



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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IN REPLY REFER TO: B-200685

OFFICE OF GENERAL COUNSEL

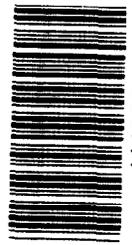
April 6, 1981

[Status of Budget Authority Proposed For Rescission]

To the President of the Senate and the
Speaker of the House of Representatives

The purpose of this letter is to report on the status of budget authority that was proposed for rescission, but for which Congress failed to pass a rescission bill as defined by section 1011 of the Impoundment Control Act.

In his fourth special message for fiscal year 1981, dated January 29, 1981, the President proposed the rescission of \$1.5 million in budget authority that had been made available to the Council on Wage and Price Stability for salaries and expenses (rescission proposal R81-34).



As we reported in our comments on the fourth special message, dated March 3, 1981, officials of the Council and the Office of Management and Budget (OMB) informed us that the rescission proposal involved funding for positions and programs which had been established by Executive Order under authority granted to the President by Congress and was being terminated by President Reagan. This termination would occur regardless of whether the rescission proposal was passed. OMB stated that R81-34 was proposed merely to comply with the technical requirements of the Act.

Section 1012(b) of the Impoundment Control Act requires that funds proposed for rescission be made available for obligation unless the Congress completes action on a rescission bill within the 45-day period of continuous congressional session following the day such a proposal is received by the Congress. For rescission proposal R81-34, the 45-day period ended on March 25, 1981, without the Congress having passed such a bill.

We have confirmed that on March 26, 1981, the subject budget authority was apportioned by the Office of Management and Budget to the Executive Office of the President. This budget authority was provided for functions which have been terminated by the revocation of the Executive Orders which established them. Although these funds are being released

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to comply with the law, the Council has been reminded by OMB that the funds must be used only for the purposes for which they were appropriated. OMB does not yet have an estimate of how much of the funds appropriated will go unobligated as a result of the termination of many of the Council's functions.

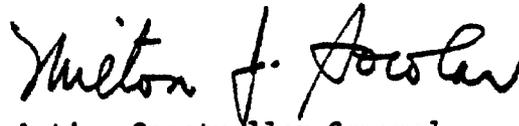
Harry R. Van Cleve
Acting General Counsel
Harry R. Van Cleve

think it is reasonable to believe that total savings of \$10 billion can be accomplished over three years, with at least \$4 billion in the first year. The amounts might well be higher, especially from prompt resolution of audit findings. But achieving savings of these magnitudes will require a sustained high priority, high intensity effort to put in place much stronger policies, procedures and systems, and to operate them aggressively once they are installed. To achieve such savings in the short-run--starting in fiscal year 1982--very prompt legislative and administrative action will be required.

Because of uncertainties about the speed with which the required actions will be taken and the final form in which they will appear, we have been conservative in our estimates of the resulting budget reductions. [The effort to be conservative in our estimates also reflects both the difficulties we encountered in obtaining reliable data within the timeframe available for some of this work and the fact that agencies do not have adequate systems for accounting for and controlling these costs.]

We are continuing to work on the unresolved audit findings and will report to you as soon as possible. We look forward to continuing this work with your committee and others in developing the needed legislative and administrative changes and in overseeing their implementation.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton F. Fowler". The signature is written in dark ink and is positioned above the typed name.

Acting Comptroller General
of the United States

LIST OF ENCLOSURES

Enclosure

- I Summary of further budget reductions achievable through more efficient administrative practices
- II Delinquent accounts and loans receivable and unpaid taxes
- III Unresolved audit findings (analyses not complete; draft of enclosure included now)
- IV Paperwork reduction
- V Defense logistics economies
- VI Defense multi-year contracting
- VII Full cost recovery for Foreign Military Sales
- VIII Workforce cost control
- IX General procurement practices
- X Replacing obsolete computers
- XI Summary of legislative proposals
- XII Summary of Budget changes by function

Summary of
Further Budget Reductions Achievable Through
More Efficient Administrative Practices*

Enclosure I
Revised 4/3/81

Administrative practice and nature of deficiency	Indicators of size of administrative activity	Indicators of possible budget effects	Elements of program	Net Results in			
				FY 1982 (billions)	FY 1983 (billions)	FY 1984 (billions)	Future Years (billions)
1. <u>Delinquent accounts and loans receivable</u> (See enclosure II). The Federal Government has no clear assignment of responsibility for debt collection and no systematic procedures for keeping track of amounts delinquent nor for attempting to collect.	Agencies reported that as of September 30, 1979, U.S. citizens and organizations owed the Government \$126 billion--a 23 percent increase over the previous fiscal year. About \$24 billion of this amount was delinquent made up of \$11 billion in delinquent loans and accounts receivable and \$13 billion in unpaid taxes. The amount of receivables has been growing in recent years, and since collection actions have been generally weak, delinquent amounts may also be higher. Figures on delinquencies for fiscal 1980 are not available.	Of the \$11 billion, up to \$6.7 billion should be collectible by a more aggressive legislative and administrative actions, up to 3.5 billion should be collective in the first 3 years - how fast depends on whether a moderate or strong program is implemented. We assume 30 percent in the first and third years and 40 percent in the second year. The Federal government does make many high risk loans, therefore, it does have a relatively high rate of uncollectible debts. Interest savings were calculated at 12 percent.	Administration priority with policy leadership and monitoring by Executive Office of the President. Congressional monitoring for next few years. Specific roles for the Department of Justice, Inspectors General, and the General Accounting Office. Passage of legislation to give collectors tools needed: --Report to credit bureaus --Charge interest at treasury rate on delinquents --Use private collection firms --Use IRS for locator assistance --Use credit bureau locator service --Offset against salaries, tax refunds, other --Remove 6-year statute of limitations	\$ 1.0 and .1 interest	\$ 1.5 and .2 interest	\$ 1.0 and .4 interest	\$ 3.2 interest not calculated
			<u>Elements of program, continued</u>				
							Also strengthen administration: --Make agency officials responsible --Establish accounting system --Prevent overpayments --Agency litigation --Strengthen demand letters

*This would be a high priority, high intensity, sustained effort over at least three years to get stronger policies, procedures and systems in place and working with action starting administratively and legislatively now.

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2. <u>Unpaid taxes</u> (See enclosure II). IRS has not been able to keep up with its collections. Also it does not charge full interest costs on late payments.	At September 30, 1980, unpaid taxes due were \$15.8 billion, up from \$13.3 billion a year earlier--a 19 percent increase in one year, compared to an 11.6 percent increase in total revenue.	IRS experience shows that with more experienced collection personnel they can recover additional unpaid taxes. Charging the market interest rate would increase interest collections by \$200 to \$400 million.	Add 1,000 to 1,500 staff years for collection. President's budget includes 600 additional. A further increase of up to 900 is possible. Require use of market rate of interest on delinquent accounts.	.3 ^{1/}	.6 ^{1/}	.6 ^{1/}	.6 ^{1/}
				.4	none if market rates drop	none	none
3. <u>Unresolved audit findings</u> . (See enclosure III). The Federal Government has no clear assignment of responsibility for seeing that audit findings are resolved and no systematic procedures for keeping track of the status and amounts involved.	Based on what information GAO could get from the Inspectors General and other audit groups there are about \$24 billion of unresolved audit findings of which \$10 billion are in pre-contract award findings by the Defense Contract Audit Agency that are likely to be resolved in contract negotiations. Another \$9 billion is in Department of Energy findings.	Only a few of the IGs and audit groups are able to give any opinion on how much and when the savings might be achieved--this was very disappointing to GAO.	Administrative action to assign responsibility and establish procedures for tracking and resolving audit findings. Resolution is also needed of the actions to be taken on recoveries from oil companies.	2.0	8	5	not known

^{1/}Assuming the President's revenue estimates include the additional collections from the 600 people they are requesting. With an increase of up to 900 additional positions, the collections would be \$.5 billion in 1982 and \$1.1 billion in subsequent years.

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				<u>Net Results in</u>			
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4. <u>Paperwork reduction.</u> The Paperwork Reduction Act of 1980 if used to its fullest potential can result in substantial savings. It covers more than just reports-- it also covers data processing and telecommunications. Action will be needed to actually eliminate unneeded reporting. (See enclosure IV).	We do not have an estimate of the total cost of the Federal Government's reporting, data processing, telecommunications and records management activities.	Some reports are very expensive to prepare and process - they are candidates for examination and possible elimination.	Administrative priority on identifying unneeded reporting and processing and follow-through to get them eliminated. Prompt congressional action to eliminate statutorially required reports that can be eliminated.	.2	Not known	Not known	Not known

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<p>5. <u>Additional defense logistical economies through intergration or sharing of support activities, overhead, facilities, and inventories.</u> Several actions outlined in our letter of January 21, 1981, are not yet reflected in the Secretary of Defense's cost reduction plans for FY 1982 (see Enclosure V).</p>	<p>Logistical operations include supply, maintenance, transportation, and base operations. Their cost in FY 1981 was \$59 billion. They take place in over 5,000 locations world-wide, and involve a substantial portion of the Defense work force. Economies must constantly be sought.</p>	<p>As shown in Attachment C, Enclosure VIII, budget reductions in FY 1982 time frame of about \$360 million--and in FY 1983 of \$739 million are believed possible. The Secretary's current cost reduction plan has established a 1982 goal of \$100 million; and an FY 1983 goal of \$300 million. Hence we conclude that in 1982 an additional cost reduction goal of between \$200 and \$300 million should be sought.</p>	<p>Strong Administrative Action:</p> <ul style="list-style-type: none"> --Consolidate military base support activities. --Consolidate management of \$1.3 million more consummable items under the Defense Logistics Agency. --Consolidate management of aircraft depot maintenance, plus intermediate maintenance of components in Europe. --Integrate traffic management activities. --Use wholesale and retail inventories of parts more effectively. <p>Program must receive vigorous attention to action plans now if the 1982 savings are to be realized. Other opportunities for savings will undoubtedly emerge as implementation proceeds.</p>	.3	Not Known	Not Known	Not Known
						Depends on Secretary of Defense actions. GAO long-term (1986) potential estimate if about \$2.5 billion, of which the Secretary of Defense has already acknowledged \$1.5 billion, with further studies continuing.	

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6. <u>Provide statutory authorization for DOD to make multi-year contracts for the production of new weapon systems in order to obtain lower unit costs through program stability and incentives to invest in capital equipment. (See enclosure VI).</u>	For FY 1982 the Carter budget for major acquisitions was \$28.5 billion. A significant portion of the Reagan proposed addition is for procurement, much of which would apply to major systems.	Our experience is still limited but the best estimate of various authorities is that unit cost reductions of up to 15 percent are achievable--and more if competition can be obtained for the multi-year contract.	Moderate action will not suffice. Only full legislative authority--with a commitment by the Congress to pay a proper termination cost in the event of cancellation--will encourage the savings potential. If full legislative authority is granted promptly, FY 1982 savings--over and above the increased production quantities already announced by the Secretary--could produce additional savings estimated at \$150 million, we believe.	.15	Not Known	Not Known	Not Known
					Secretary Weinberger in his March 6 Press Release stated:		
					"The Military Departments have estimated that upwards of \$15 billion can be saved over the next five years by multi-year procurement...and by eliminating barriers in the Small Business Act, Davis-Bacon Act and other regulatory restrictions."		
					The Commander, Air Force Systems Command, testified in November 1980 before the House Armed Service Committee as follows:		
					"Looking at six new potential multi-year candidates, which would cost a total of about \$13 billion on a single year basis, I feel confident that we could achieve savings of over \$1 billion if authorized to procure them on a multi-year basis."		

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				<u>(billions)</u>	<u>(billions)</u>	<u>(billions)</u>	<u>(billions)</u>
7. <u>Full cost recovery for foreign military sales.</u> The Federal Government has not been accounting for and charging for the full cost of the equipment and services sold to foreign countries (see enclosure VII).	The value of unfilled orders was over \$53 billion as of September 1980.	The Department of Defense has been working toward a systematic approach to accounting for Foreign Military Sales, but they have a ways to go to even get full control over these activities, including addressing the concept of full cost recovery.	Increased emphasis by Defense on the accounting, billing and collecting for Foreign Military Sales and the development of a centralized accounting system is needed and close congressional oversight to direct recovery of the cost elements not now being recovered.	.3	.3	.3	Not Known
8. <u>Workforce cost control.</u> Congress and the President need to be able to control total workforce through the budget process. The present system does not allow this; instead piecemeal approaches are used-- personnel ceilings, hiring freezes, limitations on consultants and travel (see enclosure VIII).	The Federal Government compensation of employees and their benefits was about \$82 billion in FY 1980 and travel was about \$3 billion. We do not have an estimate for service contracts.	More effective overall management control of the Federal workforce rather than disruptive, piecemeal approaches should increase efficiency, but we do not have specific measures of savings.	By administrative action with Congressional approval or by legislation revise the object classification to provide detailed data on total workforce costs; implement the change in the budget systems; and add procedures for setting limits on total workforce costs.	Not Known	Not Known	Not Known	Not Known

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9. <u>General procurement practices.</u> A constant objective in procurement is increasing competition. During the 1970's Government procurement trends have been to less competition --which means the probability of higher prices (see Enclosure IX).	Typically 20 percent of the Federal budget is expended through the procurement process. Sole source awards in DOD are 64 percent.	We do not have specific measures of the budget effects of improving procurement practices, but improve in quality, timeliness, and cost are all objectives.	Under P.L. 96-83 the Executive submitted to Congress on 10/27/80 a proposal for a uniform Procurement System; they are to submit implementing legislation by 10/81. The Committee on Government Operations and GAO are monitoring this work.	Not Known	Not Known	Not Known	Not Known
10. <u>Replacing old, inefficient computers.</u> The Federal Government has a large number of obsolete, and inefficient computers. Some of these can be replaced immediately at savings. But there is no leadership for making those changes	GAO found that at 4 installations which had about 20 obsolete computers, \$1.4 million could be saved by immediate replacement. The Federal Government has more than 1,000 computers of similar vintage.	Savings were calculated on maintenance, power and cooling costs. Additional savings in personnel space, and indirect costs can be realized also.	Increased funding and administrative direction to use the existing ADP revolving fund to acquire new computers and require agencies to make replacements and return the savings in their operating costs to the revolving fund or the Treasury.	.1	Not Known	Not Known	Not Known
TOTALS				<u>4.85</u>			

DELINQUENT ACCOUNTS AND LOANS
RECEIVABLE AND UNPAID TAXES: NEED FOR
IMPROVING THE COLLECTION OF DEBTS
OWED THE GOVERNMENT

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IMPROVING THE COLLECTION OF DEBTS
OWED THE GOVERNMENT

The Comptroller General in testimony on the President's Economic Recovery Program before the House Budget Committee stated that possibly as much as \$6 billion in delinquent accounts and loans receivables and an additional \$3 billion dollars in delinquent tax accounts could be collected by the Government. As of September 30, 1979, Federal agencies reported that \$24 billion due from U.S. citizens and organizations was delinquent. Of this amount, \$13 billion represented delinquent taxes.

Debts owed the Federal Government are enormous and growing each year. Federal agencies reported that receivables due from U.S. citizens and organizations were \$126 billion as of September 30, 1979--a 23 percent increase over the previous fiscal year. It was anticipated that an estimated \$6.3 billion would be uncollectible--also a 23 percent increase over fiscal 1979. Federal agencies reported that they wrote off more than \$1 billion as uncollectible receivables in fiscal 1979. Unfortunately, these gloomy statistics are materially understated because the accounting systems of many agencies do not provide accurate information on receivables, expected losses, and writeoffs.

NATURE OF THE PROBLEM

Before the Government's debt collection problems can be remedied many actions--administrative and legislative--must be taken. In general, there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not aggressively attempted to collect amounts owed the Government. Debt collection has generally been afforded low priority with the emphasis on disbursing the funds rather than collecting them. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices. We have identified specific weaknesses in debt collection programs and have recommended a number of specific corrective actions to improve the recording and collection of debts owed to the Government. Our recommendations, unfortunately, have not always been implemented. Until all Federal agencies aggressively pursue the collection of debts, hundreds of millions of dollars will continue to be lost.

POTENTIAL ADDITIONAL COLLECTIONS AND COSTS

Although the collection of \$6 billion in delinquent debts is certainly attainable, it is difficult to precisely allocate collections to given programs by fiscal year. The estimates we have developed for the House Budget Committee by program and fiscal year are rough and shown in terms of ranges because of

(1) the many variables in the portfolio of Federal agencies debt collection programs, (2) the need for an extensive redirection in the priority of debt collection (simply put, agencies must be given the resources and direction needed to go after debts) and (3) the need for extensive new legislation to give agencies the tools needed to collect the Government's debts.

As shown in the attached schedules given the necessary tools and through aggressive action on the part of agencies, we estimate, that between \$4 billion and \$6.7 billion in delinquent accounts and loans receivable could be collected by the Government in future fiscal years. These amounts do not include potential savings to the Government that could be realized through reduced borrowing (interest) costs to the Treasury resulting from increased collections. For fiscal 1982 to 1984, for example, we estimate a range of \$2.1 billion to \$3.5 billion in additional collections. This translates into potential average annual interest savings for this period of between \$500 million to \$840 million compounded at a 12 percent annual interest rate.

An additional \$3.1 billion to \$4.5 billion in delinquent taxes could be collected by IRS during fiscal 1982 to 1986 as part of its usual collection process if it could focus more on this effort and adequate collection staff is authorized. Strengthened debt collection should also have a preventive affect by limiting the number of debts that become delinquent and uncollectible in future years. Up front collection action is of utmost importance in protecting the financial interest of the Government. As stated previously, over \$126 billion was due from U.S. citizens and organizations at the start of fiscal 1980 and this figure has been growing.

Our figures are based on delinquent receivables reported by Federal agencies as of September 30, 1979. Fiscal 1979 was the first time that the value of delinquent debt was reported to the Treasury. Because of differing agency policies, procedures and accounting systems, information on receivables and delinquent debts reported for fiscal 1979 was not complete and accurate and the requirement to report delinquent debt was suspended for fiscal 1980. Therefore, we used fiscal 1979 figures which we believe are probably conservative given the growth in the reported amount of receivables from U.S. citizens and organizations during 1979--23 percent. Where fiscal 1980 figures were readily available, they are shown in footnotes on the attached schedules. Our estimates are based on (1) data we obtained from agency officials, where possible, (2) through discussions with the OMB Debt Collection Project team, and (3) the experience we have gained from our work in reviewing agency debt collection systems. In addition, the estimates for fiscal 1982 to 1984 are based on the assumption that the legislative and administrative actions we have proposed are acted upon promptly. Delays in the implementation of these proposals could substantially reduce the amount of collections.

Our estimates represent a starting point for determining budget cuts. Reducing agencies' appropriations provides a definite incentive for debt collection. Extensive input however, is needed from the agencies. The Budget Committee should require Federal agencies, in coordination with the Office of Management and Budget to provide (1) detailed analyses of their debt portfolios, (2) a summarization of the problems in their current debt collection programs, (3) resources needed--personnel, computers and support, (4) estimates of the collectability of delinquent receivables and (5) the impact on collection of amounts due presently and in the future given the necessary resources and tools we call for.

Additional resources would be needed to collect delinquent accounts and loans receivable. As we have reported previously, emphasis has been placed on the disbursing of funds rather than collecting them. However, we have no way of estimating the cost of implementing viable debt collection systems which would include all of the legislation and administrative actions we have addressed. We believe that the Committee, as a starting point, could anticipate that the cost of collecting delinquent debts could range from 10 percent to 20 percent.

LEGISLATIVE AND ADMINISTRATIVE ACTIONS

The following details the major administrative actions and legislative initiatives that are needed to enable agencies to collect additional billions of dollars of receivables owed the Government.

GAO has been actively working with the Congress and Federal agencies to improve the Government's ability to collect its debts. Through our reports and testimony, we have recommended and supported the major legislative and administrative actions that are needed to enable the agencies to collect additional billions of dollars of receivables owed to the Government. These actions include:

1. Making debt collection an important responsibility of management. Debt collection has generally been offered low priority with the emphasis on disbursing funds rather than collecting them. In some cases, debt collection seems to be an afterthought with only limited personnel often involved. Strengthened debt collection requires a commitment from the new Administration. Adequate resources, which have oftentimes been lacking in the past, and accounting, billing and collection systems that work and provide management the information needed to protect the Government's financial interest are necessary. This does not necessarily require more Federal employees, although in some cases it may, but could be accomplished through reorganization or by contracting out certain collection functions. In any case, top agency officials must take the lead if debt collection is to receive the priority it needs.

2. Reporting debts to credit bureaus. Commerical firms report loans incurred, credit card and charge account information, and installment payments to a credit network made up of a consortium of credit bureaus throughout the country. This practice is done to encourage debtors to pay off their loans and charge account debts in a timely manner or face the consequence of having their credit rating adversely affected. If Federal agencies could likewise report debts owed the Government, especially defaulted loans and delinquent accounts and loans receivable, to the credit bureau network, debtors would be more likely to pay their debts to the Government to avoid receiving a poor credit rating. This tool would be especially useful in the Government's efforts to collect debts for which, due to their size, it is not practical to take legal action. However, legislation is needed to remove the obstacles that now preclude agencies from reporting to credit bureaus.
3. Obtaining better information on debts. Information available on agencies' debt collection activities is not adequate to meet the needs of the Congress or executive branch management. Because of differing agency policies, procedures, and accounting systems, information reported on accounts and loans receivable and delinquent debt for fiscal 1979 was not complete and accurate and the requirement to report on delinquent debts was suspended for fiscal 1980. The need for the Government to improve its debt collection reporting systems received considerable attention by the OMB Debt Collection Project staff and revised reporting requirements are being planned for fiscal 1981.
4. Charging interest on delinquent debts. Charging of interest is already required by Federal regulations as a payment incentive; however, many major agencies are not complying. Further, in some major programs, such as student loans, the rates prescribed by law or set administratively are far below the Treasury's borrowing cost and commercial interest rates. Because these favorable interest rates generally continue even after the debt becomes delinquent, the debtor has a disincentive to pay the Government.
5. Preventing overpayments. We have issued numerous reports on overpayments in Government programs that, if implemented, would reduce the amount of overpayments made. The problem of overpayments is serious with Health and Human Services for example, making over \$900 million in overpayments in fiscal 1980.

6. Contracting with private collection firms. Agencies are writing off a number of debts because it is not considered cost effective to further pursue collection. One approach that has been suggested is to refer such debts to private collectors. This would be consistent with the commercial practice of referring debts to private collectors before considering them totally uncollectible.
7. Removing restrictions on the redisclosure address obtained from IRS. Locator assistance available from IRS is far more effective and less costly than any alternative locator technique. The usefulness of the IRS address information has been greatly restricted, however, because the Tax Reform Act precludes redisclosure of an address obtained from IRS to credit bureaus or other contractors who are assisting in the collection effort.
8. Using the credit bureau debtor locator service. Agencies use a variety of ways to locate debtors, but they have not made full use of the nationwide debtor service provided by the credit bureau network. Agencies have accumulated a large backlog of delinquent debts and have written off hundreds of millions of dollars in debts because they could not locate debtors. Because millions of Americans have credit records, the service, which is inexpensive, can be a good source that is readily available. It was proven useful for commercial firms.
9. Collecting by offset. Another way of collecting many delinquent debts is for the Government to reduce or withhold future payments or benefits from the debtor. In practice, due to legal constraints or agency policy, offset has been used only in certain circumstances such as offset from (1) continuing entitlements to the same benefits originally overpaid, (2) civil service retirement annuities or contributions, (3) final pay of Federal employees, (4) amounts due indebted contractors of the United States, and (5) judgments against the United States. Other types of offset also should be considered.

--Offset of salaries of Federal employees. Under present legislation, the salary of a Federal employee may not be withheld to satisfy general debts owed the Government. An employee's salary may be withheld only to satisfy an erroneous payment the agency made to the employee, or for travel or moving expense advance paid to the employee. However, agencies such as the Department of Education and the Veterans Administration have found that millions of dollars of delinquent debts to the Government are owed by current Federal employees and could be collected by salary offset.

--Offset of Federal tax refunds. Federal tax refunds are routinely made to individuals who have not paid debts owed the Government. In a sample of terminated debts totalling over \$431,000, we found that \$153,000, or 36 percent, could have been collected over a 2-year period by reducing the debtors' tax refunds. A provision in the fiscal 1980 appropriations bill to fund 30 positions for a test of an IRS offset program was defeated by a narrow margin in the Senate.

--Other Offset Possibilities. In many other cases, persons who owe the Government debt from one program are continuing to receive benefits from another program. Agencies, if given the proper authority, could collect some of this debt by offset against the benefits currently received. For example, former military members who are indebted to the Government may obtain VA benefits after they are discharged.

10. Giving agencies a role in debt litigation. Agencies are responsible for prelitigation collection efforts. Giving agencies a role in litigation, which is now the responsibility of the Department of Justice, could result in more timely recovery action, intensified prelitigation collection efforts, and better management of programs to prevent overpayments and reduce loan defaults. Debts, especially those under \$600 which generally are not referred to Justice, might be pursued in State, local, and small claims court. Further, Justice could be relieved of a rapidly increasing backlog of debt litigation cases.
11. Removing the 6-year statute of limitations. Because many debts are now or will be 6 years old before offset becomes possible, we have recommended that the statute of limitations be amended to explicitly recognize that the 6 year limitation does not prohibit the offset of debts owed the Government.
12. Improving the content of demand letters. Government demand letters are not as specific as those in the private sector in describing collection actions that may be taken. This results in a less forceful message to the debtor and thus lessens the likelihood of prompt repayment.
13. Improving accounting, billing and collection systems. Agency accounting, billing and collection systems are often in disarray and do not provide management with needed essential information to manage their debt collection programs. Although agencies now use varying degrees of automation, a significant potential remains for even more automation. In the long run many agencies could reduce their costs for debt collection and at the same time improve performance by increased automation.

14. Taking other actions pertaining to particular agencies and/or programs. Other actions are discussed in the narrative part of the attached schedules.

Passage of needed legislation in this area, along with improved credit management and debt collection systems, can result in significant budgetary savings. To help achieve this end, it would be most helpful if the Committee would emphasize to the new Administration the need for expeditious collection of accounts and loans receivable. In October, 1979, a Government-wide debt collection project was established because of the growing concern about the enormous debt owed to the Government that was identified in GAO reports and Congressional hearings. This project, now being directed by OMB, is one of the most comprehensive and thorough studies of these issues ever made and it is important that the Government makes effective and timely use of the project's work in improving its debt collection programs.

LISTING OF GAO REPORTS CONCERNING DEBT AND TAX COLLECTION

FGMSD-78-61 October 20, 1978	The Government needs to do a better job of collecting amounts owed by the public
FGMSD-79-14 March 14, 1979	Department of Housing and Urban Development Action being taken to correct weaknesses in the rehabilitation loan program
FGMSD-79-24 April 13, 1979	Geological Survey Improvements in the survey's financial management system needed for adequate identification of all oil and gas royalties due
FGMSD-79-41 August 16, 1979	Department of Housing and Urban Development Additional changes needed in servicing and accounting activities to reduce the delinquency rate and to promptly collect funds from mortgagors due the Government
FGMSD-78-59 February 23, 1979	The Government can be more productive in collecting its debts by following commercial practices

FGMSD-79-19
March 9, 1979

Delinquent debts can be collected if the Government kept Federal tax refunds as offsets

HRD-79-21
January 16, 1979

Social Security Administration (SSA) SSA needs to improve its overpayment collection process to collect the maximum possible amount of supplemental security income overpayments from recipients

HRD-79-31
January 17, 1979

Social Security Administration (SSA) SSA needs to improve its recovery of overpayments made to retirement, survivors, and disability insurance beneficiaries

FGMSD-80-27
March 19, 1980

Department of Housing and Urban Development Efforts to improve its accounting system for mortgage insurance premiums

FGMSD-80-43
May 16, 1980

The Department of Housing and Urban Development (HUD) HUD should make immediate changes in accounting for secretary-held multifamily mortgages

FGMSD-80-46
June 4, 1980

Department of Education - Law Enforcement Assistance Administration Improved controls to increase collections, to restore accounting system integrity, and to guard against future problems needed

GGD-81-20
October 16, 1980

Internal Revenue Service New formula needed to calculate interest rate in unpaid taxes

HRD-81-5
February 13, 1981

Veterans administration Aggressive action needed to strengthen debt collection

GGD-78-14
February 21, 1978

Internal Revenue Service
IRS can improve its programs
to collect taxes withheld
by employers

CD-80-1
January 15, 1980

Unresolved Issues Impede
Federal Debt Collection
Efforts--A Status Report

FGMSD-80-68
July 17, 1980

Oregon's offset program for
collecting delinquent debt's
has been highly effective

CED-81-3
December 8, 1980

Small Business Administration
Most borrowers of economic
opportunity loans have not
succeeded in business

FGMSD-80-37
March 4, 1980

Department of Housing and
Urban Development (HUD)
Delays in implementing HUD's
accounting system for its
mortgage insurance program

FGMSD-80-6
December 28, 1979

Department of Health and
Human Services (formerly
HEW)
HEW must improve control
over billions in cash advances

HRD-80-77
June 10, 1980

Department of Health and Human
Services
States should intensify efforts
to promptly identify and
recover medicaid overpayments
and return the Federal share

HRD-81-37
December 31, 1980

Department of Health and Human
Services
Implementing GAO's recommenda-
tions on the Social Security
Administration's programs

COMMITTEE ABBREVIATIONS

HAGR	House Agriculture Committee
HASE	House Armed Services Committee
HBFU	House Banking, Finance and Urban Affairs Committee
HBUD	House Budget Committee
HDCO	House District of Columbia Committee
HELA	House Education and Labor Committee
HPAF	House Foreign Affairs Committee
HGOP	House Government Operations Committee
HEAD	House Administration Committee
HIIA	House Interior and Insular Affairs Committee
HEC	House Energy and Commerce Committee
HJUD	House Judiciary Committee
HMMF	House Merchant Marine and Fisheries Committee
HPOC	House Post Office and Civil Service Committee
HPWT	House Public Works and Transportation Committee
HRUL	House Rules Committee
HSTE	House Science and Technology Committee
HSBU	House Small Business Committee
HVAF	House Veterans' Affairs Committee
HWME	House Ways and Means Committee
SAGR	Senate Agriculture, Nurtrition and Forestry Committee
SASE	Senate Armed Services Committee
SBHU	Senate Banking, Housing and Urban Affairs Committee
SBUD	Senate Budget Committee
SCST	Senate Commerce, Science and Transportation Committee
SFIN	Senate Finance Committee
SFRE	Senate Foreign Relations Committee
SGAF	Senate Governmental Affairs Committee
SENR	Senate Energy and Natural Resources Committee
SJUD	Senate Judiciary Committee
SLHR	Senate Labor and Human Resources Committee
SEPW	Senate Environment and Public Works Committee
SRAD	Senate Rules and Administration Committtee
SVAF	Senate Veterans' Affairs Committee
SINA	Senate Select Committee on Indian Affairs
SSMB	Senate Select Committee on Small Business

DEPARTMENT OF EDUCATION

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>Amount Delinquent</u> <u>September 30, 1979</u> (millions)
National Direct Student Loans	\$ 962
Guaranteed Student Loans	630
Guaranteed Agency Programs	617
Other Department of Education Items	<u>29</u>
Total	<u>\$ 2,238</u>

COLLECTIBILITY OF
DELINQUENT DEBT

It is estimated that if the Department has all the debt collection tools needed, and takes aggressive debt collection action, that roughly \$880 million to \$1.8 billion of the debt could be collected. This represents a range of 40 percent to 80 percent of the total reported delinquent debt of \$2.2 billion.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function/ Subfunc.</u>	<u>Receipt Account Title</u>
Office of Post- secondary Education:	291500	500	Repayment of loans, capital contributions, higher education activi- ties
	299300	500	Repayment of all other loan transactions, higher educational activities

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Office of Post-secondary Education:	18-40-Q230	502	SLHR/ HELA	Student Loan Insurance	P.L. 89-329, Higher Education Act of 1965, as amended
	18-40-0240	502	SLHR/ HELA	Higher Education Facilities Loan and Insurance	P.L. 89-329, Higher Education Act of 1965, as amended
	18-40-4250	502	SLHR/ HELA	College Housing Loan	P.L. 81-475, Housing Act of 1950, as amended
Student Loan Marketing Association <u>1</u> /	61-60-1500	502	SLHR/ HELA	Student Loan Marketing Assn.	P.L. 92-318, Education Amendments of 1972

TOOLS NEEDED BY THE DEPARTMENT TO IMPROVE DEBT COLLECTIONS

1. Better ability to locate debtors such as by gaining access to debtor's addresses through IRS.
2. Ability to collect debts through offset by IRS against an individual's income tax refund.
3. Ability to collect debts by offset against current salaries of Federal employees.
4. Ability to require co-signers on student loans.
5. Ability to obtain the "notes" on defaulted loans which currently remain in the hands of schools or state guarantor agencies.
6. Ability to raise the interest rates on defaulted loans.
7. Increased staff resources and improved procedures for collection of loans referred to U.S. Attorney's.
8. Removal of the 6 year Statute of Limitations.
9. Improved systems of accounting for and reporting of delinquent debts.

1/This program is included with Department of Education programs because it's engaged in the guaranteed student loan program.

DEPARTMENT OF HEALTH AND
HUMAN SERVICES

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>AMOUNT DELINQUENT</u> <u>September 30, 1979</u> (millions)
Social Security Administration (SSA):	
Supplemental Security Income	\$ 953
Disability Insurance	278
Old-age and Survivors Insurance	511
Black Lung	6
Other SSA Items	<u>44.2</u>
Total SSA	\$1792.2
Other HHS Items	<u>13.9</u>
Total	<u>\$1806.1</u> <u>1/</u>

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Social Security Administration has all the debt collection tools needed and takes aggressive collection action that roughly \$270 million to \$540 million of the delinquent debt could be collected. This represents a range of 15 percent to 30 percent of the total reported delinquent debt of \$1.8 billion.

1/Agency records show that as of December 31, 1980, the delinquent debt totaled over \$1.7 billion.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
Social Security Administration	800630	---	FOASI, Deposits by States
	800710	---	FDI, Receipts from Railroad Retirement Account
	800730	---	FDI, Deposits by States
Other:	291200	550	Repayments of loans, Health Manpower and Utilization and Community Health Services, HHS
	297000	550	Repayments of loans, hospital construction activities
	573400	---	Deposits, Collections for child support

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Appropriation Account</u>	<u>Function</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Social Security Administration:	09-60-8006	601	HWME/ SFIN	FOASI Trust Fund	P.L. 74-271, Social Security Act, as amended
	09-60-0406	609	HWME/ SFIN	SSI, program	P.L. 74-271, Social Security Act, As amended
Health Resources Administration	09-35-4430	551	HIFC/ SLHR	Medical Facilities Guarantee & Loan Fund	P.L. 78-410, Public Health Service Act as amended
Assistant Secretary for Health	09-37-4435	551	HIFC/ SLHR	Health Maintenance Organization Loan and Loan Guarantee Fund	P.L. 78-410, Public Health Service Act as amended

TOOLS NEEDED BY THE SOCIAL SECURITY ADMINISTRATION TO IMPROVE OVERPAYMENT COLLECTIONS

1. Authority to collect overpayments to an individual from an SSA program by offset against benefits an individual receives from another Government program.
2. A clear expression of congressional intent on how quickly the collection of overpayments can be handled in relation to the appeals process. Court rulings have currently slowed the overpayment collection process. The sooner overpayments can be collected, however, the better the chances are of actually making the collection.
3. Collections could be accelerated by amending agency regulations which now limit the amount collected by offset of future benefits to no more than 25 percent of any one payment. Agency officials said that this regulation was instituted in response to pending court cases and congressional concerns about the impact of overpayment collections on individual recipients.
4. GAO recommended to HHS's transition team that overpayment provisions in the Social Security Act for Titles II and XVI be strengthened by reducing the vagueness and flexibility that exists in the current law.
5. GAO has issued numerous reports on overpayments in SSA programs, many of which make legislative and administrative recommendations that, if implemented, would reduce the amount of overpayments actually made. The OMB Debt Collection Project found that overpayments totaled about \$964 million in fiscal 1980 alone. Since many SSA overpayments are hard to collect because of the nature of the individuals receiving the overpayment, greater savings for SSA may be obtained by stopping overpayments from occurring in the first place.
6. Improved systems of accounting for, recording, and collecting overpayments, and for accounting and reporting of debt information.
7. Improved ADP capabilities so that the most sophisticated computer techniques and equipment can be used to keep up with the growing number of persons receiving SSA benefits.

SSA ACTION ON DEBT MANAGEMENT

SSA has established a Debt Management Project which has a primary goal of improving the cost effectiveness of SSA's collection activities in terms of increased receipts and improved cash flow, as well as lower unit costs. In full compliance with applicable laws and regulations, the establishment of uniform debt management policies, procedures, practices, and capabilities will

be a central theme of the project that is reflected in the following major activities, which comprise the overall project.

1. Improvement and standardization of policies, procedures, and practices for the development and adjudication of collection issues.
2. Establishment of a SSA-wide Accounts Receivable System.
3. Improvement and standardization of billing and remittance processing operations.
4. Establishment of management information capabilities to measure and monitor the factors and activities associated with the Accounts Receivable function, including the analysis of debt collection experience to reduce the incidence of situations that create debts and/or problems in the collection thereof.

In the course of the above activities, all of the internal and external (including GAO) recommendations regarding SSA debt management activities will be categorized and addressed in terms of implementation actions that are to be taken.

UNRECORDED OVERPAYMENTS FOR THE AID
TO FAMILIES WITH DEPENDENT CHILDREN
(AFDC) PROGRAM

SSA's accounts receivable balances do not presently contain information on overpayments made to AFDC recipients. However, GAO has reported that Federal quality control samples of AFDC payments showed that more than \$1 billion was overpaid to AFDC recipients from April 1978 through March 1979. The Federal share of AFDC payments varies among the States and in 1980 ranged from 50 percent to 80 percent. Recovery of overpayments is left to the States' discretion. GAO has recommended that SSA establish uniform and comprehensive overpayment recovery policies for all types of AFDC overpayments including requirements for States to (1) maintain information on the total number and amount of overpayments involved and their disposition and (2) establish a mechanism for assessing the effectiveness of their overpayment recovery efforts.

VETERANS ADMINISTRATION

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>Amount Delinquent September 30, 1979 (millions)</u>
Compensation and Benefit Overpayments	\$ 547
Guaranty Home Loan Program	286
Other	<u>19</u>
Total	<u>\$ 852</u>

COLLECTIBILITY OF
DELINQUENT DEBT

It is estimated that if the Veterans Administration has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$340 million to \$640 million of the delinquent debt could be collected. This represents a range of 40 percent to 75 percent of the total reported delinquent debt of \$852 million.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function/ Subfunc.</u>	<u>Receipt Account Title</u>
Veterans Administration/ Compensation and Benefit Overpay- ments and Educa- tional Assistance Program	813210	701	NSLI Fund, Premium and other receipts
Veterans Administration/ Other:	149910	902	Miscellaneous interest collections not other- wise classified
	241920	700	Fees and other charges for other services
	301900	700	Recoveries for Govern- ment property lost or damaged, not otherwise classified

RECEIPT ACCOUNT INFORMATION - CONT'D.

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function/ Subfunc.</u>	<u>Receipt Account Title</u>
Other continued:	308000	700	Recoveries for breach of contract
	309900	700	Miscellaneous recoveries and refunds, not otherwise classified

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Veterans Administration/ Compensation, and Benefit Overpayments and Educational Assistance Program:	29-00-0154	701	SVAF/ HVAF	Compensation	P.L. 85-857, An Act of September 2, 1958: Codification of Title 38, as amended
	29-00-0154	701	SVAF/ HVAF	Pensions	"
	29-00-0155	701	SVAF/ HVAF	Burial Benefits and Miscellaneous Assistance	"
	29-00-0137	702	SVAF/ HVAF	Readjustment Benefits	"
	29-00-0120	701	SVAF/ HVAF	Veterans Insurance and Indemnities	"
	29-00-4012	701	SVAF/ HVAF	Service - Disabled Veterans Insurance Fund	"

APPROPRIATION ACCOUNT INFORMATION - CONT'D.

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citati</u>
Veterans Administration/ Compensation and Benefit Overpayments and Educational Assistance Program Continued:	29-00-4010	701	SVAF	Veterans Re- opened Insur- ance Fund	P.L. 85-857, An A of September 2, 1958: Codificati of Title 38, as amended
	29-00-4118	702	SVAF/ HVAF	Education Loan Fund	"
	29-00-4114	702	SVAF/ HVAF	Vocational Rehabilitation Revolving Fund	"
	29-00-8132	701	SVAF/ HVAF	National Service Life Insurance Fund	"
	29-00-8150	701	SVAF/ HVAF	United States Government Life Insurance Fund	"
	29-00-8455	701	SVAF/ HVAF	Veterans Special Life Insurance Fund	"
Veterans Administration/ Guaranty Home Loan Program:	29-00-4025	704	SVAF/ HVAF	Loan Guaranty Revolving Fund	"
	29-00-4024	704	SVAF/ HVAF	Direct Loan Revolving Fund	"

TOOLS NEEDED BY THE VETERANS ADMINISTRATION TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debt through offset by IRS against an individual's tax refund.
3. Better ability to locate debtors such as by gaining access to debtor's address through IRS.
4. Increased staff resources for debt collection.
5. Improved systems of accounting for and reporting of delinquent debts.
6. Charging interest on delinquent debts.
7. Removal of the 6 year Statute of Limitations.

Public Law 96-466 passed on October 17, 1980, provided the Veterans Administration with additional authority to collect amounts owed the Government. The law (1) permits the Veterans Administration to report delinquent and terminated accounts to credit bureaus, (2) gives the administration attorneys the authority to litigate cases, and (3) requires the Veterans Administration to charge interest and recover administrative collection cost on debts owed the Government. The charging of interest on delinquent debts has been required by the Federal Claims Collection Standards since April 1979, but had not been effectively implemented by the Administration.

The Veterans Administration estimates that it will be approximately 12-18 months before it can start charging interest and begin reporting delinquent debts to credit bureaus. This delay is being caused in part by the Veterans Administration's decision to close one of its data processing centers. The center being closed is responsible for collecting educational assistance overpayments. This workload will be transferred to other centers. In addition, until the transfer is complete, the Veterans Administration will be unable to attempt to collect about \$200 million in terminated accounts, which we found to be potentially collectible.

Veterans Administration officials also stated the proposed budgetary cuts will cause a reduction in their debt collection efforts. For example, Public Law 96-466 provided the authority to litigate cases up to \$1200. As a result of the proposed budgetary reduction, Veterans Administration officials said that the agency will be unable to litigate cases over \$600 and will also have to reduce its litigation efforts for those cases under \$600.

DEPARTMENT OF LABOR

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>AMOUNT DELINQUENT September 30, 1979 (millions)</u>
Employee Compensation Program	\$ 277
Employment and Training Administration	261 <u>1/</u>
Continuation of Pay	58
Other	<u>25</u>
Total	\$ <u>621</u> <u>2/</u> and <u>3/</u>

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Department of Labor has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$466 million to \$559 million of the delinquent debt could be collected. This represents a range of 75 percent to 90 percent of the total reported delinquent debt of \$631 million.

We have not analyzed the amount of delinquent debts. In our discussion with the OMB Debt Collection Project team it was stated that majority of the delinquent debt represents third party liability and therefore the rate of collectibility is assumed to be very high.

1/Unresolved audit findings.

2/Includes unresolved audit findings of \$264 million.

3/\$334 million of total delinquent debt was not aged.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function/ Subfunc.</u>	<u>Receipt Account Title</u>
Employment Standards Adm./Federal Employees Compensation Act Benefits	804210	603	Deposits by Federal agencies to the Fed. Empl. Comp. Acct. Unempl. Trust Fund
Employment and Training Administration	287110	603	Repayment of loans or advance to the unemployment comp. acct.
	287110	603	Repayment of loans or advance to Federal Unempl. Acct.
	804230		Unemploy. Trust Fund, State Accounts
	804250		Unemployment trust fund, Railroad unemployment insurance account
	804260		Unemployment trust fund, Railroad unemployment. insurance

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account title</u>	<u>Public Law Citation</u>
Employment and Training Administration	12-05-8042	504,603	SLHR/ HELA SFIN/ HWME	Unemployment Trust Fund	P.L. 74-271, Social Security Act, as amended P.L. 75-722, Railroad Unemployment Insurance Act, as amended

TOOLS NEEDED BY THE DEPARTMENT
TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual's tax refund.
3. Better ability to locate debtors such as by gaining access to debtor's address through IRS.
4. Improved systems of accounting for and reporting of delinquent debts.
5. Removal of the 6 year Statute of Limitations.

DEPARTMENT OF AGRICULTURE

AMOUNT OF DELINQUENT DEBT

<u>PROGRAMS</u>	<u>AMOUNT DELINQUENT September 30, 1979 (millions)</u>
Farmers Home Administration	\$ 1,100
Commodity Credit Corporation	67
Forest Service (Tort Claims)	27
Other	<u>158</u>
Total	<u>\$ 1,352</u>

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Department of Agriculture has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$675 million to \$1.15 billion of the delinquent debt could be collected. This represents a range of 50 percent to 85 percent of the total reported delinquent debt of over \$1.3 billion.

The Farmers Home Administration estimated the delinquent debt at \$1.4 billion for fiscal year 1981 and \$1.9 billion for fiscal year 1982. These estimates were based on the Carter Administration budget proposals.

RECEIPT ACCOUNT INFORMATION

none

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Farmers Home Administration:	05-75-4141	371	HBFU/ SBAU HAGR/ SAGR	Rural Housing Insurance Fund	P.L. 81-171, Housing Act of 1949 as amended
	05-75-4140	351	HAGR/ SAGR	Agriculture Credit Insur- ance Fund	P.L. 87-128, Consolidated Farmers Home Admin. Act of 1961, as amended
	05-75-4155	452	HAGR/ SPGD	Rural Devel- opment Insur- ance Fund	" "
Commodity Credit Corporation	05-66-4336	351	HAGR/ SAGR	Commodity Credit Corporation Fund	P.L. 81-439, Agriculture Act of 1949, as amended
Forest Service <u>1/</u>					
Other/Rural Electrifica- tion Admin- istration:	55-05-4230	271	HAGR/ SAGR	Rural Elec- trification and Telephone Revolving Fund Loan Author- izations	P.L. 74-605, Electrificat Act of 1936, as amended
	55-05-4231	452	HAGR/ SAGR	Rural Telephone Bank	" "
Other/Federal Crop Insurance Corporation	05-63-4085	351	HAGR/ SAGR	Federal Crop Insurance Corporation Fund	P.L. 75-430, Federal Crop Insurance Ac as amended

1/ Forest Service was not included in the analysis. Agency officials identified these receivables as Tort Claims which have been determined as collectible.

TOOLS NEEDED BY THE DEPARTMENT
TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual's tax refund.
3. Better ability to locate debtors such as by gaining access to debtor's address through IRS.
4. Improved systems of accounting for and reporting of delinquent debts.
5. Charging interest on delinquent debts.

In response to the OMB Debt Management Project, the Department developed a detailed implementation plan to correct the deficiencies identified and to improve its debt collection program. We fully support the planned actions which could save the Government millions of dollars. Top management must provide the impetus if these actions are to be effective. If top management is not aggressive in developing and pursuing a sound debt collection program, it is unlikely that the program will be successful and the problems identified will continue.

DEPARTMENT OF DEFENSE

DEPARTMENT OF ARMY

<u>APPROPRIATION OR DESCRIPTION</u>	<u>AMOUNT DELINQUENT September 30, 1979</u>
Stock Fund	\$ 21,128,828 <u>1/</u>
Industrial Fund	1,508,857
Family Housing	9,657
Other	45,521,000 <u>2/</u>
Out of Service Receivables	<u>18,000,000</u>
Total	<u>\$ 86,168,342 <u>3/</u></u>

1/Over 25 percent of Stock Fund receivables (total amount of \$91,527,746) are generated from sales to Foreign Military Sales Trust Fund. Department of the Army does not know the portion of delinquencies (\$21 million) that relate to Foreign Military Sales.

<u>2/</u> Other Accounts Receivable total -	\$292,989,000
of which \$45,521,000 is delinquent.	
However, included in the total Accounts Receivable are:	
Foreign Military Sales Trust Fund -	(212,800,000)
Other Trust Funds -	<u>(47,500,000)</u>
Adjusted Balance, Accounts Receivable - Public=	<u>\$ 32,689,000</u>

The Army was unable to apportion the Other Accounts Receivable total delinquency (\$45,521,000) to Accounts Receivable due from the Public. They estimated it would take them six weeks. The delinquent amount was not reported by the Army.

3/Total does not include \$22 million Advances to Travelers; amount delinquent was not known.

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Army has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$20 million to \$33 million of the delinquent debt could be collected. This represents a range of 50 percent to 80 percent of the total reported delinquent debt about \$41 million.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
Department of Defense	304100	051	Recoveries under the Foreign Military Sales Program
	145400	051	Interest on Loans to Defense Contractors
	285400	051	Repayment of loans to defense contractors

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
DOD Stock Fund:	07-40-4991	051	HASE/ SASE	Army Stock Fund	P.L. 86-651, Act of September 7, 1962: to Amend Title 10 USC To Incorporate Recent Laws
DOD Industrial Fund:	07-40-4992	051	HASE/ SASE	Army Industrial Fund	P.L. 86-651 Act of September 7, 1962: to Amend Title 10 USC To Incorporate Recent Laws

TOOLS NEEDED BY THE ARMY TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual's tax refund.
3. Ability to report delinquent debts to credit bureaus and collection agencies.

DEPARTMENT OF DEFENSE

DEPARTMENT OF THE NAVY

<u>APPROPRIATION OR DESCRIPTION</u>	<u>AMOUNT DELINQUENT</u> <u>September 30, 1979</u>
Due from Non-appropriated funds for:	
Military Construction	
Operations and Maintenance	\$ 900,000
Stock Fund	4,800,000
Industrial Fund	4,400,000
Pay advances - TDY	6,700,000
Amounts due from contractors - contract debts	5,200,000
Family Housing	<u>214,000</u>
Total	\$ 22,214,000

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Department of the Navy has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$17.7 million to \$20 million of the delinquent debt could be collected. This represents a range of 80 percent to 90 percent of the total reported delinquent debt of \$22 million..

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable</u> <u>Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
Department of Defense	304100	051	Recoveries under the Foreign Military Sales Program

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
DOD Stock Fund	07-40-4911	051	HASE/ SASE	Navy Stock Fund	P.L. 86-651, Act of September 7, 1962: To Amend Title 10 USC to Incorporate Recent Laws
DOD Industrial Fund	07-40-4912	051	HASE/ SASE	Navy Industrial Fund	"

TOOLS NEEDED BY THE NAVY TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual's tax refund.
3. Ability to report delinquent debts to credit bureaus and collection agencies.

DEPARTMENT OF DEFENSE

DEPARTMENT OF THE AIR FORCE

<u>APPROPRIATION OR DESCRIPTION</u>	<u>AMOUNT DELINQUENT</u> <u>September 30, 1979</u>
Stock Fund	\$ 16,749,040
Industrial Fund	19,583,534
Operations and Maintenance, Air National Guard	397,132
Operations and Maintenance, Air Force Reserve	22,891
Reserve Personnel, Air Force	141,315
Research, Development, Test and Evaluation	156,071
Military Personnel	5,233,350
Operation and Maintenance, Air Force	12,923,807
Aircraft Procurement	11,115
Other Procurement Air Force	46,878
Family Housing	252,730
Military Assistance Executive - Transfer to A/F's	2,246
Receipt Accounts*	<u>15,479,043</u> ^{1/}
Total	<u>\$ 70,999,152</u>

^{1/}Receipt accounts are those accounts which the Air Force cannot relate to an appropriation, but represent a general fund receivable due the Air Force. There are 23 such accounts receivables ranging from a high delinquent balance of \$2,570,280 (Miscellaneous Recoveries of Excess Profit and Costs) to a low

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Air Force has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$60 million to \$67 million of the delinquent debt could be collected. This represents a range of 85 percent to 95 percent of the total reported delinquent debt of about 71 million.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
Department of Defense	304100	051	Recoveries under the Foreign Military Sales Program
	145400	051	Interest on Loans to Defense Contractors
	285400	051	Repayment of loans to defense contractors

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
DOD Stock Fund:	07-40-4921	051	HASE/ SASE	Air Force Stock Fund	P.L. 86-651, Act of September 7, 1962: To Amend Title 10 USC To Incorporate Recent Laws
DOD Industrial Fund:	07-40-4922	051	HASE/ SASE	Air Force Industrial Fund	"

TOOLS NEEDED BY THE AIR FORCE TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual's tax refund.
3. Ability to report delinquent debts to credit bureaus and collection agencies.

DEPARTMENT OF DEFENSE

CORPS OF ENGINEERS - ARMY

<u>APPROPRIATION OR DESCRIPTION</u>	<u>AMOUNT DELINQUENT</u> <u>September 30, 1979</u>
Civil Appropriations <u>1/</u>	\$ 5,338,968 <u>1/</u>
Travel Advances: from Military Funds	137,357
: from Civilian Funds	<u>617,227</u>
Total	\$ 6,093,552

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Army Corps Engineers takes aggressive debt collection action that roughly \$4.8 million to \$6 million of the delinquent debt could be collected. This represents a range of 80 percent to 100 percent of the total reported delinquent debt of over \$6 million.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable</u> <u>Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
	None		

APPROPRIATION ACCOUNT INFORMATION 1/

<u>Bureau/Program</u>	<u>Account</u>	<u>Function</u> <u>Subfunc.</u>	<u>Comm</u> <u>Juris</u>	<u>Appropriation</u> <u>Account Title</u>	<u>Public Law Citation</u>
			None		

1/Appropriation breakdown not available. The major portion of Corps activity involves engineering and construction for Government agencies, including flood control projects. Delinquent amount includes \$4.3 million, due from West Virginia, with the Department of Justice for collection.

DEPARTMENT OF DEFENSE

DEFENSE LOGISTICS AGENCY

<u>APPROPRIATION OR DESCRIPTION</u>	<u>AMOUNT DELINQUENT September 30, 1979</u>
Stock Fund	\$ 4,266,522
Defense Property Disposal Service	1,959,347
Payroll Overpayments	2,527
Travel Advances	255,198
Due from Foreign Governments For Contract Administration	<u>924,638</u>
Total	<u>\$ 7,408,232</u>

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Defense Logistics Agency has all of the debt collection tools needed and takes aggressive debt collection action that roughly \$2.6 million to \$3.3 million of the delinquent debt could be collected. This represents a range of 35 percent to 45 percent of the total reported delinquent debt of \$7.4 million.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function</u>	<u>Receipt Account Title</u>
	None		

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
				None	

TOOLS NEEDED BY THE DEFENSE LOGISTICS AGENCY TO IMPROVE DEBT COLLECTION

1. Ability to collect debts by offset against current salaries of Federal employees.
2. Ability to collect debts through offset by IRS against an individual tax refund.
3. Increased and more timely assistance from the U.S. Attorney's Office.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>Amount Delinquent</u> <u>September 30, 1979</u> (millions)
FHA Multi-Family Mortgage Insurance Program	\$ 501
Multi-Family Mortgage Program	123
Title I Improvements Loans	112
Rehabilitation Loans	68
Single Family Mortgage Insurance	27
Subsidized and Public Housing Program	12
Other	<u>63</u>
Total	<u>\$ 906 1/</u>

COLLECTIBILITY OF DELINQUENT DEBT

It is estimated that if the Department had all of the debt collection tools needed and takes aggressive debt collection action, that roughly \$362 million to \$633 million of the delinquent debt could be collected. This represents a range of 40 percent to 70 percent of the total delinquent debt of \$906 million.

Most of this amount will be collected over a long period of time since over \$800 million of the delinquent debt represents mortgage loans.

Included in the delinquent amount is \$161 million accounts receivable for which agency officials were unable to provide an estimate of how much could be collected. In addition, the

1/The Department has reclassified \$98 million for the New Communities Guarantees as Other Assets. This amount represents loans to corporations.

agency no longer considers about \$328 million of the \$501 million of FHA Multi-Family Mortgage as delinquent. The \$328 million represents either mortgages referred to the Justice Department for foreclosure or previously defaulted mortgages for which the borrower and the agency have agreed to a new payment plan. Regardless of the agency's accounting treatment, the \$328 million was delinquent and should be aggressively pursued for collection.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable Receipt Acct.</u>	<u>Function Subfunc.</u>	<u>Receipt Account Title</u>
Other:	527100	---	Mobile Home Inspection and monitoring
	527110	376	Mobile Home Inspection (temporary account)
	149910	902	Miscellaneous interest collections not otherwise classified

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citatic</u>
Housing Programs/ Multi-Family Mortgage Insurance Program	25-02-4070	371	SBHU/ HBFU	Federal Housing Administration Fund	P.L. 73-479, National Housing Act, as amended
Housing Programs/ Subsidized and Public Housing Program:	25-02-0139	604	SBHU/ HBFU	Subsidized Housing Programs	P.L. 75-412, U.S. Housing Act of 1937, as amended; P.L. 93-383, Housing and Community Development Act of 1974; P.L. 89-117, Housing and Urban Development Act of 1965; P.L. 81-475, Housing Act of 1950, as amended

APPROPRIATION ACCOUNT INFORMATION - CONT'D.

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/ Subfunc.</u>	<u>Comm. Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Housing Programs/ Subsidized and Public Housing Program Continued:	25-02-4115	371	SBHU/ HBFU	Housing for the Elderly or Handi- capped Fund	P.L. 86-372, Hous- ing Act of 1959, as amended
	25-02-4098	604	SBHU/ HBFU	Low-Rent Public Housing-Loans and other Expenses	P.L. 75-412, U.S. Housing Act of 1937, as amended
	25-02-4042	604	SBHU/ HBFU	Nonprofit Sponsor Assistance	P.L. 90-448, Hous- ing and Urban Development Act of 1968, as amended
	25-02-4041	604	SBHU/ HBFU	Rental Housing Assistance Fund	P.L. 73-479, National Housing Act, as amended
	25-02-4015	451	SBHU/ HBFU	Revolving Fund (Liquidating Programs)	P.L. 89-117, Hous- ing and Urban Development Act of 1965, as amended; P.L. 87-70, Housing Act of 1963, as amended; P.L. 84- 345, Housing Amend- ments of 1955, as amended
Housing Programs/ Title I Improve- ment Loans	25-02-4070	371	SBHU/ HBFU	Federal Housing Adminis- tration Fund	P.L. 73-479, National Housing Act, as amended
New Community Development Corporation/ New Communi- ties Guarantees	25-12-4237	451	SBHU/ HBFU	New Communities Fund	P.L. 91-609, HUD Act of 1970, as amended; P.L. 90- 448, HUD Act of 1968, as amended

APPROPRIATION ACCOUNT INFORMATION - CONT'D

<u>Bureau/Program</u>	<u>Account</u>	<u>Function/Comm Subfunc.</u>	<u>Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citatic</u>
Community Planning and Development/ Rehabilitation Loans	25-06-4036	451	SBHU/ HBFU	Rehabilitation Loan Fund	P.L. 88-560, Hous- ing Act of 1964
Housing Programs/ Single Family Mortgage Insurance	25-02-4070	371	SBHU/ HBFU	Federal Housing Adminis- tration Fund	P.L. 73-479, - National Housing Act, as amended
Government National Mortgage Associations:	25-03-4205	371	SBHU/ HBFU	Special Assistance Functions Fund	P.L. 73-479, National Housing Act, as amended
	25-03-4207	371	SBHU/ HBFU	Emergency Mortgage Assistance Fund	P.L. 73-479, National Housing Act, as amended
	25-03-4016	371	SBHU/ HBFU	Management and Liqui- dating Functions Fund	"
	25-03-4238	371	SBHU/ HBFU	Guarantees of Mortgage- Backed Securities	"
Community Planning and Development	25-03-0162	451	SBHU/ HBFU	Community Development Grants	P.L. 93-383, Housing and Community Development Act of 1974
	25-06-4034	451	SBHU/ HBFU	Urban Renewal Programs	P.L. 81-171, Hous- ing Act of 1949, as amended

TOOLS NEEDED BY THE DEPARTMENT TO IMPROVE DEBT COLLECTION

1. Passage of a uniform foreclosure law.
2. Exemption from bankruptcy laws which stop foreclosures.
3. Additional staffing resources.
4. Ability to report to credit bureaus.
5. Ability to use collection agencies.
6. Removal of Privacy Act restrictions preventing HUD from requiring social security numbers on loan applications.
7. Removal of the 6 year Statute of Limitations.
8. Better ability to locate debtors such as by gaining access to debtors addresses through IRS.
9. Improved system of accounting.
10. Ability to collect delinquent debt through offset by IRS against an individual's tax return.

Since 1975, GAO has reported on many accounting system problems at the Department. Even though the Department has taken some actions to correct the problems noted in our many reports, they have generally cited the development of a new mechanized accounting system as the ultimate remedy to the major system problems. The system has been under development since 1975. Implementation dates have continually slipped and as of today the system is still not operational.

SMALL BUSINESS ADMINISTRATION

AMOUNT OF DELINQUENT DEBT

<u>PROGRAM</u>	<u>AMOUNT DELINQUENT</u> <u>September 30, 1979</u> (millions)
Business Loans	\$ 1,008
Disaster Loans	
Business	\$ 300
Home	156
Farms	<u>314</u>
	<u>770</u>
Total	<u>\$ 1,778</u>

COLLECTIBILITY OF DELINQUENT DEBT

As of September 1980, SBA's delinquent loan amount had increased to over \$2 billion. This amount excludes approximately \$580 million in delinquent guaranty loans which the agency might have to purchase in the future and does include delinquent interest due. However, SBA was pursuing active collection on only about \$900 million of the over \$2 billion delinquent loan amount.

It is estimated that if the Small Business Administration had all of the debt collection tools needed and takes aggressive debt collection action, that roughly \$900 million to \$1.3 billion of the delinquent debt could be collected. This represents a range of 50 percent to 75 percent of the total reported delinquent debt of \$1.778 billion.

RECEIPT ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Probable</u> <u>Receipt Acct.</u>	<u>Function/</u> <u>Subfunc.</u>	<u>Receipt Account Title</u>
	None		

APPROPRIATION ACCOUNT INFORMATION

<u>Bureau/Program</u>	<u>Account</u>	<u>Function Subfunc.</u>	<u>Comm Juris</u>	<u>Appropriation Account Title</u>	<u>Public Law Citation</u>
Small Business Administration:	32-45-4153	453	SSMB/ HSBU	Disaster Loan Fund	P.L. 85-536, Small Business Act, as amended
	32-45-4154	376	SSMB/ HSBU	Business Loan and Investment Fund	P.L. 85-536, Small Business Act, as amended

TOOLS AND ACTIONS NEEDED BY THE AGENCY TO IMPROVE DEBT COLLECTION

1. Better ability to locate delinquent debtors, such as gaining current address from IRS.
2. Ability to collect debts through offset by IRS against an individual's income tax refund.
3. Ability to refer delinquent debts to collection agencies.
4. Improved analysis and evaluation of borrower's financial condition, including determining repayment ability and proper appraisal of collateral, prior to approving loan.
5. Removal of 6 year Statute of Limitation.
6. Removal of restriction of redisclosure of addresses obtained from IRS.
7. Initiate prompt and intensive follow-up on delinquent loans. For some disaster loans, automated routine collection follow-up could be used, which would free agency staff to concentrate on the business portfolio.

STAFF REALIGNMENT TO IMPROVE DEBT COLLECTION

GAO has recommended that the Small Business Administration improve its debt collection process through staff realignment and/or limit the number of loans approved.

While the agency previously did not act on our recommendations, it is currently realigning its staff. This effort should improve the agency's debt collection process and increase the outstanding debts collected.

In addition, projected budget cuts will reduce the funds available for the agency's loan program thus reducing the number of loans approved. This should also improve the agency's debt collection processed by:

- permitting time for a more adequate analysis of the borrowers' financial condition, thus reducing the number of questionable loans approved; and
- reducing the number of loans a loan officer has to service, therefore enabling prompt and dilligent followup on delinquent loans.

IMPROVING THE COLLECTION
OF UNPAID TAXES DUE THE
INTERNAL REVENUE SERVICE

AMOUNT OF UNPAID TAXES DUE

<u>Stage of Collection</u>	<u>Amount Due</u> <u>September 30, 1979</u> <u>(billions)</u>
1) Taxpayers being contacted by routine demand letters	\$ 4.3
2) Accounts being actively pursued by collection office personnel and revenue officers	2.9
3) Accounts set aside for reasons such as <ul style="list-style-type: none">- tracing payments- adjustments- criminal investigations- amounts in litigation	2.3
4) Accounts on which installments are being made	.3
5) Deferred because amounts too small to pursue in view of current workload	.2
6) Amounts "currently not collectible" due to <ul style="list-style-type: none">-unable to locate debtor-defunct/insolvent corporations-bankruptcies-hardship cases	<u>3.3</u>
	<u>\$13.3*</u>

*It is estimated that as of September 30, 1980, the unpaid taxes due totaled \$15.8 billion, an increase of about 19% from the prior year.

Receipt Account Information

<u>Bureau/Program</u>	<u>Probable Receipt Account</u>	<u>Function</u>	<u>Receipt Account Title</u>
IRS - Delinquent Taxes	011000	-	Individual income tax, other
	011100	-	Corporation income and excess profits taxes
	015200	-	Excise taxes
	015300	-	Estate and gift taxes
	019900	-	Miscellaneous taxes

Appropriation Account Information

None

INCREASED STAFFING WILL INCREASE COLLECTIONS

A major resource needed by IRS to increase the collection of unpaid taxes is additional staff. If 1,000 to 1,500 ^{1/} additional staff years were assigned to IRS's collection function, it is estimated that during fiscal years 1982 to 1986, roughly \$3.2 billion to \$4.9 billion could be collected as follows:

Estimated Range of Additional Collections by Fiscal Year

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
\$350 million to \$525 million	\$710 million to \$1.1 billion	\$710 million to \$1.1 billion	\$710 million to \$1.1 billion	\$710 million to \$1.1 billion

The amounts for 1982 are less than for other years because of the learning curve concept for new collection staff.

^{1/}Both the Carter and Reagan budgets already include additional staffing for the collection of unpaid taxes. The Carter budget includes an increase of 551 above the fiscal 1981 estimated level and could increase additional collections by roughly \$195 million in fiscal 1982 and by roughly \$1.8 billion during fiscal 1982 to 1986. The Reagan budget includes an increase of 603 above the fiscal 1981 estimated level and could increase additional collections by an estimated \$210 million in fiscal 1982 and by an estimated \$1.9 billion during fiscal 1982 to 1986.

The estimated collections above would be primarily from amounts that fall in the first two collection stages (taxpayers being contacted by routine demand letters and accounts being actively pursued by collection office personnel and revenue officers). However, once the current workload for those two stages was met, additional staff could be assigned to delinquent debts in stages 5 and 6 (items deferred because the amounts are too small to pursue in view of the current workload and, amounts "currently not collectible"). It is estimated that roughly 10 percent to 25 percent of the over \$3.5 billion now considered uncollectible or too small to pursue could actually be collected over the next 5 fiscal years with additional staff.

A good portion of the total increase of unpaid taxes over the past years can be attributed to previous cuts made to IRS's collection staff. For instance, the amount of unpaid taxes as of September 30, 1980, is estimated to be \$15.8 billion, an increase of about 19 percent over the prior year. It is also estimated that the \$2.9 billion figure for fiscal 1979 for stage 2 items (accounts being actively pursued by collection office personnel and revenue officers) might grow to \$10 billion in 4 years if additional staffing is not provided. Even with increased staffing, IRS may not be able to reduce the current amount of unpaid taxes, but only slow its growth.

A range of 1,000 to 1,500 additional staff years was used for the collection estimate because IRS's current training resources limit the amount of staff it can absorb each year to this amount. If more collectors could be added and properly trained each year, further additional collections could be made.

It is very difficult to determine the cost to be incurred in making these additional collections--a rough estimate would be about \$23,000 per staff year, assuming an average salary of \$20,000 plus 15 percent overhead support. Using this figure, which could be further refined by IRS, the cost of the 1,000 to 1,500 staff years necessary to reach the additional collections shown in the table would be about \$23 million to \$34.5 million per year.

CHANGES TO THE INTEREST RATE ON UNPAID TAXES CAN ALSO INCREASE COLLECTIONS

In addition to the estimated collections shown above through increased staffing, changes to the formula used to calculate the interest rate on unpaid taxes would also increase the amounts collected by IRS. GAO issued a report on this subject ("New Formula Needed To Calculate Interest Rate On Unpaid Taxes", GGD-81-20; October 16, 1980) which showed that the formula rates now used do not reflect, except by chance, the cost the Government actually incurs in connection with delinquent taxes--the costs of its own borrowings and credit administration. It is estimated that, if our recommendations for a new formula were implemented, and the market interest rates continue to exceed the current IRS rate of 12 percent, roughly \$200 million to \$400 million annually could be collected through increased interest charges.

Additionally, a higher interest rate can speed up collection of debts because it provides a strong incentive for the debtors to pay on time. For example, the Geological Survey did not impose interest on late oil and gas royalty payments, and nearly 50 percent of its payments were delinquent. In contrast, the Bureau of Indian Affairs charged 1.5 percent a month (18 percent a year) on certain late oil and gas royalty payments and only 13 of 4,824 payments were received late. Similarly, because a higher interest rate for delinquent taxes coupled with increased staffing for the collection function could have a ripple effect by increasing the voluntary compliance of taxpayers to pay their unpaid taxes in a more timely manner, there is a potential to collect billions of dollars more.

BETTER IRS COORDINATION COULD
REDUCE UNPAID TAXES

The amount of delinquent taxes due the Government could be reduced if better coordination existed between IRS's Examination and Collection Divisions. A new emphasis to collect taxes during audits by the Examination Division could result in amounts never reaching the unpaid status. Additionally, better transfer of information between these two Divisions could result in more timely Collection Division receipts.

DEPARTMENT OF INTERIOR

The Department of Interior as of September 30, 1979, reported delinquent accounts and loans receivable of about \$41 million. Of the amount, \$30 million was over 90 days delinquent. We have not analyzed this amount for collectibility. However, we have found that there are serious financial management problems with the collection of oil and gas royalties which could be costing the Government several hundred million dollars annually and resulting in additional hundreds of millions of dollars being received late.

Our report entitled "Oil and Gas Royalty Collections--Serious Financial Management Problems Need Congressional Attention" (FGMSD-79--24, April 13, 1979) detailed serious deficiencies with the system used by the Geological Survey to collect royalties from entrepreneurs for oil and gas removed from Federal and Indian lands. Deficiencies in the way the Geological Survey maintained records of amounts due the Government under the terms of oil and gas leases have resulted in losses of millions of dollars.

At the request of Congressman Rosenthal, Chairman, Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations, we are performing a follow-up review on our prior report. Our review is not yet complete, but the same basic problems that we reported on in 1979 continue to exist today. Although Geological Survey recognizes that it has serious problems, achieving effective financial management over the collection of oil and gas royalties has been difficult because many factors are involved in determining the amount of royalties owed and who owes them. We will be testifying on oil and gas royalty collections before Chairman Rosenthal on April 13, 1981.

SUMMARY TABLE--ESTIMATED COLLECTIBILITY OF DELINQUENT DEBT

Major Debt by Program	Delinquent Debt 9-30-79 (billions)	Range of Estimated Collectibility		Range Estimated Collectibility by Fiscal Years			
		(%)	(\$ millions)	82	84	85	- +
<u>EDUCATION</u>							
National Direct Student Loans	\$1.0	40% - 80%	\$400 - \$800	\$320 - \$640	\$80 - \$160		
Guaranteed Student Loans	.6	40% - 80%	240 - 480	190 - 385	50 - 95		
Guarantee Agency Programs	.6	40% - 80%	240 - 480	190 - 385	50 - 95		
TOTAL	<u>\$2.2</u>	<u>40% - 80%</u>	<u>\$880 - \$1760</u>	<u>\$700 - \$1410</u>	<u>\$180 - \$350</u>		
<u>HEALTH AND HUMAN SERVICES</u>							
Social Security Administration	<u>\$1.8</u>	<u>15% - 30%</u>	<u>\$270 - \$540</u>	<u>\$95 - \$190</u>	<u>\$175 - \$350</u>		
<u>VETERANS ADMINISTRATION</u>							
Compensation and Benefit Overpayments	\$. 54	40% - 75%	\$219 - \$410	\$175 - \$328	\$44 - \$82		
Guaranty Home Loan Program	.286	40% - 75%	114 - 215	91 - 172	23 - 43		
Other	. 19	40% - 75%	7 - 14	6 - 11	2 - 3		
TOTAL	<u>\$.852</u>	<u>40% - 75%</u>	<u>\$340 - \$639</u>	<u>\$272 - \$511</u>	<u>\$69 - \$128</u>		

Major Debt by Program	Delinquent Debt 9-30-79 (billions)	Range of Estimated Collectibility (%)		Range of Estimated Collectibility (\$ millions)		Range Estimated Collectibility by Fiscal Years 82 - 84 85 (\$ millions)							
LABOR													
Employee Compensation	\$.277	75%	-	90%	\$208	-	\$249	\$166	-	\$199	\$42	-	\$50
Employee and Training Administration	.261	75%	-	90%	196	-	235	157	-	188	39	-	47
Continuation of Pay	.058	75%	-	90%	44	-	52	85	-	42	9	-	10
Other	.025	75%	-	90%	19	-	23	15	-	18	4	-	5
TOTAL	\$.621	75%	-	90%	\$467	-	\$559	\$373	-	\$447	\$94	-	\$112
AGRICULTURE													
Farmers Home Administration	\$1.1	50%	-	85%	\$550	-	\$935	\$165	-	\$280	\$385	-	\$655
Commodity Credit	.67	50%	-	85%	34	-	57	10	-	17	24	-	40
Forest Service	.27	50%	-	85%	14	-	23	4	-	7	10	-	16
Other	.158	50%	-	85%	79	-	134	24	-	40	55	-	94
TOTAL	\$1.35	50%	-	85%	\$677	-	\$1149	\$203	-	\$344	\$474	-	\$805

Delinquent Debt 9-30-79 (billions)

Range of Estimated Collectibility (%)

Range Estimated Collectibility by Fiscal Years 82 - 84 85 + (\$ millions)

Major Debt by Program

DEFENSE - ARMY

Stock Fund	\$.021	50%	\$11	\$17	\$9	\$14	\$2	\$3
Out of Service Receivables	.018	50%	9	14	7	11	2	3
Other	.045	50%	22	36	18	29	4	7
TOTAL	\$.084	50%	\$42	\$67	\$34	\$54	\$8	\$13

DEFENSE-NAVY

Stock Fund	\$.005	80%	\$4	\$5	\$3	\$4	\$.8	\$1
Industrial Fund	.005	80%	4	5	3	4	.8	1
Pay Advance	.007	80%	5	6	4	5	1	2
Contract Debts	.005	80%	4	5	3	4	.8	1
TOTAL	\$.022	80%	\$17	\$21	\$13	\$17	\$4	\$5

Program	Delinquent Debt 9-30-79 (billions)	Range of Estimated Collectibility (%)		Range of Estimated Collectibility (\$ millions)		Range Estimated Collectibility by Fiscal Years		
						82	84	85 +
						(\$ millions)		
DEFENSE - AIR FORCE								
Stock Fund	\$.017	85%	- 95%	\$14	- \$16	\$11	- \$13	\$ 2 - \$ 3
Industrial Fund	.020	85%	- 95%	17	- 19	14	- 15	3 - 4
Military Personnel	.005	85%	- 95%	4	- 5	3	- 4	.8 - 1
Operation & Maintenance	.013	85%	- 95%	11	- 12	9	- 10	1 - 2
Receipt Accounts	.016	85%	- 95%	14	- 15	11	- 12	2 - 3
TOTAL	\$.071	85%	- 95%	\$60	- \$67	\$48	- \$54	\$12 - \$13
DEFENSE - DEFENSE LOGISTICS AGENCY								
Stock Fund	\$.004	5%	- 45%	\$1.4	- \$1.8	\$1.1	- \$1.4	\$.3 - \$.4
Property Disposal	.002	35%	- 45%	.7	- .9	.6	- .7	.1 - .2
Contract Administration	.001	35%	- 45%	.4	- .5	.3	- .4	.08 - .1
TOTAL	\$.007	35%	- 45%	\$2.5	- \$3.2	\$2	- \$2.5	\$.5 - \$.7

or Debt by Program	Delinquent Debt 9-30-79 (billions)	Range of Estimated Collectibility		Range Estimated Collectibility by Fiscal Years						
		(%)	(\$ millions)	82	84	85	+			
				(\$ millions)						
ENSE - CORPS OF ENGINEERS										
Civil Appropriation	\$.005	80%	- 100%	\$4	-	\$5	\$3	- \$4	\$.8	- \$1
Travel Advance	.001	80%	- 100%	.8	-	1	.6	- .8	.16	- .2
TOTAL	<u>\$.006</u>	<u>80%</u>	<u>- 100%</u>	<u>\$4.8</u>	<u>-</u>	<u>\$6</u>	<u>\$3.6</u>	<u>- \$4.8</u>	<u>\$.96</u>	<u>- \$1.2</u>
HSING AND URBAN DEVELOPMENT										
FHA Multi-Family Mortgage Insurance	\$.501	40%	- 70%	\$200	-	\$350	\$60	- \$105	\$140	- \$245
Multi-Family	.123	40%	- 70%	49	-	86	15	- 26	34	- 60
Title I	.112	40%	- 70%	45	-	78	14	- 23	32	- 55
Rehabilitation Loans	.068	40%	- 70%	27	-	48	8	- 14	19	- 34
Single Family Mortgage	.027	40%	- 70%	11	-	19	3	- 6	7	- 13
Subsidized and Public Housing Program	.012	40%	- 70%	5	-	8	1	- 2	4	- 6
Other	.063	40%	- 70%	25	-	44	8	- 14	17	- 30
TOTAL	<u>\$.906</u>	<u>40%</u>	<u>- 70%</u>	<u>\$362</u>	<u>-</u>	<u>\$633</u>	<u>\$109</u>	<u>- \$190</u>	<u>\$253</u>	<u>- \$443</u>

Major Debt by Program	Delinquent Debt 9-30-79 (billions)	Range of Estimated Collectibility		Range of Estimated Collectibility		Range Estimated Collectibility by Fiscal Years			
		(%)		(\$ millions)		82 - 84	85 +		
						(\$ millions)			
SMALL BUSINESS ADMINISTRATION									
Business Loans	\$1	50%	-	75%	\$500	-	\$ 800	\$150 - \$240	\$350 - \$560
Disaster Loans									
Business	.3	50%	-	75%	150	-	225	45 - 68	105 - 158
Home	.2	50%	-	75%	100	-	150	30 - 45	70 - 105
Farmers	.3	50%	-	75%	150	-	225	45 - 68	105 - 158
TOTAL	<u>\$1.7</u>	<u>50%</u>	-	<u>75%</u>	<u>\$900</u>	-	<u>\$1400</u>	<u>\$270 - \$421</u>	<u>\$630 - \$981</u>

75-11

STRONG ACTION NEEDED IN
RESOLVING AUDIT FINDINGS

Nature of the Problem

In recent testimony before the House Subcommittee on Legislation and National Security, Committee on Government Operations, the Comptroller General stated that the Government is losing billions of dollars because agencies are not acting on audit recommendations to recover funds, avoid costs, and improve operations. Over the last 2 years, Federal agency systems for resolving audit findings have improved but overall progress is disappointing. Improper and delayed resolution of findings is widespread and is generally caused by agencies' failure to comply with OMB's policy guidance in Circular A-73.

A recent GAO audit ("Disappointing Progress In Improving Systems For Resolving Billions In Audit Findings," AFMD-81-27) clearly indicated the need for agency action on the following issues.

- Audit resolution systems must be established and maintained for an accurate, current, and complete record of all audit findings until final disposition.
- Procedures must be established and followed for accounting and collection controls over amounts determined to be due the Government.
- Procedures must be established and followed for elevating to agency heads, or their designees, disagreements between program managers and auditors and reports on which responsible officials have not provided a written determination within 6 months.

- Periodic reports must be made to the agency head on the age and amounts of unresolved findings and results of findings closed during the period.
- Systems must cover findings in all audits of agency activities, including those in audits of contractors, subgrantees, and regulated activities.
- Decisions to act on audit findings must be made within 6 months and final disposition should proceed as rapidly as possible.
- Findings must be resolved according to laws and regulations, including written justification and the legal basis for decisions not to act.
- Procedures must be established for coordinating corrective actions with other affected agencies or organizations.

The first five of these improvements were also cited in a 1978 GAO report ("More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved," FGMSD-79-3).

Our recent report (AFMD-81-27) identified unresolved audit findings totaling \$24.9 billion at 71 agencies. This amount consists of:

Defense Contract Audit Agency:

Preaward	\$10.5 billion
Postaward	1.9
Department of Energy - Regulatory	9.3
All Other	<u>3.2</u>
Total	<u>\$24.9</u> billion

The 10.5 billion Defense Contract Audit Agency (DCAA) pre-award figure does not represent potential dollar recoveries. It

represents possible avoidable costs which will be discussed and clarified during the contract price negotiation process.

Amounts questioned during forward pricing contract reviews are usually resolved before a contract is awarded and funds disbursed.

In addition, the DCAA postaward amount of \$1.9 billion is not necessarily "recoverable" because, under provisional billing rate practices, most of it has not been paid out to contractors. This procedure of holding back a portion of the contract payment normally provides safeguards against overpayments while questionable items are settled or litigated. Also, questioned incurred costs under cost reimbursement type contracts may be withheld on public vouchers submitted by contractors.

The \$9.3 billion in unresolved Department of Energy regulatory audits primarily represents potential rebates to customers from oil companies that violated energy regulations. Where the overcharged parties cannot be identified, however, the funds may eventually be deposited to the U.S. Treasury.

The remaining \$3.2 billion consists of a mixture of amounts actually recoverable by the Government and findings which will result in savings or cost avoidances but no monetary return to the U.S. Treasury.

Potential costs and estimates of
collections and savings

The unresolved audit finding information contained in the attached package was recently obtained from officials in the Office of Inspector General or Office of Audits at 20 agencies. Because of the extremely tight time constraints imposed on the data collection process, we were not able to test the data for either completeness or accuracy. The data represents the most currently available information at each agency.

Although the request required quick turnaround by each agency, we were disappointed that more complete and current data could not be collected. In most cases, agencies advised us that current statistics (6 months or less old) were not available. Several agencies said their audit resolution systems were decentralized and that all records on audit findings were kept at the regional level by either the Office of Inspector General or agency program personnel. Other agencies said they would need considerably more time to accumulate the requested information.

The disappointing results of our recent efforts to obtain current unresolved audit finding data show a continued lack of progress in the audit resolution area. Of the 20 agencies contacted, only 12 were able to provide dollar figures for unresolved audit findings by program, function, or other agency or divisional breakdown. Only five of these could make any

estimate of the amounts of unresolved audit findings which would result in the Government's collection of funds and the probable fiscal year of collection. The remaining eight agencies could not give any estimate of the amount included within their unresolved audit finding figure which would result in the receipt of funds.

Estimated monetary receipts due
to finding resolution can be
significant

Estimated collections for the 12 agencies which provided figures totaled about \$2.8 billion. Of this amount, fiscal year 1982 projected collections are about \$1.7 billion. In addition, we feel that it is reasonable to estimate potential fiscal year 1982 collections of \$300 million for the 8 agencies unable to provide collection breakdowns. Thus, we estimate that \$2.0 billion could be recovered during fiscal year 1982 with increased emphasis on audit resolution practices. Additional costs to the agencies for collecting these funds would be minimal.

More intensive efforts by the Congress, Office of Management and Budget, agency heads, and audit organizations could result in a significant increase in collections. Although these efforts would involve many organizations, the total additional costs would be minimal when compared to the increased recoveries.

The Department of Energy (DOE), because of the magnitude of the dollars involved, provides an excellent example of the potential benefits. DOE conducts regulatory audits of oil companies directed toward identifying violations of petroleum pricing regulations, recovering overcharges, and making restitution to injured parties. These audits resulted in the \$9.3 billion in unresolved regulatory findings discussed in two recent GAO reports (AFMD-81-27, EMD-81-45). (A DOE official stated that the unresolved audit finding figure had risen to \$14.4 billion as of April 1, 1981.) As of September 30, 1980, DOE had arranged for refunds to customers, price rollbacks, or other actions on overcharges totaling about \$1.36 billion. DOE also had in escrow accounts \$260 million representing cash proceeds from consent orders involving overcharges for which DOE has not been able to determine who has been injured by these overcharges, or the amounts of the injuries.

The Congress could enact legislation mandating methods for handling amounts deposited in the escrow account. We feel that where DOE cannot develop a strategy for distributing escrow funds, it should have them deposited directly into the U.S. Treasury's miscellaneous receipts account. This would result in an immediate receipt of \$260 million.

Historical data shows that the DOE escrow account balance represents about 16 percent of DOE's recoveries for the 3-year period ended September 30, 1980. By applying this 16 percent to

the \$14.4 billion unresolved regulatory audit findings, we estimate that an additional \$2.3 billion could eventually wind up in the escrow account. The congressional action recommended above could, therefore, result in a \$2.5 billion receipt (\$2.3 billion plus \$260 million) by the U.S. Treasury.

In addition to requiring the transfer of escrow funds to the U.S. Treasury, Congress should closely examine the fiscal year 1982 regulatory audit budget reductions proposed by the Administration. In fiscal year 1981, this audit organization received \$71 million and had a staff of 1,218 individuals. Under the proposed cuts, funding would decrease to \$12 million and the staff level would be cut to 100 personnel. We believe that this would virtually eliminate the likelihood that much of the \$14.4 billion would ever be resolved. We feel that the cost of maintaining the current staff levels is more than offset by the potential receipts.

The following additional examples illustrate typical findings where funds should be returned to the Government.

--Agency officials asked a grantee to respond to an audit report that questioned \$298,000. The grantee never replied. More than a year later the agency warned the grantee that funding would be suspended if it did not reply. The grantee still did not respond, yet it was awarded another \$90,000. Since the audit report was issued the grantee has received over a half-million dollars. Meanwhile, problems with the grantee continue; the next year's audit questioned the allowability of another \$71,000 and reported excess funds on hand of \$684,000.

--In January 1979 auditors reported that two Federal agencies had both paid a day care operator \$478,000 for the same food service costs. Officials of the agency receiving the report took no action, claiming the dual funding was not their responsibility. Their counterparts at the other agency claimed that they were not told about the dual funding. The funds have not been recovered and the day care operator is still funded by both programs.

--Over a 3-year period, a subsidy recipient received excess payments of almost \$100,000 but did not refund the amount as required. The agency's accounting division was informed of the debt in January 1980. Since that time, an additional \$258,000 subsidy has been paid to the debtor. Had accounting control been established the debt would have been deducted from the additional payment. Two other cases, involving excess subsidy payments totaling \$169,000, were similarly mishandled.

Findings often result in
cost savings not fund
receipt

Audit findings do not always result in the recovery of funds. Many result in cost reduction or avoidance recommendations which require definitive management action for resolution. The decision making process can be long and complicated and the implementation of recommendations can require significant periods of time.

The amount of potential savings contained in the unresolved audit finding figures presented by the 20 agencies is unknown, but we believe it may total several hundred million dollars. Audit findings considered valid by management must be acted upon.

The expected cost savings must be taken into account in future budget review proceedings. We recognize that projecting potential savings over several years can be a risky exercise but believe that realistic estimates for the next fiscal period should be possible. One agency, Air Force, has stated that it does factor these savings into its budget request.

Some additional examples of findings which could result in savings follow.

- Navy auditors reported that as much as \$581,000 could be saved annually by consolidating mail and messenger services in the Washington, D.C., area.
- Auditors reported a subsidy program's goal of reducing grain production was being subverted because farmers were taking dry, barren land out of production rather than irrigated, fertile land. In one State, over a 1-year period, farmers received windfall payments of \$8.4 million. Agency administrators disagreed with the finding and indicated a willingness to live with the inequity. Windfall payments could occur again in 1981.
- Auditors reported that the workload did not justify a medical center's renal laboratory and that the same services could be provided by the center's central laboratory. As a result, the planned purchase of almost \$74,000 of equipment was not needed. Management considered the finding but later informed the auditors that the laboratory would not be closed and the equipment had been purchased.

Legislative and administrative actions

Actions are needed by Congress, the Office of Management and Budget, agency heads, and audit organizations if the unresolved audit finding problem is to be eliminated. Some of the actions needing immediate attention follow.

Congress should require that funds received due to overcharges identified during energy regulatory audits be returned to the U.S. Treasury after a specified period, such as a year, if the injured parties cannot be identified.

The Director of OMB should:

- Include oversight of agency audit resolution practices in the budget review process to provide (1) an assessment of progress in establishing, revising, and implementing resolution systems, (2) an adjustment of agency budget allowances where appropriate, and (3) a report to the Chairpersons of the House and Senate Committees on Appropriations on progress and action plans.
- Clarify Circular A-73 so that (1) it provides that periodic reports to agency heads include complete details on the resolution of findings and on the age and amounts of unresolved findings, (2) it applies to all audit reports, including contract, subgrantee, and regulatory audits, and (3) written determinations and the legal basis for nonconcurrence with audit recommendations apply to both procedural and monetary findings.

The heads of Federal agencies should:

- Further improve audit resolution policies, procedures, and practices to comply with the intent and spirit of OMB guidelines, designating a top level manager to coordinate these efforts and prepare progress reports for OMB.
- Take legal or administrative actions against the parties involved whenever audit findings concern fraud, waste, or abuse of Federal funds.
- Make the timeliness and quality of audit resolution a written performance standard and a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

Inspectors General and Directors of Audit organizations should develop internal procedures and controls for efficient and

effective planning, coordinating, reviewing, and reporting of audit work and audit follow up activities in accordance with GAO and other professional standards.

Support studies

GAO Reports

Disappointing Progress In Improving Systems For Resolving Billions In Audit Findings (AFMD-81-27; January 23, 1981)

More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected or Saved (FGMSD-79-3; October 25, 1978)

Gasoline Allocation: A Chaotic Program In Need Of Overhaul (EMD-80-34; April 23, 1980)

Improvements Needed In The Enforcement Of Crude Oil Reseller Price Controls (EMD-79-57; May 29, 1977)

Letter Report Regarding FEA's Compliance Program In The New England Area (EMD-77-71; November 7, 1981)

Transportation Charges For Imported Crude Oil--An Assessment Of Company Practices And Government Regulations (EMD-76-105; October 27, 1981)

Federal Energy Administration's Efforts To Audit Domestic Crude Oil Producers (OSP-76-4; October 2, 1975)

Problems Of Independent Refiners And Gasoline Retailers (OSP-75-11; April 4, 1975)

Problems In The Federal Energy Administration's Compliance And Enforcement Effort (B-178205; December 6, 1974)

Problems In The Federal Energy Office's Implementation Of Emergency Petroleum Allocation Programs At Regional And State Levels (B-178205; July 23, 1974)

GAO Testimony

Statement of Elmer B. Staats, Comptroller General before the Subcommittee on Legislation and National Security, House Committee on Government Operations; "Federal Agencies' Action To Improve Audit Resolution Systems" (February 25, 1981).

Statement of J. Dexter Peach, Director, Energy and Minerals Division, before the Subcommittee on Oversight and Investigation, House Committee on Energy and Commerce (April 2, 1981)

Summary of Unresolved Audit Findings
and Estimated Collectibility of Funds Identified

AGENCY PROGRAMS (Function Code)	UNRESOLVED AUDIT FINDINGS	RANGE OF ESTIMATED COLLECTIBILITY (%)	RANGE OF ESTIMATED COLLECTIBILITY (\$)	COLLECTIBILITY BY FISCAL YEARS (millions of dollars)				
				82	83	84	85	86
Department of Agriculture	\$340,416,521	Unknown	Unknown					
Air Force Audit Agency	470,000,000	Unknown	Unknown					
Department of Commerce	113,458,706	Unknown	Unknown					
Community Services (600) Administration	45,600,000	95-100%	\$43,320,000	\$43.3				
Defense Audit Services	489,700,000	Unknown	Unknown					
Defense Contract Audit Agency	11,990,044,000	Unknown	Unknown					
Department of Education	132,795,051	100% of the Accounts Receivable	17,338,138	<u>1/</u>				
Environmental Protection Agency	130,255,778	14%	18,756,831	<u>1/</u>				
Department of Energy (270)	7,534,000	30%	2,260,290	2.3				
General Services Administration	66,622,433	Unknown	Unknown					
Department of Health and Human Services (550&600)	249,114,015	100% of the Accounts Receivable	57,525,000	57.5				
Department of Housing and Urban Development	54,455,558	Unknown	Unknown					

1/Estimate of collections by fiscal year is not available.

2/Represents 16 percent of unresolved audit findings plus \$260 million held in an escrow account.

3/Represents GAO estimate of collections where the data was unavailable from the agencies

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AGENCY PROGRAMS	UNRESOLVED AUDIT FINDINGS	RANGE OF ESTIMATED COLLECTIBILITY (%)	RANGE OF ESTIMATED COLLECTIBILITY (\$)	COLLECTIBILITY BY FISCAL YEARS (millions of dollars)				
				82	83	84	85	86
Department of the Interior	\$ 25,374,480	Varies depending on program	\$ 5,155,305	1/				
Department of Labor (500)	314,686,613	Varies depending on program	54,025,795	9.3	11.2	11.2	11.2	1.2
National Aeronautics and Space Administration	413,625,000	35% of Postaward findings	19,692,400	1/				
U.S. Postal Service	Unknown	Unknown	Unknown					
Small Business Administration	8,400,000	Varies depending on program	5,700,000	1/				
Department of Transportation	484,003,288	Varies depending on program	52,622,345	1/				
Department of the Treasury (800)	341,396,000	Varies depending on program	14,975,000	10.1	3.8	1.0		
Veterans Administration	10,129,355	100% of Health care program potential cost recoveries	536,920	1/				
Subtotal	\$15,687,610,798		\$291,908,024	122.5 85.3 3/	15.0 10.4 3/	12.2 8.5 3/	11.2 7.8 3/	11.2 7.8 3/
Department of Energy - Regulatory audits (270)	14,400,000,000	16%	2,564,000,000 2/	1,550.0	610.0	404.0		
GAO estimated collections where agencies were unable to project receipts (undistributed)			600,000,000	300.0	200.0	100.0		
Total	\$ 30,087,610,798		\$ 3,455,908,024	2,857.8	835.4	524.7	19.0	19.0

Paperwork ReductionNature of the problem

Significant savings can be achieved immediately, both to the Government and private sectors by effective implementation of the Paperwork Reduction Act of 1980 (P.L. 96-511). Precise savings are hard to estimate but the Commission on Federal Paperwork estimated that Federal paperwork costs more than \$100 billion a year. This estimate includes both internal Government costs and costs levied on all segments of society by Federal information requirements. Improved federal information management activities could result in savings of millions of dollars.

Sufficient resources should be applied by OMB and the agencies to effectively implement the Act. Although relatively modest incremental costs would be necessary, tremendous potential exists for improving the management of the Government's activities and programs through more effective use of information resources. OMB has included in their budget a request for 90 people to carryout the following objectives of the Act:

- a single control point for Federal information management policy and oversight;
- an end to fragmented responsibility for controlling Federal paperwork burdens on the public;
- visible and accountable official for information management, both in OMB and in each agency;
- uniformity and consistency in policies for acquisition and management of advanced information technology;
- much needed visibility, authority, and accountability for statistical policy coordination and records management; and
- development and implementation of a long-needed Federal information locator system.

The legislation is not limited to paperwork issues. In addition, it covers ADP, telecommunications, and privacy functions previously assigned to OMB. The functions in these areas were reemphasized to get OMB to take a stronger role in carrying out its assigned responsibilities. The legislation also returns the statistical policy function to OMB and establishes a new records management policy-setting and oversight function.

While it is important to establish policies and procedures to achieve significant savings in the long-run; there are some savings that can be realized by prompt Congressional action to eliminate some reporting requirements and practices that are no longer necessary. For example:

Contractors Submission of Weekly Payroll Records
on Federal Construction Projects.

The Department of Labor's regulations implementing the Copeland Anti-Kickback Act (40 U.S.C. 276(c) (1976) require contractors working on Federal or federally assisted construction projects subject to Davis-Bacon Wage requirements to submit weekly statements to the Federal Government on the wages paid to each employee.

As demonstrated in GAO's report entitled "The Davis-Bacon Act Should Be Repealed", (HRD-79-18; April 27, 1979), these requirements for weekly submission of payrolls are an unnecessary burden on both the contractors and contracting agencies, result in a substantial amount of unnecessary administrative costs for the contractors and the Government and serve very little purpose in enforcement of the Davis-Bacon Act. These costs to the contractors which are passed on to the Government have been estimated at about \$190 million a year.

S.3, introduced in the 97th Congress, provides for eliminating the weekly statement--a certification--of wages paid to each employee, but does not deal with the weekly submission of payroll records required by the Department of Labor's regulations. We suggested that S.3, or the related committee report, be revised to insure that submission of the payroll records be eliminated.

Classification of National Security Information

Executive Order 12065 specifies that Federal agencies review all classified records considered permanently valuable as they become 20 years old to determine if they can be declassified. However, most of the declassified records probably will not be requested by the public, and it is unlikely that the December 1988 deadline for completing the review will be met.

In GAO's report entitled "Systematic Review for Declassification--Do Benefits Exceed Costs?" (LCD-81-3; October 15, 1980) GAO recommended that the order be modified to require that only those records be reviewed which are specifically requested by the public and those likely to be requested. If the order is not modified the National Archives and Records Service, the Central Intelligence Agency, and the Department of Defense, Energy, and State anticipate spending \$88 million (\$11 million per year) in salaries and benefits during fiscal years 1981 through 1988 to systematically review information for declassification. A change would improve responsiveness and save money without changing the policy of openness in Government.

Federal Records Management Activities

The National Archives and Records Service (NARS) technical assistance program to help agencies improve records management practices is funded through reimbursements from agencies, not through NARS appropriations. Because NARS must obtain enough money to cover its staff salaries, it places emphasis on obtaining agency agreements to finance technical assistance projects. This limits its ability to establish priorities and use its staff more effectively.

GAO, in its report entitled "Program To Improve Federal Records Management Practices Should Be Funded By Direct Appropriations", (LCD-80-68; June 23, 1980), recommended direct appropriations for NARS to allow the agency the flexibility it needs to better fulfill its responsibilities for improving records management practices in the Government and provide greater accountability to the Congress.

The potential for achieving savings through a strengthened NARS was illustrated in GAO's report entitled "Federal Records Management: A History of Neglect", (PLRD-81-2; February 24, 1981). Some examples follow.

- In November 1979 NARS said that the Navy could save almost \$7 million annually in typist's' salaries along through better correspondence management.
- In 1978 NARS found that Air Force subcommands and bases were excessively supplementing command directions and estimated that a 25 percent reduction in lower echelon supplements will save \$6 million a year. The Air Force no longer permits this practice.
- The Environmental Protection Agency reduced a 37-page form to a 1-page form and used ADP equipment to complete part of it. Quantifiable benefits as of late 1977 amounted over \$1.2 million.

Legislative and administrative actions

The following actions are needed:

1. Congressional approval of the OMB budget request for implementation of the Paperwork Reduction Act of 1980.
2. Passage of legislation requiring elimination of the wages paid reporting requirement.
3. Executive action to change Executive Order 12035 to require review of classified records which are specifically requested by the public.
4. Executive and Congressional action to provide direct appropriation for the NARS technical assistance program.

Potential costs and savings

Additional costs will be incurred for staff at OMB. OMB has already included this in their budget request. The NARS reimburseable program is \$6 million; direct funding would increase NARS budget authority and outlays but would reduce those for the agencies they serve.

The potential cost reductions depend upon the number of reporting requirements eliminated or modified.

The elimination of the wages paid report would save about \$190 million in government construction costs and an unknown cost to the government agencies for reviewing and processing the data. The major savings would appear as lower construction costs for government projects administered by many different agencies.

The change in Executive Order 12065 would save about \$10 million per year for NARS, CIA, DOD, DOE and state.

These few examples and actions would result in at least \$200 million per year savings government-wide. We believe a concentrated effort to identify other unnecessary reports and to get them eliminated promptly could double the savings to \$400 million per year.

Support studies

Following are the major studies regarding paperwork reduction.

GAO Reports

Department of Agriculture: Actions Needed To Enhance Paperwork Management and Reduce Burden (GGD-80-14; March 10, 1980)

Program to Improve Federal Records Management Practices Should Be Funded By Direct Appropriations (LCD-80-68; June 23, 1980)

Systematic Review for Declassification Of National Security Information--Do Benefits Exceed Costs? (LCD-81-3; October 15, 1980)

Federal Records Management: A History Of Neglect (PLRD-81-2; February 24, 1980)

The Trucking Industry's Federal Paperwork Burden Should Be Reduced (GGD-81-32; March 3, 1981)

Paperwork Commission Report

Final Summary Report of the Commission on Federal Paperwork (October 3, 1977)
Contains Overall Findings and Recommendations and Summaries of 36 Individual Paperwork Studies

Congressional Reports

Senate Governmental Affairs Committee Report on the Paperwork Reduction Act of 1980 (September 8, 1980)
Includes Extensive List of GAO Studies on Paperwork and Other Issues Related to the Paperwork Reduction Act

DEFENSE LOGISTICS ECONOMIESNATURE OF THE PROBLEM

As set forth in our memorandum of January 21, 1981, to Secretary Weinberger* there are a variety of opportunities to effect economies in the logistical support of the military forces. Defense has continued to make such moves over the years in response to GAO recommendations, but there are six areas where even more vigorous action can produce greater savings than those declared so far by the new Secretary. The most controversial of these involve sharing or integration of support-type functions among the military services to reduce staffing and investment in facilities, equipment, and supplies. The six items are:

<u>Item</u>	1982 <u>Savings Potential**</u> (millions)	1983 <u>Savings Potential**</u> (millions)
1. Consolidate military base support activities	180	370
2. Finish consolidation of management of consummable supplies in Defense Logistics Agency	25	50
3. Consolidate management of aircraft depot maintenance activities	62	125
4. Consolidate intermediate maintenance of aircraft components in Europe	22	44
5. Integrate traffic management activities	12	25
6. Make full use of wholesale and retail inventories of parts	<u>62</u>	<u>125</u>
Total	363	739

* Reference A and B

** Reference C, More Savings Achievable in Later Years.

The documentation in respect to these actions appears in Reference A, B, and C. The Secretary, in his press release of March 6, 1981 (D) has announced plans for savings of \$100 million in FY 1982 and \$300 million in FY 1983 based on "elimination of inefficiencies in civilian manpower and base overhead." He has also advised GAO of ongoing studies, in respect to GAO's proposals, to consider the issue of impaired readiness. This is often a false argument which delays long-overdue actions. We feel that another \$200 to \$300 million in cost reductions can be achieved in FY 1982 over and above the \$100 million in the Secretary's plan.

LEGISLATIVE AND ADMINISTRATIVE ACTIONS

The action needed is a decision by the Secretary to move ahead aggressively on planning for the implementation of such actions where they are clearly cost effective, including pilot tests where necessary. To delay action plans pending further studies will, in our opinion, become an excuse for no action as it has in past years.

Congress could encourage affirmative progress by reducing the budget by \$200 to \$250 million and citing the opportunities discussed by GAO as the basis.

POTENTIAL COSTS AND SAVINGS

Discussed above and in Reference C.

SUPPORTING DOCUMENTS ARE DISCUSSED IN THE ABOVE

The following reference documents were provided the committee:

Reference A: Letter to Secretary Weinberger from Comptroller General, dated January 21, 1981; Subject: "Proposed Agenda of Significant Management Improvements and Cost Reduction Opportunities--Department of Defense."

Reference B: Supplementary notes to above letter.

Reference C: Insert for the record of House Budget Committee Task Force hearing on March 10, 1981; subject: "Discussion of Opportunities for Cost Reduction--DOD."

Reference D: SecDef press release dated March 6, 1981; subject: "Summary of FY 1981-1982 Savings."

DEFENSE MULTI-YEAR CONTRACTING

NATURE OF PROBLEM

GAO has testified and reported on the adverse impact on weapons costs which result from:

- Inadequate and inconsistent funding for weapons programs which, in turn, causes delays, efficiencies and cost growth.
- The lack of an "up front" commitment to a program which produces program stability, permits economical production runs, and provides the incentive to contractors to invest in labor-saving capital equipment which reduces costs and increases productivity.

This entire problem is discussed at length in our testimony before the House Budget Committee on March 10, 1981.

LEGISLATIVE AND ADMINISTRATIVE ACTION

Legislative action by the Congress is essential to authorize DOD to enter into multi-year procurement contracts, and to raise the current termination ceiling (in the event of cancellation) from the present level of \$5 million. A legislative proposal which would support multi-year procurement authority is H.R. 745, introduced on January 6, 1981. The \$5 million ceiling is dropped but a provision is retained requiring the Secretary concerned to advise the Congress in writing of any contract where a termination ceiling in excess of \$50 million is provided in the contract. Such a contract would not be awarded for a period of 30 days following such notification. Congress must stand fully behind such a commitment.

GAO has confirmed that there is strong and enthusiastic support for multi-year procurement authority among all components of DOD.

POTENTIAL COSTS AND SAVINGS

Estimates of various authorities indicate that up to 15 percent of unit costs can be saved through multi-year procurements, and more when competition can also be obtained.

The Commander of the Air Force Systems Command testified in November 1980 before the House Armed Services Committee as follows:

"Looking at six new potential multi-year candidates, which would cost a total of about \$13 billion on a

single year basis, I feel confident that we could achieve savings of well over \$1 billion if authorized to procure them on a multi-year basis."

On March 6, 1981, in his Press Release on cost savings, Secretary Weinberger stated:

"But there are even greater opportunities. The Military Departments have estimated that upwards of \$15 billion can be saved over the next five years by multi-year procurement, which will encourage capital investment, better planning, and more efficient production, and by eliminating barriers in the Small Business Act, Davis-Bacon Act and other regulatory restrictions."

POTENTIAL COSTS AND SAVINGS

GAO has estimated that within two years after legislative authority is provided, savings of as much as \$1 billion might be achieved, and that within five years these savings might be as much as \$3 billion. This is based on the assumption of a 10 to 15 percent unit cost reduction on selected major systems.

For FY 1982 Secretary Weinberger has already announced plans to increase production quantities for 17 systems in order to obtain the benefits of economy of scale. Savings of \$484 million have been announced for FY 1982.

If multi-year authority can be obtained promptly, it is possible that some multi-year arrangements for FY 1982 can be placed under contract and that savings over and above those already identified can be achieved. While there is no way of precisely estimating what this increase might be for FY 1982, we believe that an additional savings of \$150 million is conservative, with much greater savings in FY 1983 and beyond. The Secretary of Defense should be encouraged to advise the Committee of the true potential for these later years.

SUPPORTING DOCUMENTS

The documents referred to in Enclosure V "Logistical Economies" provide backup to this discussion on multi-year contracting. In addition to those documents, two more are:

Reference A - Testimony of Mr. Walton Sheley before the House Budget Committee on March 10, 1981, regarding multi-year contracting.

Reference B - H.R. 745.

POSSIBLE COST REDUCTIONS
IN OPERATION OF THE FOREIGN
MILITARY SALES PROGRAM

The Foreign Military Sales Program has grown from about \$1 billion in goods and services ordered in fiscal 1970 to over \$15 billion ordered in fiscal 1980. The value of unfilled orders was over \$53 billion as of September 1980.

NATURE OF THE PROBLEM

Because of the enormous size of this program, it is essential that the program be operated at no loss to the taxpayer as required by law. However, in prior years, the Department of Defense has made large subsidies to foreign countries under the Foreign Military Sales Program. By not charging foreign governments enough for equipment and spare parts, the Department is, in effect, subsidizing the sales with taxpayers' money.

During the past several years, GAO has issued many reports on the need to improve pricing and cost recoupment under the Foreign Military Sales Program. Although the Department has taken considerable corrective action based on previous GAO work and Congressional follow-up; cost recovery practices are still inadequate. The Department is still not following a policy of full cost recovery.

POTENTIAL ADDITIONAL SAVINGS AND COST

One of the basic guidelines provided in President Reagan's February 18, 1981, "Program for Economic Recovery" was the need to "Recover costs that can be clearly allocated to users." If a policy of full cost recovery from foreign countries participating in the Foreign Military Sales Program is adopted, estimated annual savings of \$100 - 300 million could be realized.

To achieve this annual savings additional resources will be needed. We have no way of estimating the additional costs that will be incurred in realizing this savings. We believe the primary cost would be for the development of a fully integrated, centralized accounting system for foreign military sales and the improvement of pricing systems.

LEGISLATIVE AND ADMINISTRATIVE ACTIONS

There are no specific legislative actions needed to realize the savings. The following administrative actions are necessary:

1. Recovery of administrative costs of supporting the Foreign Military Sales Program would reduce subsidies to foreign countries. Department of Defense has issued instructions that the military departments can only recover those costs which can be proven to vary with fluctuations in the sales program. These instructions prohibit the use of generally accepted cost allocation methods and conflicted with the policy of recovering costs that can be clearly allocated to users.
2. Improving Department of Defense pricing policies and practices would substantially reduce subsidies to the Foreign Military Sales Program. The military services continue to charge less than full replacement cost for items sold from inventories.
3. Better control over cost waivers on sales to foreign countries could result in additional recoveries of nonrecurring research and development costs and other costs associated with sales. The Department of Defense is not required to obtain approval or report to the Congress on the values of and reasons for cost waivers. Such information could result in strengthened congressional oversight and control of the sale program.
4. A more accurate Defense accounting system is needed to assure that amounts due the United States are fully and promptly collected. At the present time, the Department of Defense does not have adequate control over foreign military sales accounting and can not provide foreign countries with an accurate accounting for their funds deposited in trust fund accounts.

LISTING OF GAO REPORTS CONCERNING FOREIGN
MILITARY SALES

FGMSD-79-51
August 25, 1978

Defense's continued failure to properly price and bill for foreign military sales has resulted in large subsidies to foreign countries.

FGMSD-78-48A
September 26, 1978

Defense is not required to report to the Congress on the value and reason for cost waivers. Such information would strengthen congressional oversight and control of the sales program.

FGMSD-79-12
November 15, 1978

Correct balance of Navy's foreign military sales trust fund was unknown.

FGMSD-79-21
March 16, 1979

Defense systems of accounting for the value of foreign military sales were not accurate and needed improvement.

FGMSD-79-16
March 22, 1979

Defense had not charged for the quality assurance services it provides on equipment sold other countries.

FGMSD-79-31
May 15, 1979

Foreign governments had not been charged their fair share of inventory losses.

FGMSD-79-33
May 17, 1979

For years, Defense has had serious accounting and financial management problems in the Foreign Military Sales Program. As a long-term solution, Defense should develop a plan for centralizing accounting and financial management of the program.

FGMSD-79-36
June 1, 1979

Defense needed to closely monitor actions to charge foreign governments for the use of Government-owned assets on sale of items from inventory and to strengthen accounting and billing procedures.

FGMSD-79-47
July 25, 1979

Financial and legal implications of Iran's cancellation of its arms purchase agreements.

FGMSD-80-26
January 28, 1980

Questions concerning the Saudi Arabian trust fund, the operation of all U.S. military sales trust funds, and the need for a central clearinghouse for controlling disbursements from these trust funds.

FGMSD-80-47
June 3, 1980

Defense could not provide foreign governments with an accurate accounting for their funds deposited in trust accounts.

AFMD-81-28
January 30, 1981

Improvements are needed in the collection of and accounting for foreign countries funds deposited in the United States for arms purchasers.

<u>Major Program</u>	<u>Estimated Annual Savings for Fiscal Years</u>	
	82	84
	<u>(millions)</u>	
<u>Defense</u>		
<u>Foreign Military Sales</u>		
Full Recovery of Administrative Cost	\$ 60	\$ 240
Improved pricing of stock fund and secondary items	180	540
Better control over cost waivers	30	150
Improved collections through better accounting systems	<u>30</u>	<u>90</u>
TOTAL	<u>\$300</u>	<u>\$1,020</u>

Work Force Cost ControlNature of the problem

Congress and the President need to be able to effectively control the cost of the total work force through the budget process. However, the present budget classifications do not provide the Congress information on the total work force costs, which could be used for setting dollar level limitations on such costs, including employees salaries, fringe benefits, travel, and service contracts. Presently, most of the service contracts are included in an "other service" category which was more than \$90 billion in FY 1980. Several alternatives are available to the Federal Government to better manage and control its total work force costs, rather than the present piecemeal approaches--personnel ceilings, hiring freezes, limits on consultants, and others.

Any change to the procedures should establish an overall control of work force cost (broader than that now attempted by such arbitrary actions as personnel ceilings and hiring freezes) and should also provide the program managers the flexibility needed to use the type of mix of personal services that can best carry out their missions.

Legislative and administrative actions

A preferred alternative would be to revise the object classes in budget presentations. This would involve:

1. The establishment of several new object classes that would provide a clearer, more detailed breakdown of direct and indirect work force costs.
2. The revision of OMB and agency budget instructions, forms, and systems to accommodate the new object classes.
3. Adding to the executive and congressional budget decisionmaking the consideration of limitations on total work force costs through appropriation acts.

We recognize, however, that there are several drawbacks associated with this alternative, primarily the need for the executive branch to develop a detailed implementation plan and the time required to incorporate this new structure throughout the Federal Government. This will take several budget cycles to successfully accomplish. Thus, this alternative must be considered a long-term improvement.

Other alternatives which can also provide a more informative breakdown of Federal work force costs include:

- The modification or refinement of existing personnel and procurement data systems which could organize costs in a more informative presentation. Direct Federal cost data collection efforts by the Office of Personnel Management and the Federal Procurement Data System (FPDS), operated by the General Services Administration, can offer a basis from which a more detailed identification of both direct and indirect Federal work force costs can be made.
- Changes to the present budget subfunction groupings as well as the appropriation account classification system.
- The development of a totally new cost accumulation and reporting system that would provide for various work force cost data presentations and analyses.

Potential costs and savings

We have not estimated the savings achieved by more effective management of the total work force, nor the cost of the systems changes. However, if the changes in the object classification and reporting are made a part of the regular annual revision to the budget instructions and system changes the costs would be very small in relation to the present costs of administering separate and special limitations on personnel and travel and consultants. And, of course, the major savings would result from more efficient use and mix the total work force resources, Federal and contract employees.

Supporting documents

FPCD 76-88, June 2, 1977.

Comments on H.R. 4717, Hearings before the Subcommittee on Human Resources of the Committee on Post Office and Civil Service, House of Representatives, Sept. 11, 1979.

Comments on S. 2880, June 26, 1980, Budget Identification and Justification of Goods and Services Purchased from Private Contractors.

Comptroller General testimony before the House Budget Committee, March 3, 1981.

ENCLOSURE IX

GOVERNMENT-WIDE PROCUREMENT PRACTICES

NATURE OF THE PROBLEM

Government contracting for goods and services is one of the most pervasive and costly activities of Federal agencies and grantees. It is a subject of continuing attention by GAO, and by the Appropriation and Authorization Committees because, typically, 20 percent of the Federal budget is expended through the procurement process.

Of major concern to the Congress since the report of the Commission on Government Procurement in 1972 has been the need for greater uniformity, consistency, and simplification of the process, Government-wide. A legislative mandate has been enunciated to correct these inefficiencies as cited below.

Opportunities for economies are never ending in view of the millions of transactions which occur annually. A constant objective is the importance of increasing competition in Government procurement trends during the 1970s have been to less competition --which means the probability of higher prices. Sole source awards in Defense now are 64 percent.

Better planning of the annual procurement program; better management of the process; and higher skill and competence levels are essential objectives.

LEGISLATIVE AND ADMINISTRATIVE ACTIONS

In 1974 Congress established the Office of Federal Procurement Policy as recommended by the Commission on Government Procurement.

In 1979 this Act was extended by P.L. 96-83. The Administrator was directed to develop and submit to the Congress a proposal for a Uniform Procurement System (UPS), the goal of which is to acquire efficiently property and services of the requisite quality, within the time needed, at the lowest reasonable total cost, while utilizing competitive procurement methods. In accordance with the statute a proposal for the UPS was submitted to the Congress on October 27, 1980. The Committee of primary jurisdiction in the House is the Government Operations Committee under Chairman Brooks.

In accordance with P.L. 96-83 the OFPP must submit by October 1981 a statute to implement the UPS. Preparation for this is now proceeding in the Executive Branch; GAO is monitoring these actions in order to assist the Congress in assessing the proposals and to make suggestions of its own.

It is heartening to note that Secretary Weinberger in one of his first management improvement actions directed the Deputy Secretary to conduct a view of the acquisition process to:

- Reduce costs by looking for substantial and real savings in the acquisition of major weapon systems.
- Improve the acquisition process and make it more efficient and more effective.
- Increase the stability of programs so that long-range program finding is more predictable.
- Insure that appropriate long-range business strategies and planning tools are put in place to reduce unit costs.
- Increase the quality while decreasing the delivery time of military hardware and civilian services.

POTENTIAL COSTS AND SAVINGS

No comprehensive data have been developed. Multi-year contracting is perhaps the largest major economy in the near term. (See Enclosure VIII.) In addition we have suggested that the SecDef give early attention to increasing competition. He has announced cost reduction goals as follows:

	<u>Savings Goals in Millions</u>			
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1986</u>
Contracting Practices Reform	70	130	200	300

These savings are in addition to multi-year procurement, the elimination of Service marginal systems and productivity savings.

Goals for civilian agencies lie ahead and should be an early objective of the Office of Management and Budget and the OFPP, and the revitalized Inspector General program.

SUPPORTING DOCUMENTS

- Proposal for a Uniform Procurement System, Office of Federal Procurement Policy, October 27, 1980.

Replacing Obsolete ComputersNature of the problem

GAO recently reported (AFMD-81-9, December 15, 1980) that substantial immediate savings could be achieved if the Government got rid of its older computers and replaced them with more modern technology. The Government's inventory of medium and large-scale equipment is 98 percent pre-1975 technology, and the improvements made in recent years have in essence obsoleted equipment of this vintage. The report proposed a means by which agencies could replace such hardware. GAO's study did not cover small scale equipment, but much of this portion of the Federal inventory is also ancient, and there are savings to be made in this area as well by early replacement.

This situation has come about through a variety of factors:

- the major technological advances the computer industry has made in recent years, which have increased performance dramatically while reducing computational costs significantly.
- the fact that central agencies charged with the responsibility have not provided guidance to Federal agencies to help them determine when the point of economic obsolescence of their computers has been reached.
- the fact that computer managers have frequently become pre-occupied with the day-to-day problems of keeping the old equipment operating, and have failed to plan for the future.
- the torturous, time-consuming procurement path that agencies have been required to follow to obtain newer computers.
- the non-involvement of top agency management in key aspects of computer and information resource management, due in part to their lack of awareness of the great significance that the computer now plays in their agency's operations.

While GSA and OMB have taken some promising steps as a result of the GAO report, the magnitude of this problem mandates special Congressional action. Leaving the matter to the possible untimely action of individual agencies is unacceptable. Further, although OMB has expressed concern for the seriousness of this problem, recently it placed a temporary freeze on all procurements, including ADP equipment. Because of its negative impact on savings in this particular instance, GAO has urged OMB to grant an exception for replacing old computers.

Legislative and administrative actions

One approach that would allow for accelerated replacement would be to grant the exemption to the freeze by administrative action and to augment the ADP Fund, which is operated by GSA. This fund should be augmented with sufficient appropriations to purchase (or lease, when

more appropriate) new equipment to replace the existing hardware. Agencies which can demonstrate savings through such replacement will reimburse the Fund for its expenses from their existing appropriations (and deposit net savings in the first year from the changeover into Treasury's miscellaneous receipts account). No acquisitions will be approved unless savings are documented and binding financial arrangements are agreed to in advance. Immediate attention should be given to the more than 1,000 obsolete medium and large scale computers that are very old.

Potential costs and savings

The types of saving to be achieved include:

- reduced maintenance costs of new equipment. The new equipment requires far less maintenance attention.
- reduced costs for power and air conditioning. The new equipment uses far less of these precious resources.
- reduced personnel costs. The new equipment can be operated by fewer people.
- reduced space occupancy costs. The new equipment is physically far smaller, yet has the same capacity as the old equipment that it replaces.
- reduced costs of purchased timesharing. When the old equipment fails, and processing must be continued by other means, agencies have contracted for commercial timesharing services, at additional cost.

In just the four installations with 20 computers analyzed in detail, GAO found that \$1.4 million could be saved annually with newer equipment. While the GAO study calculated savings based on only the costs of maintenance, power, and cooling of the older owned equipment against leasing (including maintenance), power, and cooling of the new equipment, there are other benefits to be gained from updating computers. These include reduced personnel costs, reduced space occupancy costs, and other factors. When you consider that there are over 1,000 computers of similar vintage in the Federal inventory, the potential savings to the cost of Federal operations becomes extremely significant. Assuming most of the very obsolete computers can be replaced promptly at the same savings rates, the net savings in direct computer costs would be about \$70 million plus reduced personnel and space costs. This could exceed \$100 million in the first year. The ADP Revolving Fund would have to be augmented temporarily to cover the initial acquisitions before the reimbursements from agencies fully offset the cost, but this should occur during the first year and should not result in a net outlay by the Fund. Furthermore, to the extent GSA enters into leases rather than purchases, the initial outlays by the Fund would be minimal. The actual savings would occur in the agencies which now have obsolete computers.

Supporting Documents

- Excerpt from draft summary report of the Federal Data Processing Reorganization Project -- Recommendations 4 and 5.
- Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (AFMD-81-9, December 15, 1980).
- Federal Inventory of ADP Equipment.

Summary of Legislative Proposals

Following is a list of the specific legislative actions required to achieve the administrative improvements covered in this report. Congressional leadership and oversight of the actions required by administrative action is also important to full achievement.

<u>Specific Legislative Proposals</u>	<u>Pending bills</u>	<u>House Committee(s)</u>
1. Delinquent accounts:		
--Report to credit bureaus - removing obstacles	H.R. 1243, S. 61, and S. 591	HGOP/HJUD
--Charge interest on delinquent accounts and loans	S. 61	
--Use private collection firms	S. 61	
--Use of IRS locator service- remove restriction on redisclosure	S. 42 and S. 591	HWME
--Collecting by offset against other amounts due the same person, company, government, or other entity.	S. 42, S. 61 and S. 591	
--Remove 6-year statute of limitations	S. 42	
--Reporting debt information to OMB and to Congress	H.R. 1243, H.R. 749, and S. 591	HGOP/HJUD
2. Unpaid taxes		
--Augment IRS collection staff by 900 more - by appropriation	None	Appropriations
--Require use of market rate for delinquent amounts		

<u>Specific Legislative Proposals</u>	<u>Pending bills</u>	<u>House Committee(s)</u>
3. Unresolved audit findings: --Make sure resources are not diverted or cut from work on open audit finding prematurely	None	Appropriations

4. Paperwork reduction:

--Approval of OMB budget request for implementation of Paperwork Reduction Act of 1980	None	Appropriations
--Legislation to eliminate wages paid reporting requirement		
--Direct appropriation for NARS technical assistance program	None	Appropriations

Note: As specific reports are identified (by OMB and others) that are required by law, but are no longer needed or can be reduced in scope and burden, prompt legislative action will be needed to achieve the desired savings either by program, specific bills, or by omnibus bills if that would be practical.

5. Defense logistics:

--None - changes can be accomplished by strong administrative actions

6. Defense multi-year contracting:

H.R. 745

HASE

--Authorize the use of multi-year contracts and raise or remove the present \$5 million ceiling or termination.

7. Full cost recovery for Foreign Military Sales:

--None - actions can be taken administratively

<u>Specific Legislative Proposals</u>	<u>Pending bills</u>	<u>House Committee(s)</u>
8. Workforce cost control:		HPOC
--Changes in budget classifications and reporting can be made under existing authority or it could be directed by a new law as is being considered		
--Adopt practice of setting limitations (when needed) on total workforce cost rather than on elements of cost such as numbers of people, travel and consultations.		Appropriations
9. General procurement practices:		
--Legislative action is already underway to establish a uniform Procurement System under P.L. 96-83	None	HGOP
10. Replacing old, inefficient computers:		
--Augment ADP Revolving Fund to make purchases or leases and manage replacement	None	Appropriations

LEGISLATIVE PROPOSALS CONCERNING DEBT COLLECTION

<u>Bill No. & Title</u>	<u>Sponsors</u>	<u>Committee/ Subcommittee</u>	<u>Provisions of Bill</u>
S-42 Debt Collection Practices Improve- ments Act of 1981	SASSER	Governmental Affairs	<ol style="list-style-type: none"> 1. Permit offset of Federal salaries to collect general debts (5 U.S.C. 5514). 2. Permit redisclosure of address information obtained from IRS (26 U.S.C. 6103(m)(2)). 3. Amend (6 yr. statute of limitations to clarify that statute does not apply to admin. offset (28 U.S.C. 2415)).
S-61 Reduction of Federal Travel & Consultant	SASSER	Governmental Affairs	<ol style="list-style-type: none"> 1. Provides for funding for tax refund offset test by IRS. 2. Encourages use of credit bureaus and collection agencies. 3. Provides for reduction of travel and consultant expenses.
H.R. 1243 Debt Collection Act of 1981	BROOKS	Government Operations and Judiciary	<ol style="list-style-type: none"> 1. Amend Privacy Act (5 U.S.C. 552a) to allow reporting of debts to credit bureaus. 2. Provide for reporting of debt information to OMB and to Congress.
H.R. 749 Debt Collection Act of 1981	EDWARDS	Government Operations and Judiciary	<ol style="list-style-type: none"> 1. Amend Privacy Act (5 U.S.C. 552a) to allow reporting of debts to credit bureaus. 2. Provide for reporting of debt information to OMB and to Congress.

LEGISLATIVE PROPOSALS CONCERNING DEBT COLLECTION

<u>Bill No. & Title</u>	<u>Sponsors</u>	<u>Committee/ Subcommittee</u>	<u>Provisions of Bill</u>
S-591 Debt Collection Act of 1981	PERCY	Governmental Affairs	<ol style="list-style-type: none">1. Amend Privacy Act (5 U.S.C. 552a) to allow reporting of debts to credit bureaus.2. Provide for reporting of debt information to OMB and to Congress.3. Permit offset of Federal salaries to collect general debts.4. Permit redisclosure of IRS addresses.

Summary of Budget Changes by Function
(\$ in millions)

Enclosure XII
Revised 4/3/81

Function/Administrative Practice	Committee Jurisdiction House/Senate	Fiscal Year 1982		Fiscal Year 1983	Fiscal Year 1984	Cumulative	
		Gross Savings BA & Outs/Rec.	Added Funding	Net Savings BA & Outs/Rec.			
050 National Defense:	HASE/SASE						
Delinquent accounts and loans receivable		\$---/\$ 50	None	\$---/\$ 50	\$---/\$ 45	\$---/\$---	\$---/\$ 95
Unresolved audit findings		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Paperwork reductions		\$ 50/\$---	None	\$ 50/\$---	Unknown	Unknown	\$ 50+/\$---
Defense logistics economics		\$300/\$---	None	\$300/\$---	Unknown	Unknown	\$300+/\$---
Defense multi-year contracting		\$150/\$---	None	\$150/\$---	Unknown	Unknown	\$150+/\$---
Full cost recovery for foreign military		\$---/\$300	None	\$---/\$300	\$---/\$300	\$---/\$300	\$---/\$900+
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		\$500/\$350	None	\$500/\$350	\$---/\$345	\$---/\$300	\$500/\$995
250 General Science, Space, and Technology:							
Delinquent accounts and loans receivable		\$---/\$---	Unknown	\$---/\$---	\$---/\$---	\$---/\$---	\$---/\$---
Unresolved audit findings		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
270 Energy:	HEC/SEN, HAGR/SAGR						
Delinquent accounts and loans receivable		\$---/\$ 5	None	\$---/\$ 5	\$---/\$ 10	\$---/\$ 10	\$---/\$ 25
Unresolved audit findings		\$---/\$1,550	\$ 60	\$(60)/\$1,550	\$---/\$610	\$---/\$400	\$(60)/\$2,560

Function/Administrative Practice	Committee Jurisdiction House/Senate	Fiscal Year 1982			Fiscal Year 1983	Fiscal Year 1984	Cumulative
		Gross Savings BA & Outs/Rec.	Added Funding	Net Savings BA & Outs/Rec.			
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$---/\$1,555</u>	<u>\$ 60</u>	<u>\$(60)/\$1,555</u>	<u>\$---/\$620</u>	<u>\$---/\$410</u>	<u>\$(60)/\$2,585</u>
300 National Resources and Environment	HIIA/SENR, HPMT/SEPW						
Delinquent accounts and loans receivable		<u>\$---/\$ 10</u>	None	<u>\$---/\$ 10</u>	<u>\$---/\$ 5</u>	<u>\$---/\$ 5</u>	<u>\$---/\$ 20</u>
Unresolved audit findings		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Paperwork reductions		<u>\$ 20/\$---</u>	None	<u>\$ 20/\$---</u>	Unknown	Unknown	<u>\$ 20/\$---</u>
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$ 20/\$ 10</u>	<u>\$---/\$---</u>	<u>\$ 20/\$ 10</u>	<u>\$---/\$ 5</u>	<u>\$---/\$ 5</u>	<u>\$ 20/\$ 20</u>
350 Agriculture:	HAGR/SAGR						
Delinquent accounts and loans receivable		<u>\$---/\$ 25</u>	None	<u>\$---/\$ 25</u>	<u>\$---/\$ 55</u>	<u>\$---/\$ 40</u>	<u>\$---/\$120</u>
Unresolved audit findings		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$---/\$ 25</u>	<u>\$---/\$---</u>	<u>\$---/\$ 25</u>	<u>\$---/\$ 55</u>	<u>\$---/\$ 40</u>	<u>\$---/\$120</u>
370 Commerce and Housing Credit:	HBFU/SBHU, HAGR/SAGR, HSMB/SSMB						
Delinquent accounts and loans receivable		<u>\$---/\$200</u>	<u>\$ 25</u>	<u>\$(25)/\$200</u>	<u>\$(25)/\$310</u>	<u>\$(25)/\$270</u>	<u>\$(75)/\$780</u>
Unresolved audit findings		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Paperwork reductions		<u>\$100/\$---</u>	None	<u>\$100/\$---</u>	Unknown	Unknown	<u>\$100+/\$---</u>
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$100/\$200</u>	<u>\$ 25</u>	<u>\$100/\$200</u>	<u>\$(25)/\$310</u>	<u>\$(25)/\$270</u>	<u>\$ 25/\$780</u>

Function/Administrative Practice	Committee Jurisdiction House/Senate	Fiscal Year 1982			Fiscal Year 1983	Fiscal Year 1984	Cumulative
		Gross Savings BA & Outs/Rec.	Added Funding	Net Savings BA & Outs/Rec.			
400 Transportation: Delinquent accounts and loans receivable Unresolved audit findings Paperwork reductions Workforce cost control	HMMF, HEC/ SCST HPWT/SEPW	\$---/\$---	Unknown	\$---/\$---	\$---/\$---	\$---/\$---	\$---/\$---
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		\$ 10/\$---	None	\$ 10/\$---	Unknown	Unknown	\$ 10/\$---
		<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
		<u>\$ 10/\$---</u>	<u>\$---/\$---</u>	<u>\$ 10/\$---</u>	<u>\$---/\$---</u>	<u>\$---/\$---</u>	<u>\$ 10/\$---</u>
450 Community and Regional Development: Delinquent accounts and loans receivable Unresolved audit findings Workforce cost control	HBFU/SBAU, HAGR/SAGR, HSBU/SSMB	\$---/\$ 70	None	\$---/\$ 70	\$---/\$120	\$---/\$110	\$---/\$300
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
		<u>\$---/\$ 70</u>	<u>\$---/\$---</u>	<u>\$---/\$ 70</u>	<u>\$---/\$120</u>	<u>\$---/\$110</u>	<u>\$---/\$300</u>
500 Education, Training, Employment, and Social Services: Delinquent accounts and loans receivable Unresolved audit findings Paperwork reductions Workforce cost control	HELA/SLHR, HWME/SFIN	\$---/\$350	\$ 40	\$(40)/\$350	\$(50)/\$500	\$(50)/\$400	\$(140)/\$1250
		\$---/\$ 10	None	\$---/\$ 10	\$---/\$ 10	\$---/\$ 10	\$---/\$ 30
		\$ 20/\$---	None	\$ 20/\$---	Unknown	Unknown	\$ 20/\$---
		<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
		<u>\$ 20/\$360</u>	<u>\$ 40</u>	<u>\$(20)/\$360</u>	<u>\$(50)/\$510</u>	<u>\$(50)/\$410</u>	<u>\$(120)/\$1280</u>

Function/Administrative Practice	Committee Jurisdiction House/senate	Fiscal Year 1982			Fiscal Year 1983	Fiscal Year 1984	Cumulative
		Gross Savings BA & Outs/Rec.	Added Funding	Net Savings BA & Outs/Rec.			
550 Health: Delinquent accounts and loans receivable Unresolved audit findings Workforce cost control	HELA/SLHR, HMME/SFIN	\$---/\$---	Unknown	\$---/\$---	\$---/\$---	\$---/\$---	\$---/\$---
		\$---/\$ 30	None	\$---/\$ 30	Unknown	Unknown	\$---/\$ 30
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$---/\$ 30</u>		<u>\$---/\$ 30</u>			<u>\$---/\$ 30</u>
600 Income Security: Delinquent accounts and loans receivable Unresolved audit findings Work force cost control	HMME/SFIN HBFU/SBHU HELA/SLHR	\$---/\$245	\$ 30	\$(30)/\$245	\$(30)/\$320	\$(30)/\$150	\$(90)/\$715
		\$---/\$ 75	None	\$---/ 75	Unknown	Unknown	\$---/ \$ 75
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$---/\$320</u>	<u>\$ 30</u>	<u>\$(30)/\$320</u>	<u>\$(30)/\$320</u>	<u>\$(30)/\$150</u>	<u>\$(90)/\$790</u>
700 Veterans Benefits and Services: Delinquent accounts and loans receivable Unresolved audit findings Workforce cost control	HVAF/SVAF	\$---/\$140	None	\$---/\$140	\$---/\$200	\$---/\$110	\$---/\$450
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
		<u>\$---/\$140</u>		<u>\$---/\$140</u>	<u>\$---/\$200</u>	<u>\$---/\$110</u>	<u>\$---/\$450</u>

Function/Administrative Practice	Committee Jurisdiction House/Senate	Fiscal Year 1982			Fiscal Year 1983	Fiscal Year 1984	Cumulative
		Gross Savings BA & Outs/Rec.	Added Funding	Net Savings BA & Outs/Rec.			
800 General Government: Delinquent accounts and loans receivable	HWME/SFIN	\$---/\$---	Unknown	\$---/\$---	\$---/\$---	\$---/\$---	\$---/\$---
Unresolved audit findings		\$---/\$ 10	None	\$---/\$ 10	Unknown	Unknown	\$---/\$ 10
Workforce cost control		Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Replacing obsolete computers		\$100/\$---	1/	\$100 ² /---	Unknown	Unknown	\$100+/\$---
		\$100/\$ 10	1/	\$100 ² / \$ 10	\$---/\$---	\$---/\$---	\$100+/\$ 10
900 Interest: Interest	HWME/SFIN	\$---/\$500	None	\$---/\$500	\$---/\$200	\$---/\$400	\$---/\$1100+
Unpaid taxes	HWME/SFIN	\$---/\$320	\$ 20	\$(20)/\$320	\$(20)/\$600	\$(20)/\$600	\$(60)/\$1520
Undistributed offsetting receipts							
Unresolved audit findings		\$---/\$385	None	\$---/\$385	\$---/\$210	\$---/\$110	\$---/\$705
			\$375 BA				
		\$750/4275	\$175 Outs	\$575/\$4275	\$(125)/\$3495	\$(125)/\$2915	\$325/10,685
Totals		\$5,025	\$175	\$4,850	\$3,370	\$2,790	\$11,010

1/\$200 million additional borrowing authority for the ADP revolving fund - increases BA only; no added outlays.

2/\$100 million savings in outlays and \$200 added BA.