.C.: October 20, 2000.

Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity. GAO/HEHS-00-119. Washington, D.C.: September 13, 2000.

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Better Target Infrastructure
 Investments to Meet
 Mission and Results-
 Oriented Goals

Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

The federal government plays a prominent role in identifying the nation's infrastructure investment needs and has spent an average of \$149 billion (in constant 1998 dollars) annually since the late 1980s on the nation's infrastructure through 1998. A sound public infrastructure plays a vital role in encouraging a more productive and competitive national economy and meeting public demands for safety, health, and improved quality of life. Little, however, is known about the comparability and reasonableness of federal agencies' estimates for infrastructure needs. In fact, infrastructure "need" is difficult to define and to distinguish from "wish lists" of capital projects.

In a review of seven federal agencies' investment practices, GAO found that none of them followed leading practices for capital decision-making. In particular, five of the agencies did not develop assessments of the investments needed to meet outcomes. Rather, these agencies developed estimates that were summations of the costs of projects eligible to receive federal funding or projects identified by the Congress and others. Also, agencies were not likely to (1) develop a long-term capital plan, (2) use cost-benefit analysis as the primary method to compare alternative investments, (3) rank and select projects for funding based on established criteria, and (4) budget for projects in useful segments.

Given the importance of federal infrastructure investment to the nation, the Congress may wish to have the Office of Management and Budget develop standards for agencies to follow when submitting funding requests. At a minimum, requiring agencies to link the benefits of investment projects to the achievement of mission goals would give decisionmakers better information to base funding decisions on. Infrastructure investment requests based on other leading practices, especially those enumerated above, could also increase the Congress's capacity to make better investment decisions. In the past, CBO could not develop a savings estimate without a specific proposal.

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CBO 5-Year Cost Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<i>U.S. Infrastructure: Agencies' Approaches to Developing Investment Estimates Vary.</i> GAO-01-835. Washington, D.C.: July 20, 2001. <i>U.S. Infrastructure: Funding Trends and Opportunities to Improve Investment Decisions.</i> GAO/RCED/AIMD-00-35. Washington, D.C.: February 7, 2000. <i>Executive Guide: Leading Practices in Capital Decision-Making.</i> GAO/AIMD-99-32. Washington, D.C.: December 1998.
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Information Sharing Could
 Improve Accuracy of
 Workers' Compensation
 Offset Payments

Primary Agency	Social Security Administration
Accounts	Multiple
Spending type	Direct
Budget subfunctions	Multiple

In 2000, workers received almost \$46 billion in cash and medical benefits through the nation's workers' compensation (WC) programs to cover work-related injuries. Workers' compensation consists of a complex array of programs that provide benefits to persons injured while working or who suffer occupational diseases. Each state and the District of Columbia requires employers operating in its jurisdictions to provide WC insurance for their employees and to report work-related injuries to the state WC agency. WC beneficiaries may also be eligible for federal program benefits, such as Social Security Disability Insurance (DI) and Supplemental Security Income (SSI). In such programs, the law often limits access or reduces benefits for those receiving workers' compensation. Generally, if a person receives both DI and WC benefits, and together these benefits exceed 80 percent of the injured worker's average current earnings, the Social Security Administration (SSA) generally reduces the DI benefit. This reduction in benefits is referred to as the WC offset. A number of other federal programs also rely on information on WC benefit payments as a determinant of federal benefit payments. For example, Medicare covers medical expenses for persons who have received DI benefits for 2 years, but WC insurers are supposed to be the primary payer and Medicare the secondary payer of medical expenses that arise from work-related injuries and are covered under the WC program. Similarly, other federal programs, including food stamps and Section 8 rental housing assistance, consider WC benefits as income or assets when determining program eligibility and benefit payment amounts.

Because there is no national reporting system that identifies WC beneficiaries, federal agencies largely rely on applicants and beneficiaries to report their WC benefits. This fragmented reporting system has resulted in federal agencies making erroneous payments. For example, evaluations by GAO, SSA, and SSA's Office of Inspector General (OIG) have found significant overpayment and underpayment errors related to the WC offset provision. In December 1999, the SSA Inspector General reported that more than 50 percent of DI beneficiaries whose benefits are being offset

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have been paid inaccurately. Another study projected \$1.5 billion in payment errors related to the WC offset. About 85 percent of these errors are underpayments of entitled benefits that result when DI beneficiaries do not report reductions in their WC benefits. SSA's administration of the WC offset provision continues to be undermined by the lack of reliable information identifying the receipt of WC benefits by DI beneficiaries. Other federal programs, such as Medicare, food stamps, and Section 8 rental housing, also rely on self-reported WC information as a basis for determining benefit payments, and similarly are vulnerable to payment errors as a result. For example, Medicare relies on its applicants and beneficiaries to self-report WC benefits and is vulnerable to payment errors when they do not. Health Care Financing Administration (HCFA), now the Centers for Medicare & Medicaid Services (CMS), officials have estimated that about 8 percent of its beneficiaries have medical claims that may be the responsibility of another health insurer, liability insurer, or WC program. A GAO review of one state (not nationally representative) found that (1) Medicare's interests relative to the payment of future medical benefits were not considered in any of the WC cases resolved through settlements (83 percent of our sample), (2) HCFA was aware of WC benefits being received in only one-third of the cases where it paid benefits under Part A (a nonrandom sample), and (3) about 39 percent of joint WC and Medicare beneficiaries had received Medicare benefits for treatments that were potentially related to the WC injury. Finally, an inability to obtain WC benefit information could affect the accuracy of benefit payments for other federal programs such as food stamps and Section 8 housing and could result in the overpayment of benefits.

Given the fragmented nature of WC programs, the Congress could establish a reporting requirement that WC insurers provide SSA with information on changes to WC benefit payments. SSA could use this information to make adjustments to DI and SSI payments accordingly, and this information could be shared with other federal agencies. Doing so would reduce the potential for errors in the disbursing of benefits. In the past, CBO could not develop a savings estimate without more information on the key details of the requirements—such as which insurers would be covered and how frequently they would be required to report.

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Related GAO Product	<i>Workers' Compensation: Action Needed to Reduce Payment Errors in SSA Disability and Other Programs.</i> GAO-01-367. Washington, D.C.: May 4, 2001.
GAO Contact	Barbara D. Bovbjerg, (202) 512-7215

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Determine Feasibility of
 Locating Federal Facilities
 in Rural Areas

Primary agency	General Services Administration
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

The Rural Development Act of 1972 (RDA) and the Competition in Contracting Act of 1984 (CICA), as well as executive orders, provide guidance on site location decisions for federal facilities. While considering areas in which to locate, RDA requires all executive departments and agencies to establish policies and procedures giving first priority to the location of new offices and other facilities in rural areas.³⁵ The General Services Administration (GSA) is the central management agency for acquiring real estate for many federal agencies, while some other agencies, such as the Department of Defense, have their own authority to acquire space.

A 2001 survey of 115 new federal site locations acquired between 1998 and 2000 for buildings over 25,000 square feet found that about 72 percent were located in urban areas. Agencies said they selected urban areas primarily because of the need to be near agency clients and related government and private sector facilities to accomplish their missions. Eight of the 13 cabinet agencies surveyed had no formal RDA siting policy, and there was little evidence that agencies considered RDA's requirements when siting new federal facilities. Furthermore, GSA has not developed a cost-conscious, governmentwide location policy. Federal site acquisition practices differ from private sector practices in that private sector companies are more likely to take advantage of local incentives and of lower real estate and labor costs.

Obviously, many factors are considered in site location decisions, and chief among them should be the agency's ability to accomplish its mission in the best way possible and to retain an adequate number of skilled employees. But, where there are opportunities to reduce costs and/or improve service by locating to rural areas, federal agencies may benefit from more closely

³⁵Government agencies have different definitions of what constitutes a rural area. See GAO-01-805, p. 25 for more detail.

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following private sector practices. Consequently, the Congress may wish to follow through on the intent of RDA by requiring federal agencies to establish siting policies consistent with RDA's goals and also requiring GSA to establish a formal governmentwide siting policy that takes into account potential cost savings from locating in rural areas. In the past, CBO could not estimate cost savings because specific options had not been proposed.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No.

Related GAO Product

Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act Has Had Limited Impact. GAO-01-805.
Washington, D.C.: July 31, 2001.

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Leverage Buying Power to
 Reduce Costs of Supplies
 and Services

Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary

Federal agencies procured more than \$235 billion in goods and services during fiscal year 2001. Additionally, federal civilian agencies spent almost \$14 billion using purchase cards in fiscal year 2001. Overall, contracting for goods and services accounted for about 24 percent of the government's discretionary resources in fiscal year 2001. Further growth in contract spending, at least in the short term, is likely given the President's request for additional funds for defense and homeland security, agencies' plans to update their information technology systems, and other factors.

The growth in contract spending, combined with decreases in the acquisition workforce, creates a challenging acquisition environment. The degree to which individual agencies contract for goods and services also underscores the importance of ensuring that acquisitions are managed properly. This money, however, is not always well spent. Our work, as well as the work of other oversight agencies, continues to find that millions of dollars of service contract dollars are at risk at defense and civilian agencies because acquisitions are poorly planned, not adequately competed, or poorly managed. Moreover, because agency procurement processes are decentralized and uncoordinated, it is not apparent that the federal government is fully leveraging its enormous buying power to obtain the most advantageous terms and conditions for its purchases. With the events of September 11, and the federal government's short- and long-term budget challenges, it is more important than ever that agencies effectively transform business processes to ensure that the federal government gets the most from every dollar spent.

In view of these challenges, we have examined alternative ways developed by leading companies to manage their spending on goods and services in order to reduce costs, stay competitive, and improve service levels. Leading companies are taking a strategic approach—centralizing and reorganizing their operations to get the best value for the company as a whole. Taking a strategic approach involves a range of activities from developing a better picture of what the company was spending to buying goods and services on a corporate rather than business unit basis.

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A strategic approach pulls together participants from a variety of places within an organization who recommend changes in personnel, processes, structure, and culture that can constrain rising acquisition costs. These changes can include adjustments to procurement and other processes such as instituting companywide purchasing of specific services; reshaping a decentralized process to follow a more center-led, strategic approach; and increasing the involvement of the enterprise procurement organization, including working across units to help identify service needs, select providers, and manage contractor performance.

The procurement best practices of leading companies should be considered in reforming the acquisition of goods and services in the federal government. Taking a strategic approach clearly pays off. One recent survey of 147 companies in 22 industries indicated a strategic approach to procurement had resulted in savings of more than \$13 billion in one year. Studies have reported some companies achieving reported savings of 10 to 20 percent of their total procurement costs through the use of a strategic approach to buying goods and services. A recent *Purchasing Magazine* poll finds that companies employing procurement best practices are routinely delivering a 3 percent to 7 percent savings from their procurement costs. The leading companies we studied reported achieving and expecting to achieve billions of dollars in savings by developing companywide spend analysis programs and strategic sourcing strategies. The very same strategic approach could serve as a foundation for leveraging the federal government's buying power to reduce costs of supplies and services.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Products

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings. GAO-03-661. Washington, D.C.: June 10, 2003.

Federal Procurement: Spending and Workforce Trends. GAO-03-443. Washington, D.C.: April 30, 2003.

Contract Management: Taking a Strategic Approach to Improving Services Acquisition. GAO-02-499T. Washington, D.C.: March 7, 2002.

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services. GAO-02-230. Washington, D.C.: January 18, 2002.

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Contract Management: Trends and Challenges in Acquiring Services.
GAO-01-753T. Washington, D.C.: May 22, 2001.

GAO Contact

David E. Cooper, (617) 788-0555

Consolidate Grants for First
 Responders to Improve
 Efficiency

Primary agency	Department of Homeland Security
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

GAO's work over the years has repeatedly shown that mission fragmentation and program overlap are widespread in the federal government and that crosscutting program efforts are not well coordinated. As far back as 1975, GAO reported that many of the fundamental problems in managing federal grants were the direct result of the proliferation of federal assistance programs and the fragmentation of responsibility among different federal departments and agencies. While we noted that the large number and variety of programs tended to ensure that a program is available to meet a defined need, we found that substantial problems occur when state and local governments attempt to identify, obtain, and use the fragmented grants-in-aid system to meet their needs.

In a specific and timely example of this fragmentation, in April 2003 GAO identified at least 16 different grant programs that can be used by the nation's first responders to address homeland security needs. These grants are currently provided through two different directorates within the Department of Homeland Security, the Department of Justice, and the Department of Health and Human Services and serve state governments, cities and localities, counties, and others. Multiple fragmented grant programs can create a confusing and administratively burdensome process for state and local officials seeking to use federal resources for pressing homeland security needs.

It now falls to the Congress to redesign the nation's homeland security grant programs in light of the events of September 11, 2001. In so doing, the Congress must balance the needs of our state and local partners in their call for both additional resources and more flexibility for meeting the nation's goals of attaining the highest levels of preparedness. In addressing the fragmentation prompted by the current homeland security grant system, the Congress has several alternatives, including block grants, performance partnerships, and grant waivers. These approaches could provide state and local governments with increased flexibility while potentially improving intergovernmental efficiency and homeland security

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program outcomes. An example of how consolidation of first responder grants might be achieved would be to merge the existing Emergency Management Performance Grant, the State Homeland Security Grant Program, and the Urban Area Security Initiative into one new grant program. If such a consolidation can be assumed to yield administrative efficiencies, then the Congress might reduce the amount of the combined grant by, for example, 10 percent. Alternatively if the Congress did not want to reduce the overall amount of the consolidated grant, efficiencies achieved through consolidation could possibly result in an improved level of program performance given the current level of funding.

CBO 5-Year Cost Estimate
Included in GAO's 2002
Budgetary Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Products

Federal Assistance: Grant System Continues to Be Highly Fragmented. GAO-03-718T. Washington, D.C.: April 29, 2003.

Multiple Employment and Training Programs: Funding and Performance Measures for Major Programs. GAO-03-589. Washington, D.C.: April 18, 2003.

Workforce Investment Act: States and Localities Increasingly Coordinate Services for TANF Clients, but Better Information Needed on Effective Approaches. GAO-02-696. Washington, D.C.: July 3, 2002.

Managing for Results: Continuing Challenges to Effective GPRA Implementation. GAO/T-GGD-00-178. Washington, D.C.: July 20, 2000.

Fundamental Changes are Needed in Federal Assistance to State and Local Governments. GAO/GGD-75-75. Washington, D.C.: August 19, 1975.

GAO Contact

Paul L. Posner, (202) 512-9573

CBO Options Where Related GAO Work Is Identified³⁶

800-03 Eliminate Federal Antidrug Advertising

Related GAO Products	<p><i>Anti-Drug Media Campaign: Aspects of Advertising Contract Mismanaged by the Government; Contractor Improperly Charged Some Costs.</i> GAO-01-101TT. Washington, D.C.: August 1, 2001.</p> <p><i>Anti-Drug Media Campaign: Aspects of Advertising Contract Mismanaged by the Government; Contractor Improperly Charged Some Costs.</i> GAO-01-623. Washington, D.C.: June 25, 2001.</p>
GAO Contact	Bernard L. Ungar, (202) 512-4232

920-03 Impose a Fee on the Investment Portfolios of Government-Sponsored Enterprises

Related GAO Products	<p><i>Government-Sponsored Enterprises: Federal Oversight Needed for Nonmortgage Investments.</i> GAO/GGD-98-48. Washington, D.C.: March 11, 1998.</p> <p><i>Housing Enterprises: Potential Impacts of Severing Government Sponsorship.</i> GGD-96-120. Washington, D.C.: May 13, 1996.</p>
GAO Contact	Thomas J. McCool, (202) 512-8678

³⁶We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

Receipts

Examples from Selected GAO Work

Tax Interest Earned on Life Insurance Policies and Deferred Annuities

Further Limit the Deductibility of Home Equity Loan Interest

Limit the Tax Exemption for Employer-Paid Health Insurance

Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels

Index Excise Tax Rates for Inflation

Increase Highway User Fees on Heavy Trucks

Require Corporate Tax Document Matching

Improve Administration of the Tax Deduction for Real Estate Taxes

Increase Collection of Returns Filed by U.S. Citizens Living Abroad

Increase the Use of Seizure Authority to Collect Delinquent Taxes

Increase Collection of Self-employment Taxes

Increase the Use of Electronic Funds Transfer for Installment Tax Payments

Reduce Gasoline Excise Tax Evasion

Improve Independent Contractor Tax Compliance

Expand the Use of IRS's TIN-Matching Program

Improve Administration of the Federal Payment Levy Program

Enhance Nontax Debt Collection Using Available Tools

Examples from
 Selected GAO Work

Tax Interest Earned on Life
 Insurance Policies and
 Deferred Annuities

Primary agency	Internal Revenue Service
Spending type	Direct

Interest earned on life insurance policies and deferred annuities, known as “inside buildup,” is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments, such as certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Coverage for low-income people is largely provided through the Social Security system, which provides both insurance and annuity protection. The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. In the past, JCT estimated that this option would result in budgetary savings. Investment income from annuities purchased as part of a qualified individual retirement account would be tax-deferred until benefits were paid.

JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report

Yes.

Related GAO Product

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest. GAO/GGD-90-31. Washington, D.C.: January 29, 1990.

GAO Contact

James R. White, (202) 512-9110

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Further Limit the
 Deductibility of Home
 Equity Loan Interest

Primary agency	Department of the Treasury
Spending type	Direct

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to \$100,000 of home equity indebtedness and \$1 million of indebtedness used to acquire a home. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility up to \$300,000 of indebtedness for the taxpayer's principal and second residence. In the past, JCT estimated that this option would generate additional revenues.

JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report

Yes.

Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s. GAO/GGD-93-63. Washington, D.C.: March 25, 1993.

GAO Contact

James R. White, (202) 512-9110

Limit the Tax Exemption for
 Employer-Paid Health
 Insurance

Primary agency	Internal Revenue Service
Spending type	Direct

The current tax treatment of health insurance—amounting to revenue losses of about \$67.6 billion in 2001—gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary business expenses and employer contributions are not included in an employee's taxable income. The same is true for a portion of the premiums paid by self-employed individuals. Although some employers or employees could drop employer-sponsored coverage without the tax exemption, some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation's health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing individuals a refundable tax credit of 20 percent of premiums that they or their employers would pay, with eligible premiums capped at \$500 and \$200 per month for family coverage and individuals, respectively.

In the past, JCT could not develop a revenue estimate for this option due to uncertainty in determining the amount of health insurance that would be purchased given a repeal of the employer exclusion.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
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No.

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Related GAO Product	<i>Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits.</i> GAO/GGD-92-43. Washington, D.C.: April 7, 1992.
GAO Contact	James R. White, (202) 512-9110

Repeal the Partial
 Exemption for Alcohol
 Fuels from Excise Taxes on
 Motor Fuels

Primary agency	Internal Revenue Service
Spending type	Direct

The tax code partially exempts biomass-derived alcohol fuels—made from nonfossil material of biological origin—from excise taxes on motor fuels. The tax code also provides that income tax credits for alcohol fuel use may be claimed instead of the excise tax exemption. However, the credit is in almost all cases less valuable than the exemption and is rarely used.

Tax incentives that encourage alternatives to fossil fuels might have merit if energy security or environmental benefits were realized. However, as we reported in 1997, if alcohol fuel use was not subsidized it is unlikely that U.S. energy security or air quality would be significantly affected. Even with tax subsidies, alcohol fuels were not competitive in price with fossil fuels in most markets. In 1995, alcohol fuels accounted for less than 1 percent of total U.S. energy consumption. Our report concluded that the incentives have not created enough usage to affect the likelihood of an oil price shock. Nor could their use be expanded enough to counter such a shock given existing production technologies. Use of oxygenated fuels such as ethanol-gasoline mixtures in motor vehicles generally produces less carbon monoxide pollution than does straight gasoline. However, the Clean Air Act Amendments of 1990 reduced the need for an ethanol subsidy by mandating the minimum oxygen content of gasoline in areas with poor air quality. The global warming effects of using ethanol are likely to be no better than, and could be worse than, those of gasoline.

The Congress may wish to consider repealing the partial excise tax exemption and the alcohol fuels tax credit. The repeal could result in higher federal outlays for price support loan programs, but any increase in outlays probably would be much smaller than the estimated revenue increase. The excise tax exemption is currently scheduled to expire on October 1, 2007; the equivalent blender's tax credit is scheduled to expire on January 1, 2008. In the past, JCT estimated that this option would result in budgetary savings.

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Yes.

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Related GAO Product	<i>Tax Policy: Effects of the Alcohol Fuels Tax Incentives.</i> GAO/GGD-97-41. Washington, D.C.: March 6, 1997.
GAO Contact	James R. White, (202) 512-9110

Index Excise Tax Rates for
 Inflation

Primary agency	Internal Revenue Service
Spending type	Direct

Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered, and administrative difficulties may be encountered, but they are not insurmountable. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. In the past, JCT estimated that this option would generate additional revenues.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
 Implications Report

Yes.

Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency. GAO/GGD-90-123. Washington, D.C.: September 27, 1990.

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels. GAO/GGD-89-52. Washington, D.C.: May 9, 1989.

GAO Contact

James R. White, (202) 512-9110

Increase Highway User Fees
 on Heavy Trucks

Primary agency	Department of Transportation
Spending type	Direct

To develop and maintain highways, the government collects user fees including fuel taxes, a heavy vehicle use tax, an excise tax on truck and tractor sales, and an excise tax on heavy tires. In fiscal year 1999, about \$35.1 billion was collected from general highway user taxes. For many years, questions have been raised concerning whether highway users, including owners of heavy trucks, pay taxes in proportion to the wear and tear that their vehicles impose on highway pavement.

In 1982, the Congress passed the first major increase in federal highway use taxes since 1956 in order to increase highway revenues and to respond to a Federal Highway Administration (FHWA) report that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent. The 1982 tax increase required that the ceiling for the heavy vehicle use tax be increased from \$240 a year to \$1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from \$1,900 to \$550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As GAO recommended in June 1994, FHWA conducted a cost allocation study. The study, released in August 1997, noted that the overall equity of highway user fees could be incrementally improved by implementing either a weight-distance tax or eliminating the existing \$550 cap on the Heavy Vehicle Use Tax. However, the study made no recommendations; the administration continues to monitor highway user fees but plans no action unless the overall equity of highway user fees worsens. In the past, JCT estimated that removing the \$550 cap on the Heavy Vehicle Use Tax would generate additional revenues.

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JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report	Yes.
Related GAO Products	<i>Highway Financing: Factors Affecting Highway Trust Fund Revenues.</i> GAO-02-667T. Washington, D.C.: May 9, 2002. <i>Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share.</i> GAO/RCED-94-181. Washington, D.C.: June 7, 1994.
GAO Contact	Katherine Siggerud, (202) 512-6570

Require Corporate Tax
 Document Matching

Primary agency	Internal Revenue Service
Spending type	Direct

The Internal Revenue Service's (IRS) document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Department of the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS's assumptions, we estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, we estimated that for years 1995 through 1999, IRS's annual costs would have been about \$70 million and annual increased revenues about \$1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
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No.

Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs. GAO/GGD-91-118. Washington, D.C.: September 27, 1991.

GAO Contact

James R. White, (202) 512-9110

Improve Administration of
 the Tax Deduction for Real
 Estate Taxes

Primary agency	Internal Revenue Service
Spending type	Direct

Based on the Internal Revenue Service's (IRS) last compliance measurement study, individuals overstated their real estate tax deductions by about \$1.5 billion nationwide in 1988. We estimate that this resulted in about \$400 million federal tax loss for 1992. However, this may understate lost revenues because our review also found that IRS auditors detected only about 29 percent of \$127 million in overstated deductions in three locations we reviewed. Revenues could be lost not only for the federal government but also for the 31 states that in 1991 tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements.

In the past, JCT estimated that the proposals would increase federal fiscal revenues.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
 Implications Report

Yes.

Related GAO Product

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced. GAO/GGD-93-43. Washington, D.C.: January 19, 1993.

GAO Contact

James R. White, (202) 512-9110

Increase Collection of
 Returns Filed by U.S.
 Citizens Living Abroad

Primary agency	Internal Revenue Service
Spending type	Direct

U.S. citizens residing abroad are generally subject to the same filing requirements as citizens residing in the United States. Some evidence suggests that the failure to file tax returns may be relatively prevalent in some segments of the U.S. population abroad, and the revenue impact, while unknown, could be significant.

IRS's ability to identify and collect taxes from nonfilers residing abroad is restricted by the limited reach of U.S. laws in foreign countries, particularly U.S. laws on tax withholding, information reporting, and enforced collection through liens, levies, and seizures. Another factor that could contribute to nonfiling abroad is the ambiguity in IRS's filing instructions for its Form 1040 and related guidance. For example, it may not be clear that income qualifying for the foreign earned income or housing expense exclusions must be considered in determining whether one's gross income exceeds the filing threshold.

In pursuing nonfilers abroad, IRS has not fully explored the usefulness of passport application data as a means of identifying potential nonfilers. While passport applications contain no income information, they could be used to collect applicants' social security number, age, occupation, and country of residence.

IRS may want to take additional steps to enforce the current information requirement that all passport applicants provide their social security numbers as a means of identifying potential nonfilers abroad. IRS may also want to clarify its instructions for determining what income must be considered in determining whether gross income exceeds the filing threshold. Initial projects to increase the number of returns filed from overseas suggest that the potential increase in tax revenues would justify the costs to improve compliance.

In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

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JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<i>Tax Administration: Nonfiling Among U.S. Citizens Abroad.</i> GAO/GGD-98-106. Washington, D.C.: May 11, 1998. <i>IRS Activities to Increase Compliance on Overseas Taxpayers.</i> GAO/GGD-93-93. Washington, D.C.: May 18, 1993.
GAO Contact	James R. White, (202) 512-9110

Increase the Use of Seizure
 Authority to Collect
 Delinquent Taxes

Primary agency	Internal Revenue Service
Spending type	Direct

The Internal Revenue Service's (IRS) use of its statutory authority to seize taxpayer assets has been instrumental in bringing into compliance (i.e., full pay status) many delinquent taxpayers who had been unresponsive to other tax collection efforts, including demands for payment through letters, phone calls, personal visits, and levies on bank accounts and wages. Of the approximate 8,300 taxpayers whose assets were seized by IRS in fiscal year 1997, about 42 percent became fully tax compliant—resolving about \$186 million in tax debts—as a result of the seizures. In total, the seizure of taxpayer property in fiscal year 1997 resulted in resolving about \$235 million, or about 22 percent of the \$1.1 billion of tax debts owed by the 8,300 taxpayers.

IRS's use of seizure authority has declined since the enactment of the IRS Restructuring and Reform Act of 1998. Seizures declined from 10,090 in FY 1997 to 234 in FY 2001—a decline of about 98 percent. In 2002, the number of seizures was essentially unchanged with IRS completing 296 seizures. According to an IRS official the number of seizures is not expected to change in 2003. At this greatly reduced level of seizures, IRS is at risk of foregoing the collection of millions of dollars as indicated by the 1997 data. IRS employees told GAO in 2000 that seizures have nearly stopped because of their uncertainty over the act's seizure requirements and IRS' slow development of workable policies and procedures for implementing the act. IRS officials indicated to GAO that they expected the future level of seizures to be substantially below the level before the Reconstruction Act experience given (1) IRS program changes that provide taxpayers with additional opportunities to resolve their tax delinquencies prior to seizure, (2) expanded definition of taxpayer property statutorily exempt from seizure, (3) increased time available to taxpayers to exercise rights to challenge seizures, and (4) reductions in collection staff available to make seizures. GAO has recently reported that the number of revenue officers—the IRS staff responsible for making seizures—decreased about 35 percent from 1997 to 2002.

To help ensure that revenue officers have clear guidance for the use of seizure authority, GAO has made a number of recommendations to IRS. In

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part, GAO recommended that IRS provide written guidance to describe when seizure action ought to be taken; that is, the conditions and circumstances that would justify seizure action and the responsibilities of senior managers to ensure that such actions are taken. GAO also has recommended that IRS develop a computer based information system to monitor compliance with the seizure guidance. IRS has issued the revised seizure guidance and will implement a limited seizures monitoring system this fall. In the past, JCT agreed that the option has the potential for increased revenue, but it could not develop estimates of revenue gain.

JCT 5-Year Estimate Included in
GAO's 2002 Budgetary
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No.

Related GAO Product

*IRS Seizures: Needed for Compliance but Processes for Protecting
Taxpayer Rights Have Some Weaknesses.* GAO/GGD-00-4. Washington,
D.C.: November 29, 1999.

GAO Contact

James R. White, (202) 512-9110

Increase Collection of Self-employment Taxes

Primary agency	Internal Revenue Service
Spending type	Direct

Self-employed taxpayers can get Social Security benefits based on earnings for which they did not pay taxes because the Social Security Act requires the Social Security Administration to grant earnings credits, which are used to determine benefit eligibility and amounts, and pay benefits without regard to whether the Social Security taxes have been paid. We reported in 1999 that, as of September 1997, more than 1.9 million self-employed taxpayers were delinquent in paying \$6.9 billion in self-employment taxes. Also, more than 144,000 taxpayers with delinquent self-employment taxes of \$487 million were receiving about \$105 million annually in monthly Social Security benefits.

While IRS's ability to collect self-employment taxes before taxpayers become delinquent is hampered because there is no withholding on self-employment income, most self-employed taxpayers are required to make estimated tax payments. However, as of September 1997, about 90 percent of the delinquent self-employed taxpayers required to make estimated tax payments did not.

In the past, there have been proposals to deny social security credits to taxpayers that fail to pay their self-employment taxes and to require withholding on certain self-employment income. No actions were taken on these proposals. One way to collect self-employment taxes before taxpayers become delinquent that does not require a law change would be to encourage more self-employed individuals to make their required estimated tax payments. IRS could do this by establishing a program to remind previously noncompliant taxpayers (i.e., those who were assessed an estimated tax penalty the previous year) to make such payments.

In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

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Related GAO Product	<i>Tax Administration: Billions in Self-Employment Taxes Are Owed.</i> GAO/GGD-99-18. Washington, D.C.: February 19, 1999.
GAO Contact	James R. White, (202) 512-9110

Increase the Use of
 Electronic Funds Transfer
 for Installment Tax
 Payments

Primary agency	Internal Revenue Service
Spending type	Direct

The Internal Revenue Code authorizes the Internal Revenue Service (IRS) to allow taxpayers to pay their taxes in installments, with interest, if this arrangement would facilitate collection of the liability. As of September 2000, IRS had about 2.2 million installment agreements outstanding, worth about \$8.3 billion. At the end of fiscal year 2000, approximately 35 percent of these installment agreements were in default.

A number of states use electronic funds transfer (EFT) to make their installment agreement program more efficient and effective. In 1998, we reported on two states' use of EFT. Minnesota, requires taxpayers to pay by EFT, with some exceptions. As of late 1997, approximately 90 percent of Minnesota's installment agreements were EFT agreements, and the default rate had dropped from about 50 percent to between 3 percent and 5 percent in the 2 years the EFT requirement had been in effect. In California, within 6 months of implementing its EFT procedures, its default rate for new installment agreements dropped from around 40 percent to 5 percent.

EFT payments also produce administrative savings through lower processing costs involved in recording and posting remittances, lower postage and handling costs associated with sending monthly payment reminders, and lower collection enforcement costs needed to pursue fewer taxpayers in default. IRS's initial comparison of the cost of EFT payments with the cost of having taxpayers send installment payments to lockboxes in commercial banks showed that EFT payment costs were about 37 percent less than the lockbox costs.

The reported benefits for IRS of using EFT for installment agreement payments include the potential to reduce the percentage of taxpayer defaults, decrease administrative costs, and achieve faster collections. At the end of fiscal year 2000, less than 1.5 percent of IRS's outstanding installment agreements were EFT agreements.

In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

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JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report	No.
Related GAO Products	<i>Tax Administration: Increasing EFT Usage for Installment Agreements Could Benefit IRS.</i> GAO/GGD-98-112. Washington, D.C.: June 10, 1998. <i>Tax Administration: Administrative Improvements Possible in IRS' Installment Agreement Program.</i> GAO/GGD-95-137. Washington, D.C.: May 2, 1995.
GAO Contact	James R. White, (202) 512-9110

Reduce Gasoline Excise Tax
 Evasion

Primary agency	Internal Revenue Service
Spending type	Direct

Although no current and reliable estimate of gasoline excise tax evasion exists, the most recent Federal Highway Administration estimate, from 1992, was that evasion amounted to between 3 and 7 percent of gasoline excise tax revenue. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, we suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery. In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
 Implications Report

No.

Related GAO Product

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion.
 GAO/GGD-92-67. Washington, D.C.: May 12, 1992.

GAO Contact

James R. White, (202) 512-9110

Improve Independent
 Contractor Tax Compliance

Primary agency	Internal Revenue Service
Spending type	Direct

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through its Employment Tax Examinations program. For fiscal year 2002, 90 percent of the examinations found misclassified workers and associated unpaid taxes. Establishing clear rules is difficult. Nevertheless, taxpayers need—and the government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

In the past, the Congress considered but rejected extending information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations could have been on equal footing, and IRS could have had a less intrusive means of ensuring their tax compliance.

There have been various proposals on clarifying the definition of independent contractors and improving related information reporting. Congressional hearings dealt with some of these bills.

We believe that revenues from this option could possibly increase by billions of dollars. In the past, JCT agreed that the option had the potential for increased revenue, but it could not develop estimates of revenue gain.

JCT 5-Year Estimate Included in GAO's 2002 Budgetary Implications Report

No.

Related GAO Products

Tax Administration: Estimates of the Tax Gap for Service Providers. GAO/GGD-95-59. Washington, D.C.: December 28, 1994.

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Tax Administration: Approaches for Improving Independent Contractor Compliance. GAO/GGD-92-108. Washington, D.C.: July 23, 1992.

GAO Contact

James R. White, (202) 512-9110

Expand the Use of IRS's
 TIN-Matching Program

Primary agency	Internal Revenue Service
Spending type	Direct

The Internal Revenue Service's (IRS) and the Department of Treasury's Financial Management Service (FMS) have initiated a continuous tax levy program designed to identify and levy federal payments to taxpayers that owe federal taxes. The potential effectiveness of this program will be reduced because payment records submitted to FMS by federal agencies often have an inaccurate Taxpayer Identification Number (TIN) and/or name.

Since 1997, IRS has had a TIN-matching program that federal agencies can use to verify the accuracy of TIN and name combinations furnished by federal payees that are necessary for issuing information returns. This program was intended to reduce the number of notices of incorrect TIN and name combinations issued for backup withholding by allowing agencies the opportunity to identify TIN and name discrepancies and to contact payees for corrected information before issuing an information return. Monthly, federal agencies may submit a batch of name and TIN combinations to IRS for verification. IRS matches each record submitted and informs the agency whether the TIN and name submitted matches its records. However, IRS cannot explicitly tell an agency what the correct TIN, name, or both TIN and name should be if the records do not match. To do so would violate tax disclosure laws.

In an April 2000 report, we found that about 33 percent of vendor payment records submitted by federal agencies to FMS during one quarter in fiscal year 1999 had TINs and/or names that differed with the TINs and/or names in IRS's accounts receivable records. As a result, vendor payment records totaling almost \$20 billion were unsuitable for matching against IRS's accounts receivable records and therefore would not be included in the joint FMS/IRS continuous tax levy program for the purpose of reducing federal tax delinquencies.

The Congress may wish to expand the use of IRS's TIN-matching program for purposes other than information reporting to enable federal agencies to specifically verify the accuracy of vendor TINs and names. This would help to reduce the number of federal payment records that are unsuitable for

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matching against IRS's accounts receivable records and to increase the number of federal tax delinquencies that could be collected through the continuous tax levy program. We estimate that resolving inconsistencies between the names payees use to receive federal payments and the names payees use on their federal tax returns could generate as much as \$74 million annually. In the past, JCT estimated that savings would result from this option.

JCT 5-Year Estimate Included in
GAO's 2002 Budgetary
Implications Report

Yes.

Related GAO Product

Tax Administration: IRS' Levy of Federal Payments Could Generate Millions of Dollars. GAO/GGD-00-65, April 7, 2000.

GAO Contact

James R. White, (202) 512-9110

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Improve Administration of
 the Federal Payment Levy
 Program

Primary agency	Internal Revenue Service
Spending type	Direct/Discretionary

The Internal Revenue Service (IRS) and the Department of Treasury's Financial Management Service (FMS) have initiated the Federal Payment Levy Program, which is designed to continuously levy federal payments made to taxpayers that owe federal taxes. The potential effectiveness of this program will be reduced because IRS has blocked certain delinquent taxpayers from being levied.

Since July 2000, IRS has been levying federal payments of delinquent taxpayers. Certain taxpayers are not levied because they meet certain exclusion criteria, such as taxpayers who are paying their taxes through installment agreements or those who have contacted IRS and demonstrated that they currently do not have the means to pay their taxes. However, there are many other delinquent taxpayers who do not meet IRS's exclusion criteria but are not having their federal payments levied. In a March 2003 report, we found that about 112,000 delinquent taxpayers were collectively receiving about \$6.8 billion in federal payments and owed about \$1.6 billion in delinquent taxes that IRS had blocked from the levy program. While IRS began to unblock about 20,000 of these accounts in January 2003, it does not plan to unblock the remaining portion until sometime in 2005. The sooner IRS unblocks these accounts, the more likely it is to collect the delinquent taxes.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
 Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Product

Tax Administration: Federal Payment Levy Program Measures, Performance, and Equity Can Be Improved. GAO-03-356. Washington, D.C.: March 6, 2003.

GAO Contact

Michael Brostek, (202) 512-9110

Enhance Nontax Debt
 Collection Using Available
 Tools

Primary agency	Department of the Treasury
Spending types	Direct/Discretionary

Nontax federal debt delinquent more than 180 days continues to be a significant problem governmentwide. The Department of Treasury reported that such debt totaled over \$60 billion for each of the last 4 fiscal years. As delinquent debts age, they become increasingly difficult to collect. In 1996, the Congress enacted the Debt Collection Improvement Act of 1996 (DCIA) to provide for more aggressive pursuit of delinquent debt. Treasury's Financial Management Service (FMS) has been instrumental in helping agencies identify and refer more seriously delinquent nontax debts to FMS for additional effort. FMS has had some success in these centralized efforts; however, two key aspects of the 1996 legislation have lagged behind other initiatives.

In particular, the law authorized federal agencies to perform administrative wage garnishment (AWG) for certain delinquent debt. Debt collection experts have emphasized that AWG is a powerful instrument for collecting debt since the mere threat of using it is often enough to motivate voluntary payment. Properly used in tandem with other debt recovery techniques such as Treasury's centralized debt collection program, AWG should generate collections and provide leverage for agencies to obtain voluntary payments from delinquent debtors. However, few agencies are using AWG. Although the Department of Education had implemented AWG granted under separate authority, none of the nine large Chief Financial Officers Act agencies we reviewed in fiscal year 2001 had fully implemented AWG as authorized by the DCIA. According to Treasury officials, as of March 2003, only one of the nine large agencies, the Department of Housing and Urban Development, had authorized Treasury to perform AWG as part of its centralized debt collection efforts. Although AWG is not mandatory, by failing to employ this tool—more than 7 years after the DCIA's enactment—agencies have missed collection opportunities.

DCIA also called for steps to prevent certain delinquent debtors from receiving additional federal financial assistance in the form of loans, loan guarantees, and loan insurance. Our March 2002 report discussed three major information sources that contain data on delinquent federal debtors: credit bureau reports, the Department of Housing and Urban

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Development's Credit Alert Interactive Voice Response System, and the Department of the Treasury's offset program (TOP) database. Each information source contained certain information on delinquent federal nontax debtors, but none provided all-inclusive, timely data or maintained data long enough to be an adequate basis for successfully barring future financial assistance to current or prior delinquent debtors. According to Treasury officials, FMS is in the initial implementation phase of a new Internet-based program to assist agencies in identifying delinquent debtors. As currently envisioned, the program will allow agencies to initiate searches of limited information from the TOP database to determine whether applicants for direct or guaranteed loans owe delinquent federal nontax debt.

We have recommended that agencies begin implementing AWG and that FMS augment its current plans for using the TOP database to bar delinquent debtors from obtaining access to future federal financial assistance. Because it is not clear at this time how much federal agency debt is eligible for AWG, an estimate of additional receipts from full implementation of this debt collection tool would only be a preliminary indication. The same uncertainty exists for estimated benefits related to full implementation of the delinquent debtor bar provision. Given the pace of implementation, it may be desirable for the Congress to establish certain milestones and performance expectations for the debt collection function.

JCT 5-Year Estimate Included in
 GAO's 2002 Budgetary
 Implications Report

No, this is a new example. CBO could not develop an estimate for this example.

Related GAO Products

Debt Collection: Agriculture Making Progress in Addressing Key Challenges. GAO-03-202T. Washington, D.C.: November 13, 2002.

Debt Collection Improvement Act of 1996: Major Data Sources Inadequate for Implementing the Debtor Bar Provision. GAO-02-462. Washington, D.C.: March 29, 2002.

Debt Collection Improvement Act of 1996: Status of Selected Agencies' Implementation of Administrative Wage Garnishment. GAO-02-313. Washington, D.C.: February 28, 2002.

Debt Collection Improvement Act of 1996: Department of Agriculture Faces Challenges Implementing Certain Key Provisions. GAO-02-277T. Washington, D.C.: December 5, 2001.

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Debt Collection Improvement Act of 1996: Agencies Face Challenges
Implementing Certain Key Provisions. GAO-02-61T. Washington, D.C.:
October 10, 2001.

GAO Contact

Gary T. Engel, (202) 512-8815

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**Slowing the Long-Term
Growth of Social
Security and Medicare**

CBO Options Where Related GAO Work Is Identified

Constrain the Increase in Initial Benefits

Raise the Retirement Age

**CBO Options Where
 Related GAO Work Is
 Identified³⁷**

**Constrain the Increase in
 Initial Benefits**

Related GAO Products	<i>Social Security: Analysis of Issues and Selected Reform Proposals.</i> GAO-03-376T. Washington, D.C.: January 15, 2003. <i>Social Security Reform: Analysis of Reform Models Developed by the President's Commission to Strengthen Social Security.</i> GAO-03-310. Washington, D.C.: January 15, 2003.
GAO Contact	Barbara Bovbjerg, (202) 512-7215

Raise the Retirement Age

Related GAO Product	<i>Social Security Reform: Implications of Raising the Retirement Age.</i> GAO/HEHS-99-112. Washington, D.C.: August 27, 1999.
GAO Contact	Barbara Bovbjerg, (202) 512-7215

³⁷We list GAO reports identified as relating to options included in the CBO March 2003 *Budget Options* report. Only those CBO options for which we identified related GAO products are included. We included GAO reports if they related to the topic of the CBO option, regardless of whether our work supported the option or not.

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HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, DC, September 10, 2003.

The Hon. JIM NUSSLE,
Chairman, House Committee on the Budget,
Cannon House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: Pursuant to section 301 of the Concurrent Resolution on the Budget—Fiscal Year 2004, we are including below the findings of the Committee on Agriculture with respect to programs within the Committee's jurisdiction.

We commend the Budget Committee's efforts to identify waste, fraud, and abuse in government programs. Doing so is important to the nation's hard-working taxpayers who deserve value and efficiency in the government programs they pay for.

The Committee on Agriculture has long viewed eliminating waste, fraud, and abuse in government programs as a critical aspect of our oversight responsibilities. That is why when problems have been identified, we have moved quickly to address them through legislation, when needed, or by working with Administration officials to make changes in rules and regulations. Our long term commitment to correcting problems is confirmed by our record. Here are a few examples:

We addressed fraud in the Federal crop insurance program by limiting double insurance on the same acres in the same season, requiring that social security or tax identification numbers be used to track producers who previously would switch agents or companies for fraudulent activities, and encouraging the use of data mining techniques to identify schemes and devices used by agents, adjusters, and producers.

We addressed fraud in both the commodity programs and crop insurance by requiring that producer information be reconciled between the Farm Service Agency's commodity programs and the Risk Management Agency's crop insurance programs.

We addressed fraud in the food stamp program by requiring the use of EBT (electronic benefit transfer) cards to reduce trafficking in food stamp benefits and by tightening food stamp administration to ensure that certain classes of ineligible persons (such as prisoners) do not receive food stamps.

Following the instructions of your May 20 letter, we have made every effort to identify changes in legislation that would allow us to save \$5.25 billion of projected mandatory program costs (1% of the total) over 10 years due to waste, fraud, and abuse.

Unfortunately, this is a very difficult legislative task. The steps needed to eliminate much—if not most—of the fraud and abuse uncovered by the Inspector Generals (OIG), the General Accounting Office (GAO), and others require management—not legislative—changes. They require increased vigilance and enhanced enforce-

ment efforts under existing legal authority—not new legal authority.

Certainly it would be possible to write into law general instructions to USDA to do a better job in minimizing waste, fraud, and abuse. Unfortunately, the Congressional Budget Office will not score any budget savings for such general language.

We must constantly work to find the proper balance for enforcement activities. Our programs—whether food stamps or farm income support—are critically important to the well-being of recipients. Our society does not gain if, by writing the rules so tightly that no one receives benefits who shouldn't, we deny benefits to those who should receive (and need) benefits.

We recognize that there is substantial policy disagreement for many areas—not just for agriculture—as to what constitutes “waste.”

So with the above concerns as background, this is what we have done.

We first reviewed reports from the U.S. General Accounting Office and the Office of the Inspector General of the U. S. Department of Agriculture. We also reviewed budget reduction options from the Congressional Budget Office (CBO) and ideas from think tanks. We had discussions with GAO and OIG staff. We held hearings on food stamps and crop insurance to better understand how program administrators are dealing with fraud problems.

Based on this extensive review, we have identified a number of options for reducing the costs of federal programs. This list includes options to reduce possible waste, fraud, and abuse but also includes options to improve the economy, efficiency, and effectiveness of programs, as well as options affecting worthy programs that it may turn out we simply cannot afford to fund as generously as we would like. The options include:

- Mandating increased use of advanced statistical techniques to guide fraud investigations in the crop insurance and commodity programs.
- Tightening compliance measures for commodity programs.
- Consolidating commodity program payment statements to producers.
- Phasing-in a moratorium on land purchases by the Forest Service.
- Improving the delivery of rural development programs.
- Modifying nutrition programs.
- Reorganizing USDA to eliminate duplicative organization structures.

Based on CBO estimates (supplemented, when necessary, by Committee staff estimates), we believe that this list of possible options represents a ten-year savings pool of more than \$10 billion—well beyond the \$5.25 billion specified in this year's budget resolution.

We need to be clear that it would be a major legislative undertaking to achieve \$5.25 billion in ten-year savings in our programs. Rest assured that we will do what needs to be done to find the savings required by any new budget reconciliation. But doing so will require a great deal of effort if we are to preserve the essential elements of efficient programs that provide important benefits to many people.

If next year we are given reconciliation instructions to find program savings, we will look at these options as well as others. We appreciate very much the Budget Committee's leadership in keeping issues of waste, fraud, and abuse on the front burner. Finding solutions to these problems requires constant vigilance and we are glad to have your support as we continue our efforts. Mr. Chairman, we look forward to continuing the excellent relationship that we have with you and that exists between our committees.

Sincerely,

BOB GOODLATTE

Chairman.

CHARLES W. STENHOLM,

Ranking Minority Member.

COMMITTEE ON EDUCATION, AND THE WORKFORCE,
HOUSE OF REPRESENTATIVES,
Washington, DC, September 2, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget,
Cannon House Office Building, Washington, DC.*

DEAR CHAIRMAN NUSSLE: In reponse to your July 1, 2003 letter, and as required in the FY 2004 Budget Resolution Conference Report (House Report 108-71), enclosed please find the submission for the Committee on Education and the Workforce. Also enclosed is a submission from Representative George Miller regarding the Minority Views.

If you have any questions, please feel free to contact me at your convenience.

Sincerely,

JOHN A. BOEHNER,
Chairman.

COMMITTEE ON EDUCATION AND THE WORKFORCE FISCAL
YEAR 2004 BUDGET RESOLUTION

The Committee on Education and the Workforce applauds the efforts of the Committee on the Budget to focus Congressional attention on waste, fraud, and abuse in federal programs.

In response to the FY 2004 Budget Resolution Conference Report (108-71), the Committee on Education and the Workforce finds that in the area of death and disability student loan claims, professional judgment, and fraudulent activities at the Department of Education, significant corrective action has already been taken. However, the Committee identifies the following potential means of reducing waste, fraud, and abuse in both discretionary and mandatory spending programs under its jurisdiction:

- Request that the Committee on Ways and Means examine an IRS data match legislative proposal designed to reduce the Pell Grant shortfall;
- Reform or repeal the Davis-Bacon Act to reduce artificially-inflated federal construction costs by as much as 38 percent; and
- Reform or repeal the Service Contract Act to permit employers in affected industries to pay employees a market-based wage.

SIGNIFICANT CORRECTIVE ACTION FINDINGS

Death and Disability Student Loan Claims

According to Section 301(a)(1) of the FY 04 Budget Resolution Conference Report, “the Inspector General of the Department of Education has found that nearly 23 percent of recipients whose

loans were discharged due to disability claims were gainfully employed.”

However, the Department of Education has already investigated this allegation and the Chief Operating Officer of the Department’s Performance Based Organization found that there were far fewer improper claims paid than first reported by the Inspector General’s (IG) Office. In its FY 2001 Performance Plan, the Department’s Office of Student Financial Assistance (SFA) stated “we continue to work to determine the true scope of fraud in death and disability claims” and “these efforts have helped us determine that false death and disability claims aren’t nearly as widespread as originally thought.”

Further, in the summer of 2000, a negotiated rulemaking session took place with the higher education community to amend the regulations governing death and disability discharges. These new regulations are far more onerous on the borrower, provide for a “conditional” discharge of the loan debt for up to three years, necessitate more information and certification of the borrower’s condition, and require the loan to be assigned to the Secretary.

Due to the complexity of this change in policy, the new regulations did not take effect until July 1, 2002. At this time, it is too early to determine the effect they have had on reducing fraudulent death and disability claims. However, the concern expressed by the IG in its report has been addressed.

Professional Judgment

The Committee on the Budget has also indicated publicly that money can be saved in higher education programs by regulating what is known as “professional judgment.” Professional judgment is authority given to financial aid professionals which allows them to address special circumstances of students on a case-by-case basis. There are no regulations pertaining to this authority for obvious reasons, however, there are specific parameters within which the financial aid professional must work. For instance, in most cases there needs to be third party written documentation supporting the student’s special circumstance or a specific student statement with evidence of the circumstance, and a written statement by the financial aid professional as to his determination.

Examples of special or unusual circumstances include recent unemployment of a parent, high medical expenses not covered by insurance, domestic violence whereby the student no longer resides at home, or cases where a parent cannot be located. Most financial aid professionals use this authority sparingly. In fact, during the 107th Congress, a specific reference to professional judgment was included in the HEROES bill (P.L. 107–122) to encourage financial aid officers to utilize the authority in specific circumstances. The Committee on Education and the Workforce believes that regulating something that is designed to deal with extraordinary exceptions would be counterproductive.

Fraudulent Activities at the Department of Education

Over the past five years, the Committee on Education and the Workforce has held a series of eight hearings examining the finan-

cial management practices and fraudulent activities at the Department of Education:

- The Financial Management Practices of the Department of Education (12/6/99);
- Financial Management at the Department of Education (3/1/00);
- Financial Management Issues at the Department of Education (9/19/00);
- Waste, Fraud & Program Implementation at the U.S. Department of Education (10/25/00);
- Department of Education Financial Management (4/3/01);
- Status of Financial Management at the U.S. Department of Education (7/24/01);
- Status of Financial Management at the U.S. Department of Education (4/10/02); and
- The Recent Improvements of Financial Management Practices at the U.S. Department of Education (3/10/03).

As a result of this intense Congressional oversight and Secretary Paige's Management Improvement Team, the Department of Education—for only the second time in its 23-year history—received a “clean financial audit” from an independent accounting firm earlier this year.

In addition, the Department of Education's Office of Inspector General and the Department of Justice have made significant strides to recover some of the taxpayer funds that were lost due to prior waste, fraud, and abuse under the previous Administration. For example:

- Four people have been arrested and indicted on federal charges for stealing \$1.9 million in Impact Aid funds that should have gone to schools in South Dakota and instead were spent on real estate and luxury cars.
- Nineteen people have either pled guilty to federal charges or were convicted after a federal trial for their involvement in a massive theft ring at the department. On February 6, 2003, Verizon Federal Systems (successor to Bell Atlantic) entered into a \$2 million civil settlement with the Department of Education and the Department of Justice to settle federal claims of false overtime charges and improper electronic equipment purchases by their employees in conspiracy with Department of Education employees.
- Two Department employees and three employees of vendors for the Department have pled guilty to charges stemming from the ongoing investigation of fraudulent purchase card use. These individuals admitted to conspiring to use government credit cards to purchase household furniture for the Department employees' personal use.

The Committee on Education and the Workforce commends the Bush Administration and Secretary Paige for changing the internal culture at the Department of Education and for bringing those individuals who abused taxpayer dollars to justice.

IDENTIFICATION OF WASTE, FRAUD, AND ABUSE

Examine an IRS Data Match Legislative Proposal Designed To Reduce the Pell Grant Shortfall

The Committee on Education and the Workforce is committed to protecting student aid from abuse by improving management controls for programs under its jurisdiction. The federal Pell Grant Program, which provides undergraduate students from low-income families with up to \$4,050 this year to help pay for college and other post-secondary education, is an example of one such program.

Recently, the Department of Education's Inspector General testified before the House Committee on the Budget that \$300 to \$400 million in Pell Grant aid was erroneously awarded because some applicants misreported their income levels on their federal student aid applications. The Wall Street Journal pointed out in their July 22nd "Waste Not, Deficit Not" editorial that according to Inspector General John Higgins this estimate was "conservative."

The Bush Administration has proposed an Internal Revenue Service data match of information submitted by Pell applicants and believes that this will reduce over awards and under awards of Pell Grant funds. If enacted, the proposed match between the Department of Education and the IRS has the potential to free up as much as \$340 million to reduce the current Pell Grant shortfall and strengthen the Pell Grant program for needy students striving for a college education.

While the Higher Education Act currently provides authorization for such a data match to take place, additional legislative action on the part of the Committee on Ways and Means is necessary to implement a less burdensome and more streamlined process. The Committee on Education on the Workforce has asked the Committee on Ways and Means to examine this proposal to determine its potential effectiveness—recognizing that any savings realized from the data match will be used to reduce the current Pell Grant shortfall.

Repeal or Reform the Davis-Bacon Act

As a means of reducing waste, fraud, and abuse in federal programs, the Committee on Education and the Workforce suggests consideration of the repeal or reform of the costly and outdated Davis-Bacon Act. Repeal or reform of Davis-Bacon would improve the efficiency and cost-effectiveness of federal contracting, and address systemic flaws contained in the statute that have led to documented fraud and abuse.

In general, the Davis-Bacon Act requires that employers on federally funded construction projects valued in excess of \$2,000 pay their workers no less than the "prevailing wage rate" as determined by the Department of Labor (DOL). Enacted in 1931, the law was drafted to apply to contracts for construction to which the federal government was a contracting party. In the 70+ years since its enactment, however, the application of Davis-Bacon has been interpreted and legislatively expanded to encompass a far wider range of federal programs than the original "federal construction" model for which it was intended. For example, in recent years, it

has been legislatively applied to programs using increasingly indirect and/or attenuated federal financing.

The application of Davis-Bacon has been demonstrated to inflate construction costs on average from five to fifteen percent, and in some instances up to almost 40 percent (38 percent in rural areas, according to some studies). Moreover, the determination of “prevailing wages” by the Department of Labor has been documented to be rife with abuse. A January 1999 General Accounting Office report found errors in 70 percent of the wage forms used by DOL to calculate prevailing wages, and DOL’s own Inspector General concluded in 1997 that two-thirds of the wage surveys provided to the Department for use in calculating prevailing wage rates were inaccurate.

Worse, some believe the Davis-Bacon Act encourages discrimination against some of America’s most vulnerable workers. “The effect of the Davis-Bacon Act is that of discriminating against contractor employment of non-union and lower skilled workers,” wrote Dr. Walter E. Williams, a noted columnist and professor at George Mason University, earlier this year. “Thus, it has a racially discriminatory effect, since most blacks are in the non-union sector of the construction industry. Even black contractors wanting to hire a lower skilled black worker can’t do so.” (Walter E. Williams, “Congress” Insidious Discrimination,” Augusta Chronicle, March 14, 2003)

An increase in the \$2,000 threshold for Davis-Bacon projects (last revised in 1935) would also result in significant cost savings to the federal government. In the Congressional Budget Office’s Budget Options 2003, it is noted that simply raising the threshold for Davis-Bacon covered contracts from \$2,000 to \$1 million could save the government \$50 million in FY 2004. Over a four year period (2004–2008) CBO estimates a savings of \$750 million.

At a minimum, the Committee on Education and the Workforce endorses limiting the Davis-Bacon Act to the historic and traditional model for which it was enacted and intended, and opposes any expansion of these outdated requirements for new federal programs or non-traditional means of federal financing.

Repeal or Limit the Service Contract Act to Ensure Payment of Market-Based Wages

As a further means of reducing waste, fraud, and abuse in federal programs, the Committee on Education and the Workforce also endorses the repeal or limitation of the costly and outdated Service Contract Act, originally enacted in 1965 to compliment Davis-Bacon. Repeal or limitation of the Service Contract Act would improve the efficiency and cost-effectiveness of federal contracting and permit employers to pay employees a market-based wage, rather than a wage determined artificially by the federal government using data that is frequently outdated and/or of questionable value.

The Service Contract Act has been problematic and unnecessarily costly for virtually everyone involved with it—private sector workers, private sector employers, American consumers, and the federal government itself. Take environmental enthusiasts, for example. The National Forest Recreation Association (NFRA) in 1999 tried to persuade Congress to change the Service Contract Act because

it was applied—to the surprise of many—to wages paid to employees working on privately operated campgrounds in the nation’s national forests, resulting in fees nearly doubling for Americans visiting those popular environmental attractions. According to the Modesto Bee, NFRA argued the Service Contract Act was meant to apply to “carpenters and electricians providing services to the government, not campground hosts serving the public,” (Ron DeLacy, “Wage Ruling Assailed; Angry Campers Protest Changes,” Modesto Bee, February 8, 1999). According to an Associated Press account, “Forest Service officials had assumed the campground workers were exempt from the McNamara-O’Hara Act. They viewed their contracts with concessionaires as leases, which don’t come under the act’s jurisdiction. When told otherwise, Forest Service officials tried to get an exemption last year. The Labor Department already exempts concession contracts for lodging at national parks, they said, arguing that campgrounds should be considered lodging, too.” (John Hughes, “Wage Increase for Campground Workers Could Boost Fees in Federal Forests,” Associated Press, January 18, 1999)

At a March 10, 1999 hearing of the House Armed Services Committee, the U.S. Navy cited the Service Contract Act not only as an unnecessary cost-driver, but also as an obstacle to its efforts to provide quality childcare for military families. Rear Admiral James B. Hinkle, U.S. Navy Assistant Commander, Navy Personnel Command, Personal Readiness & Community Support, testified on the topic before the House Armed Service Committee’s Special Oversight Panel on Morale, Welfare, and Recreation. He discussed the Navy’s experience with a demonstration project designed to explore the possibilities of contracting with commercial child care centers to provide care for the children of military personnel, rather than relying exclusively on military-operated centers, which is the most expensive option. The project was successful in some places but not in others, Admiral Hinkle noted, in part because of unnecessary cost increases resulting from the Service Contract Act. “The Service Contract Act increases the cost to the government, which often makes the cost of the program uneconomical as compared to other alternatives.” (Federal News Service Transcripts, March 10, 1999)

Like Davis-Bacon, the Service Contract Act has been identified by previous Congresses as a source of waste that is ripe for reform or repeal. For example, the chairman’s mark for the FY 2000 Budget Resolution proposed in March 1999 by Senate Budget Committee Chairman Pete Domenici (R-NM) proposed repealing both Davis-Bacon and the Service Contract Act for a net \$1 billion in savings. (National Journal’s CongressDaily, “Domenici Plan Includes Reserve Fund, 10-Yr. Tax Cut,” March 17, 1999)

The Congressional Budget Office’s Budget Options 2001 estimated that \$9.8 billion could be saved in Fiscal Years 2002–2011 by repealing the Service Contract Act. The document concludes that, “Federal procurement costs would fall because repealing the Service Contract Act would promote greater competition among bidders, although the precise magnitude of the savings is difficult to estimate.” At a minimum, a review of the Davis-Bacon and Service Contract Act impact on federal procurement demonstrates the need for significant reform if not outright repeal.

MINORITY VIEWS

Majority's Recommendation to Slash Worker Benefits to Support Tax Cuts for the Wealthy

We strongly disagree with the recommendation of our Republican colleagues that the Congress should repeal or otherwise weaken the Davis-Bacon Act and the Service Contract Act. The Republicans are proposing is to slash the wages and living conditions of working Americans in order to pay for their irresponsible tax cuts for the wealthy.

The Republican proposal would undercut the financial security of millions of middle income families in order to address the largest in history, one they have created through irresponsible tax policy. In 2001, the Congressional Budget Office (CBO) estimated that the Federal Government would have a unified surplus of \$359 billion in 2003. Instead, after two-and-a-half years of the Bush Administration, CBO forecasts that the Federal Government will have a deficit of \$401 billion for 2003, and even higher for 2004. Under the policies of the Bush Administration, the federal budget has deteriorated by \$760 billion dollars in 2003 alone. The long-term picture is even worse. The cumulative budget over 2002–2011, which was a surplus of \$5.6 trillion when President Bush took office, has deteriorated to a \$3.3 trillion deficit—a swing of \$9 trillion to the worse.

While President Bush's budget policies have sent the deficit soaring out of control, they have yet to produce any benefit, trickle down or otherwise, for most Americans. Since President Bush took office, we have lost 3.2 million private sector jobs, by far the worst jobs record of any Administration since the Great Depression. Long-term unemployment has tripled. Real GDP growth has been the lowest for any Administration since World War II. Real business investment has fallen by 10.4 percent under the Bush Administration, and the trade deficit has increased by almost \$100 billion. Further undermining the wages and living conditions of American citizens as the Republican majority recommends, by repealing prevailing wage protections, compounds these job and income problems.

Prevailing wage laws such as the Davis-Bacon Act and the Service Contract Act ensure that the government procurement process does not undermine the wages and living conditions of taxpayers. Generally, the government purchases on a low-bid basis—if contractor A agrees to perform the work for less than anyone else, then contractor A is awarded to the contract to do the work. Particularly in the construction industry and many segments of the service sector, where labor costs are often the single largest cost that can be manipulated in the absence of a prevailing wage statute, the low bidder will ultimately be determined on the basis of who pays the lowest wage. For example, prior the enactment of the Service Contract Act in 1965, star carriers, private truckers and trucking companies who contract to carry mail for the U.S. Postal Service, were typically paying their truck drivers less than the minimum wage. Further, employees had no means of bettering their condition because any increase in wages typically resulted in the loss of the contract to a different contractor able and willing to

pay the former lower wage. In other words, without prevailing wage protection, the government procurement process acts to undermine wages and living conditions by encouraging contractors to compete for government contracts on the basis of who will pay their employees the least.

By recommending the repeal of the Davis-Bacon Act and the Service Contract Act, Republicans are recommending that the government undermine the wages of its citizens. They claim that undermining wages will save the government money. It will not. By establishing a wage floor at locally prevailing wages rates, the Davis-Bacon Act and the Service Contract Act ensure that government contracts are competed for on the basis of who can most efficiently fulfill the contract rather than who can pay the least. Prevailing wage laws ensure that the government has access to reputable contractors who employ skilled and trained workers. They ensure that the government receives quality for its dollars. Repealing the Davis-Bacon Act and the Service Contract Act will cost the government money by undermining the quality of the work performed for the government. It will also cost the government money by undermining the wages and living conditions of its citizens, trapping workers in dead end jobs and increasing reliance upon public resources while simultaneously undermining the ability to pay for those resources.

We note that the Republican leadership has refused to bring vital public works bills to floor because the bills have included prevailing wage requirements and the Republicans have lacked the votes to remove or eliminate those requirements. The Republican leadership has prohibited House consideration of the Water Quality Financing Act, the Railroad Track Modernization Act, and the Rail Infrastructure Development and Expansion Act for the 21st Century because Davis-Bacon Act requirements would apply to the projects. It is estimated that the highway and water project construction jobs that have been put on hold by the Republican leadership would create as many as three million jobs. Instead, we are failing to meet vital public needs and exacerbating unemployment in a faltering economy.

Administration's Failure to Address Growing Pension Crisis: PBGC Deficit of \$3.7 Billion Puts Taxpayers at Risk

Despite repeated requests by the Minority for the Bush Administration to address a \$300 billion shortfall in private pension plans, and a \$3.7 billion PBGC deficit, no action has been taken to address this urgent problem. In fact, the Administration is unable to demonstrate how its proposal to scrap the 30-year Treasury Bond Rate will improve pension plan security. The failure of the Administration and the Republican Congress to act poses a significant risk to taxpayers, who may be required to pay billions of dollars to bail out the PBGC which currently has its largest deficit in its 29-year history. Over the past two years, the PBGC has paid out 18 times the amounts in benefits that it paid in the period 1993 to 2000. The GAO recently put the PBGC on its watch list because of its precarious financial position. The Administration must stop its dithering on pension security, and provide Congress with information necessary to make urgently needed pension reforms.

Death and Disability Student Loan Claims

Any efforts to eliminate fraud and abuse in death and disability student loan claims must not impede students with legitimate claims from receiving fair and timely consideration. In addition, the definition of 'disability' used by the Department of Education should be updated to provide a uniform federal definition and threshold, to better coordinate and expedite legitimate discharge of student loans.

Pell Grant Shortfall

The Committee on Education must fully investigate the Department of Education's inability to resolve the chronic Pell Grant shortfall. The Department has repeatedly failed to make accurate assumptions as to how many eligible students will apply for Pell Grants when writing its annual budget. The Department's failure to make accurate assumptions has undermined efforts to fully fund the Pell Grant program and to ensure that all low and middle-income students have access to a college education. The Administration has also intentionally failed to budget sufficient funds to address the shortfall, thus undermining appropriations necessary for even modest Pell increases. The Department must revise its outdated methods to ensure accurate assumptions regarding participation levels in the Pell Grant program.

Student Loan Subsidies

As instructed by the Committee on Budget, in its FY 2004 Budget Resolution Conference Report, the Committee on Education and the Workforce finds that two of the most promising areas to reduce wasteful spending are to eliminate lender windfall profits and to promote competition within the student loan programs.

Under current law, student lenders are not required to rebate excess federal subsidies to the government when they earn more than a fair market return on student loans. According to the Congressional Budget Office (CBO) eliminating these lender windfall profits would save an estimated \$4.5 billion between 2004–2008.

In addition, the Department of Education must pursue opportunities to increase competition among the loan programs, such as eliminating the Single Lender Rule, as a means to eliminate wasteful spending. One such area of competition where the Department has failed to make progress is on the issue of how to appropriately set lender yields, or competitive mechanisms, on federal student loans. The Department must move forward on competitive market mechanisms in order to ensure both private sector participation and government savings.

GEORGE MILLER,
Senior Democratic Member.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC, September 2, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget, House of Representatives,
Cannon House Office Building, Washington, DC.*

DEAR CHAIRMAN NUSSLE: Pursuant to section 301(b) of the FY 2004 Budget Resolution, this letter details findings that identify changes in law within the Committee on Energy and Commerce's jurisdiction that would achieve the level of savings through the elimination of waste, fraud, and abuse that you specified in the Congressional Record on May 21, 2003. As is the custom in our Committee, our minority may choose to submit their own findings under separate cover.

Congress should strongly consider acting on some of these ideas within the next year. With entitlement spending growing at a rapid rate, it is critical to identify new ways to limit spending. At the same time, we must continue to strengthen and preserve the core mission of our safety net programs. These recommendations reflect this delicate balance and will contribute to our joint efforts to balance the Federal budget in future years.

MEDICAID FINANCING

Medicaid pays for the costs of providing health care coverage to 44 million low-income Americans. States and the Federal government fund the program jointly, with the Federal share determined by the use of the FMAP (Federal Medical Assistance Percentage) formula, which is based upon state per capita income. The Federal liability for Medicaid program expenditures is presently open-ended, because the Federal government is obligated to pay a set percentage of all state Medicaid expenditures covered under each state's Medicaid plan. As states' costs rise, the Federal government's costs increased as well.

Unfortunately, the current mechanism for funding Medicaid encourages states to aggressively define their Medicaid spending as creatively as possible in order to qualify for Federal matching funds. In addition, the current system has inappropriately led many states to adopt various schemes to obtain additional federal funds. These strategies—known generally as “Medicaid maximization”—have led to the well-documented abuses associated with Upper Payment Limits, Inter-Governmental Transfers, and Disproportionate Share Hospital payments.¹

¹HHS, Office of Inspector General, A-03-00216, September, 2001 (Upper Payment Limits); HHS Office of Inspector General, A-06-01-00069, December 2001 (Disproportionate Share Hospital payments); U.S. General Accounting Office, Medicaid: State Financing Schemes Again Drive Up Federal Payments. GAO/T-HEHS-00-193, September 6, 2000.

Each of the financing schemes involves states responding to the perverse incentives currently reflected in how the Federal government finances Medicaid. So long as the Federal government continues to provide an open-ended commitment to match all state expenditures, states will have strong financial incentives to maximize the amount of Federal dollars that can be drawn-down as matching payments. In addition, states engaging in these practices will always be able to provide persuasive arguments for why the additional Federal dollars are necessary to support a wide variety of popular expenditures to provide health care for particularly vulnerable Medicaid beneficiaries. These justifications have historically made it very difficult for Congress to reduce or eliminate abusive financing schemes, despite the large potential savings that could result from such changes.² Ironically, many of these financing schemes have not even resulted in our precious Federal health care dollars being utilized for patient care.

Recommendation No. 1: The current Medicaid reimbursement methodology should be altered to eliminate the current perverse incentives that encourage states to engage in Medicaid maximization schemes. Adopting capped, state-specific allotments for optional populations and services, as recently discussed by a National Governor's Association task force, would significantly reduce the incentives for states to maintain or prospectively implement such financing schemes. Such an approach would also give states incentives to manage their Medicaid programs more cost-effectively.

MEDICAID ADMINISTRATIVE COSTS

Before 1996, common costs for administering food stamps, Medicaid, and welfare were often charged to the AFDC program—the predecessor of the Temporary Assistance for Needy Families (“TANF”) grants. These common costs were subsequently included in the calculation of each state's TANF grant when Congress passed welfare reform in 1996. Unfortunately, states that had previously charged their Medicaid program's share of common administrative costs to AFDC now receive Federal Medicaid reimbursements for these same expenses. This double payment should be eliminated.

Recommendation No. 2: Reduce federal reimbursement for Medicaid administrative costs to reflect the portion of these costs that are already included in the TANF block grant that a state receives.

MEDICAID DRUG REIMBURSEMENTS

Many states currently reimburse Medicaid providers for the costs of covered outpatient drugs based upon manufacturer reported prices. These prices, known as either Average Wholesale Price (“AWP”) or Wholesale Acquisition Cost (“WAC”) have been reported to far exceed the acquisition prices paid by many providers.³

²For example, the CBO has estimated that requiring all states to be in full compliance with the January 2001 UPL regulations by 2004 (rather than the extended deadlines provided under the Benefits Improvement and Protection Act of 2000) would reduce federal outlays by almost \$2.8 billion in 2004 and \$7.3 billion over five years.

³HHS Office of Inspector General, Medicaid Pharmacy: Actual Acquisition Cost of Brand Name Prescription Drug Products, A-06-00-00023, August 2001.

The Energy and Commerce Committee has already conducted an extensive investigation into how the manipulation of AWP's currently costs the Medicare program hundreds of millions of dollars annually due to inflated reimbursements. This investigation also revealed that certain drug manufacturers have deliberately inflated their AWP's above their sale prices, in order to create an inducement for providers to use their products. Similar incentives exist in the Medicaid program for certain types of drugs, and the Committee is currently conducting an extensive investigation to assess the extent to which the inflation of AWP's unnecessarily increases Medicaid drug reimbursements. Reports prepared by the Department of Health and Human Services' Office of Inspector General (OIG) have estimated that the inflation of AWP's for brand-name drugs resulted in Medicaid overpayments in excess of \$1 billion per year and \$470 million per year for generic drugs.⁴

Recommendation No. 3: Require that states reimburse providers for Medicaid-covered outpatient drugs at prices that better reflect their acquisition costs.

State Medicaid programs are currently required to collect and submit information regarding the utilization of covered outpatient drugs. This data is then used to calculate the amounts that drug manufacturers must pay in the form of Medicaid rebates. A recent letter from the Centers for Medicare and Medicaid Services' ("CMS") Director of the Center for Medicaid and State Operations highlighted that many states do not currently collect the data necessary to obtain rebates on drugs administered in physician office settings. The letter encouraged states to collect and submit this data, and pointed out that their failure to do so has in the past led to millions of dollars in potential rebates going uncollected. Congress should step in to fix this problem.

Recommendation No. 4: Require that states collect and submit the necessary information that will enable the Medicaid program to collect the correct rebates for these drugs.

MEDICARE OVERPAYMENTS

The Energy and Commerce Committee included several provisions that will reduce excessive payments to Medicare providers in H.R. 1, the Medicare Prescription Drug and Modernization Act of 2003. As the House-Senate conference on H.R. 1 proceeds, it is critical that we continue to modernize the Medicare Program and make it more efficient. Currently, Medicare comprises approximately 12% of all Federal spending—a number expected to more than double in the next twenty-five years. Absent changes to Medicare, the financial burdens on future taxpayers and beneficiaries will be overwhelming. That is why sections 302 and 303 of H.R. 1 are essential in clamping down on some of the unwarranted spending in two areas of the traditional fee-for-service program: (1) payments for drugs administered within physician office settings and (2) reimbursements for certain types of durable medical equipment.

Working in collaboration with the Ways and Means Committee, our Committee developed policies earlier this year designed to reduce the level of inappropriate payments in the aforementioned

⁴Id.

areas and to create a more competitive market-oriented structure that efficiently expends health care resources. Enactment of sections 301 and 302 alone will, according to the Congressional Budget Office, save the Medicare Program over \$22 billion over the next ten years. Additionally, the reduction in these payments will significantly reduce beneficiaries' overpayments for coinsurance. For drugs administered in the physician office setting, the Inspector General has estimated that Medicare beneficiaries are overpaying over \$175 million in coinsurance annually. The AWP policy in H.R. 1 will reduce those overpayments and create a more rational payment policy for beneficiaries, providers, and taxpayers.

With respect to durable medical equipment, beneficiaries and taxpayers will also save billions of dollars if Congress moves toward a competitive acquisition system. The results of two recent competitive bidding demonstration projects in Polk County, Florida and San Antonio, Texas show how promising this new policy could be if implemented in many parts of the country. Preliminary reports indicate that savings of between 17–20% could be realized for certain products. Moreover, because our policy provides the Secretary with the flexibility to exempt products for which competitive bidding may be inappropriate or not cost-effective, this policy will be precisely targeted to the products for which we are currently overpaying. Rather than randomly freezing a fee schedule to reduce rates, reimbursement prices will be dictated by market conditions within a geographic area—not by a governmental price fixer.

Recommendation No. 5: Enact sections 302 and 303 of H.R. 1 in order to begin immediately reducing the overpayments for drugs administered within physician office settings and lowering the excessive prices paid for durable medical equipment.

I share your strong interest in reducing waste, fraud, and abuse government-wide. The previously referenced recommendations are by no means an exhaustive list of all of the areas within the Energy and Commerce Committee's jurisdiction that we will continue to examine, nor are they exhaustive of matters within just the Medicaid and Medicare programs. We look forward to working with you in coming budget resolutions to addressing these issues.

Please contact me or have your staff contact Patrick Morrisey or Chuck Clapton if you would like to discuss the matters contained in this letter in more detail.

Sincerely,

W.J. "BILL" TAUZIN,
Chairman.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC, July 31, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget,
Cannon House Office Building, Washington, DC.*

DEAR JIM: Pursuant to section 301 of the Conference Report to Accompany the Concurrent Resolution on the Budget for Fiscal Year 2004, and by direction of the Committee on Financial Services, I transmit herewith a committee print entitled "Changes in Law to Eliminate Waste, Fraud, and Abuse" together with Dissenting Views. The committee print was approved by the Committee on July 24, 2003 by a voice vote, a quorum being present. An electronic copy is also included.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

MICHAEL G. OXLEY,
Chairman.

Enclosures.

CHANGES IN LAW TO ELIMINATE WASTE, FRAUD, AND
ABUSE

Pursuant to section 301 of the Conference Report to Accompany the Concurrent Resolution on the Budget for Fiscal Year 2004 (H. Con. Res. 95; H. Rept. 108-71), the Committee on Financial Services is transmitting herewith its findings on means of eliminating waste, fraud, and abuse in spending programs under the Committee's jurisdiction.

Section 301 of the resolution requires committees to "submit findings that identify changes in law within their jurisdictions that would achieve the specified level of savings through the elimination of waste, fraud, and abuse" in mandatory programs. Along with all Committee chairmen, the Chairman of the full Committee announced his intention to meet the goals of section 301 with respect to all programs under the Committee's jurisdiction, not just mandatory programs.

UNLIQUIDATED OBLIGATIONS IN HOUSING PROGRAMS

On June 25, 2003, the Subcommittee on Oversight and Investigations held a hearing entitled, "Saving Taxpayer Money Through Sound Financial Management." The focus of his hearing was to identify current and quantifiable savings in appropriated funds under the Committee's jurisdiction which could be easily recaptured to meet the goals of the budget resolution. Upon a review of the pertinent agencies, the Committee concluded that savings can

be most readily identified in funds labeled as “unliquidated obligations.” Unliquidated obligations are funds that are appropriated and obligated for a function but, for a variety of reasons, never actually disbursed. By their nature, grant and subsidy programs and long-term contracts maintain a high level of unliquidated obligations at any given time. Through vigilant oversight of the status of individual grants, subsidies, and contracts, senior agency managers can recapture unliquidated obligations and either apply them for other purposes and reduce future appropriations, or deobligate them. The funds can be recaptured without any changes to program eligibility or any cuts to program functions or personnel.

Based on these criteria, the programs under the Committee’s jurisdiction which are most likely to have high levels of unliquidated obligations are the Section 8 and Section 236 rental assistance programs at HUD and the rural rental assistance program at the Rural Housing Service (RHS) of the Department of Agriculture. Committee staff, senior HUD and RHSD officials, the Inspectors General of HUD and the Agriculture Department, and the GAO are collaborating to determine the amount of unliquidated obligations that could meet the goals in the budget resolution without changes to the programs.

Department of Housing and Urban Development

At the hearing, the Chief Financial Officer of the Department of Housing and Urban Development (HUD) testified on the level of unliquidated obligations at HUD. The Chief Financial Officer announced that for FY 2004 alone, over \$1.7 billion in previously appropriated and obligated funds most likely will not be used for the purposes appropriated. It has proposed to use these funds to lower (offset) what would have been the total cost of the HUD appropriations request in FY 2004 by this amount.

As of the end of May this year, HUD held \$108 billion dollars in unexpended appropriated funds, more than 3 times its requested appropriation for FY 2004. Of these balances, \$34 billion has yet to be awarded and obligated by HUD, primarily because Congress enacted the FY 2003 Appropriations Act in February of 2003.

The Chief Financial Officer also discussed the detailed measures that her office has undertaken to reduce unliquidated obligations and outstanding balances in other areas. For instance, since December 2001, total funds not committed to specific public housing authority modernization projects have fallen from \$3.4 billion to \$700 million as of March 31, 2003, meaning that the funds have been committed and spent more quickly.

With respect to the long-term outlook (FY 2004–2013), HUD currently has an additional \$30 billion in funds that are owed (mainly to landlords and multi-family project owners) that provide subsidized housing to millions of families across the country. It is not clear to what extent some of these funds will not be needed in the future. Originally, Congress appropriated the full cost of these rental subsidy programs based on a certain set of economic assumptions, such as inflation and wages of tenants. These may or may not bear out over the many years left on the contracts HUD has with the owners. Hence decisions on the amount of excess that

will be available have to be made on a year-by-year basis and can not be presumed ahead of time.

The Committee also requested and received a statement for the record from the Inspector General of HUD on his office's initiatives to detect and prevent waste, fraud, and abuse. The Inspector General stated that HUD is not recapturing unliquidated obligations and undisbursed contract authority in a timely manner.

Additionally, the Inspector General noted that HUD identified significant errors in the billings and payments processes, which also results in excess rental subsidy payments. The GAO now lists rental subsidy overpayments as one of the Department's high risk areas. While the amount attributable to fraud is unknown, the Department estimates losses linked to improper housing assistance payments to exceed one billion dollars annually. The OIG announced a new effort to detect and prevent fraud in housing assistance programs.

Department of Agriculture

The Under Secretary for Rural Development at the Department of Agriculture, a program also under the Committee's jurisdiction, also testified at the hearing on the level of unliquidated obligations in the Section 521 Rental Assistance Program. The Section 521 Program currently helps 264,000 households to maintain their rental residence by providing a subsidy to pay the difference between the basic rent for the apartment and up to 30 percent of an eligible tenant's income. The General Accounting Office is reviewing the Section 521 Program and has raised concerns about the unliquidated balances on the 20-year contracts and 5-year contracts on which rental assistance payments continue to be paid on units beyond the original terms.

The Office of Rural Development determined that there is \$737,000,000 outstanding on active contract that were obligated between 1978 and 1988. These funds are only available for the current contracts or may be transferred to other units on existing contracts. At the hearing, the Chairwoman of the Oversight and Investigations Subcommittee announced that the Committee has asked the GAO to review the contracts in question and determined how much of the \$737 million outstanding can be deobligated through legal action or, if needed, legislation.

CONCLUSION

In its review of its programs, the Committee found that in one of its largest categories of spending—housing assistance programs—the agencies have significant unliquidated obligations which, if deobligated or otherwise recaptured, could result in significant savings without meaningful reductions in program services. This ensures that both the Department of Housing and Urban Development and the Department of Agriculture can continue to serve their customers while assisting in efforts to reduce the deficit.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on July 23, 2003 and considered a committee print entitled "Changes in Law to Eliminate Waste, Fraud, and Abuse". On July 24, 2003, the Committee agreed to a motion by Mr. Oxley to approve the Committee print and forward it to the Committee on the Budget by a voice vote.

COMMITTEE VOTES

A motion by Mr. Oxley to report the bill to the House with a favorable recommendation was agreed to by a voice vote. The following amendment was considered by a record vote. The names of Members voting for and against follow:

An amendment by Mr. Meeks, no. 1, recommending elimination of the public housing community service requirement, was not agreed to by a record vote of 29 yeas and 30 nays.

RECORD VOTE NO. FC-10

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Oxley		X	.....	Mr. Frank (MA)	X	.....	.....
Mr. Leach	Mr. Kanjorski	X	.....	.....
Mr. Bereuter	Ms. Waters	X	.....	.....
Mr. Baker		X	.....	Mr. Sanders ¹	X	.....	.....
Mr. Bachus		X	.....	Mrs. Maloney	X	.....	.....
Mr. Castle		X	.....	Mr. Gutierrez	X	.....	.....
Mr. King	Ms. Velázquez	X	.....	.....
Mr. Royce		X	.....	Mr. Watt	X	.....	.....
Mr. Lucas (OK)		X	.....	Mr. Ackerman	X	.....	.....
Mr. Ney		X	.....	Ms. Hooley (OR)	X	.....	.....
Mrs. Kelly		X	.....	Ms. Carson (IN)	X	.....	.....
Mr. Paul	Mr. Sherman	X	.....	.....
Mr. Gillmor		X	.....	Mr. Meeks (NY)	X	.....	.....
Mr. Ryun (KS)		X	.....	Ms. Lee	X	.....	.....
Mr. LaTourette		X	.....	Mr. Inslee	X	.....	.....
Mr. Manzullo		X	.....	Mr. Moore	X	.....	.....
Mr. Jones (NC)		X	.....	Mr. Gonzalez	X	.....	.....
Mr. Ose		X	.....	Mr. Capuano	X	.....	.....
Mrs. Biggert	Mr. Ford .....		.....	.....
Mr. Green (WI)		X	.....	Mr. Hinojosa	X	.....	.....
Mr. Toomey		X	.....	Mr. Lucas (KY) .....		.....	.....
Mr. Shays		X	.....	Mr. Crowley	X	.....	.....
Mr. Shadegg		X	.....	Mr. Clay .....		.....	.....
Mr. Fossella	Mr. Israel	X	.....	.....
Mr. Gary G. Miller (CA)		X	.....	Mr. Ross	X	.....	.....
Ms. Hart	Mrs. McCarthy (NY)	X	.....	.....
Mrs. Capito		X	.....	Mr. Baca	X	.....	.....
Mr. Tiberi		X	.....	Mr. Matheson	X	.....	.....
Mr. Kennedy (MN)		X	.....	Mr. Lynch .....		.....	.....
Mr. Feeney		X	.....	Mr. Miller (NC)	X	.....	.....
Mr. Hensarling		X	.....	Mr. Emanuel	X	.....	.....
Mr. Garrett (NJ)		X	.....	Mr. Scott (GA)	X	.....	.....
Mr. Murphy		X	.....	Mr. Davis (AL)	X	.....	.....
Ms. Ginny Brown-Waite (FL)		X	.....			
Mr. Barrett (SC)		X	.....			
Ms. Harris		X	.....			
Mr. Renzi		X	.....			

¹ Mr. Sanders is an independent, but caucuses with the Democratic Caucus.

DISSENTING VIEWS

Section 301 of the FY 2004 Budget Resolution requires committees to “submit findings that identify changes in law within their jurisdictions that would achieve the specified level of savings through the elimination of waste, fraud and abuse” in “mandatory programs.” Report language indicates that such submissions must “reduce outlays by an amount to be specified by the chairmen of the Budget Committees.”

The findings contained in this report fail in every respect to meet the requirements of Section 301 of the Budget Resolution. The “unliquidated obligations” that are the sole focus of these findings do not represent “waste, fraud, and abuse.” These obligations do not arise from “mandatory programs.” The admonition contained in the findings that agency managers recapture unliquidated obligations not needed for programs or services would not, by definition, reduce “outlays” by even a single penny. And, the findings do not identify any “changes in law.”

WASTE, FRAUD, AND ABUSE

Section 301 of the Budget Resolution requires submissions providing for the elimination of “waste, fraud, and abuse.” The findings in this report conclude that “savings can be most readily identified in funds labeled as unliquidated obligations.” The report cites in particular the HUD Section 8 and 236 programs, and the Rural Housing Service (RHS) Section 521 program.

However, nowhere in either the written statement or oral testimony of either HUD’s Chief Financial Officer (CFO) or the RHS Undersecretary for Rural Development is there any showing that these unliquidated obligations in any way result from or lead to “waste, fraud, and abuse.”

Both of these Bush Administration witnesses explained that balances predominantly reflect funds that will be needed at a future date to meet expected obligations. If appropriated funds exceed expected obligations, they are routinely recaptured and used to offset the cost of other programs or used for purposes specified by Congress. The written statement of HUD’s CFO addresses the level of unexpended balances in HUD programs and concludes that “In the vast majority of cases, these unexpended funds are either fully committed to long-term projects and will be spending out normally for many years to come, or are obligations from relatively recent appropriations and could not reasonably be expected to have been expended at this time.

On the issue of Section 8 balances, in response to the question “Would you describe that as fraud or abuse or waste?”, the HUD CFO responded “Absolutely not.”

MANDATORY PROGRAMS

The title of Section 301 of the Budget Resolution specifically refers to waste, fraud, and abuse in 11 mandatory programs.” However, none of the programs cited in the hearing by either HUD or RHS are mandatory programs. Section 8, Section 236, Section 521, and the other programs discussed in the hearing are all discre-

tionary programs. On this point, the “findings” are clearly non-responsive to the Budget Resolution directive.

OUTLAY SAVINGS

As noted, Section 301 report language clearly specifies that the findings must identify programmatic instances of waste, fraud, and abuse which reduce “outlays.” Yet, the recapture of unobligated balances which are not needed for future obligations, as recommended by the findings, would not achieve any outlay savings. This is because if the funds are not expected to be spent, under OMB and CBO rules there are no outlay savings from their rescission or recapture. The only scoreable reduction would be in budget authority.

CHANGES IN LAW

Section 301 requires committees to submit findings that identify “changes in law” to achieve the required savings. The findings being submitted herein identify no changes in law, only general admonitions to HUD and RHS to do a better job of tracking unobligated balances, in anticipation of their recapture. We are surprised that the majority thinks that the Bush Administration needs to be reminded of this, but telling HUD and the Agriculture Department to obey the law does not qualify as a change in the law.

FUNDING CUTS FOR HOUSING PROGRAMS

This is the most serious defect in the majority report. The findings in this report conclude that deobligation or recapture of unliquidated balances “could result in significant savings without meaningful reductions in program services.” We would be pleased if that were the case. But, the reality is that the substantial recapture of such balances in recent years has contributed to the substantial funding cuts to housing programs, which have marked the Republican record.

The FY 2004 VA–HUD appropriations bill recently adopted includes recapture of over a billion dollars in unobligated Section 8 budget authority. Yet, these funds did not shield HUD programs from program cuts. We believe there are insufficient funds in the FY ’04 bill to fully fund Section 8 renewals, which would adversely affect both recipients and administrators. That bill also includes a devastating \$524 million cut in the public housing HOPE VI revitalization program.

Repeatedly, under Republican control, Congress has rescinded unobligated Section 8 funds in supplemental spending bills and diverted such funds for non-housing programs. According to preliminary data provided by CBO, Congress rescinded \$6.85 billion in Section 8 budget authority in supplemental spending bills from FY 1997 through FY 2002. The overwhelming majority of these rescissions were used to fund non-housing expenditures. These rescissions took place at a time when the majority party argued there were not enough funds in the budget for housing programs, and pushed through deep cuts in affordable housing programs.

Therefore, we are concerned that the findings in this report create the false impression that budget savings can be easily effected

in housing programs through a better job of rooting out waste, fraud, and abuse, and without any effect on the families that rely on these programs. Cuts to programs such as public housing, Section 8, and rural rental housing have real consequences, denying critically needed rental assistance to low-income families, seniors, and the disabled, and permitting the unnecessary deterioration of our affordable housing stock.

BARNEY FRANK.
PAUL E. KANJORSKI.
CAROLYN B. MALONEY.
LUIS V. GUTIERREZ.
MELVIN L. WATT.
JULIA CARSON.
BRAD SHERMAN.
JAY INSLEE.
CHARLES A. GONZALEZ.
MICHAEL E. CAPUANO.
HAROLD E. FORD, JR.
RUBÉN HINOJOSA.
JOSEPH CROWLEY.
WM. LACY CLAY.
STEVEN ISRAEL.
JOE BACA.
STEPHEN F. LYNCH.
BRAD MILLER.
RAHM EMANUEL.
ARTUR DAVIS.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC, September 23, 2003.

Hon. JIM NUSSLE,
Chairman, Committee on the Budget,
House of Representatives, Washington, DC.

DEAR CHAIRMAN NUSSLE: Pursuant to H. Con. Res. 95, the Concurrent Resolution on the Budget for Fiscal Year 2004, I respectfully submit the following findings that identify changes in law within the jurisdiction of the Committee on Government Reform that would achieve at least the level of savings specified by Chairman Nussle under the Resolution through the elimination of waste, fraud, and mismanagement.

Sincerely,

TOM DAVIS,
Chairman.

FINDINGS ON WASTE, FRAUD, AND MISMANAGEMENT PURSUANT TO SECTION 301 OF HOUSE CONCURRENT RESOLUTION 95

The Concurrent Resolution on the Budget for Fiscal Year 2004, H. Con. Res. 95, (the Budget) requires House and Senate authorizing committees to identify waste, fraud, and mismanagement within their jurisdictions. The authorizing committees are required to submit to their respective Budget Committees findings as to the changes in law needed to eliminate waste, fraud, and mismanagement.

The Budget provides that the Committees on the Budget specify the dollar level of savings to be achieved through the elimination of waste, fraud, and mismanagement by the authorizing committees. Pursuant to that provision, the House Committee on the Budget has directed the Committee on Government Reform to find savings of \$827 million in fiscal year 2004, \$4.496 billion over the 2004–08 period, and \$9.998 billion over the 2004–13 period through the elimination of waste, fraud, and mismanagement within its jurisdiction (Congressional Record, May 21, 2003, H4512).

Under the Rules of the House, the Committee on Government Reform's diverse jurisdiction includes the federal civil service, the District of Columbia, and the Postal Service as well as the overall, economy, efficiency, and management of government operations, federal paperwork reduction, and the relationship of the federal government to the states and municipalities (Rule X, clause 1 of the Rules of the House of Representatives). Consequently, government-wide cross-agency reforms such as procurement, property management, information sharing, performance assessment, and the federal grant-making process are within the Committee's jurisdiction. During consideration of the Budget in the House of Rep-

representatives, Chairman Davis and Chairman Nussle engaged in a colloquy where the Chairmen clarified that government-wide cross-agency reforms within the Committee's jurisdiction were appropriate targets for savings from waste, fraud, and mismanagement (Congressional Record, March 20, 2003, H2196).

Of potential significance within the Committee's jurisdiction, the Office of Personnel Management (OPM) administers the retirement, health, and life insurance programs for the federal civil service, which taken together, account for more than \$900 billion in projected mandatory spending (spending not subject to annual appropriations) over the next ten years according to the Congressional Budget Office. Although these programs do not appear to experience high rates of waste, fraud, and mismanagement, small percentage improvements in such large programs can result in significant savings.¹ Consequently, the Committee's first finding addresses these programs by proposing an increase in the operating budget for the Inspector General of the Office of Personnel Management.

The Committee also proposes three additional reforms under the Committee's broad jurisdiction over the management of Government operations. These reforms would achieve billions of dollars in savings to the federal government without reducing the levels of benefits or services provided. The Committee is proposing reforms to the management of federal real property, increasing data sharing for the purpose of reducing improper payments in benefit programs, and increasing competition and accountability for federal grants.

Office of Personnel Management Programs

OPM administers three programs within the sole jurisdiction of the Committee on Government Reform that have a significant dollar level of spending commitments. The Committee held a hearing on July 16, 2003 on ways to eliminate waste and mismanagement in these programs. During fiscal year 2002, the Federal Employees Health Benefits Program (FEHBP) had outlays of \$24 billion, the Retirement Programs had \$48 billion, and the Federal Employees Group Life Insurance Program had \$2 billion. Fraudulent claims in FEHBP arise from improper payments to carriers by health care providers and suppliers, submitting false claims for services not rendered, billing for unnecessary procedures, falsifying billing codes to obtain higher rates of reimbursement, ordering illegal procedures for patients, and defective pricing payments. Fraudulent payments in the Retirement Programs include erroneous benefits paid after the annuitant's death and computation errors. The OPM Inspector General testified that the work his office is doing to recover fraudulent payments in these programs results in approximately \$12 recovered for each dollar spent by his office. In fiscal

¹ According to the testimony of the OPM Inspector General, the erroneous payment rate in OPM's retirement programs was less than one-half of one percent and the improper payment rate in OPM's health insurance programs was less than one percent (Full Committee Hearing on "Cutting Out Waste, Fraud, Mismanagement, Overlap and Duplication: Exploring Ideas for Improving Federal Reorganization, Management and Spending," July 16, 2003). The General Accounting Office has not identified any of these OPM programs as being at high-risk for waste, fraud, or mismanagement (Performance and Accountability Series, Major Management Challenges and Program Risks: Office of Personnel Management, January 2003, GAO-03-115).

year 2002, the OPM IG recovered approximately \$116 million. The Committee proposes the doubling of the IG budget from \$12 million to \$24 million, which should result in an increased savings of \$116 million annually.

The OPM IG has also initiated a program to utilize computer technology to develop effective data warehouse and data mining techniques to more effectively recover funds lost to waste, fraud, and mismanagement by carriers in FEHBP. Implementation of these applications should lead to a more comprehensive claims auditing process, which should, in turn, result in increased recovery of fraudulent overpayments from audits.

Federal Real Property Reform

Underutilized and excess property and deteriorating facilities cost the federal government billions of dollars each year. According to the General Services Administration, the upkeep of unused real property costs an estimated \$4 billion annually. The Committee held a hearing on the savings that could result from reform of the limitations on government agencies' authority to revitalize or dispose of federal property ("Wasted Space, Wasted Dollars: Reforming Federal Real Property to Meet 21st Century Needs," June 5, 2003).

On July 17, 2003, the Committee approved H.R. 2548, the Federal Property Asset Management Reform Act of 2003, which gives federal agencies the authority to exchange or sell unwanted property for better-suited property, sublease or outlease underutilized property, and partner with the private sector to redevelop or improve property. The legislation also provides agencies incentives, such as allowing retention of proceeds from dispositions and application to the agency's capital asset needs, and offsetting direct and indirect costs associated with property disposal.

The bill contains a variety of property management tools that would improve property management and the condition of the federal workplace. The legislation was developed in consultation with the Administration and contains many of the property management reforms included in the President's Freedom to Manage Initiative. Specifically, the bill would:

- Direct the Administrator of General Services to develop asset management principles to guide federal agencies and establish performance measures to determine the effectiveness of federal property management;
- Require each agency to appoint a real property officer to ensure that assets meet strategic objectives, ensure the observance of asset management principles, prepare asset management plans and generally coordinate agency real property functions and processes;
- Authorize federal agencies to exchange or transfer property with other federal agencies;
- Authorize GSA, acting on behalf of landholding agencies, to enter into agreements with non-federal entities to exchange or sell property as a means of acquiring replacement property or services better suited for mission purposes;
- Authorize GSA, acting on behalf of landholding agencies, to sublease unexpired portions of Government-leased property;

- Authorize GSA, acting on behalf of landholding agencies, to lease assets that must remain in federal ownership, and partner with private sector entities for the redevelopment or improvement of selected federal holdings;
- Require GSA to report to Congress on their use of public-private partnerships valued at greater than \$700,000;
- Authorize agencies to retain the proceeds from the sale of surplus personal property, subject to appropriations, to offset direct and indirect costs incurred in the disposal of such property;
- Authorize agencies to retain the proceeds from real property transactions, subject to appropriations, and allow such funds to be used for meeting an agency's capital asset needs; and
- Reduce the administrative burdens associated with making real property available for homeless assistance under Title V of the McKinney Act.

The bill also contains provisions intended to reduce its budgetary impact, such as subjecting spending associated with public-private partnerships and receipts collected by agencies' property management authorities to Congressional appropriations. Nevertheless, the Congressional Budget Office (CBO) score of this legislation is again expected to be unreasonably high because it likely will not take into account the cost savings associated with public-private partnerships and outleases. Although CBO has yet to score this legislation, the Office of Management and Budget and the Committee believe that full implementation of this legislation would save the federal government a significant percentage of the \$4 billion annual upkeep of unused real property.

Sharing Information To Reduce Improper Payments

Improper payments to recipients of federal benefit and loan programs in the amount of \$20 billion has been identified in agency financial statements for both fiscal years 2001 and 2002.² Significant reduction of improper payments could be achieved by more aggressive sharing of information collected by one government agency and analyzed by the paying agency if the pertinent information is utilized to verify program eligibility and provide improved controls over payments. For instance, savings have resulted from the use of taxpayer information for locating Department of Education loan default recipients and loan repayment amounts and from the use of criminal records to identify fugitive felons ineligible for food stamp and Temporary Assistance for Needy Families payments.

Significant savings could also be achieved in the awarding of Department of Education Pell Grants, where approximately \$602 million in excess payments were made during fiscal years 2001 and 2002 because of underreported income by recipients. Internal Revenue Service data could serve as a check on income levels of recipients. Other grant and loan programs administered by the Department of Education where cost-savings could be achieved by data

²Full Committee Hearing on "Cutting Out Waste, Fraud, Mismanagement, Overlap and Duplication: Exploring Ideas for Improving Federal Reorganization, Management and Spending," July 16, 2003, testimony of Paul Posner, Managing Director for Federal Budget and Intergovernmental Relations Issues, Strategic Issues, General Accounting Office.

sharing include the Supplemental Educational Opportunity Grants, Stafford and Parent Loans for Undergraduate Students, Perkins loans, and work-study programs.

Reported problems with federal rent subsidy programs administered by the Department of Housing and Urban Development (HUD) also suggest possible savings through better information sharing. HUD financial statements for fiscal year 2001 report that the federal government overpaid rent subsidies by almost \$1 billion due to the underreporting of income by tenant beneficiaries. Similar savings could be targeted in Medicare and Social Security payments by relying on state and local death data, in Housing and Urban Development mortgage insurance programs by relying on IRS data, and in Food Stamp payments by comparing data on IRS income levels.

The Committee proposes that government-wide cross-agency statutory provisions should be enacted that would allow administrators of federal benefit programs limited access to certain federal and state administrative data, such as federal tax returns and the National Directory of New Hires, for the purpose of verifying beneficiaries' eligibility. Limited access would be provided only in accordance with appropriate security and control policies to protect against unauthorized or inappropriate disclosure of information.

Enact Office of Management and Budget Recommendations for Expanding Competition and Accountability of Federal Grant Awards

In fiscal year 2001, the federal government awarded \$325 billion in federal grants (U.S. Chief Financial Officers Council, Federal Financial Assistance Management Improvement Act of 1999, p.2). Unlike federal procurement law, there are no uniform procedures for competing out federal grants, nor is it possible to establish how many grants and how much money are awarded by the federal government by non-competitive means. Because of Congressional earmarks, preferences for past grant recipients, and a lack of uniform certification and assurance requirements, many grants are not competitively awarded and lack accountability. The Committee believes that significant savings may be achieved by competitively awarding federal grants and requiring greater accountability.

In the 106th Congress, the Committee on Government Reform worked to enact the Federal Financial Assistance Management Improvement Act of 1999 (P.L. 106-107). The act requires federal agencies to simplify the procedures by which state and local governments and nonprofit organizations apply for federal grant and assistance programs. Within three years of enactment, agencies were required to develop plans to implement the legislation's seven objectives, and report the plans to Congress. The seven objectives are:

1. Streamline and simplify the application, administrative, and reporting procedures for federal financial assistance programs;
2. Demonstrate active participation in interagency coordination;
3. Demonstrate appropriate agency use, or plans for use, of the common application and reporting systems;

4. Designate a lead agency official for carrying out the responsibilities of the agency under the act;

5. Allow applicants to electronically apply for, and report on the use of, funds from the federal financial assistance program administered by the agency;

6. Ensure recipients of federal financial assistance provide timely, complete, and high quality information in response to federal reporting requirements; and

7. Establish specific annual goals and objectives, in cooperation with recipients of federal financial assistance, and measure annual performance.

The Act also requires OMB to report to the Congress on the agencies' plans and the General Accounting Office to evaluate and report to OMB and the Congress on the bill's effectiveness. On May 31, 2002, OMB submitted to the Congress its first set of recommendations to identify statutory impediments to competitively awarding federal grants. The recommendations included the following:

1. Rationalize the certifications and assurances required of grantees;

2. Determine the proper use of "certifications" and "assurances;"

3. Modify program statutes to set aside a specific percentage of grant or program funding to pay for third party evaluation;

4. Shorten area-wide agency review to a reasonable period;

5. Establish simplified procedures for smaller organizations to receive section 501(c)(3) tax status;

6. Establish uniform requirements for financial assistance programs across all thirteen appropriations acts;

7. Identify common requirements across program areas, consolidate reporting requirements, and establish uniform definitions;

8. Require the use of a single identifier for all grantees and require its use in the administrations E-Grants initiative; and

9. Raise the threshold that requires grantees to be audited from \$300,000 to \$500,000 in annual federal assistance.;

Pursuant to these recommendations, the Committee proposes to amend Federal Financial Assistance Management Improvement Act of 1999 and enact these recommendations. The Committee believes that the enactment of these recommendations would enable and encourage more organizations to compete for the award of federal grants and financial assistance and also ensure greater accountability. Greater competition and accountability for federal grants will promote greater efficiencies in the delivery of the intended benefits of the grant programs and allow the federal government to deliver the same benefits at a lower level of spending.

ADDITIONAL VIEWS

I support ridding the government of waste, fraud, and abuse. I do not support, however, the numerical targets for waste, fraud, and abuse reduction that were handed out by Budget Committee Chairman Nussle. Eliminating waste, fraud, and abuse is inherently a bottom-up endeavor. Congress needs to scrutinize every program carefully to find areas of waste, fraud, and abuse—not

cook the books to meet arbitrary targets from the Budget Committee.

The Budget Committee instructed our Committee to identify ways to reduce waste, fraud, and abuse equal to 1% of the total mandatory spending subject to our Committee's jurisdiction, which the Budget Committee said was \$9.9 billion over 10 years. This number is wrong because it double counted the civil service retirement and disability trust fund and the supplemental DC pension trust fund. In fact, 1% of the mandatory spending in Committee on Government Reform's jurisdiction is only \$7.3 billion over 10 years. Moreover, even this \$7.3 figure is unachievable. As the majority's findings explain, the amount of funds that can be saved in the mandatory spending programs within the jurisdiction of the Committee on Government Reform is relatively small.

The majority makes several recommendations for reducing waste, fraud, and abuse in discretionary spending. I agree with some of these recommendations, such as increasing the operating budget for the Inspector General (IG) of the Office of Personnel Management. In addition, I support passage of H.R. 2548, the Federal Property Asset Management Reform Act of 2003, although there is dispute among experts about the amount of savings this legislation would produce.

In other instances, I support the goals articulated by the majority, but have some unanswered questions about the means. For example, the majority recommends reducing improper payments by increasing data sharing. Reducing improper payments is an important goal, but there are unanswered questions about data sharing. For example, it is important to know what information should be shared and with whom while still protecting privacy, confidentiality, and program integrity. The majority also makes recommendations regarding the grants process in the name of increasing competition and accountability. I support more competition and more accountability, but it is unclear whether the specific proposals in the majority's findings would achieve those worthy goals.

One major concern I have about the majority's submission is the blind eye it turns to probably the biggest source of waste, fraud, and abuse in discretionary spending in the federal government: waste, fraud, and abuse in procurement contracts.

Although it receives little attention, the government is relying heavily on private contractors to provide government services and the potential for real waste, fraud, and abuse is staggering. Federal contracting now costs the taxpayer \$245 billion per year. This Administration's focus on outsourcing federal jobs is driving these numbers even higher.

In addition, there is an increasing use of abuse-prone contracting vehicles. These contract vehicles are a confusing alphabet soup of acronyms—ID/IQ, GWACs, and multiple-award contracts—but they often spell lucrative sole-source awards for large corporations. In the Department of Defense (DOD), whose contracting budget is more than double the next nine largest federal agencies combined, billions are awarded in noncompetitive contracting, most often to companies that are favored campaign contributors like Halliburton, Bechtel, and Lockheed Martin.

To illustrate the problem, in 1999, the DOD IG audited 124 randomly chosen multiple-award contracts. The IG found that nearly half were sole-sourced. Of those that were sole-sourced, only eight had a valid justification. In 2001, the IG's office updated its work and found that 72% were awarded on a sole-source or directed-source basis. Injecting competition and ensuring that multiple contractors were eligible to bid on specific task orders could cut costs to the taxpayer by up to one third.

These abuse-prone contracts would invite waste, fraud, and abuse even if we had a robust acquisition workforce and adequate procurement oversight. We don't. The federal government's acquisition workforce has declined 22% in the decade between 1991 and 2001. This diminishing government oversight is a huge problem. In 43 out of the 67 cases of so-called "performance-based" contracts reviewed by the DOD IG, contract offices failed to provide adequate oversight of payments.

External oversight is disappearing as well. For example, the DOD's Deputy IG testified, before the Committee on Government Reform in 2000, "our oversight of Defense acquisition has been severely constrained by resource shortfalls and conflicting priorities." He added, "Audit coverage has been inadequate in nearly all defense management sectors that we and the General Accounting Office have identified as high risk areas." Requiring increased contract oversight could save millions.

Curbing waste, fraud, and abuse in the federal government is imperative. But to do so effectively, we should stick to the old adage: "Follow the money." Given the enormous sums of taxpayer dollars that are going to private contractors, we should be focusing significantly more resources in reducing government waste, fraud, and abuse in government procurement.

HENRY A. WAXMAN.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON HOUSE ADMINISTRATION,
Washington, DC, September 2, 2003.

Hon. JIM NUSSLE,
Chairman, Committee on the Budget
Cannon House Office Building, Washington, DC.

DEAR CHAIRMAN NUSSLE: Pursuant to section 301(b) and (c) of H. Con. Res. 95, the Committee on House Administration submits the following report identifying means of eliminating waste, fraud, and abuse in mandatory spending programs that fall within the Committee's jurisdiction.

* * * * *

One non-discretionary spending program falls within the jurisdiction of the Committee on House Administration: the Presidential Election Campaign Fund ("the Fund"). The Fund constitutes a separate account in the United States Treasury that funds the general election campaigns of presidential candidates who meet certain criteria and who agree to abide by a national spending ceiling. The Fund is financed not by a congressional appropriation but by the voluntary check-off found on federal tax returns that allows taxpayers to designate \$3 to the Fund.

Within the Fund is the Presidential Primary Matching Payment Account ("PPMPA"), a program enacted in 1974 that is designed to defray costs incurred by candidates who seek their party's presidential nomination. To qualify for matching payments, a candidate must raise a minimum of \$5,000 in individual contributions of \$250 or less¹ in each of at least 20 states and agree to abide by both state-by-state spending limits as well as an overall national spending limit. In other words, a candidate who agrees to the limits would only need 20 individuals to contribute \$250 in each of at least 20 states to be eligible for federal subsidies for his or her primary campaign. During the 2000 election cycle, the Federal Election Commission ("FEC"), which administers the Fund and the PPMPA, certified approximately \$240 million in public campaign funds: nearly \$148 million to qualifying general election candidates; \$29.5 for the political party conventions; and \$62 million for primary matching payments.

Finding One: Low PPMPA Threshold

The Committee believes that now is an appropriate time for Congress to consider legislative changes that would raise the qualifying threshold established by the PPMPA so that individuals who clearly are not viable presidential candidates are not able to exploit the federal public financing system. The PPMPA threshold was not es-

¹An individual may give more than \$250 to a primary candidate. However, only \$250 of such a contribution counts toward the \$5,000 threshold.

pecially high when first enacted and has been significantly eroded by inflation during the intervening 29 years. Strengthening the PPMPA threshold would have the potential for saving substantial amounts of federal dollars but would need to be crafted so that the new threshold is not set so high that legitimate late blooming candidates are deprived of crucial campaign funds.

Raising the PPMPA threshold could be accomplished in a couple of different ways.² The first possibility would be to raise the current threshold to account for past inflation and then index it for future inflation. For instance, when adjusted for inflation, the \$5,000 threshold established in 1974 would be worth approximately \$18,650 today. Multiplying this amount by 20 (the minimum number of states in which the candidate would need to reach this threshold), a presidential primary candidate seeking federal matching funds would have to raise at least \$373,000 under this scenario (assuming all other factors remained the same).

Instead of setting a specific dollar threshold, Congress could instead express the threshold as a percentage of the overall primary spending limit during the previous presidential election cycle. For example, the primary spending limit for the 2000 election cycle was \$40,536,000. Taking this dollar figure as a baseline, the following table lists different percentages that could serve as potential thresholds and the corresponding dollar amounts that would be trigger matching payments:

<i>Percentage</i>	<i>Threshold amount</i>
2	\$810,720
3	1,216,080
4	1,621,440
5	2,026,800

This approach would also involve a corresponding increase in the amount needed to be raised within at least 20 states in order to qualify for matching payments.

Having such a threshold would result in substantial savings of tax dollars. For example, if a percentage threshold of five (5) percent had been in place during the 2000 election cycle,³ nearly \$2.9 million in tax dollar savings would have been realized.

To further strengthen the criteria for receiving primary matching payments, Congress may also wish to consider expanding the test for broad geographic support by requiring candidates to raise the minimum amount in at least 30 states, rather than the current requirement of 20. Tax dollar subsidies for campaign activities should be reserved only for those individuals who have demonstrated viable candidacies. Thus, requiring a presidential candidate to collect the minimum amount in at least 30 states (which is just over half of the total number of U.S. states and territories) seems like a reasonable test of viability.

²The FEC has in the past offered legislative recommendations regarding the PPMPA that the Committee believes merit consideration. The proposals set forth in this report reflect much of what the FEC has recommended.

³The 1996 primary spending limit, which serves as the baseline for this example, was approximately \$30.9 million.

Funding Two: Availability of Public Financing to Criminal Violators of the Fund and/or the PPMPA

The Committee recommends amending the law to make clear that candidates who have been convicted of knowing and willful (i.e., criminal) violations relating to the Fund or the PPMPA or who have not made repayments with respect to past campaigns will no longer be eligible for public funding in future elections. As the FEC has clearly stated, “[t]here is a risk of serious erosion in the public confidence in the integrity of the public financing system if the U.S. Government . . . provide[s] public funds to candidates who ha[ve] been convicted of crimes related to the public funding process, or additional funds to those who ha[ve] not made past repayments.”⁴ However, under current law, the FEC is unable to deny federal matching funds on the grounds that the requestor previously abused the public financing system. This quirk in the law needs to be remedied.

* * * * *

The issue of reforming the Fund and the PPMPA has been the subject of much debate and discussion in recent months. On the one hand, there are proposals to expand the current system to provide greater resources to candidates during presidential primaries and to allow third-party candidates and independents greater access to public funds during the general election. Such proposals would obviously significantly increase the amount of federal revenues dedicated to public campaign financing. On the other hand are individuals and groups advocating that the presidential public finance system be dismantled, thereby saving hundreds of millions of dollars in the process.

The issues surrounding the potential reform or eventual abolishment of the Fund and the PPMPA are complex and multifaceted. Therefore, the Committee will likely be holding hearings on the subject in the near future.

Sincerely,

BOB NEY,
Chairman,
Committee on House Administration.

⁴FEC Legislative Recommendation, 2001.

COMMITTEE ON INTERNATIONAL RELATIONS,
HOUSE OF REPRESENTATIVES,
Washington, DC, September 8, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget, House of Representatives,
Cannon House Office Building, Washington, DC.*

DEAR JIM: On Thursday, September 4, 2003, the Committee on International Relations held a hearing entitled, "Government Accountability: Efforts to Identify and Eliminate Waste and Mismanagement." This hearing was rescheduled from July 24, 2003.

The Conference Report that accompanied the budget resolution for FY '04 (House Report 108-71) requires the House and Senate authorizing committees to identify means of eliminating waste, fraud, and mismanagement in mandatory spending programs (programs not subject to annual appropriations) within their jurisdictions. The specific purpose of the hearing was to examine government accountability and ways to identify and eliminate waste and mismanagement within the U.S. Department of State and the United States Agency for International Development (USAID). The Committee received testimony from the Honorable Christopher Burnham, Assistant Secretary for Resource Management and Chief Financial Officer for the Bureau of Resource Management, U.S. Department of State; the Honorable Anne M. Sigmund, Acting Inspector General, U.S. Department of State; the Honorable John Marshall, Assistant Administrator for Management and Chief Information Officer, U.S. Agency for International Development; the Honorable Everett Mosley, Inspector General, U.S. Agency for International Development; and Mr. Jess Ford, Director, International Affairs and Trade, General Accounting Office.

Background

The International Relations Committee has jurisdiction over Budget Function 150, International Affairs Accounts. Based on the Congressional Budget Office's review, the 150 Account has very little money that is designated as mandatory funds. The designated mandatory accounts are organized as follows:

1. State Department and USAID foreign service retirement and disability funds;
2. Various accounts related to credit programs (such as OPIC, EXIM Bank, food aid); and
3. Trust funds—most of them are small with the exception of the approximate \$10 billion in the foreign military sales trust fund.

The credit programs and the foreign military sales trust fund do not represent money that is appropriated by the U.S. Government. The \$10 billion in the military sales trust fund is the amount of money that foreign governments are required to deposit with the

U.S. Government in advance of delivery of U.S. military sales. We would suggest that these programs are not funded with appropriated dollars, and that they should be exempted from the targeted cuts. Therefore, only the State Department and USAID foreign service retirement and disability funds are eligible for program reductions under this exercise, which will not yield the levels of funding anticipated in the budget resolution. Given the limited international affairs funds available in mandatory accounts, the Committee examined areas beyond mandatory spending in order to meet the Budget Committee's targeted levels.

On the discretionary side, the Function 150 accounts include funding for the domestic and overseas operations of the State Department and USAID, U.S. international broadcasting, U.S. foreign assistance, U.S. security assistance programs, the Peace Corps, embassy construction and security upgrades, and U.S. participation in international organizations. The President's FY '04 request for foreign affairs spending is \$28.5 billion. This Committee reviewed the budget request through a hearing with Secretary Powell in February 2003. In large part, the budget is authorized at or above the President's request in the House-passed bill, H.R. 1950, which incorporates the Millennium Challenge Account, the Peace Corps, Security Assistance, and State Department Operations.

Hearing Results

The International Relations Committee directed the State Department and USAID, and the agencies' respective Inspectors General, to testify regarding the ongoing efforts to combat waste, fraud and mismanagement and to recommend legislative changes that may further these efforts. GAO also provided a detailed analysis on these issues.

The testimony on the ongoing efforts of each agency to promote and achieve cost savings and better government accountability identified the following:

The State Department is relocating the Department's Financial Service Center operations and its employees from Paris to South Carolina. This will save the Department \$1.2 million annually, and eliminate 21 State Department positions. This move will consolidate operations and will result in a cost savings due to the reduced cost of overseas placements.

The State Department has blocked the merchant category codes for all items not directly related to travel in an effort to prevent misuse of taxpayer funds, fraud and identity theft. New policies are also being circulated for approval which better define misuse and credit card delinquency issues.

In addition to developing a joint strategic plan, State and USAID are working together to implement a shared financial management system, which will reduce duplicative efforts. In addition, many of the features being developed have been baselined into the software for reuse by other federal departments. This will reduce long-term maintenance costs and provide benefits to other federal agencies requiring these capabilities. There are other joint projects

underway which will provide better opportunities for cost savings and collaboration.

“Rightsizing,” a management approach aimed at rationalizing staff at overseas missions, seeks to match all government staff to the mission goals. Annual mission plans at embassies are designed to set out staffing needs to meet the goals of the particular mission. Rightsizing of staff will also have implications for the State Department’s embassy construction program. A commitment to the principles of rightsizing government-wide will help to ensure that embassies are built most cost effectively. Rightsizing must remain a priority within the Department. It could yield savings from a rationalization of staff, and more accurate information for building new overseas facilities. In addition, the State Department is furthering goals of regionalization of support services through the renovation of the Creekbed facility in Frankfurt, Germany.

The Department continues to analyze its need to further dispose of properties that are underutilized, in excess, or vacant. The Department projects millions of dollars may be saved by the continued disposal of the appropriate properties. In the last five years, the Department has sold 137 properties for almost \$365 million. GAO observed that the Department’s “performance in selling unneeded property” has improved. However, proper management of the approximately \$12 billion in real estate assets must continue. Improved processes for review of property inventory and disposal of excess properties will help offset costs of replacing insecure facilities or avoid long-term lease costs for housing or office facilities.

State is redirecting and streamlining its information technology systems to provide for ease of use by the consumer and security of use worldwide. The Department responded to a recommendation by the Office of the Inspector General (OIG) to discontinue the Foreign Affairs System Integration (FASI) project, thereby avoiding a cost of \$200 to \$250 million to deploy the system. The OIG contended that the project was imperfectly conceptualized and inadequate effort was made in the area of knowledge management. This is being addressed, with a reexamination of user requirements and consideration of alternative approaches for meeting the knowledge-sharing requirements.

The State Department’s Acting Inspector General reported that over the last ten years, the amount reported to the OIG as embezzled from the Department is over \$5 million. The OIG conducts investigations and many have resulted in successful criminal prosecutions requiring restitution. Restitution of over \$3.8 million has either been made or ordered. USAID investigations of a bid-rigging and fraud in construction projects in Egypt resulted in a savings of \$260 million over 2 years (2000–2002). Continued oversight of the contracts administered by AID could also result in future savings.

USAID has developed customer service standards and initiated activity-based costing to improve services, get a better handle on costs, and reallocate resources to its most important business needs. It also has developed mandatory training for Contract Technical Officers within USAID to avoid unauthorized obligations that can lead to charges of waste, fraud and abuse. Annual mandatory ethics training is part of the system.

Questions for the Record are being proposed to each agency and the Committee expects detailed responses in the near future. The Committee will follow-up with any pertinent issues which should arise as a result of the inquiry. Additionally, the Committee will request that the Congressional Research Service update international affairs budget trend reports for the Committee's further use. We will also seek information on whistle-blower complaints, as oftentimes they are useful tools in rooting out waste, fraud or abuse from within a governmental agency.

As part of this Committee's commitment to improving management and accountability practices and our ongoing process of conducting oversight over the Department of State and the U.S. Agency for International Development, we will continue to meet with agency officials, review program and budget requests, review congressional notifications of reprogramming of funds, and make suggestions as to how to better modernize operations to prevent waste, fraud, abuse, and mismanagement in its programs.

We look forward to working with your Committee in the future on these important matters.

Sincerely,

HENRY J. HYDE,
Chairman.
TOM LANTOS,
Ranking Member.

Enclosures: statements of government witnesses.

TESTIMONY OF CHRISTOPHER B. BURNHAM, ASSISTANT SECRETARY
FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to appear before the House Committee on International Relations to address the Department of State's efforts to identify and eliminate waste, fraud, abuse and mismanagement, and any cost saving reviews that are in process.

I am the first Assistant Secretary for the Bureau of Resource Management. The bureau was created in this Administration from elements in different parts of the Department to provide for a more systematic budget review process, link performance to the budget process, and achieve other economies and efficiencies. As you know, efficient management of the Department is a high priority of the Secretary, Deputy Secretary, and Under Secretary for Management and my Bureau is empowered to carry out this mandate.

I will highlight in my testimony sound examples of what we are engaged in to make the most efficient use of the funding that the Congress authorizes to accomplish the Department's goal to create

a more secure, democratic and prosperous world for the benefit of the American people and the international community.

We are committed to being vigilant stewards of the taxpayers hard earned dollars and will endeavor to strive to increase our efforts in this noble cause.

SUMMARY

I will divide my testimony into three parts. They are the Department's:

- Efforts to Eliminate Fraud, Waste, and Mismanagement;
- Cost Savings Efforts; and
- Status toward Achieving “Green” in the President’s Management Agenda.

We have many initiatives in process that are contributing to a better-managed organization—one where leadership and state-of-the-art technology receive the highest consideration and recognition.

I. Department’s Efforts To Eliminate Fraud, Waste, and Mismanagement

A. Management Control Program

The Management Control Steering Committee (MCSC) oversees the Department’s management control program. The Committee is chaired by myself and is composed of nine other Assistant Secretaries (including the Chief Information Officer and the Inspector General (the OIG is non-voting)), the Deputy Chief Financial Officer, and the Deputy Legal Advisor. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department’s assurance that management controls are adequate. The assurance statements are based on information gathered from various sources including the managers’ personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of the Inspector General (OIG) and/or the General Accounting Office (GAO) conduct reviews, audits, inspections, and investigations.

Each year, Department organizations with material weaknesses are required to submit corrective action plans for the weaknesses, to the Committee for review and approval. These plans, combined with the individual assurance statements, provide the framework for monitoring and improving the Department’s management controls on an on-going basis.

B. Status of Management Controls and Material Weaknesses and Nonconformance

The Department evaluated its management controls for the fiscal year ending September 30, 2002. This evaluation provided reasonable assurance that the objectives of the Federal Managers’ Financial Integrity Act (FMFIA) were achieved in FY-2002.

The MCSC voted to close the Department’s three remaining material weaknesses: Inadequate Administrative Staffing Overseas, Integration of Grants-Tracking Systems, and Exchange Visitor In-

formation System. No new material weaknesses were identified. Since there were no outstanding material weaknesses, the Secretary of State provided an unqualified Statement of Assurance for FY-2002 regarding the Department's systems of management control.

During the past five years, the Department has made significant progress by reducing the number of material weaknesses from twelve to zero, including the closure of fourteen and the addition of two. This is the first time since the inception of the FMFIA that the Department has no outstanding material weaknesses—a significant accomplishment. In addition, there are no items specific to the Department on the General Accounting Office's High Risk List, and there has not been any since 1995.

The Department will soon complete its evaluation of its management controls for the fiscal year ending September 30, 2003.

C. Independent Audit of the Department's Financial Statements (6 Clean Opinions)

The Department's FY-2002 financial statements received an unqualified opinion—the sixth consecutive year that the Department's financial statements have achieved such an opinion.

The Department's Performance and Accountability Report (PAR) for FY-2002, which includes the Statements, Auditor's Report, and Performance Report was submitted to the Office of Management and Budget (OMB) by the required February 1 due date. The PAR provides meaningful financial and program performance information about the Department of State. Publication of the PAR is an integral part of our efforts to improve our accountability to our customers, constituents, and the public. The Association of Government Accountants (AGA) has awarded the Certificate of Excellence in Accountability Reporting (CEAR) to the Department for its FY-2002 Performance and Accountability Report. The CEAR Program is the preeminent award for accounting and reporting in the Federal government. This is the second consecutive year that the Department has received this prestigious award. This year, only three cabinet departments won the award, (and four other non-cabinet level USG agencies). Further, State's FY-2002 PAR received a citation for "most improved report" on the Mercatus Center's annual Performance Report Scorecard, which evaluated reports from 24 CFO Federal agencies.

The Department also received recognition for its annual report (Highlights' version) in a head-to-head competition with the private, state and non-profit sectors. Each year the League of American Communications judges the best 100 annual reports in America known as the "Vision Awards Annual Report Competition." This year more than 900 entries were submitted. From this group, the Department of State was ranked first out of all government entrants, and fourth overall. In achieving this, the Department's annual report placed ahead of such companies as Dell, Citigroup, Lockheed Martin, Caterpillar, General Electric, Booz Allen Hamilton, and Coca Cola.

The Independent Auditor's Report on our financial statements brings to management's attention four significant internal control weaknesses. The four weaknesses concern security over the infor-

mation system networks for domestic operations, the adequacy of controls over the management of Unliquidated Obligations (ULO), the adequacy of the Department's financial and accounting systems, and implementation of managerial cost accounting standards. The auditor's report acknowledges that significant progress has been made on the first three weaknesses, but that additional work remains.

Going forward, the Department is installing a comprehensive framework and process for lifecycle management of Information Technology (IT) security. The framework and process will provide for continual evaluation and improvement. Our efforts to address this weakness include periodic meetings with OIG staff, the independent auditors (Leonard G. Birnbaum and Company), senior managers in the Bureau of Information Resource Management and our office. The purpose is to identify and coordinate actions needed to resolve the weakness and monitor progress. Beginning in March 2003, we periodically provide a status of these efforts to the OMB as part of our reporting on the President's Management Agenda (PMA). Also, we have included this initiative in our FFMIA Remediation Plan. The Department is hopeful that our collaborative efforts will result in the status of this weakness being downgraded to a reportable condition by no later than June 2004.

The weaknesses in the Department's financial management systems are a long-standing problem. Substantial compliance with FFMIA is a top priority of the Department, and improvement initiatives to achieve that goal are well underway. As required by FFMIA, the Department submitted our initial Remediation Plan to OMB in March 2000, and an updated Plan in October 2001. The Department has completed a significant portion of the Plan, including the installation of the worldwide RFMS to replace our overseas financial systems.

Strengthening the management of Unliquidated Obligations is an important financial management initiative. As mentioned in the Independent Auditor's Report, the Department has made significant improvements in this area. The ULO System was implemented in FY-2000. We use this system to facilitate the reconciliation, monitoring, reporting and oversight of ULOs worldwide. Data in the system is analyzed in various strata and reports to facilitate the review and management of open items. These processes were expanded on during FY-2003. We continue to develop reports and procedures to use in working with offices to improve the management of ULOs.

Implementation of Managerial Cost Accounting Standards (MCAS) is an important financial management initiative. The Department is making reasonable progress in implementing MCAS, but acknowledges that additional work is needed to fully comply with these standards. To address MCAS requirements and account for expenditure information necessary for budgeting information and performance measurement, the Department is developing a Central Financial Planning System (CFPS). CFPS, which is included in our FFMIA Remediation Plan, will enable the timely and accurate reporting of cost information and associate that information with budget, strategic goals, and program outputs.

D. Mission Performance Plan (MPP) and Bureau Performance Plan (BPP) Process

The process begins at the individual mission level with the Mission Performance Plan (MPP), rolls up into the Bureau Performance Plans (BPP), and eventually is summarized into the Department's Performance Plan. The Senior Review process provides the means to review the Department's programs as a whole. During the Senior Review the Deputy Secretary of State personally assesses Department-wide priorities and looks for all opportunities to maximize efficiency.

Through the Department's strategic planning and budgeting processes the Department is carrying-out policy priorities based on the most effective allocation of resources. We are working to develop clear measures of success, as accountability is paramount to ensuring that taxpayer dollars are used wisely and efficiently. This is essential to serve our country's interests in and the Department's mission to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

1. Department Strategic Plan.—This past year, the Department of State has created a new Strategic Planning Framework that brings greater clarity, direction, and alignment to the Department's vision. For the first time, the Department and the U.S. Agency for International Development (USAID) have developed a consolidated Strategic Planning Framework. The new Strategic Plan covers FYs 2004–2009 and will be updated every three years.

We have made significant improvements to streamline the plan. Four overarching Strategic Objectives cover the major areas of work involved, with twelve Strategic Goals linked to them. Relevant outcome oriented performance goals, closely linked to the Strategic Goals that address the Department's progress in achieving its objectives on an annual basis, are also included in the new framework.

2. Mission Performance Plans.—Development of the Mission Performance Plan (MPP) is the first critical step in the Department's annual planning and budgeting cycle. Each Embassy prepares its annual MPP that essentially functions as its business plan for all Agencies under Chief of mission authority at post. Regional and functional bureaus use the MPPs to develop their Bureau Performance Plans (BPPs), and to support their policy, program, and resource requests at the annual Senior Policy, Performance and Resource Reviews chaired by the Deputy Secretary. MPPs are authoritative U.S. Government strategy documents prepared annually and covering all agencies at a post on the basis of the goals set forth in the Department of State Strategic Plan.

3. Bureau Performance Plans.—Bureau Performance Plans are a key component of the planning process and serve as the basis for the interagency annual Senior Policy, Performance and Resource Reviews chaired by the Deputy Secretary. They are also used in the preparation of Department-wide performance plans and the annual combined performance and accountability report, as well as for budget submissions sent to OMB and the Congress, including Foreign Operations and State Operations resource requests. They contain important information on the Department's staffing re-

quirements and hiring plans. In preparation for the annual Senior Policy, Performance, and Resource Reviews, I chair individual sessions with bureaus to ensure the best bureau business plans are put forth to the Deputy Secretary.

4. Senior Reviews.—Each summer, the Deputy Secretary of State chairs the Senior Policy, Performance and Resource Reviews that focus on current year Bureau accomplishments in support of Strategic Objectives, Strategic Goals, and Programs of the Department and resource decisions for the budget year. The Senior Policy, Performance and Resource Reviews involve clarification of Bureau goals and program initiatives for the plan year, budget year, and out-year. Prioritization of requested resources and alignment with goal priorities is also assessed. The sessions address crosscutting issues and other major initiatives that require coordination among Bureaus and other agencies. Senior Department managers and officials from other government agencies participate on the review panels. As part of this process, the Deputy Secretary also examines the USAID plans and resource requests.

Follow-on reviews with each Bureau are conducted after the Senior Reviews. The purpose of these reviews is to provide the Bureaus the opportunity to respond in more detail to issues developed through the Senior Review process and provide further clarification and prioritization of critical resource requirements.

E. Regional Financial Management System (RFMS) (Moving toward One Worldwide, Integrated Financial Management System)

For financial systems, the Department is in substantial compliance with applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. However, the Department does not substantially comply with the Federal financial management systems requirements, and reports this area as a material nonconformance. Therefore, the Secretary is unable to certify that our financial systems fully comply with requirements of the FMFIA and FFMIA at this time. The Department has developed a Remediation Plan (Plan) to resolve this issue by FY-2004.

The cornerstone of the Plan is implementation of the RFMS. Development and implementation of RFMS supports the Department's goal of integrating and standardizing worldwide financial and information systems, and establishing a single, integrated worldwide financial management system. RFMS reduces the number of overseas financial systems from two to one, incorporated State's standard account code structure, and enables financial transactions to be standardized between RFMS and Department of State's Central Financial Management System (CFMS), which will result in consistent processing and recording of financial data worldwide. RFMS was implemented on-schedule and our worldwide implementation is complete.

F. Travel Card Program

RM has monitored misuse of the travel card since June 2002, when the oversight office began data mining to review every purchase made by the Department's travelers for high-risk items (e.g.,

jewelry stores, massage parlors, escort services, gambling transactions, ticket agencies, and cash advances greater than \$7,500). If one of these categories was found, the Bureau Program Coordinator (BPC) was immediately notified and asked to counsel the employee. Beginning July 2003, RM and Citibank have blocked the Merchant Category Codes for all items not directly related to travel. This was done not because the Department had a pattern of misuse, which it does not, but to protect Citibank and the Department against fraud through identity theft.

To reduce internal control vulnerabilities and address the issues raised by the OIG, including those concerning oversight of the 60-day past due category of delinquencies, duplicate account holders, and the failure to cancel accounts, the oversight office has begun (1) drafting new policies and procedures (currently being circulated for approval by OIG, Bureau of Diplomatic Security, and Bureau of Human Resources) which better define misuse and delineate more clearly the roles of BPCs in reducing delinquencies, (2) data mining for duplicate and departed employee accounts, (3) to improve training of Financial Management Officers at the Foreign Service Institute, (4) developing a training program for domestic BPCs, and (5) centralizing the travel card regulations and step-by-step procedures on a newly created Travel Card Program Intranet Homepage.

II. Cost Savings Efforts in the Department of State

A. Consolidation of Financial Operations at the Charleston Financial Services Complex

The process for closing the Department's Financial Service Center (FSC) in Paris, France, is on schedule to be completed by December 2003. This will result in the elimination of 109 State Department (Foreign Service Officer (FSO), Foreign Service National, and contractor) positions in Paris. The movement of most of the work previously performed in Paris to the Department's FSC in Charleston, South Carolina will necessitate International Cooperative Administrative Support Services (ICASS) funding for only 88 (FSO, General Schedule, and contractor) new positions in Charleston. While there will be budget increases in Charleston related to the increase in personnel, travel, facility operations, and workload, we are currently on target to realize our goal of \$1,200,000 in annual savings from the consolidation of these operations.

B. USAID/State Financial Systems Integration Collaboration Project

- State and USAID are working together to implement a shared financial management system for the beginning of FY-2006, as recommended by a study commissioned by State and USAID.
- The Joint Financial Management System (JFMS) will combine the State Global Financial Management System (GFMS) and USAID Phoenix projects into one, common financial management platform.

During the interim transition period to the joint platform, both State and USAID will continue their deployments of their respective financial systems, cognizant of the JFMS project activity in the establishment of the joint platform for FY-2006. Any redundancies

will be minimized and all investments during the interim period will be scrutinized for compliance with the joint platform. This will result in each agency being better equipped to reach their financial Performance Goals for the GFMS and Phoenix projects during FY–2004 and FY–2005, while at the same time, moving forward on the deployment of the collaborative system for FY–2006.

In addition, through a unique agreement with the Commercial Off-the-Shelf (COTS) software supplier, many of the custom State/USAID features developed as part of this project have been baselined into the software for reuse by other federal departments. This will reduce both State and USAID long-term maintenance costs, as well as provide benefit to other federal agencies requiring these capabilities.

C. Joint USAID/State Enterprise Architecture

Implementation of the Joint USAID/State Enterprise Architecture provides a rational means for accruing cost savings through the simplification and unification of effort across the two agencies and among bureaus. From a business perspective, the target section of the Enterprise Architecture is being developed from the analysis of each agency's business functions. Savings will be accrued as similar business functions currently performed separately by each agency, are integrated into single units that are responsible for both agencies. Financial functions are an example.

The Joint Enterprise Architecture Goal is to provide a Joint Enterprise Architecture "as-is" with a modernization blue print for financial management by September 2003, and a complete and integrated modernization blue print (for all business functions) by the end of FY–2005.

The lines of business to be pursued following the financial management initiative will be decided by the Joint Management Council, with representatives from both USAID and State. Given the importance to and impact on both agencies such decisions must be made in a senior level forum with participation by both agencies. We are working with USAID to develop a common procurement system.

Each of these collaborative efforts asks State and USAID to examine how they currently operate, identify operational gaps and strengths, and implement mutual strategies that advance their business processes.

D. Joint USAID/State Policy and Management Councils

The triennial Joint State/USAID Strategic Plan and its implementation is well underway and provides the opportunity for greater collaboration between the agencies on a number of policy and management issues. As part of this coordination effort, the Department has established the State/USAID Joint Management and Policy Councils to include the implementation of joint policy recommendations into Department operations and explore the integration of State/USAID's annual planning processes and systems.

E. Scrubbing the FY-05 Budget Submission

In addition to the MPP/BPP process and the Deputy Secretary's Senior Reviews that I have already described, the Department subjected all FY-2005 bureau plans to rigorous Budget Reviews.

- I led Budget Reviews following up on issues raised in the Senior Reviews, and scrubbed resource requests to eliminate waste and duplication.
- These hearings provided a crosscut to identify common requirements, areas of overlap, and possible economies. For example, they questioned several regional bureaus (EUR, AF, and NEA) about rightsizing and possible regionalization of support services through the Creekbed facility being planned for Frankfurt, Germany.

III. President's Management Agenda (Moving Toward "Green")

The Department of State has been a full and enthusiastic participant in the President's Management Agenda (PMA) since President Bush first announced the PMA in the summer of 2001. Like all agencies, we started with a mostly "red" scorecard. Over the first two years of the PMA, however, we have moved to "green" on progress for all PMA initiatives except Competitive Sourcing, and for that we have a "yellow." Our status or baseline scores are still "red," except for the "yellow" we received last quarter on Human Capital, but we believe we are getting close to improving several of them in the near future. I am especially proud of State's progress on the two PMA initiatives for which I am responsible: Improved Financial Performance and Budget and Performance Integration. Both of these initiatives have had "green" scores for progress for several quarters, and the substantive achievements under both are impressive. We have also made significant progress in E-Government, principally and I think most importantly on IT security—an area that impacts virtually everything the Department does worldwide and affects our Financial Performance scorecard. While our progress on Competitive Sourcing has not been as rapid as other agencies, State now has in place the resources and human infrastructure to move us forward on this PMA initiative.

So on balance, Mr. Chairman, I believe State has good news to report on its work thus far on the PMA, and I have no doubt that we will be in mostly "green" territory by this time next year.

Mr. Chairman, this completes my prepared statement. I am prepared to answer any questions that you or members of the committee may wish to raise at this time.

TESTIMONY OF AMBASSADOR ANNE M. SIGMUND, DEPUTY INSPECTOR
GENERAL OF THE DEPARTMENT OF STATE AND THE BROADCASTING
BOARD OF GOVERNORS

Mr. Chairman and Members of this Committee:

Thank for this opportunity to review management controls with respect to the State Department's budget and to discuss the Department's efforts to use the resources entrusted to its care efficiently and effectively. I am pleased to note that the Department's leadership has exhibited a strong commitment to establishing accountability so that the resources are given proper and careful oversight.

Department Property

The Department receives significant resources for acquisition, construction, and leasing of property to provide chanceries, consulates, and housing for U.S. government employees serving our country abroad. Under General Charles Williams' leadership, OBO has established procedures and management controls to ensure that fraud does not occur when buying and selling real property. For example, whenever OBO buys or sells property, it gets two independent outside appraisals of value. In-house, professionally certified senior appraisers review these outside appraisals and produce a reconciled estimate of value that forms the basis for subsequent actions and decisions regarding property. All property decisions are formally reviewed by OBO's director and properly documented. In sales and purchases overseas, the negotiating authority of the portfolio manager is established in writing in advance by a decision memorandum that includes the reconciled value and is cleared by appraisal offices and senior managers.

The Department actively seeks to identify vacant, excess, or underutilized properties. Each chief of mission, for example, is required annually to certify that he or she is not holding excess property. At every post it inspects, OIG independently validates whether there are excess or underutilized properties and determines what the Department and the post are doing to dispose of them. It is the Department's policy to sell vacant, excess, and underutilized property. Currently, the Department reports that it has 39 vacant properties, valued at approximately \$70 million. These are in various stages of disposition. In the last five years, the Department has sold 137 properties for almost \$365 million.

The Department owns and leases property that is currently vacant. However, some of these vacancies represent the realities of transfers of employees from one post to another with resulting temporary vacancies in residential property inventories. These are the normal vacancies associated with managing a housing portfolio. OIG does not consider these vacancies as meeting the definition of excess or underutilized property.

For security reasons, the Department also acquires property to enhance the security of a chancery if doing so is economically viable and there is no other way to mitigate serious security risks for a post in a dangerous environment. The Department has leased or purchased nineteen buildings or residences for security reasons in Phnom Penh, Kampala, Kigali, Luanda, Ouagadougou, Pristina, Tbilisi, Tel Aviv, and Guatemala City. This approach provides missions in potentially dangerous environments much-needed setback until such time as a new chancery can be constructed. OIG supports this policy when there are no other alternatives and resources permit.

The Department also has a new vacant leased property in Malabo, a new post ready to open. The property was leased in anticipation of opening and is awaiting necessary approvals. However, the Department has the right to terminate this lease on short notice should it decide not to proceed with this property.

In the course of inspections over the last year, OIG has identified the following underutilized or excess property:

- In Kinshasa, as the security situation has deteriorated, a number of U.S. government-owned residences have not been occupied for many years. The location of these residences is unsafe. Both OBO and OIG have recommended selling or trading them in exchange for more suitable property in a safer location. In several of the cases, there are title and legal issues. In the case of one property, abandoned and for which payments have not been made for ten years, OBO has authorized the embassy to relinquish the property to the host government under a no-cost agreement, a decision OIG supports.

- In the Bahamas, the disposition of a vacant property should be resolved. The Great Inagua Aeorstate site was purchased in 1993 for use in a now closed narcotics interdiction program. The property was purchased for about \$100,000. Efforts to dispose of this property have been admittedly slow. OBO has advised OIG that although it has been difficult to place a value on the property, the post got an appraisal and has requested bids for brokers to market and sell the property. OIG has concluded that OBO and the post are proceeding in good faith.

- Disposing of U.S. government-owned property in Mandalay has been a topic of discussion for over a decade. The U.S. consulate in Mandalay was closed in 1980, and for a number of years the property has not been used. Despite recommendations from OIG beginning in 1993, Embassy Rangoon has still not agreed to dispose of the property. Reportedly, selling the property would not yield a fair market value because foreign entities are restricted to selling real property for the original purchase price.

- In Laos, the U.S. government occupied a property called Silver City from 1955 to 1975. Originally, it was leased and then purchased from a private party in 1961 for \$4 million. When Communist Pathet Laotian forces seized it in 1975, they declared the U.S. purchase void, which is a matter that the U.S. government has contested. However, Laotians now occupy it. Ten years ago, the Laotian government proposed trading the property, but the proposal could not be implemented because the two governments could not agree on a value nor a property that could be exchanged for Silver City. In 1999, the government of Laos again proposed swapping the property for a large parcel of land and an additional \$50,000. Negotiations broke down in March 2000. Recently the Laotian government again expressed interest in a deal, this time on more favorable terms. The vacant land proposed by the Laotian government would be suitable for a new chancery. OIG agrees with Embassy Vientiane that the U.S. government should fully explore this exchange offer. OBO is in the process of working with the post to get the action to closure.

It should be clear from these examples, however, that not infrequently despite the Department's interest in disposing of excess and underutilized property, complicated title issues and even more complex host country laws make doing so difficult and less than timely.

Information Technology and Security

In the area of information technology, OIG has focused on the Department's vulnerabilities with respect to new technology and its

efforts to develop new strategies for dealing with the communications challenges facing foreign affairs agencies. For example, OIG recently reviewed the Department's implementation of the Foreign Affairs System Integration (FASI) project. The Department was the lead agency in this global affairs initiative to acquire and test a standard system, featuring a web-based portal, applications, and tools for improved communications, information sharing, and knowledge management among U.S. foreign affairs agencies at overseas missions. In the past, each agency working at an embassy overseas had its own information systems, which could not communicate easily with those of other organizations within a diplomatic mission, despite the need to share information on a variety of issues. OIG reviewed the FASI project, which was being piloted in Mexico City, and determined that the project was not meeting its objectives. Specifically, OIG found that FASI did not prioritize or obtain user input to requirements sufficiently to ensure that only the most essential needs were met with the interagency system. In OIG's view, the FASI project did not adequately coordinate with or consider using existing systems as potentially less costly alternatives to eliminate duplication. Interagency commitment to the system also was uneven due to inadequate marketing to other organizations, whose support also would be critical to supporting global system deployment. Furthermore, OIG found that the overseas pilot test of the interagency systems was at risk due to poor timing, inadequate communications and coordination, ineffective content management, and system and technical difficulties. This was not a question of fraud, but a case of imperfect conceptualization and inadequate effort in the area of knowledge management, an admittedly new field for all of us. Because of its concerns, OIG recommended that, after completing the pilot test, the project should be streamlined and redirected. The Department responded immediately to OIG's recommendations and discontinued the FASI project, thereby avoiding a cost of \$200 to \$235 million to deploy globally the interagency system. The Department has merged FASI objectives with those of a related messaging system replacement initiative, which will allow for reexamination of user requirements and consideration of alternative approaches for meeting the knowledge sharing requirements of the Department and the U.S. foreign affairs community.

Financial Management Issues

Financial management continues to be a major challenge facing the Department. The Department accounts for nearly \$11 billion in annual appropriations and over \$26 billion in assets. In recent years, the Department has made significant improvements in this area and is striving to fulfill the President's management agenda related to financial performance. In FY 2002, the Department closed its remaining three material weaknesses reported in the annual Federal Managers' Financial Integrity Act report. Moreover, the Department issued its FY 2002 Performance and Accountability report by the February 1 deadline with an unqualified (clean) opinion that means the statements were free of material misstatements. This was the Department's sixth consecutive unqualified opinion.

While the Department has made significant progress, more needs to be done. For example, OIG identified significant weaknesses related to information system security that we believe could be exploited to have a detrimental effect on the information used to prepare the financial statements. The Department has initiated a program to assess its information system security on a comprehensive basis. However, the work was not sufficiently advanced to determine whether the condition had been corrected during OIG's last audit of the Department's financial statements. OIG will focus on this area during the audit of the FY 2003 financial statements.

Weaknesses in the Department's financial management systems are a long-standing problem. The audit of the FY 2002 financial statements identified that the Department's financial and accounting systems were not adequate. The Department has made substantial compliance with the Federal Financial Management Improvement Act (FFMIA) a top priority and improvement initiatives to achieve that goal are underway. For instance, the Department is in the process of implementing a new global financial and accounting system at its overseas posts. As required by FFMIA, the Department submitted a remediation plan in March 2000 that calls for the Department to achieve substantial compliance by the end of FY 2003. OIG is tracking the Department's progress in implementing the plan.

In reviewing the Department's financial management systems, OIG noted significant internal control weaknesses related to the management of undelivered orders. While the Department has made improvements in managing undelivered orders, including developing a database to track them, the balance is extremely high and has grown from \$3.2 billion in FY 2001 to \$5 billion in FY 2002. During its FY 2003 audit, OIG estimated that at least \$230 million of this amount should have been deobligated financial statements. The Department is planning to deobligate automatically certain types of obligations during FY 2003, which it hopes will lower the amount of this category on the FY 2003 financial statements.

In addition, OIG identified weaknesses related to managerial cost accounting. The Department is developing a Central Financial Planning System that it believes will address many of the concerns related to managerial cost accounting.

Management Controls

OIG reviewed internal controls for several Department programs to reduce vulnerabilities for fraud, waste, and mismanagement, among them domestic travel card program and the government purchase cards. In its review of the Department's domestic travel card program, OIG examined the policies and procedures that were in place for managing the program. OIG found that the Department had not addressed the 60-day past due category of delinquencies, which may cause the commercial credit card provider to reduce the volume-based refund it gives the Department and can lead to account suspensions. Consequently, an employee's ability to travel on Department business may be hindered. Moreover, OIG concluded that the Department had not done enough to prevent and detect misuse of the cards. OIG also concluded that the De-

partment's Bureau of Resource Management was working with the Bureau of Human Resources, the Bureau of Diplomatic Security, and OIG to develop an acceptable notification process when employees misuse the cards or become delinquent with repayment. However, the Department did not have adequate internal controls for providing administrative oversight of the program. For example, the Department did not ensure that program coordinators were managing an appropriate number of accounts; that accounts were transferred or canceled as needed, when, for example, an employee transferred or left the Department; and that multiple accounts for an individual employee were identified and cancelled. OIG recommended that the Department develop guidelines to address travel card delinquencies in the 60-day past due category, provide program coordinators with clear written guidance on an Intranet site and through formal training, and improve the oversight of the travel card program by checking for multiple accounts and transferring or canceling travel cards when an employee leaves a bureau within the Department.

OIG's review of the Department's purchase card program was designed to evaluate the effectiveness of domestic operations for the program and determine whether the Department was achieving cost savings. In 2001, OIG reported that the program had experienced rapid growth in the number of cardholders since its inception and that the Department's customers were receiving goods and services more quickly under the program. However, OIG also found that part of the rapid growth in cardholders was attributable to purchase card users making infrequent or no transactions, and therefore, may not actually need the cards. In its audit, OIG reviewed in detail about \$1.5 million in domestic purchases. The review found that about 81 percent of the transactions, or about \$1.2 million, lacked some of the required documentation, although the transactions appeared to be legitimate and justified. However, about 12 percent, or about \$180,000 in transactions, lacked sufficient documentation for OIG to verify independently that the purchases were properly made for legitimate purposes and reconciled by supervisors in a timely manner. In addition, not all the responsible officials interviewed by OIG had conducted required annual reviews of their offices' purchase card operations. OIG also found that the Department's method for determining cost savings—the reduction in the number of paper purchase orders processed—does not necessarily capture the actual administrative cost reductions that have occurred. Finally, OIG found inappropriate procurement practices that, if changed, could yield additional cost or time savings for the Department. For example, some cards had a self-imposed limit of \$1,000 and opportunities to use the cards were often missed. As a result of OIG's report, the Department has addressed the documentation and annual review issues. Additionally, the Department has taken steps to examine low purchase card use and withdraw unneeded cards, clarify reporting on cost savings from the program, and explore additional cost avoidance measures. Finally, OIG suggested and the Department agreed to identify cardholder best practices that can be used throughout the program for improving the economy and efficiency of operations. Shortly, OIG

will closely review ways for optimizing the overseas use of purchase cards and for preventing waste, fraud, and mismanagement.

Improper payments are a longstanding, widespread, and significant problem in the federal government. The Department does not have an adequate process in place to estimate regularly the amount of improper payments. Currently, the Department approximates the amount of improper payments at \$2 million per year. This consists of known overpayments, mostly of Foreign Service retirement benefits. However, the Department has an initiative underway to have an accounting firm develop a process to measure and report on the extent of improper payments. The initiative fits in with new OMB guidance and is intended to establish a baseline of the extent of improper payments in selected programs and activities and determine the causes. The Department piloted the new process on grants/financial assistance payments in one bureau and was generally pleased with how the process worked. The Department now plans to expand the process to other areas. OIG is completing three audits that reviewed different aspects of improper payments. They are:

- A review of all of the Department's FY 2002 payment transactions in order to identify any duplicate payments;
- A review of the Department's process for establishing and maintaining vendors in CFMS; and
- A review of the Department's practice of making payments without having an established obligation.

The Department annually reports on its debt collection efforts in its annual Performance and Accountability Report. Outstanding debt from nonfederal sources increased from \$42.1 million in FY 2001 to \$45.3 million in FY 2002. Nonfederal debt consists of money owed to the International Boundary and Water Commission, and amounts owed for repatriation loans to American citizens, medical costs, travel advances, proceeds from the sale of property, and some other miscellaneous receivables.

Of the delinquent accounts receivable—over 365 days—the majority, \$3.8 million, were for repatriation loans. These are loans given to destitute American citizens stranded overseas to allow them to return to the United States. Due to economic problems, many of these individuals are unable to repay their loans on time.

The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. It also receives collections through its cross-servicing agreement with the Department of the Treasury. In accordance with this agreement and the Debt Collection Improvement Act of 1996, the Department referred \$194,000 to Treasury for cross-servicing in FY 2002. Anthrax-related mail disruptions in late 2001 affected the Department's ability to receive payments and to provide debtors a proper due process notification. Of the current and past debts referred to Treasury, \$206,460 was collected in FY 2002.

In its review of the Broadcasting Board of Governors (BBG) Controls on Domestic Personal Property, OIG examined whether the International Broadcasting Bureau (IBB) had established effective policies for inventory controls at six of its property management units. OIG found that the IBB did not have fully functioning property management policies and procedures to ensure that govern-

ment property was properly used and safeguarded. Furthermore, there was no evidence that a complete property inventory had ever been conducted by the IBB. Therefore, OIG made several recommendations, including conducting an agency-wide inventory to provide an accurate property baseline implementing a plan for bringing the agency into compliance with applicable accounting and reporting requirements, and establishing a single, centralized receiving operation for all international headquarters' offices to ensure better accountability. The IBB generally agreed with OIG's report and is taking steps to implement its recommendations.

Preventing Fraud

Central to OIG's portfolio for preventing fraud, waste, and mismanagement is its investigative work. Since FY 1994, OIG has conducted a number of embezzlement cases, domestically and overseas, involving Department employees, contractors, grantees, and Foreign Service Nationals. Some of these cases have resulted in successful criminal prosecutions with sentences requiring restitution, the Department's termination of employment, or referrals to host country authorities. Over the last ten years, the amount reported to OIG as embezzled from the Department is over \$5 million. Restitution of over \$3.8 million has been either made or ordered.

Mr. Chairman, the Office of Inspector General works closely and collaboratively with the Department and BBG to ensure accountability in programs and operations. We believe that this proactive partnership has resulted in a more efficient and effective use of appropriated funds. More needs to be done, of course, but I am confident that the Department is moving forward with alacrity in the interests of good government.

Thank you.

STATEMENT OF JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR
MANAGEMENT AND CHIEF INFORMATION OFFICER, U.S. AGENCY
FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Ranking Member Lantos, thank you for the opportunity to appear before you today to discuss cost saving efforts at the U.S. Agency for International Development (USAID).

When Administrator Natsios first arrived at USAID, he determined that the Agency's five management systems were in a state of disrepair and were in need of modernization and reform. He determined that waste and mismanagement could be eliminated by improving the way the Agency conducts business through its systems and processes for finance, personnel, procurement, information technology (IT) and administrative services. Under the Administrator's leadership, the Agency developed a business transformation plan to implement his management reforms. These reforms are being done in the context of the President's Management Agenda and many are being carried out in close coordination with the Department of State.

In my statement today, I will discuss our management reforms under three headings: our work on the President's Management Agenda; our collaborative activities with the Department of State; and our financial management reforms. Our financial management

reforms will be discussed in detail because proper accountability for appropriated funds lies at the heart of both management improvement and the elimination of waste, fraud and abuse.

USAID MANAGEMENT REFORMS

In close coordination with the President's Management Agenda, USAID is aggressively implementing its own ambitious management reform program. The Agency has established a Business Transformation Executive Committee (BTEC), a governing board of senior executives from all bureaus and major offices across the Agency to oversee our management reforms. Our management reform accomplishments as well as our future plans are listed below by PMA initiative.

Strategic Management of Human Capital

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down recruiting in the 1990s, our workforce is stretched thin, rapidly "graying" and approaching a retirement exodus, and lacking in critical skills. To meet these challenges, we are undertaking a comprehensive workforce planning effort and ramping up recruitment initiatives at entry and mid-career levels. Our "Development Readiness Initiative" (DRI) parallels the Department of State's successful Diplomatic Readiness Initiative, and is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We are undertaking a comprehensive and integrated workforce analysis, building on competency-related work already performed by many parts of USAID to establish the basis upon which further workforce planning and general human capital strategic management can be developed. To meet the critical need to create the 21st Century Foreign Service corps, we are undertaking a Development Readiness Initiative that parallels the Department of State's Diplomatic Readiness Initiative; this will include the recruitment of junior officers, called International Development Interns, to assure a regular infusion of new blood into our system. The Development Readiness Initiative (DRI) is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We have developed an electronic database (e-World) that provides current high quality data regarding the Agency's workforce. This information allows knowledge of the number, skills, and deployment of Agency personnel to meet our future programmatic needs and to develop strategies for succession planning and leadership continuity. This accountability tool facilitates workforce planning and resource reallocation decision-making.

We are finalizing a comprehensive human capital strategic plan that will describe the specific core competencies needed by our overseas staff to make the Agency operate effectively and efficiently. In developing this plan, we considered the recommendations from a report by the National Policy Association that contains 25 recommendations for reforming personnel practices at USAID.

The Human Capital Strategy will be carried out in the context of an overall Agency "right sizing" that will improve our ability to

do comprehensive workforce planning. This effort will consider regionalizing USAID processes to perform work more efficiently.

Improved Financial Management

We are collaborating with Department of State on a joint financial management system in furtherance of our business systems modernization initiative.

We have developed customer service standards and initiated activity based costing to improve services, get a better handle on costs and reallocate resources to our most important business needs.

We have developed mandatory training for Contract Technical Officers (CTOs) in the agency to better manage obligations that can lead to charges of waste, fraud and abuse. Annual mandatory ethics training is part of this program. We are working with the Department of State to develop a common procurement system. Instead of developing separate systems, both agencies are collaborating on this project that will reduce redundancies and waste and save considerable taxpayer dollars.

Budget and Performance Integration

We have developed a strategic budgeting model to enable us to link performance and resource allocation more efficiently.

Competitive Sourcing

We have provided training for our procurement staff on performance based contracting to focus on desired results and outcomes. We are developing comprehensive USAID Competitive Sourcing and Action Plans to achieve efficient and effective competition between public and private sources that will generate savings and performance improvements.

Expanded Electronic Government

We are partners on several of the President's 25 e-gov initiatives collaborating on projects where standardization and integration of similar business processes and systems make sense and are more cost effective. Our efforts are directed at ensuring high quality services for citizens while reducing the cost of delivery of these services. We are developing a joint enterprise architecture with the Department of State that will serve as a strategic management tool to identify IT redundancies and duplications and inform decisions about program implementation and IT investments. We have established procedures for capital planning and investment control to ensure that we spend our IT resources efficiently. We are providing training for the Agency's project managers to ensure appropriate best practices and standards are adhered to in order to reduce redundant spending and improve the return on IT investments.

Our management reform activities have and will continue to provide significant cost savings while promoting management efficiencies that directly support the PMA. Our activities have improved our e-Gov scores on the PMA. For the last two quarters we received "Green" ratings for progress based on our efforts in the areas of enterprise architecture, capital planning and investment control, and IT security.

JOINT STATE/USAID ACTIVITIES

For the first time, USAID and the Department of State have developed a joint strategic plan. The new strategic plan covers fiscal years 2004 to 2009 and will be updated every three years. The new plan clearly outlines the shared mission, core values, goals and priorities of State and USAID in both policy and management areas. Our joint management priorities are closely linked to the goals of the President's Management Agenda (PMA).

To achieve cost savings, we are pursuing opportunities where the Department and USAID can create more integrated management structures to reduce redundancies and costs for the taxpayer where possible. We have identified concrete activities where we hope to explore greater coordination and in some instances integration.

Department—USAID Management Council

A joint State/USAID Management Council has been established to oversee and implement collaborative management activities that will result in cost saving reforms and improve services for both agencies in the areas of human resources, e-Government, resource management, administrative services, overseas facilities, and security. Examples of issues for the JMC's consideration are as follows.

Human Resources

In the area of human resources, USAID and State are developing parallel and complementary human capital strategies to include joint training of our employees; formal cross-assignments; and plans to rightsize and regionalize our overseas presence. The latter initiative is focused on determining the appropriate number of U.S. staff deployed overseas to assure effective and efficient planning and management of programs. We have reviewed the main criteria proposed by the General Accounting Office for determining overseas staffing levels and, not only do we agree with them, we have been using them in setting our field staffing levels. As you are aware, President Bush has made the rightsizing of overseas official U.S. presence an agency-specific reform in his management agenda and our efforts are directed at supporting this initiative by assuring the most effective overseas presence.

E-Government

The Department and USAID are committed to implementing the requirements of the Federal e-Government Initiative under the PMA. We will strengthen our administrative systems and pursue collaborative solutions to Web-base, centralize, and integrate our IT systems; expand our recently established infrastructure; coordinate IT planning and common use of architecture and infrastructure; develop a joint enterprise architecture to enable an integrated accounting system worldwide; strengthen core information management systems and collaboration by implementing one modern messaging system for the Department and USAID headquarters, posts, and missions worldwide; and consolidate overseas technical and operational support.

Administrative Services

The Department and USAID jointly will review their operations at U.S. diplomatic missions abroad to implement a pilot project in which selected administrative support operations would be combined where costs are reduced and/or the quality of services are enhanced. The combined service(s) would operate under the agency best able to offer the service through International Cooperative Administrative Support Services (ICASS) to all U.S. Government entities under the Chief of Mission authority. ICASS has proved very effective as a system to allocate costs fairly among users, and all agencies are working to make it a stronger tool for efficiency as well.

A joint Department/USAID acquisition and assistance system will be integrated with the Agency's core accounting system to facilitate production of timely, reliable information on program and development expenditures. The proposed web-based application allows for data entry at the source, reducing the risk of erroneous or redundant entry of transactions.

The Department and USAID will jointly review the use of competitive sourcing. Commercial activities will be reviewed continually to ensure the best possible service at the best possible price, regardless of the source. We will review the use of contractors across the Department and USAID in order to streamline contracts and minimize duplication and costs.

Resource Management

To improve our accountability to the American taxpayers, we will improve our financial performance and integrate budgeting with strategic and performance planning. The Department and USAID will implement a joint financial management system that will integrate the financial systems of both agencies. To increase our budget process transparency, both agencies will institute operations budget review meetings to ensure understanding of each organization's workforce, technology, and policy programs. And we will explore developing a joint methodology to allocate resources by strategic goal to better understand how much funding and human resources are devoted to achieving our goals.

Facilities

Looking to the future, an area where the factors of cost and security come together is that of office space for our field missions. A prime objective for USAID is to assure that our overseas staff works in the safest possible environment. Consistent with the Secure Embassy and Counter Terrorism Act of 1999, USAID seeks to co-locate with the embassies wherever possible.

Security

Close coordination and cooperation between the Department and USAID security professionals will be key to maximizing our effectiveness and determining acceptable levels of security risk versus our ability to operate. We will leverage Diplomatic Security (DS) contract support to enhance USAID security; recruit and train personnel to enhance worldwide security operations; and enhance se-

curity infrastructure that allows timely and accurate exchange of security information to enhance protection of our personnel.

Through these cooperative efforts that I have described, USAID and Department of State will reduce redundancies and waste while reinforcing management accountability and cost savings.

FINANCIAL MANAGEMENT IMPROVEMENTS

In the area of financial management, USAID's story continues to improve. As had been reported by the Office of the Inspector General (OIG), the Agency previously lacked a core financial management system that complied with the requirements of the Federal Financial Management Improvement Act (FFMIA). There has also been a major impediment in providing information for USAID managers on a day-to-day basis, thereby hindering the Agency's ability to manage its resources. To address the system weaknesses, USAID implemented a new core accounting system at headquarters in FY 2001.

The next phase of our financial management system improvement effort is the deployment of the headquarters accounting system to our field missions. We are currently planning to have the system fully deployed by the end of FY 2005. At the same time, as mentioned previously, we are working closely with the State Department to have a joint financial management system by FY 2006. When the system is fully deployed, USAID will have for the first time an integrated financial management system that can produce timely and reliable Agency-wide financial information for program managers and decision-makers. Full deployment of the system will also bring the Agency into compliance with the FFMIA.

In FY 2002, we received an unqualified audit opinion on four of five principal financial statements and an overall qualified audit opinion. This marked the first time since enactment of the Government Management Reform Act that USAID received an opinion on all of its financial statements. Within the 2002 GMRA Audit, the OIG recognized seven internal control material weaknesses. Six of the seven internal control material weaknesses have been addressed and the last one will be addressed by September 30, 2003. We are working closely with the OIG on resolving all remaining obstacles so that the OIG may issue an unqualified audit opinion for FY 2003.

Additionally, we have recently implemented improvements to the Headquarters core accounting system, improved financial and performance reporting, and improved the quality of data available to field program managers. We have expanded cross-servicing and outsourcing, including grant management (HHS), loan management (Riggs Bank) and payroll (National Finance Center).

USAID's Management Control Review Committee plays an active role in ensuring corrective action for deficiencies identified through OIG audits and management control reviews in accordance with the Federal Managers' Financial Integrity Act. The Committee, chaired by our Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when material weaknesses have been corrected. Parallel committees operate within the Agency's overseas operating units.

We continue to improve the quality of USAID's financial management systems and we continue to improve the internal control systems and processes affecting the day-to-day management of our programs as well as our financial statements.

IN CONCLUSION

Mr. Chairman, I would like to assure Congress that USAID is committed to improving our management and accountability practices. USAID is committed to enhanced collaboration with the Department and looks forward to participating actively in the Joint Management Council's efforts to produce improved, cost effective administrative services for both agencies. We will continue to work diligently to implement agency-specific management reforms and to identify areas of cost savings I hope my remarks today have been helpful in explaining our management reforms for transforming USAID into a more effective and efficient humanitarian assistance and development organization as we move our foreign policy agenda forward.

STATEMENT OF EVERETT L. MOSLEY, INSPECTOR GENERAL, U.S.
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, other committee members, and committee staff, thank you for the opportunity to provide my testimony on efforts to identify and eliminate waste, fraud, abuse, and mismanagement with respect to the U.S. Agency for International Development (USAID) programs and operations. Based on input provided by your staff, I will focus on opportunities for USAID to improve its operations and other items that your staff indicated would be of interest to the committee. I know that the primary interest for this hearing is mandatory versus discretionary programs. There are two mandatory spending programs at USAID: (1) The foreign service retirement and disability fund; and (2) any upward reestimate of the credit subsidy under the Agency's development credit authority. The Foreign Service Retirement and Disability Fund is managed by the Department of State and Audited by the State Department Office of Inspector General. Reviews of USAID'S credit subsidy under the Agency's Development credit authority are included within USAID'S annual GMRA audit, and no issues have been reported regarding the subsidy.

With regards to the discretionary programs operated by USAID, my office conducts several reviews that can potentially identify opportunities for savings. I will list these reviews and then describe their results that may be of interest to the committee.

First, my office conducts an annual audit of USAID'S consolidated financial statements in accordance with the Government Management and Reform Act and other laws and regulations.

Second, we perform or oversee financial audits of USAID contractors and grantees.

Third, we conduct performance audits of USAID'S programs. These audits examine the extent to which USAID'S programs have achieved planned results or the degree to which USAID is following sound management practices.

Fourth, the OIG also conducts investigations into alleged violations of laws, and rules or regulations by recipients of USAID funds or by employees.

I will now briefly discuss the results of these reviews, placing emphasis on areas of possible savings or areas that your staff has indicated could be of interest to the committee.

Audit of USAID'S financial statements

Based on our audit of USAID'S financial statements as of September 30, 2002, we expressed unqualified opinions on USAID'S balance sheet, statement of changes in net financial position, statement of budgetary resources, and statement of financing. We expressed a qualified opinion on USAID'S statement of net costs. Based on discussions with your staff, the following findings from this audit may be of interest to the committee:

As of September 30, 2002, USAID had \$153 million of unliquidated obligations that had no payment activity for at least one year. The lack of payment activity for these obligations indicated that the obligations may no longer be needed and may be available for deobligation. At the same time, it is important to recognize that some unliquidated obligations are in fact still needed. This can be illustrated by the experience of a working group established by USAID'S business transformation executive committee (also known as btec) to review all contracts and grants with expiration dates of September 30, 2000 or earlier and unliquidated balances of at least \$100,000. The working group found that about one-third of the unliquidated amounts for these awards could be deobligated while the other two-thirds was needed to pay expenses under the awards. As of September 30, 2001, the amount of unliquidated obligations that had no payment activity for at least one year was \$186 million. As of September 30, 2002, one year later, USAID reduced that amount by \$33 million to \$153 million. USAID has begun a process of estimating quarterly accruals. While this practice does not necessarily result in The agency deobligating funds, it does require managers to review the status of program funds. Funds that are deobligated through this practice may be reused for other similar activities or are returned to the U.S. Treasury.

Financial Audits of Usaid Contractors and Grantees

Under the improper payments information act of 2002, agencies are required to institute a systematic method of reviewing all programs and identifying those it believes are susceptible to significant erroneous payments. An erroneous payment is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Significant erroneous payments are defined as annual erroneous payments in the program exceeding both 2.5 percent of program payments and \$10 million. We are currently working with USAID managers to assist them in determining whether the agency will meet those thresholds.

We also assist usaid in meeting their audit requirements under federal regulations and our own policies. Audits are conducted of U.S.-based contractors, grantees, and enterprise funds, and of foreign-based contractors and grantees. The defense contract audit

agency and private CPA firms conduct these audits and we provide oversight of their work. Financial audits of USAID contractors and grantees may identify questioned costs, that, if sustained by the contract or agreement officer, must be reimbursed to USAID. Questioned costs include (1) costs that are ineligible under the terms of underlying contract, grant, or agreement, as well as (2) unsupported costs that lack sufficient supporting documentation to permit the auditor to make an informed judgment on the eligibility of the cost or that lack required approvals.

From October 1, 2001 through March 31, 2003, USAID reached management decisions on audit recommendations that questioned \$28.0 million in contractor and grantee costs. This amount included \$8.3 million in costs that were unsupported. Of the \$28.0 million in questioned costs, USAID did not allow \$10.5 million of which \$8.2 million was not allowed because the costs were not eligible and \$2.3 million was disallowed because the contractor could not support the costs claimed when the audit was performed. The \$10.5 million was Deobligated by USAID and, as I Indicated Previously, Funds that are deobligated may be reused for other similar activities or are returned to the U.S. Treasury.

Performance Audits

My testimony for the record, dated July 9, 2003 to the House Committee on Budget talked about a cargo preference audit we performed. When providing food assistance to Nations overseas, both USAID and the U.S. Department of Agriculture (USDA) are required by law to ship a certain percentage of tonnage on privately owned U.S. Flag commercial vessels. This cargo preference helps ensure that the united states maintains an adequate and viable merchant marine. In 1985, Congress increased this requirement from 50 TO 75 percent for commodities shipped under certain U.S. Food Assistance Programs. At the same Time, Congress directed that the U.S. Department of Transportation (DOT) finance any increases in food assistance shipping costs due to the application of this new requirement. Under a memorandum of understanding, USDA agreed to apply for all cargo preference reimbursements from DOT. After receiving funds from DOT, USDA would then apportion to USAID'S P.L. 480 Title II and title III Food Shipments.

In March 2001, we conducted an audit of cargo preference reimbursements under section 901d of the Merchant Marine Act OF 1936. We found that, in accordance with established laws, policies, and procedures governing the administration of cargo preference reimbursements, USDA could be entitled to as much as \$289 million in additional reimbursements. Of that amount, up to \$175 million could be made available to the two programs administered by USAID. Our recommendations included seeking that \$175 million in unclaimed reimbursements for excess ocean freight costs dating back to 1994. USAID management concurred with the audit findings. U.S. Department of Agriculture and USAID managers have been working to resolve this issue and have taken their case to OMB.

Investigations

OIG investigations can result in fines, cost recoveries, or savings, to either USAID or to the U.S. Treasury. For example, a major investigation by the OIG of bid rigging and fraud in USAID-funded construction contracts in Egypt resulted in fines, savings and restitution of over \$260 million in fiscal years 2000 TO 2002. While most of this money went to the general fund of the U.S. Treasury, approximately \$10 million in restitution was returned to the USAID program in April of 2001.

Thank you for this opportunity to present testimony concerning efforts to identify and eliminate waste, fraud, abuse, and mismanagement with respect to USAID. I will be happy to respond to any questions you may have.

STATEMENT OF JESS T. FORD, DIRECTOR INTERNATIONAL AFFAIRS
AND TRADE

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of State's and the U.S. Agency for International Development's (USAID) stewardship of their resources and areas within their budgets where applying strong management practices has the potential to produce efficiencies that could result in cost savings. To put this in perspective, in fiscal year 2003, State was appropriated about \$6 billion for the administration of foreign affairs and USAID received approximately \$12 billion in total program funding.

In carrying out its mission of forming, representing, and implementing U.S. foreign policy, State faces complex challenges, some of which have intensified since the terrorist attacks of September 11, 2001, including the provision of secure facilities overseas. Over the last several years, funding for State's operations has increased, particularly for security upgrades at embassies and consulates around the world and for a major hiring program to meet U.S. foreign policy needs. USAID has also received significant funding increases for foreign assistance programs, in Afghanistan and Iraq in particular, as well as for HIV/AIDS relief programs. However, resources are not unlimited, and sound management practices can affect the utilization of large sums of money.

Over the years, GAO, State's Office of the Inspector General (OIG), and various commissions and studies have identified numerous management weaknesses at State. In addition, GAO and others have identified management challenges and operational deficiencies at USAID that affect the agency's ability to implement its programs. Ongoing attention to resource management issues at both State and USAID will be needed to ensure that the department and the agency take advantage of opportunities for more efficient operations and achieve budget savings wherever possible.

My statement today is based on our work at State and USAID over the last several years. I will focus on our observations regarding State's management in the following five areas: (1) unneeded real estate; (2) embassy construction; (3) overseas presence and staffing, including rightsizing; (4) information technology; and (5) strategic planning. I will also discuss key areas where USAID has

faced challenges, including (1) human capital management and workforce planning, (2) program evaluation and performance measurement, (3) information technology, and (4) financial management. A list of relevant GAO reports is attached to the end of my statement (see app. I).

SUMMARY

Overall, our work at the Department of State shows that it has paid more attention to managing resources, and this effort is starting to show results-including the potential for cost savings and improved operational effectiveness and efficiency. For example,

- In 1996, GAO was critical of State's disposal of unneeded facilities. We reported that State did not have an effective process for identifying and selling unneeded real estate, and that decisions concerning the sale of some properties valued at hundreds of millions of dollars had been delayed for years. In recent years, State has brought a more businesslike approach to managing its overseas real estate portfolio-valued at approximately \$12 billion-and has accelerated the sale of unneeded property and generated revenue that can be used to replace unsafe, deteriorating facilities worldwide. In total, between fiscal years 1997 through 2002, State sold properties for more than \$459 million. The proceeds from these sales will be used to construct new facilities in Germany, Angola, and other locations worldwide. State estimates proceeds from additional property sales valued at \$300 million between fiscal years 2003 through 2008 that could be used for other priorities. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can potentially avoid having to request additional funding from the Congress for other real property needs.

- In the past, we reported that State's embassy construction projects took longer and cost more than budgeted. Due to delays in State's construction program of the late 1980s, and subsequent funding cutbacks, facilities lacked adequate security and remained vulnerable to terrorist attack. State has also begun taking a more businesslike approach with its embassy construction program, which it expects will cost an additional \$17 billion beginning in fiscal year 2004. For example, State has instituted reforms, such as using standard building designs and "fast-track" contracting, that could lower the cost of embassy construction and lessen the chances of cost overruns and schedule delays. We reported in January 2003 that cost-cutting efforts allowed State to achieve about \$150 million in potential cost savings during fiscal year 2002. State should continue to promote a streamlined approach as it determines requirements for, designs, and constructs new embassies in an effort to find other opportunities to cut costs while continuing to provide safe and secure facilities.

- We have also reported that State and most other foreign affairs agencies lacked a systematic process for determining appropriate overseas staffing levels. As a result, there was no assurance that personnel stationed abroad represented the right number of people with the right skills. Since 2001, State has directed significant effort to improving the management of its overseas presence in an effort to address workforce planning and staffing issues. In

response to management weaknesses that we have previously identified, State has begun addressing rightsizing options and staffing shortages at hardship posts. For example, the department has indicated that it is pursuing regionalization in Europe, as well as opportunities to relocate positions from overseas back to the United States, which should result in lower operating costs. State should continue to review its workforce planning policies to ensure that the U.S. government has the right people in the right places at the right times to support U.S. foreign policy goals. Moreover, in determining overseas staffing levels, State should adopt industry best practices, such as competitive sourcing of administrative and support functions, which could result in cost reductions and streamlined services overseas.

- Previous GAO and State's Office of Inspector General (OIG) reports cited weaknesses in the information technology system, including State's inability to collaborate with other foreign affairs agencies, as significant challenges for the department. State officials have recognized deficiencies in the department's management of information technology programs. The Secretary of State has made a major commitment to modernizing information technology and plans to spend \$262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas. For example, State is now working to replace its antiquated cable system with a new integrated messaging and retrieval system. According to State, its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. Due to the level of investment the department is making in information technology, continued oversight will be necessary to minimize the risks of spending large sums of money on systems that do not produce commensurate value.

- From 1998 through 2000, we found major weaknesses in State's strategic planning processes. The department had not developed overall priorities for achieving its strategic goals, and consequently, had no overall basis for allocating resources to priorities. Since 2001, State has made improvements both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. State is now working to forge a stronger link between resources and performance, strategic plans, annual performance plans, and annual performance reports. This effort will enable State to show what is being accomplished with the money it is spending. Improvements in strategic planning will also ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are key to efficient operations.

Our work at the U.S. Agency for International Development (USAID) indicates that the agency has begun taking corrective actions in areas that, over the years, GAO and others have identified as having weak management and operational deficiencies. These areas include human capital management and workforce planning, program evaluation and performance measurement, information technology, and financial management. Improved management of these critical systems is essential if USAID is to ensure that its foreign assistance objectives are being met and its funds and resources are effectively safeguarded. Our recent work on USAID's

democracy and rule of law programs also revealed certain management weaknesses that, if corrected, would help ensure that these programs can be sustained in difficult overseas environments, are better coordinated with other U.S. agencies and international donors to maximize resources, and achieve their intended results.

Mr. Chairman, State, USAID, and all government agencies have an obligation to ensure that taxpayer resources are managed wisely. The programs and activities that I am covering today have benefited and will continue to benefit from sound management practices that could result in more savings and efficiencies.

BACKGROUND

Approximately 4 percent of discretionary spending in the United States' federal budget is appropriated for the conduct of foreign affairs activities. This includes funding for bilateral and multilateral assistance, military assistance, and State Department activities. Spending for State, taken from the "150 Account," makes up the largest share of foreign affairs spending. Funding for State's Diplomatic and Consular Programs-State's chief operating account, which supports the department's diplomatic activities and programs, including salaries and benefits-comprises the largest portion of its appropriations. Embassy security, construction, and maintenance funding comprises another large portion of State's appropriation. Funding for the administration of foreign affairs has risen dramatically in recent fiscal years, due, in part, to enhanced funding for security-related improvements worldwide, including personnel, construction, and equipment following the bombings of two U.S. embassies in 1998 and the events of September 11, 2001. For example, State received about \$2.8 billion in fiscal year 1998, but by fiscal year 2003, State's appropriation was approximately \$6 billion. For fiscal year 2004, State is seeking approximately \$6.4 billion, which includes \$4 billion for diplomatic and consular affairs and \$1.5 billion for embassy security, construction, and maintenance. In addition, State plans to spend \$262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas.

Humanitarian and economic development assistance is an integral part of U.S. global security strategy, particularly as the United States seeks to diminish the underlying conditions of poverty and corruption that may be linked to instability and terrorism. USAID is charged with overseeing U.S. foreign economic and humanitarian assistance programs. In fiscal year 2003, Congress appropriated about \$12 billion-including supplemental funding-to USAID, and the agency managed programs in about 160 countries, including 71 overseas missions with USAID direct-hire presence. Fiscal year 2004 foreign aid spending is expected to increase due, in part, to substantial increases in HIV/AIDS funding and security-related economic aid.

DEPARTMENT OF STATE

I would like to discuss State's performance in managing its overseas real estate, overseeing major embassy construction projects, managing its overseas presence and staffing, modernizing its infor-

mation technology, and developing and implementing strategic plans.

Management of Real Property

State manages an overseas real property portfolio valued at approximately \$12 billion. The management of real property is an area where State could achieve major cost savings and other operational efficiencies. In the past, we have been critical of State's management of its overseas property, including its slow disposal of unneeded facilities. Recently, officials at State's Bureau of Overseas Buildings Operations (OBO), which manages the government's real property overseas, have taken a more systematic approach to identifying unneeded properties and have significantly increased the sale of these properties. For example, in 2002, OBO completed sales of 26 properties totaling \$64 million, with contracts in place for another \$40 million in sales. But State needs to dispose of more facilities in the coming years as it embarks on an expensive plan to replace embassies and consulates that do not meet State's security requirements and/or are in poor condition.

Unneeded Property

Unneeded property and deteriorating facilities present a real problem-but also an opportunity to improve U.S. operations abroad and achieve savings. We have reported that the management of overseas real estate has been a continuing challenge for State, although the department has made improvements in recent years. One of the key weaknesses we found was the lack of a systematic process to identify unneeded properties and to dispose of them in a timely manner. In 1996, we identified properties worth hundreds of millions of dollars potentially excess to State's needs or of questionable value and expensive to maintain that the department had not previously identified for potential sale. As a result of State's inability to resolve internal disputes and sell excess property in an expeditious manner, we recommended that the Secretary of State appoint an independent panel to decide which properties should be sold. The Secretary of State created this panel in 1997. As of April 2002, the Real Property Advisory Board had reviewed 41 disputed properties and recommended that 26 be sold. By that time, State had disposed of seven of these properties for about \$21 million.

In 2002, we again reviewed State's processes for identifying and selling unneeded overseas real estate and found that it had taken steps to implement a more systematic approach that included asking posts to annually identify properties for disposal and increasing efforts by OBO and officials from State's OIG to identify such properties when they visit posts. For example, the director of OBO took steps to resolve disputes with posts that have delayed the sale of valuable property. OBO has also instituted monthly Project Performance Reviews to review all aspects of real estate management, such as the status of acquisitions and disposal of overseas property. However, we found that the department's ability to monitor property use and identify potentially unneeded properties was hampered by errors and omissions in its property inventory. Inaccurate inventory information can result in unneeded properties not being identified for potential sale. Therefore, we recommended that the

department improve the accuracy of its real property inventory. In commenting on our report, OBO said that it had already taken action to improve its data collection. For example, State sent a cable to all overseas posts reminding them of their responsibilities to maintain accurate real estate records.

State has significantly improved its performance in selling unneeded property. In total, between fiscal years 1997 through 2002, State sold 129 properties for more than \$459 million. Funds generated from property sales are being used to help offset embassy construction costs in Berlin, Germany; Luanda, Angola; and elsewhere. State estimates it will sell additional properties between fiscal years 2003 and 2008 valued at approximately \$300 million. More recently, State has taken action to sell two properties (a 0.4 acre parking lot and an office building) in Paris identified in a GAO report as potentially unneeded. After initially resisting the sale of the parking lot, the department reversed its decision and sold both properties in June 2003 for a total of \$63.1 million—a substantial benefit to the government. The parking lot alone was sold conditionally for \$20.7 million. Although this may be a unique case, it demonstrates how scrutiny of the property inventory could result in potential savings. The department should continue to look closely at property holdings to see if other opportunities exist. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can use those funds to help offset the cost of replacing about 160 embassies and consulates for security reasons in the coming years.

Embassy Construction

In the past, State has had difficulties ensuring that major embassy construction projects were completed on time and within budget. For example, in 1991 we reported that State's previous construction program suffered from delays and cost increases due to, among other things, poor program planning and inadequate contractor performance. In 1998, State embarked on the largest overseas embassy construction program in its history in response to the bombings of U.S. embassies in Africa. From fiscal years 1999 through 2003, State received approximately \$2.7 billion for its new construction program and began replacing 25 of 185 posts identified as vulnerable by State. To better manage this program, OBO has undertaken several initiatives aimed at improving State's stewardship of its funds for embassy buildings, including cutting costs of planned construction projects, using standard designs, and reducing construction duration through a "fast track" process. Moreover, State hopes that additional management tools aimed at ensuring that new facilities are built in the most cost-effective manner, including improvements in how agencies determine requirements for new embassies, will help move the program forward. State is also pursuing a cost-sharing plan that would charge other federal agencies for the cost of their overall overseas presence and provide additional funds to help accelerate the embassy construction program.

Replacing Vulnerable Facilities

While State has begun replacing many facilities, OBO officials estimated that beginning in fiscal year 2004, it will cost an additional \$17 billion to replace facilities at remaining posts. As of February 2003, State had begun replacing 25 of 185 posts identified by State as vulnerable after the 1998 embassy bombings. To avoid the problems that weakened the previous embassy construction program, we recommended that State develop a long-term capital construction plan that identifies (1) proposed construction projects' cost estimates and schedules and (2) estimated annual funding requirements for the overall program. Although State initially resisted implementing our recommendation, OBO's new leadership reconsidered this recommendation and has since produced two annual planning documents titled the "Long-Range Overseas Building Plan." According to OBO, the long-range plan is the roadmap by which State, other departments and agencies, the Office of Management and Budget (OMB), the Congress, and others can focus on defining and resolving the needs of overseas facilities.

In addition to the long-range plan, OBO has undertaken several initiatives aimed at improving State's stewardship of its embassy construction funds. These measures have the potential to result in significant cost savings and other efficiencies. For example, OBO has

- Developed Standard Embassy Designs (SED) for use in most embassy construction projects. SEDs provide OBO with the ability to contract for shortened design and construction periods and control costs through standardization;
- Shifted from "design-bid-build" contracting toward "design-build" contracts, which have the potential to reduce project costs and construction time frames;
- Developed and implemented procedures to enforce cost planning during the design phase and ensure that the final designs are within budget; and *
- Increased the number of contractors eligible to bid for construction projects, thereby increasing competition for contracts, which could potentially result in lower bids.

OBO has set a goal of a 2-year design and construction period for its mid-sized, standard embassy design buildings, which, if met, could reduce the amount of time spent in design and construction by almost one year. We reported in January 2003 that these cost-cutting efforts allowed OBO to achieve \$150 million in potential cost savings during fiscal year 2002. These savings, according to OBO, resulted from the application of the SEDs and increased competition for the design and construction of these projects.

Despite these gains, State will face continuing hurdles throughout the life of the embassy construction program. These hurdles include meeting construction schedules within the estimated costs and ensuring that State has the capacity to manage a large number of projects simultaneously. Because of the high costs associated with this program and the importance of providing secure facilities overseas, we believe this program merits continuous oversight by State, GAO, and the Congress.

Staffing Requirements for New Embassy Compounds

In addition to ensuring that individual construction projects meet cost and performance schedules, State must also ensure that new embassies are appropriately sized. Given that the size and cost of new facilities are directly related to agencies' anticipated staffing needs, it is imperative that future requirements be predicted as accurately as possible. Embassy buildings that are designed too small may require additional construction and funding in the future; buildings that are too large may have unused space—a waste of government funds. State's construction program in the late 1980s encountered lengthy delays and cost overruns in part because it lacked coordinated planning of post requirements prior to approval and budgeting for construction projects. As real needs were determined, changes in scope and increases in costs followed. OBO now requires that all staffing projections for new embassy compounds be finalized prior to submitting funding requests, which are sent to Congress as part of State's annual budget request each February.

In April 2003, we reported that U.S. agencies operating overseas, including State, were developing staffing projections without a systematic approach. We found that State's headquarters gave embassies little guidance on factors to consider when developing projections, and thus U.S. agencies did not take a consistent or systematic approach to determining long-term staffing needs. Based on our recommendations, State in May 2003 issued a "Guide to Developing Staffing Projections for New Embassy and Consulate Compound Construction," which requires a more serious, disciplined approach to developing staffing projections. When fully implemented, this approach should ensure that overseas staffing projections are more accurate and minimize the financial risks associated with building facilities that are designed for the wrong number of people.

Capital Security Cost Sharing

Historically, State has paid all costs associated with the construction of overseas facilities. Following the embassy bombings, the Overseas Presence Advisory Panel (OPAP) noted a lack of cost sharing among agencies that use overseas facilities. As a result, OPAP recommended that agencies be required to pay rent in government-owned buildings in foreign countries to cover operating and maintenance costs. In 2001, an interagency group put forth a proposal that would require agencies to pay rent based on the space they occupy in overseas facilities, but the plan was not enacted. In 2002, OMB began an effort to develop a mechanism that would require users of overseas facilities to share the construction costs associated with those facilities. The administration believes that if agencies were required to pay a greater portion of the total costs associated with operating overseas facilities, they would think more carefully before posting personnel overseas. As part of this effort, State has presented a capital security cost-sharing plan that would require agencies to help fund its capital construction program. State's proposal calls for each agency to fund a proportion of the total construction program cost based on its respective proportion of total overseas staffing. OBO has reported that its proposed

cost-sharing program could result in additional funds, thereby reducing the duration of the overall program.

Overseas Presence and Staffing

State maintains a network of approximately 260 diplomatic posts in about 170 countries worldwide and employs a direct-hire workforce of about 30,000 employees, about 60 percent of those overseas. The costs of maintaining staff overseas vary by agency but in general are extremely high. In 2002, the average annual cost of placing one full-time direct-hire American family of four in a U.S. embassy was approximately \$339,000. These costs make it critical that the U.S. overseas presence is sized appropriately to conduct its work. We have reported that State and most other federal agencies overseas have historically lacked a systematic process for determining the right number of personnel needed overseas—otherwise known as rightsizing. Moreover, in June 2002, we reported that State faces serious staffing shortfalls at hardship posts—in both the number of staff assigned to these posts and their experience, skills, and/or language proficiency. Thus, State has been unable to ensure that it has “the right people in the right place at the right time with the right skills to carry out America’s foreign policy”—its definition of diplomatic readiness. However, since 2001, State has directed significant attention to improving weaknesses in the management of its workforce planning and staffing issues that we and others have noted. Because personnel salaries and benefits consume a huge portion of State’s operating budget, it is important that the department exercise good stewardship of its human capital resources.

Overseas Staffing

Around the time GAO designated strategic human capital management as a governmentwide high-risk area in 2001, State, as part of its Diplomatic Readiness Initiative (DRI), began directing significant attention to addressing its human capital needs, adding 1,158 employees over a 3-year period (fiscal years 2002 through 2004). In fiscal year 2002, Congress allocated nearly \$107 million for the DRI. State requested nearly \$100 million annually in fiscal years 2003 and 2004 to hire approximately 400 new staff each year.

The DRI has enabled the department to boost recruitment. However, State has historically lacked a systematic approach to determine the appropriate size and location of its overseas staff. To move the rightsizing process forward, the August 2001 President’s Management Agenda identified it as one of the administration’s priorities. Given the high costs of maintaining the U.S. overseas presence, the administration has instructed U.S. agencies to reconfigure the number of overseas staff to the minimum necessary to meet U.S. foreign policy goals. This OMB-led initiative aims to develop cost-saving tools or models, such as increasing the use of regional centers, revising the Mission Performance Planning (MPP) process, increasing overseas administrative efficiency, and relocating functions to the United States. According to the OPAP, although the magnitude of savings from rightsizing the overseas presence cannot be known in advance, “significant savings” are

achievable. For example, it said that reducing all agencies' staffing by 10 percent could yield governmentwide savings of almost \$380 million a year.

GAO's Rightsizing Framework

In May 2002, we testified on our development of a rightsizing framework. The framework is a series of questions linking staffing levels to three critical elements of overseas diplomatic operations: security of facilities, mission priorities and requirements, and cost of operations. It also addresses consideration of rightsizing options, such as relocating functions back to the United States or to regional centers, competitively sourcing functions, and streamlining operations. Rightsizing analyses could lead decision makers to increase, decrease, or change the mix of staff at a given post. For example, based on our work at the U.S. embassy in Paris, we identified positions that could potentially be relocated to regional centers or back to the United States. On the other hand, rightsizing analyses may indicate the need for increased staffing, particularly at hardship posts. In a follow-up report to our testimony, we recommended that the director of OMB ensure that our framework is used as a basis for assessing staffing levels in the administration's rightsizing initiative.

In commenting on our rightsizing reports, State endorsed our framework and said it plans to incorporate elements of our rightsizing questions into its future planning processes, including its MPPs. State also has begun to take further actions in managing its overseas presence—along the lines that we recommended in our June 2002 report on hardship posts—including revising its assignment system to improve staffing of hardship posts and addressing language shortfalls by providing more opportunities for language training. In addition, State has already taken some rightsizing actions to improve the cost effectiveness of its overseas operating practices. For example, State

- Plans to spend at least \$80 million to purchase and renovate a 23-acre, multi-building facility in Frankfurt, Germany—slated to open in mid-2005—for use as a regional hub to conduct and support diplomatic operations;
- Has relocated more than 100 positions from the Paris embassy to the regional Financial Services Center in Charleston, South Carolina; and
- Is working with OMB on a cost-sharing mechanism, as previously mentioned, that will give all U.S. agencies an incentive to weigh the high costs to taxpayers associated with assigning staff overseas.

In addition to these rightsizing actions, there are other areas where the adoption of industry best practices could lead to cost reductions and streamlined services. For example, in 1997, we reported that State could significantly streamline its employee transfer and housing relocation processes. We also reported in 1998 that State's overseas posts could potentially save millions of dollars by implementing best practices such as competitive sourcing.

In light of competing priorities as new needs emerge, particularly in Iraq and Afghanistan, State must be prepared to make difficult strategic decisions on which posts and positions it will fill and

which positions it could remove, relocate, or regionalize. State will need to marshal and manage its human capital to facilitate the most efficient, effective allocation of these significant resources.

Information Technology

Up-to-date information technology, along with adequate and modern office facilities, is an important part of diplomatic readiness. We have reported that State has long been plagued by poor information technology at its overseas posts, as well as weaknesses in its ability to manage information technology modernization programs. State's information technology capabilities provide the foundation of support for U.S. government operations around the world, yet many overseas posts have been equipped with obsolete information technology systems that prevented effective interagency information sharing.

The Secretary of State has made a major commitment to modernizing the department's information technology. In March 2003, we testified that the department invested \$236 million in fiscal year 2002 on key modernization initiatives for overseas posts and plans to spend \$262 million over fiscal years 2003 and 2004. State reports that its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. The department is now working to replace its antiquated cable system with a new integrated messaging and retrieval system, which it acknowledges is an ambitious effort.

State's OIG and GAO have raised a number of concerns regarding the department's management of information technology programs. For example, in 2001, we reported that State was not following proven system acquisition and investment practices in attempting to deploy a common overseas knowledge management system. This system was intended to provide functionality ranging from basic Internet access and e-mail to mission-critical policy formulation and crisis management support. We recommended that State limit its investment in this system until it had secured stakeholder involvement and buy-in. State has since discontinued the project due to a lack of interagency buy-in and commitment, thereby avoiding additional costs of more than \$200 million.

Recognizing that interagency information sharing and collaboration can pay off in terms of greater efficiency and effectiveness of overseas operations, State's OIG reported that the department recently decided to merge some of the objectives associated with the interagency knowledge management system into its new messaging system. We believe that the department should try to eliminate the barriers that prevented implementation of this system. As State continues to modernize information technology at overseas posts, it is important that the department employ rigorous and disciplined management processes on each of its projects to minimize the risks that the department will spend large sums of money on systems that do not produce commensurate value.

Strategic Planning

Linking performance and financial information is a key feature of sound management-reinforcing the connection between resources consumed and results achieved-and an important element in giving

the public a useful and informative perspective on federal spending. A well-defined mission and clear, well understood strategic goals are essential in helping agencies make intelligent trade-offs among short- and long-term priorities and ensure that program and resource commitments are sustainable. In recent years, State has made improvements to its strategic planning process both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. For instance, State has developed a new strategic plan for fiscal years 2004 through 2009, which, unlike previous strategic plans, was developed in conjunction with USAID and aligns diplomatic and development efforts. At the field level, State revised the MPP process so that posts are now required to identify key goals for a given fiscal year, and link staffing and budgetary requirements to fulfilling these priorities.

State's compliance with the Government Performance and Results Act of 1993 (GPRA), which requires federal agencies to prepare annual performance plans covering the program activities set out in their budgets, has been mixed. While State's performance plans fell short of GPRA requirements from 1998 through 2000, the department has recently made strides in its planning and reporting processes. For example, in its performance plan for 2002, State took a major step toward implementing GPRA requirements, and it has continued to make improvements in its subsequent plans.

As we have previously reported, although connections between specific performance and funding levels can be difficult to make, efforts to infuse performance information into budget deliberations have the potential to change the terms of debate from simple outputs to outcomes. Continued improvements to strategic and performance planning will ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are essential to efficient operations.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Now I would like to discuss some of the challenges USAID faces in managing its human capital, evaluating its programs and measuring their performance, and managing its information technology and financial systems. I will also outline GAO's findings from our reviews of USAID's democracy and rule of law programs in Latin America and the former Soviet Union.

Human Capital Management

Since the early 1990s, we have reported that USAID has made limited progress in addressing its human capital management issues and managing the changes in its overseas workforce. A major concern is that USAID has not established a comprehensive workforce plan that is integrated with the agency's strategic objectives and ensures that the agency has skills and competencies necessary to meet its emerging foreign assistance challenges. Developing such a plan is critical due to a reduction in the agency's workforce during the 1990s and continuing attrition—more than half of the agency's foreign service officers are eligible to retire by 2007. According to USAID's OIG, the steady decline in the number of foreign service and civil service employees with specialized technical

expertise has resulted in insufficient staff with needed skills and experience and less experienced personnel managing increasingly complex programs. Meanwhile, USAID's program budget has increased from \$7.3 billion in 2001 to about \$12 billion in fiscal year 2003, due primarily to significant increases in HIV/AIDS funding and supplemental funding for emerging programs in Iraq and Afghanistan. The combination of continued attrition of experienced foreign service officers, increased program funding, and emerging foreign policy priorities raises concerns regarding USAID's ability to maintain effective oversight of its foreign assistance programs.

USAID's lack of progress in institutionalizing a workforce planning system has led to certain vulnerabilities. For example, as we reported in July 2002, USAID lacks a "surge capacity" that enables it to quickly hire the staff needed to respond to emerging demands and post-conflict or post-emergency reconstruction situations. We also reported that insufficient numbers of contract officers affected the agency's ability to deliver hurricane reconstruction assistance in Latin America in the program's early phases.

USAID is aware of its human capital management and workforce planning shortcomings and is now beginning to address some of them with targeted hiring and other actions.

Program Evaluation and Performance Measurement

USAID continues to face difficulties in identifying and collecting the data it needs to develop reliable performance measures and accurately report the results of its programs. Our work and that of USAID's OIG have identified a number of problems with the annual results data that USAID's operating units have been reporting. USAID has acknowledged these concerns and has undertaken several initiatives to correct them. Although the agency has made a serious effort to develop improved performance measures, it continues to report numerical outputs that do not gauge the impact of its programs.

Without accurate and reliable performance data, USAID has little assurance that its programs achieve their objectives and related targets. In July 1999, we commented on USAID's fiscal year 2000 performance plan and noted that because the agency depends on international organizations and thousands of partner institutions for data, it does not have full control over how data are collected, reported, or verified. In April 2002, we reported that USAID had evaluated few of its experiences in using various funding mechanisms and different types of organizations to achieve its objectives. We concluded that with better data on these aspects of the agency's operations, USAID managers and congressional overseers would be better equipped to analyze whether the agency's mix of approaches takes full advantage of nongovernmental organizations to achieve the agency's purposes.

Information Technology and Financial Management

USAID's information systems do not provide managers with the accurate information they need to make sound and cost-effective decisions. USAID's OIG has reported that the agency's processes for procuring information technology have not followed established guidelines, which require executive agencies to implement a proc-

ess that maximizes the value and assesses the risks of information technology investments. In addition, USAID's computer systems are vulnerable and need better security controls. USAID management has acknowledged these weaknesses and the agency is making efforts to correct them.

Effective financial systems and controls are necessary to ensure that USAID management has timely and reliable information to make effective, informed decisions and that assets are safeguarded. USAID has made progress in correcting some of its systems and internal control deficiencies and is in the process of revising its plan to remedy financial management weaknesses as required by the Federal Financial Management Improvement Act of 1996. To obtain its goal, however, USAID needs to continue efforts to resolve its internal control weaknesses and ensure that planned upgrades to its financial systems are in compliance with federal financial system requirements.

Democracy and Rule of Law Programs

Our reviews of democracy and rule of law programs in Latin America and the former Soviet Union demonstrate that these programs have had limited results and suggest areas for improving the efficiency and impact of these efforts.

In Latin America, we found that U.S. assistance has helped bring about important criminal justice reforms in five countries. This assistance has also help improve transparency and accountability of some government functions, increase attention to human rights, and support elections that observation groups have considered free and fair. In several countries of the former Soviet Union, U.S. agencies have helped support a variety of legal system reforms and introduced some innovative legal concepts and practices in the areas of legislative and judicial reform, legal education, law enforcement, and civil society. In both regions, however, sustainability of these programs is questionable. Establishing democracy and rule of law in these countries is a complex undertaking that requires long-term host government commitment and consensus to succeed. However, host governments have not always provided the political support and financial and human capital needed to sustain these reforms. In other cases, U.S.-supported programs were limited, and countries did not adopt the reforms and programs on a national scale.

In both of our reviews, we found that several management issues shared by USAID and the other agencies have affected implementation of these programs. Poor coordination among the key U.S. agencies has been a long-standing management problem, and cooperation with other foreign donors has been limited. U.S. agencies' strategic plans do not outline how these agencies will overcome coordination problems and cooperate with other foreign donors on program planning and implementation to maximize scarce resources. Also, U.S. agencies, including USAID, have not consistently evaluated program results and have tended to stress output measures, such as the numbers of people trained, over indicators that measure program outcomes and results, such as reforming law enforcement practices. Further, U.S. agencies have not consistently

shared lessons learned from completed projects, thus missing opportunities to enhance the outcomes of their programs.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

CONTACTS AND ACKNOWLEDGMENTS

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Appendix I: GAO Reports on Resource Management

DEPARTMENT OF STATE

Overseas Security, Presence, and Facilities

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State Department: Decision to Retain Embassy Parking Lot in Paris, France, Should Be Revisited. GAO-01-477. Washington, D.C.: April 13, 2001.

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State Department: Staffing Shortfalls and Ineffective Assignment System Compromise Diplomatic Readiness at Hardship Posts. GAO-02-626. Washington, D.C.: June 18, 2002.

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HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC, September 10, 2003.

Hon. JIM NUSSLE,
*Chairman, House Budget Committee,
309 Cannon House Office Building, Washington, DC.*

DEAR CHAIRMAN NUSSLE: Pursuant to section 301(b) and (c) of the conference report accompanying H. Con. Res 95, I am pleased to submit the following recommendations to reduce waste, fraud, and abuse for the 2004 fiscal year.

Misuse of Non-Federal Training Facilities at the Department of Justice

The Justice Department should reduce employee training and meeting costs by using federal facilities instead of more expensive non-governmental facilities for such purposes. For example, the Justice Department maintains the National Advocacy Center, an extensive training facility for Department employees located in Columbia, South Carolina to train federal, state, and local prosecutors and litigators in advocacy skills and management of legal operations. On occasion, however, the Justice Department has conducted training and meeting functions for its employees at non-governmental facilities located in exotic or far-flung venues such as the Florida Keys and Santa Monica.

Accordingly, the Justice Department should be required to use the most cost-effective training and meeting facilities for its employees. For any predominantly internal training or conference meeting, the Justice Department should be required to use only a facility that does not require a payment to a private entity for the use of such facility, unless specifically authorized in writing by the Attorney General. In addition, the Attorney General should be required to prepare an annual report to the Chairmen and ranking members of the House and Senate Judiciary Committees that details each training or conference meeting requiring authorization. The report should explain why the facility was chosen and provide a breakdown of any expenditures incurred in excess of the cost of conducting the training or meeting at a governmental facility. While savings resulting from this recommendation are difficult to ascertain with quantifiable certainty, this requirement would save at least \$2 million during FY 2004.

COPS Grants Misuse

Waste, fraud and abuse in Community Oriented Policing Services (COPS) Grants can be reduced by replacing on-site reviews by program officers with on-site audits and requiring an immediate stop to fund disbursements "in process" when grant conditions are not met by the grantee.

Office of Inspector General reports issued in 1999 found that many grantees did not submit the required program monitoring and financial reports, and that COPS on-site reviews did not seek to cover whether grant conditions were being met. Subsequent audits confirmed that COPS had not corrected its grant management approach to require compliance, based on testimony from Glenn Fine on March 14, 2002, before the Subcommittee on Crime. In his testimony, he provided numerous instances of fraud by COPS grantees, and stated that between 1992 and 1999, there were \$52 million in questioned costs and \$71 million in funds that could be better used, comprising 24% of the total COPS funds during the period. He testified that of the subsequent 185 audits for the period from 1999 through the close of 2001, auditors identified more than \$63 million in questioned costs and \$32 million in funds to better use.

The Committee is considering legislation to establish through its Department of Justice Reauthorization legislation an Office of Audit and Assessment that will conduct on-site audits and have the authority to cease active funding of COPS grants where grant conditions are not met, or there circumstances that suggest fraud or abuse. The authorizing legislation will require OJP to conduct these audits on at least 10% of the amount of the total grants, and requires the entire grant disbursement to be suspended if more than 1% of the grant is misused. This solution will reduce the total questioned costs (possible fraud and abuse) and poorly used funds (waste).

Because the FY 2004 Commerce Justice State Appropriations bill has not been enacted into law, potential costs savings and more effective use of funds estimates will be based on the FY 2003 enacted budget for COPS of \$923 million. Extrapolating from the Inspector General's conclusion that 24% of the funds received by grantees prior to 1999 were either questioned costs or could be better used, roughly \$222 million of FY2003 funds may be questionably used. If the Office of Audit and Assessment is able to audit 10% of the total (or \$92 million), as required in the authorizing statute, and it identifies 20% of the grants so audited as questionably deployed or exceeding 1% in misused funds, the cost savings per year to the federal government would be as much as \$18 million. If the Office is eventually able to audit as much as 50% of the total (\$461 million), the savings per year could reach \$90 million.

OJP Grant Funds Abuse

Waste, fraud and abuse in the OJP Local Law Enforcement Block Grant Program (LLEBG) and the Byrne Formula Grant programs can be reduced by consolidating the programs and by applying the same on-site audits to these grants as to the COPS grants, together with immediate fund cessation when grant conditions are discovered to be unmet by the grantee.

The Committee has prepared draft legislation to authorize the establishment of a Community Capacity Development Office, headed by a Director appointed by the Attorney General to provide training to actual and prospective participants under grant programs to assist such participants in understanding the substantive and procedural requirements for participating in such programs.

We believe that much of the waste and abuse derives from ignorance both of the program requirements and of a lack of awareness of the consequences of misuse of grant proceeds.

The draft Department of Justice Reauthorization bill requires the new Office of Audit and Assessment to conduct on-site audits and exercise its authority to cease active funding where grant conditions are not met, or there circumstances that suggest fraud or abuse. The authorizing legislation will require OJP to conduct these audits on at least 10% of the amount of the total grants, and requires the entire grant disbursement to be suspended if more than one percent of the grant is misused.

Based on the FY 2003 enacted budget for LLEBG (\$380 million) and Byrne Formula (\$497 million) and Discretionary Grants (\$150 million), the funds subject to audit will total \$927 million. Using the same formula applied above to COPS grants, it can be assumed that 24 percent of the funds, or \$223 million of FY2003 funds may be questionably used. If the Office of Audit and Assessment is able to audit 10% of the total (or \$92 million), as required in the authorizing statute, and it identifies 20% of the grants so audited as questionably deployed or exceeding 1% in misused funds, the cost savings per year to the federal government would be as much as \$18 million. If the Office is eventually able to audit as much as 50% of the total (\$463 million), the savings per year could reach \$90 million.

State Criminal Alien Assistance Program (SCAAP)

The State Criminal Alien Assistance Program (SCAAP) provides payments to state and local jurisdictions that have had criminal aliens in their custody during the previous year. SCAAP pays each jurisdiction based on its share of the overall estimated expenditures for housing such aliens for all applicants combined. It does not fully reimburse jurisdictions for such expenditures. To ensure equity in comparisons and to simplify the application process, expenditure comparisons are done using the cost of correctional officers for a facility, rather than total costs, which can vary widely in their methods of calculation.

Applicants for the SCAAP program provide information on those inmates assumed to be criminal aliens including—A-number (INS identifier) if available, last name, first name, middle name, date of birth, inmate number, country of birth, date taken into custody, date released from custody, and FBI number, if any. BJA then forwards this information to the Immigration and Naturalization Service, where it is checked against databases of known aliens.

This most recent year, BJA received 284,325 inmate records. Of those 93,489 (33%) were actual illegal aliens and could be verified by INS. Of the remaining, 121,618 (43%) were unverifiable, 51,680 (18%) were aliens with a legal status, and 17,538 (6%) were verifiable American citizens. When determining the amount to pay a jurisdiction, BJA “discounts” the amount paid for unverifiable aliens. This discount differs based on the type of facility and of the amount a jurisdiction would receive for a verifiable illegal alien, BJA pays 60% of that amount to city facilities, 80% to county jails, and 65% to state prisons. These differences are based on the exper-

tise of the INS, which concludes that the percentage of actual illegal aliens in a facility differs with the type.

The application of more verifiable requirements for recipients of the Bureau of Justice Assistance's State Criminal Alien Assistance Program (SCAAP) will provide positive incentives for State and Municipal law enforcement to positively identify apprehended aliens suspected of crimes through better cooperation with the Department of Homeland Security's federal law enforcement component, improve record keeping to reduce possible fraud, and to prosecute and convict criminal aliens promptly. While the savings from the implementation of more rigorous application requirements are not precisely ascertainable, such a program will result in savings at least \$40 million for FY 2004.

Uncollected Student and Exchange Visitor Program (SEVP) Fee Revenue

The U.S. Government is losing revenue by not collecting a fee that Congress mandated students and exchange visitors seeking to enter the United States pay to fund the Student and Exchange Visitor Program (SEVP).

Section 641 of the Illegal Immigration Reform and Immigrant Responsibility Act (IIRIRA) mandated the imposition of a fee on students and exchange visitors to fund the design, development, and operation of a program for tracking alien students. That tracking system, which is now fully implemented, is known as SEVIS. On December 21, 1999, the INS published a proposed rule to implement this provision, setting a fee of \$95 per student. Following the language in section 641(e) of IIRIRA, which required that "an approved institution of higher education and a designated exchange visitor program" collect and remit the fee to the Attorney General, the proposed regulation identified these two groups as the designated fee collectors. The INS received over 4,600 comments to the proposed regulation, most of which opposed the role of educational institutions and exchange visitor programs as fee collectors as inappropriate for such institutions.

In response, the INS worked with Congress, the State Department, and stakeholder groups to amend section 641(e). The resulting legislation was included in section 404 of the Visa Waiver Permanent Act, Pub. L. 106-396 (2000). The three most significant changes in that section were: (1) the removal of the requirement that educational institutions and exchange visitor programs collect SEVIS fees, and the requirement that aliens pay fees directly to the Attorney General; (2) a requirement that the alien pay the fee before being classified as an F, J, or M nonimmigrant; and (3) a reduction in the fee amount for certain J-1 nonimmigrants, specifically au pairs, camp counselors, and summer work/travel participants.

The INS subsequently submitted a fee collection rule to OMB, but withdrew that rule following the passage of the USA PATRIOT Act, which authorized funding to accommodate the fast track implementation of SEVIS. Staff has been told that the Administration is currently working on an interim fee rule. On April 8, 2003, the Chairman and Chairman Hostettler sent a letter to Secretary Ridge asking that the fee regulation be implemented by May 31,

2003. On May 1, 2003, DHS responded, stating that "DHS intends to resubmit a revised regulation to OMB shortly." To date, no proposed rule implementing the fee has been issued. In FY 2001, 625,133 student and exchange visitor visas were issued. At \$95 per visa, the fee set in the 1999 proposed regulation, this would have provided \$59,387,635 in revenue for the federal government. In FY2002, 547,191 visas were issued. This would have totaled \$51,983,145 in revenue. It is reasonable to extrapolate out those numbers for FY 2003, and expect such a fee to generate at least \$50,000,000 in revenue.

I trust that these recommendations will assist the Budget Committee's efforts to identify and eliminate waste, fraud, and abuse at federal agencies. Thank you for your consideration of these proposals.

Sincerely,

F. JAMES SENSENBRENNER, JR.,
Chairman.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC, September 5, 2003.

Hon. JAMES NUSSLE,
*Chairman, Committee on the Budget,
Cannon HOB, Washington, DC.*

DEAR MR. CHAIRMAN: I am pleased to present to you the findings of waste, fraud, and abuse identified by the House Small Business Committee. Please find enclosed a copy of the Small Business Committee's findings in compliance with FY 2004 Budget Resolution (J. Con. Res. 95).

Sincerely yours,

DONALD A. MANZULLO,
Chairman.

FINDINGS OF WASTE, FRAUD AND ABUSE IDENTIFIED BY
THE HOUSE COMMITTEE ON SMALL BUSINESS

1. Loan defaults under the Small Business Administration's (SBA) 504 Loan Program are currently collected by SBA personnel. The current collection rate of these defaulted loans is only 17 percent. The SBA re-authorization bill (HR 2802) passed by the committee on July 24 corrects this inadequate collection rate by mandating that the SBA contract out the collection function to firms that have expertise in this field. It is anticipated that the collection rate will be significantly higher in the future because of this change.

2. Loan defaults under the SBA's 7(a) Loan Program have averaged 14 percent for the last three years. In 2002, preferred lending institutions made up 55 percent of the SBA's 7(a) loans totaling \$7 billion. SBA has delegated authority to these lenders, yet guarantees to pay up to 85 percent of the defaulted loan amount. HR 2802 increases the qualifications to become a preferred lender, ensuring that only truly qualified institutions are in the program. It is anticipated that the default rate will be significantly lower in the future because of this change.

3. HR 2802 also eliminates an overhead position in each SBA district, that of Deputy District Administrator. Instead that position shall be re-assigned to one of direct assistance to small businesses for the purpose of obtaining federal contracts. This change will result in a more efficient SBA workforce with more employees directly assisting small businesses and fewer in redundant management.

4. On May 7, 2003 the full committee held a hearing titled "Are Big Businesses being awarded contracts intended for Small Businesses?" The testimony presented by the witnesses established numerous examples of this happening. In some instances fraud on the part of the big businesses may have occurred; more commonly the

agencies were inconsistently recording the size status of companies in the various contracts they awarded. The Office of Management and Budget (OMB) has acknowledged the problem. OMB has issued guidelines for agencies to minimize future occurrences of the problem. This committee is pursuing this issue and will hold future hearings if necessary to determine if the OMB guidelines have corrected the problem.

5. On June 11, 2003 the full committee held a hearing titled "Revitalizing America's Manufacturers: SBA Business Administration Development Programs." The SBA gave testimony on its new electronic catalog website for small businesses to sell to federal agencies. As explained at the SBA website:

"NEXGEN's Solutions (NEXGEN) is a commercially owned site which operates SBAExchange under a contract with SBA. SBA's participation on the Exchange does not constitute or imply an endorsement of any of NEXGEN's additional products, services or operations or those of any other participant or vendor on SBA Exchange.

The United States Small Business Administration (SBA) has entered into a contract with NEXGEN's Solutions, Inc. to bring you a national E-Procurement initiative to automate procurements by creating an Internet-based exchange for the procurement of goods and services from the members of the small business community.

Under this initiative, small businesses can participate in conducting e-business transactions with a relatively low cost of entry and little or no technical expertise.

The annual cost for a small business to participate in the SBAExchange is \$1,500. Additionally, a transaction fee of 2 percent will be added to all orders. The first 2,500 small businesses to register will receive a \$450.00 discount. Instructions regarding payment arrangements and discounts can be found at www.SBAExchange.gov."

The Committee finds the charges quoted above to be excessive in relation to the value given. Furthermore there are similar electronic catalogs offered by other agencies such as the General Services Administration and the Defense Logistics Agency. Another such site merely wastefully duplicates existing sites and confuses the small business community about where they should be registered.

6. The Small Business Administration (SBA) has admitted ineligible companies into the HUBzone program. The agency has attributed this error to "inadequate resources to monitor the program." The Committee feels that the agency has sufficient funds devoted to the program to monitor it properly and that any abuses of the program should be fixed by the SBA with its existing resources.

7. A National Oceanic and Atmospheric Administration (NOAA) contract was solicited in 2002 as a total small business set aside. There were five awardees. Two large businesses were included in these five. The Committee received a complaint from one of the small businesses affected by this action. The two large businesses have received and continue to receive most of the resulting task orders. The negatively affected small business further alleged that the other two small business awardees were merely American front companies for foreign companies based in Canada and India. At the

request of this committee, the SBA began an investigation into this case. Final determination by SBA is pending.

8. The Committee was contacted several times this session by small businesses and their representative associations regarding practices discouraging small business utilization by the United States Postal Service (USPS). In June, 2003 the Postmaster General agreed to have the USPS modify its exclusive contract with Boise Cascade, Inc. for office products, to allow small businesses to be utilized whenever they offer office products at a lower price than what Boise Cascade offers. The value of that contract is estimated at \$50 million annually, thereby allowing small businesses to compete for that much more business each year of the contract (until 2006).

9. The Committee is aware of and has concerns about the potential waste involved in the proposed multi-million dollar "Circulator" bus system planned by the Washington DC Transportation Authority. This bus system is designed to transport riders around the Capital Mall area and downtown Washington. Federal funding would be required in the amount of many millions of dollars and the result will be a bus system in direct competition with existing, for-profit, non-subsidized local businesses such as the Landmark Services Tourmobile, Inc. and several small van companies currently serving Federal agencies. This problem first came to the attention of the Committee at a hearing held July 18, 2001 titled "Federal Government Competition with Small Business." The Committee has been following the "Circulator" proposal since that time.

10. On November 21, 2002 the full committee held a hearing titled "Federal Prison Industry's Unfair Competition with Small Business: Potential Interim Administrative Solutions." Testimony was given of instances of the Federal Prison Industries (UNICOR) unfairly fulfilling federal agency requirements in which they merely procured, repackaged, and delivered items without assembling or manufacturing the items themselves, thereby negating the "learning a trade" purpose behind UNICOR's reason for existing. The extent of this abusive practice was not given but UNICOR's total sales in 2002 were \$679 million. If even a small percentage of sales are attributable to this "reselling" practice, then millions of dollars are being unfairly contracted to this mandatory-sourced agency. This problem was also identified in an earlier hearing held on June 6, 2001 titled "Federal Prison Industries Procurement and its effects on Small Business." At the November hearing, it was stated that the UNICOR Board of Directors recently announced that it is eliminating the practice of "pass-through" sales. The Committee will monitor UNICOR to determine if the practice has indeed been discontinued.

11. In July 2003, The General Accounting Office (GAO), at the request of another committee, began an audit of selected agencies to determine how widespread is the abuse of federal executives holding degrees from non-accredited universities. Several examples of holders of these "diploma mill degrees" in high positions have been publicized in the media.

In August 2003, the committee requested that GAO include the SBA in the list of agencies being audited. The GAO agreed to the request and informed the committee that the audit of the approxi-

mately 250 SBA executives of GS-15 grade or higher should be completed no later than October 2003.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC, July 25, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget, House of Representatives,
Cannon House Office Building, Washington, DC.*

DEAR CHAIRMAN NUSSLE: In accordance with section 301 of the Concurrent Resolution on the Budget for Fiscal Year 2004, there is transmitted herewith the Transportation and Infrastructure Committee's findings as to changes in law necessary to eliminate waste, fraud, and abuse in mandatory spending programs under its jurisdiction. This report was adopted by a voice vote of the Full Committee at a July 23, 2003 business meeting. Not all Members of the Committee agree with each and every aspect of this report and also submitted are dissenting Member views on certain findings.

Thank you for the opportunity to present this report. We look forward to continued discussions with the Budget Committee on how reductions in waste, fraud, and abuse in programs within the Committee's jurisdiction may be met.

Sincerely,

DON YOUNG,
Chairman.

Enclosure.

TRANSPORTATION AND INFRASTRUCTURE COMMITTEE—
WASTE, FRAUD, AND ABUSE REPORT

OVERVIEW

The Concurrent Resolution on the Budget for Fiscal Year (FY) 2004 requires House and Senate authorizing committees to identify opportunities to eliminate waste, fraud, and abuse in the mandatory spending programs under their jurisdiction. The purpose for this activity is to achieve savings and ensure that taxpayers are getting the most for their money. Accordingly, the Transportation and Infrastructure (T&I) Committee held a hearing on July 22, 2003, regarding the Federal-aid Highways, the Federal Transit administration (FTA) programs, Essential Air Service (EAS), and Railroad Retirement programs. This report outlines the Committee's plans for addressing the issues raised in that hearing. Additionally, this Committee will continue to exercise oversight in all programs under its jurisdiction to ensure that tax dollars are used as efficiently as possible.

This report was circulated to all Members of the T&I Committee for their review and comment, and was approved in a Full Committee meeting on July 23, 2003. While the report reflects a bipartisan effort, the Committee wishes to emphasize that not all Members of the Committee necessarily agree with every aspect. Accord-

ingly, the Committee reserves its flexibility to determine program needs as the Committee and Congress work their will through the legislative process.

FEDERAL-AID HIGHWAYS AND FTA PROGRAMS

The Federal Highway Administration (FHWA) provides funding to the states for construction and improvement projects through a number of programs that are referred to collectively as Federal-aid Highways. Although the states have considerable discretion in choosing which projects to pursue with apportioned funds, FHWA exercises varying levels of oversight depending on the project. FTA is similar to FHWA in that localities have discretion in pursuing these projects with oversight by FTA.

In recent years significant variances have developed between the need to build, repair, and improve roadways and transit systems and the amount of funding available. In addition to proposals to increase highway and transit funding, more must be done to ensure that existing tax dollars are used efficiently. Savings in the Federal-aid Highways and FTA programs will mean more money invested more efficiently for this nation's transportation infrastructure. The Committee is working toward that objective and is addressing the specific measures outlined below through the legislative process of the ongoing TEA 21 reauthorization.

In a July 22, 2003 hearing, the Department of Transportation (DOT) Inspector General (IG), the General Accounting Office (GAO), and the FHWA Administrator testified before this Committee, identifying a number of ways to make the most of the federal dollars used in state transportation projects. Those options include:

- Strengthening project management skills and the oversight ability of FHWA and FTA and requiring better project management at the state and local level.
- Improving financial management through the use of finance plans on transportation projects costing \$100 million or more.
- Increasing revenue collections by stopping fuel tax evasion.
- Continuing efforts to detect and prevent fraud by making debarment mandatory and final when a contractor is convicted of a fraud.
- Support fraud deterrence and detection efforts by the states by allowing them to share in recoveries from fraud investigations.
- Redirecting funds that are no longer needed from inactive projects to new projects. The IG has identified \$238 million that states could redeploy to projects in need of funding.

In addition to the suggestions above, the issue of reducing yearly excess contract authority in Federal-aid Highways was addressed in the July 22 hearing. According to the witnesses, this could be done by bringing contract authority more in line with the obligation limits would make this planning more accurate. Additionally, it would limit build up of cumulative budget authority over time, thereby improving the accuracy of budget planning by Congress and the Administration. FHWA has pointed out, however, that states use the cumulative excess contract authority to continue obligations for active projects, thereby allowing the project to con-

tinue independently of potential timing difficulties in the appropriations process.

ESSENTIAL AIR SERVICE (EAS)

Costs for the EAS program have increased significantly since 1995. According to the General Accounting Office, federal appropriations to the program have grown from \$37 million in 1995 to \$113 million in fiscal year 2002 (in constant 2002 dollars). The costs of the program increased gradually until September 11, 2001.

To address the problems outlined above, the Committee recommended several reforms to the Essential Air Service program. These reforms were proposed in section 415 of H.R. 2115 as recently reported by this Committee.

First, the Committee-reported bill provided that certain EAS communities located close to hub airport be required to pay a local share. Currently, EAS communities do not pay a local share toward the cost of the subsidized service they receive. The Committee-reported bill included a modest local share of up to 10 percent be gradually phased in such that communities have an opportunity to adjust their budgets to address this new requirement.

Second, the Committee-reported bill establishes a Community and Regional Choice program as an alternative to the EAS program. All EAS subsidy-eligible communities will have the option to switch from EAS to this alternative program. Under the Community and Regional Choice program, rather than receiving service from an airline subsidized by DOT, the community could receive a grant from DOT to establish and pay for the type of transportation service that best meets its needs. For example, the community could choose to use its grant to pay for scheduled air service, on-demand air taxi service, fractional ownership of aircraft where passengers pay for the service, surface transportation, or some other approach approved by DOT. It could also adopt a regional approach and pool its grant funds with other nearby communities that are also participating in the Community and Regional Choice program.

It is difficult to estimate the savings associated with these reforms for several reasons. First, it is not clear how many EAS subsidy-eligible communities would choose to stay in the traditional EAS program and pay a local share rather than switch to the new Community and Regional Choice Program, in which no local share is required.

Second, for those communities that do switch to the new program, it is not clear what amount of subsidy will be required to support the transportation services that they choose to establish. Presumably, the subsidy will be less, but that is not certain.

Finally, the number of EAS subsidy-eligible communities changes each year and has recently trended upward as aviation traffic has declined due to the weak economy and other factors. According to DOT, since September 11, 2001, carriers at 60 additional eligible communities filed notice to discontinue unsubsidized service, triggering first-time subsidy at 28 of them. Therefore, the Committee anticipates that the reforms discussed above may result in cost avoidance, rather than cost savings. In addition to restraining further cost increases, the Committee believes that these reforms would result in a much more effective use of federal funds.

RAILROAD RETIREMENT PROGRAMS

The Railroad Retirement Board (RRB) administers comprehensive retirement-survivor, unemployment-sickness insurance, and Medicare Part B benefit programs for railroad workers and their families. These benefit programs are funded by payroll taxes on railroad workers and industry. The RRB is responsible for ensuring that these funds are properly managed and dispersed while maintaining excellent customer service.

Erroneous payments to ineligible recipients are typically made because the RRB has out-date information about a recipient's eligibility. Once current information is obtained the RRB has a recovery rate of more than 90 percent of these overpayments within one year of payment. Cases where beneficiaries either provide false information about their current status or refuse to return funds to the RRB are pursued by the RRB Inspector General (RRB IG).

The RRB IG does not currently have authority for oversight or to investigate fraud for any of the over \$787 million in Medicare funds that are distributed to railroad beneficiaries. Previously this was a responsibility of the IG but was transferred in a 1997 appropriations bill. The RRB IG has estimated, based on experience at the Social Security Administration, that over \$49 million in fraudulent spending in these programs could be avoided through increased oversight and investigation. The Committee supports reinstating oversight authority for the Medicare benefits managed by the RRB, in coordination with the Health and Human Services (HHS) IG, and believes it will result in further program savings through the identification, investigation, and elimination of waste and fraud.

At the July 22, 2003 hearing the RRB IG outlined several options for changing the RRB's operating structure with hopes of improving performance and garnering savings through operating efficiencies. Those options included delegating decision-making authority to a Chief Executive Officer and senior agency managers; consolidation of 20 operating bureaus; reducing the number of field service locations; transferring Social Security Equivalent benefits to the Social Security Administration; and pursuing a change in the entity structure of the RRB to function as a government corporation or become part of the National Railroad Retirement Investment Trust (NRRIT).

Members of the Railroad Retirement Board also testified at the July 22 hearing and expressed their viewpoints and concerns with the IG's organizational recommendations. At the hearing, the Chairman of the RRB and its members confirmed their commitment to reviewing RRB operations in their continuing efforts to improve service and maximize operating effectiveness. Board members outlined their efforts to address the IG's improvement recommendations, recently creating the role of a Senior Executive Officer to oversee the Executive Committee and improve accountability, as well as reducing the number of field offices by more than 40 percent while maintaining excellent customer service. The consolidation of field offices alone has saved an estimated \$28 million annually. The Board is strongly opposed to the IG's recommendations of transferring the Social Security Equivalent benefits to the

Social Security Administration and changing the structure of the RRB.

The Committee applauds the RRB's improvement efforts and encourages continued collaborative efforts by the IG and the Board members to eliminate fraud and pursue operating efficiencies. The Committee also maintains its position of supporting the current RRB structure so that rail beneficiaries will continue to receive excellent customer service.

DISSENTING VIEW

Mr. Chairman, I want to thank you for yesterday's hearing for the purpose of identifying waste, fraud, and abuse in Transportation spending programs under our jurisdiction, and possible solutions that would save taxpayers' money. I am concerned, however, that we are targeting a program that is very important for many rural communities across America.

Yesterday, we discussed the merits of the Essential Air Service (EAS) program—a program that ensures that small, rural communities have reliable air service from their local airport and keeps rural communities connected to the nation's aviation and commerce system. As you know, Essential Air Service funding increases a community's ability to retain air service—important for communities who are struggling with a difficult economy and where increased travel options have made it extremely difficult for many carriers to continue to serve small communities.

Yet, without EAS funding, subsidized carriers would no longer find it economical to service many small, rural communities and without air service, these communities may face the possibility of closing their local airport. This possible scenario would have a devastating impact on many communities in South Central Pennsylvania. For example, according to a study conducted by the Commonwealth of Pennsylvania, the Altoona-Blair County airport contributes \$27.7 million to the local area in terms of jobs, tourism, business and consumer travel. If air service is discontinued, then enplanements at the Altoona-Blair County airport will eventually decrease to a level where they may not be eligible to receive Airport Improvement Program (AIP) funding of \$1 million.

Considering the economic benefit that local airport service provide to small, rural communities across America like Blair County; I do not believe that the EAS program raises to the level of waste, fraud, or abuse. Instead, the EAS program must be continually strengthened and funded at levels so that all rural communities remain connected to our national aviation system, and prosper by attracting new businesses who in turn create jobs.

Therefore, I strongly believe that it is inappropriate to include the EAS program as part of the committee's recommendation to eliminate fraud, waste, and abuse. Thank you Mr. Chairman for hearing my views on this very important matter, and would like my statement submitted for the record.

BILL SHUSTER.

STATEMENT OF REPRESENTATIVE NICK RAHALL

Mr. Chairman, I ask that my remarks be included to accompany the Committee's Report.

As much as any Member of Congress, I oppose waste, fraud, and abuse in government. For that reason, I applaud our Committee Chairman, Don Young, and our Committee Ranking Member, Jim Oberstar, for their leadership in exploring opportunities to ensure that we only dedicate federal resources to worthwhile programs.

While I agree with almost every aspect of the Committee's Report, I believe that the Essential Air Service (EAS) program should be recognized as appropriate and necessary government spending rather than a program in need of cuts or local match requirements. EAS is very important to rural airports, which have seen their air service and ridership cut dramatically over the years. We need to ensure that rural airports can continue to operate, and to provide much-needed air service and jobs.

Although the Committee's Report on Waste, Fraud, and Abuse does not note the Committee's actions at the Markup, it should be known that Committee Members from both parties agreed to insert a hardship provision designed to ensure that local communities will not suffer by forced to operate beyond their economic means if they are incapable of meeting the local match requirement.

Subsequently, on the floor of the House of Representatives, my colleague and friend from the other side of the aisle, Bill Shuster, led the effort to have the local match requirement removed altogether from the bill in its final form as it passed out of our chamber. I applaud Mr. Shuster for his efforts on behalf of rural air service, and I understand that he shares my sentiment on the topic of EAS within the Committee's Report.

Earlier this year, Congress provided the airline industry with almost \$3 billion in emergency wartime supplemental appropriations. However, the small communities of America will see very little of this money because the airlines will focus on their service to urban areas.

What is good for airline travel in urban sectors of the country ought to be good for airline usage throughout the entire country. We need to preserve air travel throughout rural America, and the EAS program has proven its worth over the years. Small communities in over 35 states rely on EAS funding to help them manage through this time of economic distress at the state and local levels.

For the reasons, although I agree with the substance of the Committee's Report, I remain firmly in the belief that the EAS program is entirely worthwhile and in need of continuing federal support.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC, September 2, 2003.

Hon. JIM NUSSLE,
*Chairman, Committee on the Budget,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: Enclosed with this letter is the report of the Committee on Veterans' Affairs with its findings on means of eliminating waste, fraud and abuse in spending programs under the Committee's jurisdiction.

The Committee conducts regular oversight of veterans programs in accordance with its Oversight Plan for the 108th Congress. Pursuant to the requirement of the Conference Report to Accompany the Concurrent Resolution on the Budget for Fiscal Year 2004, the full Committee held hearings on waste, fraud and abuse in veterans' programs on May 8 and June 10, 2003. The topics of the hearings included barring payment of veterans benefits to fugitive felons, stopping erroneous benefits payments in the Philippines, improving management of long-term care for veterans, ensuring that part-time VA physicians meet their employment obligations, strengthening debt management, and reducing costs in worker's compensation.

Additionally, the Committee has held hearings on the findings of the President's Task Force to Improve Health Care Delivery for our Nation's Veterans, and VA's medical care collections program. As reflected in the enclosed report, the Committee has utilized both the U.S. General Accounting Office and the VA Office of the Inspector General in its oversight and evaluations of spending programs for veterans.

Much of the potential savings in spending programs for veterans the Committee report has identified can be appropriately achieved through improvements in VA program management, and legislation is not recommended. However, the Committee has reported legislation discussed in the enclosed report that would enable VA to significantly increase medical care collections from nonfederal sources. This legislation, H.R. 1562, was requested by the Administration and reported favorably by the Committee, but the House has not acted on it.

The Committee intends to continue its aggressive oversight of spending programs for veterans to ensure that tax dollars are efficiently used in the programs under its jurisdiction, and will continue its efforts to identify the changes in law to eliminate waste, fraud and abuse. The support of the Committee on the Budget in these endeavors is most appreciated.

Sincerely,

CHRISTOPHER H. SMITH,
Chairman.

LANE EVANS,
Ranking Democratic Member.

Enclosures.

ELIMINATING WASTE, FRAUD AND ABUSE IN VETERANS'
PROGRAMS

Pursuant to section 301 of the Conference Report to Accompany the Concurrent Resolution on the Budget for Fiscal Year 2004 (H. Con. Res. 95; H. Rept. 108-71), the Committee on Veterans' Affairs is transmitting herewith its findings on means of eliminating waste, fraud, and abuse in spending programs under the Committee's jurisdiction.

ENHANCING MEDICAL CARE COLLECTION AUTHORITY

The Committee is concerned that the Department of Veterans Affairs (VA) health care system is seriously under-funded and unable to meet the demands being placed on it by the health care needs of enrolled veterans. The VA health care system is under obvious stress, as increasing enrollment and rising health care costs have resulted in hundreds of thousands of veterans being forced to wait months, some even more than a year, for an initial appointment. VA recently reported in January 2003 that over 200,000 veterans were waiting six months or more to be seen in VA primary care. This waiting list has been reduced, but VA still fails to meet its own access standards for a very large number of enrolled veterans.

The Committee conducted hearings and other oversight during this Congress and previous Congresses to identify additional funding sources and promote management efficiencies to address the rising demand for VA medical care services. As a consequence of this oversight, on April 2, 2003, H.R. 1562, the Veterans Health Care Cost Recovery Act of 2003, was introduced by Honorable Bob Beauprez; the Committee's Chairman, Honorable Christopher H. Smith; the Committee's Ranking Member, Honorable Lane Evans; the Subcommittee on Health's Chairman Honorable Rob Simmons; and the Subcommittee's Ranking Member, Honorable Ciro D. Rodriguez. After subcommittee and full committee consideration, on May 15, 2003, H.R. 1562, as amended, was ordered reported favorably to the House by unanimous voice vote. To date, the House has not acted on this bill.

In 1986, in Public Law 99-272, Congress provided VA authority to collect from third-party insurers of nonservice-connected veterans receiving VA health care. These funds are used by VA to supplement appropriated funds to maintain high quality health care. However, VA is currently unable to collect fully from the sizeable preferred provider sector, which now accounts for a major portion of all health plans in the United States. H.R. 1562, as amended, would enhance the ability of VA to collect reimbursements from third-party insurers by clarifying VA's power to recover costs for medical care provided to veterans at VA facilities covered by preferred provider organizations and other non-traditional coverage.

Specifically, H.R. 1562, as amended, would deem VA as a "preferred provider" for purposes of collection when a payer has pay-

ment arrangements with preferred provider organizations and a covered veteran receives VA health care under an equivalent arrangement. This legislation would prevent a third-party payer from denying or reducing reimbursement to VA solely because VA does not have a participation agreement with that third-party payer. Additionally, the legislation would grant specific authority for VA to recover the cost of providing medical care to non-veterans from any private health plan. Under current law, the collections recovered would be deposited into the Medical Care Collections Fund (MCCF) and treated as offsets to discretionary spending. Subject to annual appropriation, VA can spend the money in the MCCF to provide medical care to veterans.

The Congressional Budget Office (CBO) estimates that under H.R. 1562, as amended, collections from nonfederal sources would increase by \$111 million in 2004 and \$737 million over the 2004–2008 period. CBO estimates that implementing this legislation would result in net discretionary savings of \$24 million in 2004, and \$38 million over the 2004–2008 period, assuming appropriation of the estimated collections and after accounting for the typical lag between collections and spending.

IMPROVING MEDICAL CARE COLLECTIONS

In 1997, Congress gave VA the authority to retain third party collections it recovered instead of returning the funds to the U.S. treasury. This authority was requested by the Department as a part of its 5-year plan to obtain 10 percent of its funding from third party collections and other revenue sources. In 1999, the Committee received VA's outsourcing business plan for health care revenue collection. The plan involved consolidating certain revenue collection processes (pre-registration, insurance verification, billing collections, and customer service) into a "Consolidated Revenue Unit" at the network level. Also, in 1997 VA adopted a new fee schedule called "reasonable charge" authorized by Public Law 105–33, the Balanced Budget Act of 1997. By November 2000, VHA had initiated four pilot tests—two in-house and two by contract. VA also received a Price Waterhouse report with 24 major recommendations for improving MCCF revenue operations.

In 2001, the U.S. General Accounting Office (GAO) reported in hearing testimony that for the first time since 1995, VA had reversed the general decline in its third party collections. GAO largely attributed the increase to VA's implementation of the reasonable charges billing system. However, GAO reported recurring problems, including: (1) VA billing times that were 14 times greater on average than the private sector; (2) continuing weaknesses in VA's collections information systems; and (3) a lack of department-wide standardization for collections. The VA's Inspector General's Office (IG) also reported problems and weaknesses in a number of areas, including: (1) determination of veterans' eligibility and entitlement status; (2) verification and coordination of patient care with insurance carriers; (3) medical record documentation of care provided; (4) coding of bills to insurance carriers; (5) billing of insurance carriers; and (6) collection of insurance carriers' delinquent accounts.

VA was also mandated by Congress to acquire and implement a commercial patient financial system. VA is implementing the Pa-

tient Financial Services System project, which is intended to improve the business process and information technology in revenue collections. In May of 2002, VA created a new office in the Veterans Health Administration (VHA), the Chief Business Office, to improve collections. However, VA's compliance with established policies and procedures for MCCF management continues to be inconsistent. In his April 1, 2002, to September 30, 2002, Semiannual Report to Congress, the IG reported that deficiencies in the collections system result from the inability to properly bill for services.

The VA's budget proposal for fiscal year 2003 proposed a new outsourcing business plan to reconfigure the revenue collection program. However, of the four network pilot tests, only one produced an outsourcing contract model. VA's budget proposal for fiscal year 2004 indicated VA had made considerable progress in executing its new business plan. The new plan would reconfigure the revenue collection program to include both in-house and contract models.

MCCF collections have shown a steady improvement since fiscal year 2000. Actual collections from third parties have been: \$394 million for fiscal year 2000; \$540 million for fiscal year 2001; and \$690 million for fiscal year 2002. Projected collections are \$760 million for fiscal year 2003.

On May 7, 2003, the Subcommittee on Oversight and Investigations held its third oversight hearing on third-party collections and received an update from GAO on VA's third-party collections since September of 2001. GAO also provided an overview of continuing operational problems in collections for fiscal year 2002, including missed billing opportunities, insufficient documentation of services for billing and coding staff, insufficient pursuit of accounts receivable, and unidentified insurance for some patients.

The Deputy Secretary of Veterans Affairs, Honorable Leo S. Mackay also testified at the May 7, 2003, hearing about VA's efforts to improve third party collections. He informed the Subcommittee that the strategies being pursued include establishment of health care industry based performance and operational metrics, technology enhancements and integration of proven business approaches, including establishment of centralized revenue operations centers. He further stated that VA is developing a demonstration project to fully outsource the revenue process functions at a VA Medical Center to test the feasibility of this approach to enhancing revenue. The Committee will conduct oversight of the demonstrations projects.

STRENGTHENING DEBT MANAGEMENT

According to the IG's Report of the Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2002 and 2001, Report No. 02-0163847, January 23, 2003, as of December 2002, debts owed to the VA totaled \$3 billion. The majority of these (52 percent) were active vendee loans. The debts owed to the VA are derived from the payment of home loan guaranties; direct home loans; life insurance loans; Medical Care Collections Fund receivables; and compensation, pension, and educational benefits overpayments.

The IG made several recommendations to the Department concerning its debt management activities. During his testimony on

May 8, 2003, Honorable Richard Griffin, VA Inspector General, reported that the Strategic Plan for 2003–2008 shows that VA is addressing his recommendations to be more aggressive in collecting debts; improve debt avoidance practices; streamline and improve quality and uniformity of debt waiver decisions. The IG also stressed that debt management activities could be improved.

The Committee will continue its oversight and working with VA to ensure that the IG's recommendations are implemented.

RESTRUCTURING CAPITAL ASSETS

As a result of improved technologies, new treatments and national changes in practice patterns of health care professionals, VA has shifted its focus from inpatient to outpatient care. This shift resulted in many instances of shortened lengths of stay when hospitalization is required and established needs for many new outpatient facilities. Consequently, many structures formerly used for inpatient care have been converted for new uses. However, the vacant space that cannot be converted for effective uses has become a significant burden and waste of VA resources that could be used for direct health care for veterans.

GAO concluded in 1999 that VA's existing infrastructure could be the biggest obstacle confronting its ongoing transformation efforts. During a hearing before the Subcommittee on Health in 1999, GAO pointed out that although VA was addressing some realignment issues, it did not have a plan in place to identify buildings that were no longer needed to meet veterans' health care needs. GAO recommended that VA develop a market-based plan for restructuring its delivery of health care in order to reduce funds spent on underutilized or inefficient buildings. In turn, those funds could be reinvested to better serve veterans' needs by placing health care resources closer to veterans' homes.

In addition, GAO reported that most delivery locations had mission-critical buildings that VA considers functionally obsolete. The functional obsolescence included inpatient rooms that failed to meet contemporary standards for patient privacy; outpatient clinics with too few examination rooms; and buildings with life safety concerns.

In 1999, based on recommendations and actions of the Committee, VA began an effort to realign its capital assets, primarily buildings, to better serve veterans' needs as well as institute other needed efficiencies. The Capital Asset Realignment for Enhanced Services (CARES) initiative includes: (1) assessing a target population's needs; (2) evaluating the capacity of existing assets; (3) identifying any performance gaps (excesses or deficiencies); (4) estimating assets' life cycle costs; and (5) comparing such costs to other alternatives for meeting the target population's needs. Alternatives to be considered included: (1) partnering with other public or private providers; (2) purchasing care from other providers; (3) replacing obsolete assets with modern ones; and (4) consolidating services duplicated at multiple locations serving the same market. CARES is the most ambitious such effort undertaken by VA.

Recent data from VA's CARES office provided an overview of VA facilities as follows: VA owns 5,044 buildings and 118.5 million square feet. The average age of VA buildings is 50.4 years. The re-

placement life cycle at the current rate of investment is 155 years. VA operates 162 hospitals, 677 community-based outpatient clinics, 137 nursing home units and 43 domiciliaries.

During the CARES process, VA has projected veterans' demand for acute health care services through fiscal year 2022, evaluated available capacity at its existing delivery locations, and targeted geographic areas where alternative delivery strategies might allow VA to operate more efficiently and effectively while ensuring access consistent with its standards for travel time. Efficiencies through economies of scale have been identified in 30 geographic areas where two or more major health care delivery sites were located in close proximity and or provided duplicative inpatient and outpatient health care services. Also, six high priority collocations of regional benefits offices have been proposed. VA has also identified more than 70 opportunities for partnering with DOD to better align the infrastructure of both agencies. Twenty-one of the collaborations or joint ventures with DOD are considered high priority. Four years after GAO recommended the formation of CARES, VA expects to issue its final plans by the end of 2003.

An exemplary model of public/private partnering supported by the Committee is proposed at the site of the former Fitzsimons Army Medical Center in Aurora, Colorado. This multi-acre tract was deeded by the federal government to the University of Colorado to enable it to consolidate one of the largest regional medical, educational and biomedical research complexes in the country. Discussions are underway between VA and DOD to negotiate a joint venture to construct and staff a Regional Federal Medical Center, sharing resources, services and research with the University of Colorado at that site. H.R. 116, as amended, was reported by the Committee on July 14, 2003, to authorize the Secretary of Veterans Affairs, in consultation with the Secretary of Defense, to construct, lease, or modify major medical facilities at the site of the former Fitzsimons Army Medical Center, Aurora, Colorado.

The Committee will continue to monitor carefully the progress of CARES and expects to hold a public hearing after the plan has been completed.

IMPROVING EFFICIENCY AND ACCESS THROUGH VA-DOD SHARING

For approximately twenty years, the Committee has promoted the sharing of health care resources between the Departments of Veterans Affairs and Defense (DOD). The goal of sharing between the two Departments is to improve the quality of health care for VA and DOD beneficiaries and to reduce costs that exist in both Departments. By collaborating, the two Departments can improve access to care and reduce the overall costs of furnishing that care to both veterans and the military beneficiary population.

In 1982, Congress enacted Public Law 97-174, (the Sharing Act) to foster more effective sharing of health care resources between VA and DOD. The law was enacted not only to remove legal barriers, but also to provide incentives for military and VA health care facilities to engage in health resources sharing through local agreements, joint ventures, national sharing initiatives, and other collaborative efforts pointed to better and more efficient use of Federal health care resources. The Sharing Act provides broad author-

ity to both VA and DOD to share health resources across the spectrum of health care and health-related activities. With advent of the Sharing Act, a flurry of VA–DOD sharing activity occurred, and hundreds of agreements were executed among military and VA medical centers and their clinics. However, over the succeeding years, sharing waned as military health care shifted from a facilities-based system to the TRICARE program that relies on private health care networks.

On July 27, 2001, Chairman Smith introduced H.R. 2667, the Department of Defense–Department of Veterans Affairs Health Resources Access Improvement Act of 2001. H.R. 2667 sought to establish a health care facilities sharing demonstration project in keeping with the intent of the original legislation for VA–DOD sharing. Under the bill, five qualifying sites would be selected for participation in a demonstration project. The purpose of the demonstration project was to identify and measure the advantages of sharing and work through the challenges of the two systems becoming true partners in health care delivery. The two Departments' medical information systems are incompatible, but this legislation would have created a framework for greater technology compatibility. By improving such communication, the Departments could better ensure continuity of care, equality of access, uniform quality of service and seamless transmission of data. Most of the original concepts and objectives of H.R. 2667 were incorporated in Subtitle VII of Public Law 107–314, the Bob Stump National Defense Authorization Act for Fiscal Year 2003.

On March 7, 2002, the Subcommittee on Health and the Committee on Armed Services Subcommittee on Military Personnel held a joint hearing to examine collaboration and health resources sharing by the two Departments, including consideration of H.R. 2667. Chairman Smith testified to urge both subcommittees to aggressively increase resource sharing between these two health care systems. Defense Under Secretary David S. Chu assured the Committees that he and VA Deputy Secretary Mackay share a common vision of quality health care for the men and women serving our country, their families, and those that have served. According to Under Secretary Chu, the cooperative efforts of DOD and VA are focused on a proactive partnership that meets the missions of both agencies while benefiting the servicemember, veteran and taxpayer with new initiatives and increased efficiency.

On June 3 and June 17, 2003, the Committee held hearings to receive the Final Report of the President's Task Force to Improve Health Care Delivery for our Nation's Veterans (PTF). One of the four organizing principles which this task force used in developing recommendations was that committed leadership from VA and DOD is essential to achieve VA–DOD collaboration to improve health care for veterans and military retirees. The PTF found that VA and DOD should maximize the use of resources and infrastructure that each Department currently retains individually. Dr. Gail Wilensky, Co-Chair of the PTF, stated in her June 3, 2003, testimony, "The goal of improved collaboration between VA and DOD is not collaboration for the sake of collaboration, but rather that, through such activity, VA and DOD can improve timely access to

quality health care and reduce the overall costs of furnishing services.”

H.R. 1911, to amend title 38, United States Code, to enhance cooperation and the sharing of resources between the Department of Veterans Affairs and the Department of Defense, introduced by Honorable John Boozman, was passed by the House on May 21, 2003, and would establish a DOD–VA Joint Executive Committee to: (1) expand oversight of collaborative efforts beyond health care issues to include benefits and other areas as determined by the co-chairs; and (2) promote increased resource sharing.

Existing law allows each Department to determine individually the number of employees each would designate to support the committee, but requires each one to share equally in the cost, notwithstanding parity in the numbers. It also requires a permanent staff be assigned to the committee. This bill would delete these personnel requirements, thereby enhancing the flexibility of each Department to use its personnel in the most efficient manner possible, while at the same time authorizing the establishment of subordinate committees and work groups as deemed appropriate by the co-chairs.

Existing law specifically authorizes the recommendations of the committee for sharing of resources to improve access, quality, and cost effectiveness. Under H.R. 1911, the committee would also identify changes in policies to improve services, efficiencies, and opportunities for collaboration for delivery of benefits and services to beneficiaries of both Departments.

According to CBO, this bill would have a negligible cost. Although CBO did not project any cost savings in its reported estimate, the Committee expects that cost savings would result from the enactment of this bill, as it would further promote the sharing between VA and DOD and create new methods by which the two Departments would share resources and eliminate duplicate activities. The substance of H.R. 1911 was incorporated into H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, which the House passed on May 22, 2003.

MANAGING LONG-TERM CARE FOR VETERANS

In 1999, Public Law 106–117, the Veterans’ Millennium Health Care and Benefits Act, was enacted to ensure VA better meets the needs of its aging patient population. The Act required VA for the first time to provide nursing home care and certain non-institutional long-term care services to eligible veterans. Some studies have shown that appropriate use of case management in long-term care can reduce both the number and the intensity of expensive acute care hospitalizations. Due to recent reports the Committee has received from VA, the Committee is concerned about VA’s ability to meet the nursing home care needs of veterans in accordance with the law, particularly considering the World War II generation’s increasing needs for long-term care.

At the May 8, 2003, Committee hearing on waste, fraud, and abuse, Members raised issues related to VA’s role in meeting the long-term health care needs of veterans. On May 22, 2003, the Subcommittee on Health held a follow-up hearing to examine existing VA long-term care programs and expenditures and appraise VA’s

strategy for addressing future long-term care needs of aging and disabled veterans.

To better meet its oversight responsibilities in this area, the Committee requested that GAO provide the Committee with a report on VA's implementation of the Millennium Act, including analysis of current trends and forecasts in nursing home utilization and long-term care expenditures by the Department. The Committee also asked GAO to examine VA's management of its in-house nursing home programs to improve efficiency and assure appropriate utilization and access in consonance with the Millennium Act.

GAO will examine the use of nursing homes VA operates, as well as the contract care it purchased between fiscal years 1998 and 2002. The scope of the study will include examining the expenditures VA incurred to provide nursing home care to these veterans, the extent of the use of nursing homes and how their expenditures have varied by VA's 21 health care networks, and the degree to which policy differs among VA's networks on the type and extent of nursing home care provided to veterans. GAO has agreed to complete its work and issue a report to the Committee by the fall of 2003. This next report will provide the Committee with a basis for further oversight of VA long-term care programs.

REDUCING COSTS IN WORKER'S COMPENSATION

VHA has 214,000 employees and is the largest health care system in the United States. Under the Federal Employees Compensation Program, employees are eligible for Worker's Compensation Program benefit payments for lost wages and medical treatment for the specific disability associated with a work-related injury.

In 1998, the IG audited VA's Federal Employee Compensation Act program and concluded the program was not effectively managed. Audit of VA's Worker's Compensation Program Cost, Report No. 8D2-G01-067, July 1, 1998. The IG estimated VA could reduce future payments by \$247 million, by returning to work current claimants who are no longer disabled.

In order to decrease program liability, VA issued Directive 7700 on July 8, 1998, to ensure a safe and healthy workplace for VA employees, and VHA issued specific related directives. Also, the VA's Office of Occupational Safety and Health initiated a case management and injury prevention project designed to reduce compensation costs and the rate of new compensation claims.

The IG Audit of High-Risk Areas in the Veterans Health Administration's Workers' Compensation, Report No. 99-00046, December 21, 1999, found that the lack of effective case management practices placed the Department at risk for program abuse, fraud, and unnecessary costs. In April 1999, the IG provided VA with a handbook for "VA Facility Workers Compensation Program Case Management and Fraud Detection." By the end of FY 1999, Office of Workers Compensation Program costs had decreased by 1.6 percent to about \$130 million. However, since that time costs have increased to approximately \$151 million, which caused the IG to begin a follow-up audit.

On May 8, 2003, the IG in testimony before the Committee on Veterans' Affairs stated, "* * * VA continues to be at risk for program abuse, fraud, and unnecessary costs because prior IG pro-

gram recommendations have not been fully implemented.” At the urging of the Committee, the Office of Inspector General is conducting further audits of the Workers’ Compensation Program. No legislation is recommended by the Department to address this issue.

IMPROVING MANAGEMENT OF PART-TIME PHYSICIANS

VA currently employs 5,129 part-time physicians at a combined salary of \$400 million with poor or no accountability as to much of their time and attendance. Problems with part-time physician time and attendance have frequently been reported by the IG Combined Assessment Program. In some instances, the affiliated medical school determines assignments and work schedules for all the physicians on the VA payroll in violation of VA policy.

At the May 8, 2003, Committee hearing, the IG also testified concerning the findings in the Audit of the Veterans Health Administration’s Part-Time Physician Time and Attendance, Report No. 02–001339–85, April 23, 2003. The IG testified that the audit found that the VHA’s management controls were not effective in ensuring that part-time physicians met their employment obligations and that physician staffing was not aligned properly with workload requirements. The IG further testified that some VA medical centers do not keep duty schedules and timekeepers do not know which physicians are supposed to be on duty.

The IG provided several examples that showed part-time physicians were not working the hours established in their VA appointments and as a result part-time physicians were not meeting their employment obligations to VA. Based on a review at five VA medical centers, the audit specifically found:

1. There was no documented evidence of any patient care workload (patient encounters, operating room time, progress notes, physician orders, or network log times) for 33 percent of the time in a 14-day review, where 223 part-time physicians were scheduled for at least four hours of duty.

2. Part-time physicians did not complete a minimal amount of patient care time (at least one hour in surgery or at least two progress notes, doctors orders, or encounters per hour worked) on 53 percent of days the physicians were scheduled to work at least four hours.

3. Surgeons spent 38 percent of their available time on patient care obligations. Of the 153 surgeons reviewed, 70 spent less than 25 percent of their available time in direct patient care.

4. Part-time surgeons at six VA medical centers reviewed were performing surgery at the affiliated medical schools during their VA tours of duty.

5. Attending physicians at four VA medical centers reviewed were not present to supervise the residents’ treatment of patients in six of 29 clinics reviewed.

The Committee was advised that the IG had provided the Under Secretary for Health with recommendations for corrective actions. Specifically, the IG recommended that improvements include quarterly audits of physician time and attendance. The Under Secretary generally agreed with the recommendations.

The Committee plans to monitor this matter through oversight hearings and briefings with VA officials to ensure that these recommendations are fully implemented.

IMPROVING MANAGEMENT OF CONTRACTING, PROCUREMENT
AND ACQUISITION

The IG's testimony at the May 8 2003, hearing indicated the existence of ineffective management practices involving the procurement of health care items and contracting for health care services or resources, especially when service contracts involved an affiliated institution as a party. An IG audit of procurement practices found VA facilities often failed to use VA national purchasing or Federal Supply Service options, and often chose less cost-efficient options such as local procurement. Studies advocate a more centralized focus for the purchase of health care items, but too often this course of action is not followed because of a lack of VA procurement oversight.

The IG also commented on the lack of rigor in contracting for health care resources, noting an absence of evidence that VA had assessed its actual needs or that the contract was in the Government's best interests. The IG noted the potential conflict of interest in the general process. Other IG concerns involved construction contracting, purchase card activities, and inventory management—all of which lack adequate oversight at critical points in their respective processes. On June 10, 2003, at the Committee's second hearing on waste, fraud and abuse, Deputy Secretary Mackay acknowledged that problems exist with VA's report to Congress regarding contracts for services other than scarce medical specialties. The Committee believes that improved management of contracting, procurement and acquisitions has the potential for considerable savings and the Committee intends to conduct further oversight of these areas.

BARRING BENEFITS FOR FUGITIVE FELONS

In 1996, Congress enacted Public Law 104-193, which barred fugitive felons from receiving Supplemental Security Insurance from the Social Security Administration and food stamps from the Department of Agriculture. The intent of the law was to discontinue the means of federal support that allow fugitive felons to continue to flee. However, the law did not prevent a fugitive felon who was a veteran from receiving benefits from VA.

In 2001, the Committee on Veterans' Affairs reported H.R. 1291, as amended, to prohibit veterans who are fugitives from receiving benefits from VA. The bill became Public Law 107-103. Under the law, a fugitive felon is defined as fleeing to avoid prosecution, or custody or confinement after conviction, for an offense or an attempt to commit an offense which is a felony under the laws of the place from which the veteran flees. The benefits barred include those for service-connected disabilities; dependency and indemnity compensation for surviving spouses of service-connected veterans; nonservice-connected disability/death pension; hospital, nursing home, domiciliary and outpatient care; insurance; educational entitlements; training and rehabilitation benefits for veterans with

service-connected disabilities; and housing and small business loans.

Public Law 107-103 requires the Secretary to furnish to any Federal, State, or local law enforcement official in specific circumstances and upon written request the most current address maintained by the Secretary of a person who is eligible for a VA benefit. The Secretary is also required to enter into memoranda of understanding with Federal law enforcement agencies and may enter into agreements with State and local law enforcement agencies for purposes of furnishing information to such agencies.

On May 8, 2003, the IG testified before the Committee efforts to identify fugitive felons. In response to Public Law 107-103, the IG has established a fugitive felon program to identify VA benefits recipients and VA employees who are fugitives from justice. Mr. Griffin provided details of the program:

The program consists of conducting computerized matches between fugitive felon files of law enforcement organizations and VA benefit and personnel records. Once a veteran or employee is identified as a fugitive, information on the individual is provided to the law enforcement organization responsible for serving the warrant to assist in apprehension. Fugitive information is then provided to VA so that benefits may be suspended and to initiate recovery action for any overpayments. Based on our pilot study and matches conducted to date, I anticipate that between 1 and 2 percent of all fugitive felony warrants submitted will involve VA beneficiaries.

Based on computer matches to date, the IG has projected savings related to the identification of improper and erroneous payments to exceed \$209 million annually. The IG has also completed memoranda of understanding or agreements with the U.S. Marshals Service, the States of California and New York, and the National Crime Information Center. These data matching efforts have already identified more than 11,000 potential fugitive beneficiaries and VA employees. The Committee intends to monitor and encourage the implementation of the IG's fugitive felon program through oversight hearings and briefings with VA officials. No further legislative action is recommended by the Department to address this issue.

STOPPING ERRONEOUS BENEFITS PAYMENTS IN THE PHILIPPINES

The VA Regional Office in Manila, Republic of the Philippines, has long struggled with fraudulent activity due to a combination of factors, including the relatively large amount of VA payments, poverty and a lack of economic opportunity for indigenous persons. The two main types of cases involve deceased payees and false claims. In April 2001, the IG instituted a "Philippines Benefit Review" at the request of the Manila Regional Office, which was seeking assistance in combating fraud associated with false claims.

During the six-week operational phase of the review, the team conducted 1,134 interviews and 2,391 fingerprint comparisons, reviewed 2,600 files, took 1,100 digital photographs, initiated nine criminal cases, and obtained one search warrant. Five hundred

ninety-four beneficiaries were identified for suspension or termination of benefits. Criminal investigations initiated during the review were turned over to the Philippines National Police.

At the May 8, 2003, Committee hearing, the IG testified on the results of the benefits review, and indicated that his office was looking at other areas outside the continental United States where large numbers of veterans and dependents reside. According to the IG, 78,000 benefits recipients outside the continental United States are receiving approximately \$49 million a month in benefits, including \$2.9 million to 5,100 veterans and other beneficiaries in Germany, and \$28 million to 42,000 veterans and other beneficiaries in Puerto Rico.

To date, the Philippines Benefit Review has resulted in cost savings to VA of approximately \$2.5 million in overpayments, and a projected 5-year cost avoidance of over \$21 million. The Committee believes that these investigations of fraud outside the continental United States should be aggressively pursued and intends to continue its oversight of them. No legislative action is recommended by the Department to address this issue.

IMPROVING VOCATIONAL REHABILITATION DATA

VA's Vocational Rehabilitation and Employment Program provides services and assistance necessary to enable veterans with service-connected disabilities to become employable and obtain suitable employment. This program also helps certain veterans with service-connected disabilities achieve functional independence in daily activities. Program performance against these outcomes is measured by the rehabilitation rate, which is defined as the number of veterans who were rehabilitated during a period of time compared to the total number that left the program during that period. VA's Annual Accountability Report for FY 2000 showed the rehabilitation rate for the year was 65 percent, which exceeded the goal of 60 percent.

On February 6, 2003, the Office of Inspector General released a report, *Accuracy of VA Data Used to Compute the Rehabilitation Rate for Fiscal Year 2000*, Report No. 01-01613-52, that showed the data used to compute the rehabilitation rate for fiscal year 2000 was not accurate. The counseling, evaluation and rehabilitation folders of 94 randomly selected veterans were reviewed for fiscal year 2000. The audit revealed that 7 of the 94 veterans left the program during prior or subsequent years and should not have been included in the computation of the rehabilitation rate that fiscal year. Of the remaining veterans in the sample, 57 were classified as rehabilitated and 30 were classified as discontinued. Based on the evidence in the veterans' folders, the IG determined that VA regional office personnel incorrectly classified 15 of 57 veterans as rehabilitated. However, no errors occurred among the 30 decisions to classify veterans as discontinued. VA officials could not readily explain the reasons for the discrepancies. They speculated that pressure to achieve the performance measure target for the rehabilitation rate may have influenced the inappropriate decisions to declare veterans rehabilitated.

The IG could not estimate the actual rehabilitation rate the program achieved for fiscal year 2000, because regional office per-

sonnel did not timely classify veterans as rehabilitated or discontinued. As a result, an unknown number of veterans were improperly excluded from the total number of veterans who left the program during the year. Because of the significant discrepancies identified, the IG could not attest to the accuracy of the rehabilitation rate included in VA's Annual Accountability Report for FY 2000.

The IG recommended additional training for regional office personnel who make classification decisions and improved supervisor accountability. Additionally, the IG recommended strengthened oversight of VA regional office personnel to ensure that classification decisions are timely and accurate. The Under Secretary for Benefits concurred with the IG's recommendations and provided acceptable implementation plans.

Other accuracy problems in VA's vocational rehabilitation program have also been identified. On January 31, 2003, the VA released its FY 2002 Performance and Accountability Report. Part of this report addressed accuracy of outcome decisions and accuracy of evaluation and planning services for veterans applying for vocational rehabilitation. In 2002, program managers conducted their own quality reviews on 3,243 vocational rehabilitation cases. The survey found a 19 percent error rate in rehabilitation rate outcome decisions.

The IG report did not estimate entitlement, administrative, or cost implications of VA errors that resulted in an overstated vocational rehabilitation rate. No legislative action is recommended by the Department. The Committee expects to hold a public hearing to further examine this matter and provide additional oversight.

REDUCING ERRORS IN EDUCATIONAL ASSISTANCE CLAIMS

The VA's FY 2002 Performance and Accountability Report noted quality assurance deficiencies in education claims. Of the 1,541 cases reviewed, 100 had payment errors and 340 had service errors (some cases had more than one service error). Payment errors mean the monthly educational assistance allowances of beneficiaries are being underpaid or overpaid. Service errors largely deal with eligibility and entitlement determinations. Within the category of service errors, development and due process notification errors were 21 and 22 percent, respectively. The Committee finds these error rates unacceptable. For 2001 and 2002, payment accuracy remained virtually the same, 92.0 percent and 92.6 percent, respectively. The report noted that VA must continue periodic refresher training in these areas until improvement is shown.

The accountability and performance report also noted workforce challenges. In fiscal year 2002, the VA Education Service employed 864 Full-Time Equivalent Employees (FTEE) in administering its programs for about 465,000 veterans, active-duty servicemembers, reservists, and survivors/dependents. About 50 percent of the education adjudicators were trainees at the beginning of fiscal year 2002, although turnover decreased during the year. The VA Education Service is developing standardized training for its employees. The first phase, covering claims processing tasks, will be completed in the summer of 2003.

The Committee notes that the report did not estimate the amount that could be saved by reduction of payment errors in education claims. However, the report showed that VA obligated \$1.77 billion in this program during fiscal year 2002 and the Committee believes that the savings could be substantial. The Committee plans continued close oversight of the Department's efforts to reduce error rates in its educational assistance claims. No legislative action is recommended by the Department to address this issue.

PREVENTING PENSION OVERPAYMENTS

VA's improved pension program provides financial assistance based upon need to certain wartime veterans with disabilities not related to military service. This needs-based program has an income limitation, and it is designed to pay benefits on a graduated scale whereby the person with the least amount of income, and therefore with the greater need, receives the greater amount of pension. There are income exclusions in determining a person's income for pension purposes, including the exclusion of certain unreimbursed medical expenses. At the request of the Under Secretary for Benefits, the IG conducted an audit of beneficiaries receiving increased benefits as a result of unreimbursed medical expense claims. The objectives were to: (1) evaluate the effectiveness and efficiency of Veterans Benefits Administration (VBA) procedures for verification of these claims; (2) identify the extent of unsupported claims and processing errors; (3) determine the extent of any potential program fraud; and (4) determine causes and identify solutions for deficiencies.

During fiscal year 2001, VA paid \$2.9 billion in pension benefits to 507,149 veterans and their survivors. On September 30, 2002, the Office of Inspector General released a report, *Audit of Veterans Benefits Administration Benefit Payments Involving Unreimbursed Medical Expense Claims*, Report No. 00-00061-169. The audit found that some pension beneficiaries are inappropriately submitting unreimbursed medical expense claims, significantly increasing the level of benefit payments. The IG reported that processing errors and potential program fraud have occurred because regional offices are not effectively managing the processing of these claims.

Erroneous benefit payments occurred due to the following:

Overpayments

1. Medicare (Part B) premiums expenses were claimed, but not actually paid.
2. Income and net worth were not properly reported.
3. Continuing Medical Expense Deductions—expenses allowed prospectively if they are recurring or reasonably predictable (i.e., nursing home fees)—were not properly adjusted to reflect actual lower costs.
4. Claimed nursing home costs were not reduced for Medicaid reimbursements.
5. Other processing errors occurred because claims were not fully developed or mathematical errors were made in computing them.

Underpayments

1. Medicare (Part B) premiums paid were not properly claimed or adjusted by VBA to reflect increases in annual expenses.
2. Claims were not fully developed or mathematical errors were made in computing claim amounts.

Potential Program Fraud

1. Income, net worth or unreimbursed medical expenses were not properly reported.
2. Claims were for expenses that had already been reimbursed.
3. Veterans' deaths were not timely reported to VA, and not all pension checks were returned.

According to the IG, processing errors and potential program fraud annually result in overpayments of up to \$124.7 million and underpayments of up to \$19.9 million. The Under Secretary for Benefits provided acceptable implementation plans to the IG. The Committee will continue oversight of the VA pension program to ensure the issues of processing errors and program fraud are adequately addressed. No legislative action is recommended by the Department to address these issues.

IMPROVING CAPABILITY OF THE OFFICE OF THE INSPECTOR GENERAL

The Committee notes that the VA Office of Inspector General is the smallest of the statutory Inspectors General relative to the size of the parent agency. The IG has a proven record resulting in savings for the VA by elimination of waste, fraud, abuse and management inefficiencies by finding meaningful cost avoidance opportunities. For every dollar invested in the IG, the Department realizes savings or cost avoidance estimated at thirty dollars. Committee efforts resulted in increased IG capabilities, with an additional 92 FTEE authorized in 2003, and should result in annual savings of over \$180 million VA-wide.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, September 9, 2003.

Hon. JIM NUSSLE,
Chairman, Committee on the Budget,
309 Cannon House Office Building, Washington, DC.

DEAR CHAIRMAN NUSSLE: As required by the Conference Report accompanying the budget resolution for fiscal year 2004, and in response to your letter dated May 20, 2003, this letter is intended to discuss waste, fraud, and abuse identified within the jurisdiction of the Committee on Ways and Means. The Committee strongly believes that it has an important responsibility to ensure that all government services are provided efficiently, accurately, and honestly. Too often, revenues collected from taxpayers are misused and poorly handled. We have a responsibility to all Americans to work to minimize this waste, fraud and abuse.

The Committee has made significant progress during the 108th Congress both to identify and eliminate waste, fraud, and abuse. This includes holding six hearings and favorably reporting legislation.

Hearings

The Committee held a hearing on July 17th to investigate the issue of waste, fraud, and abuse in programs under the Committee's jurisdiction. At that hearing, we received testimony from seven witnesses including the U.S. General Accounting Office (GAO) Comptroller General, witnesses from the U.S. Department of Justice, Social Security Administration (SSA), and Internal Revenue Service (IRS), as well as three outside experts.

In addition, various Subcommittees have held hearings during this Congress to examine specific instances of waste, fraud, and abuse. On February 27th, the Subcommittee on Social Security held a hearing on H.R. 743, the "Social Security Protection Act of 2003," a bill introduced by Chairman Shaw to protect individuals from benefit misuse by representative payees and to eliminate various instances of waste, fraud, and abuse in Social Security programs. On July 10th, the Subcommittee on Social Security held a hearing on the use and misuse of Social Security numbers and examined how criminals commit identity theft and perpetrate fraud by misappropriating Social Security numbers.

On June 19th, the Subcommittee on Human Resources and the Subcommittee on Oversight held a joint hearing on Unemployment Compensation (UC) fraud and abuse issues, specifically focusing on underpayment of State unemployment taxes through a process known as "SUTA dumping." In addition, in response to a request from Subcommittee on Human Resources Chairman Herger, a July 2003 GAO report detailed ongoing Supplemental Security Income

(SSI) residency violations and possible measures to address this problem. Between 1997 and 2001, SSA detected overpayments of \$118 million attributable to residency violations.

The Subcommittee on Health held a hearing on February 13th on Medicare Regulatory and Contracting Reform. Regulatory reform reduces waste, fraud, and abuse by providing regulatory relief to healthcare providers and modernizing Medicare's contracting processes. On March 4th, the Subcommittee on Health held a hearing on the recommendations from the Medicare Payment Advisory Commission, many of which are cost-saving proposals.

Legislative Action

This year, the Committee has taken legislative action on a number of measures to protect taxpayer money.

On February 13th, the House passed H.R. 4, the "Personal Responsibility, Work, and Family Promotion Act of 2003." This welfare reform bill protects against waste, fraud, and abuse by making better use of data and other resources. A provision allowing all States access to the National Directory of New Hires database for purposes of more effectively providing unemployment benefits would save \$70 million over 10 years. Another provision increasing the share of SSI eligibility determinations subject to reevaluation would save an additional \$1.4 billion over 10 years.

On March 13th, the Committee reported H.R. 743, the "Social Security Protection Act of 2003." This bill, passed by the House on April 2nd, reduces waste, fraud, and abuse by denying Social Security benefits to fugitive felons and parole violators and expanding the SSA's ability to punish and deter perpetrators of fraud through new civil monetary penalties. In addition, the bill would close the loophole that allows some government workers to avoid the Government Pension Offset among other provisions. The Congressional Budget Office estimates that H.R. 743 would save \$655 million over 10 years.

On April 2nd, the Committee reported H.R. 810, the "Medicare Regulatory and Contracting Reform Act of 2003." This bill would reduce waste, fraud, and abuse by streamlining the regulatory bureaucracy in the Centers for Medicare and Medicaid Services (CMS) to create a more collaborative working relationship between providers, beneficiaries, and CMS.

Finally, on June 27th the House passed H.R. 1, the "Medicare Prescription Drug and Modernization Act of 2003" which would reduce waste, fraud, and abuse by \$31 billion over the next 10 years. This legislation reforms the Medicare secondary payor system to halt improper billing practices, fixes the Medicare payment system for outpatient prescription drugs, and subjects payment for durable medical equipment and off-the-shelf orthotics to competitive bidding.

Identified Waste, Fraud, and Abuse

Through our hearings, the Committee has identified the following examples of waste, fraud, and abuse in programs under our jurisdiction.

Social Security: In addition to enacting H.R. 743, the "Social Security Protection Act of 2003," as described above, the Committee

also believes that Congress could reduce waste, fraud, and abuse in the Disability Insurance (DI) program and the SSI program by fully funding Continuing Disability Reviews (CDRs) and SSI non-disability redeterminations through the discretionary appropriations process. These reviews allow the SSA to cease benefits for individuals who no longer meet eligibility criteria. The SSA estimates that the DI trust funds save up to \$9 for each \$1 invested in a CDR and that \$7 in general revenue savings results from every \$1 invested in SSI redeterminations. Finally, the Committee will continue to pursue legislation to curtail the misuse of Social Security numbers.

Human Resources: As described above, enacting H.R. 4, the "Personal Responsibility, Work, and Family Promotion Act of 2003", would reduce waste, fraud, and abuse by \$1.4 billion over the next 10 years. The Committee also is concerned about continuing waste, fraud, and abuse in the SSI and UC programs. The SSA Inspector General testified on July 17th that overpayments in the SSI program totaled an estimated \$2 billion in fiscal year 2002 alone. Similarly, written testimony submitted by the Inspector General of the U.S. Department of Labor highlighted an estimated \$3.4 billion in unemployment benefit overpayments in fiscal year 2002 as an area of concern.

Tax Policy: The Committee is concerned about tax noncompliance problems involving individual and corporate taxpayers. At the Committee's July 17th hearing, numerous examples of noncompliance were discussed. The Committee examined the IRS's efforts to improve its identification of specific taxpayer groups considered "high risk" as well as the IRS's plans to develop audit strategies to better target known and likely abuses in our tax system. Also at the hearing, the Committee discussed the benefits of tax simplification. The Committee and its Subcommittee on Oversight will continue to monitor IRS's efforts in this regard and develop legislation to address tax noncompliance as necessary.

Medicare: As described above, enacting H.R. 1, the "Medicare Prescription Drug and Modernization Act of 2003", as passed by the House, would reduce waste, fraud, and abuse by over \$31 billion during the next 10 years.

The Committee on Ways and Means will continue to pursue opportunities to identify and reduce waste, fraud, and abuse and work to improve the efficiency and fairness of the tax code and all programs under the Committee's jurisdiction.

Best regards,

BILL THOMAS,
Chairman.