May 2004

OPPORTUNITIES FOR CONGRESSIONAL OVERSIGHT AND IMPROVED USE OF TAXPAYER FUNDS

Budgetary Implications of Selected GAO Work
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May 7, 2004

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

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

This report contains in a single document the budgetary implications of selected program reforms discussed in past GAO work but not yet implemented or enacted. Since 1994, we have prepared annual reports similar to this product, in order to continue to assist congressional committees in identifying approaches to reduce federal spending or increase revenues. This year’s report contains over 100 examples of budget options organized by budget function. Where possible, budgetary savings estimates provided by the Congressional Budget Office (CBO) or the Joint Committee on Taxation (JCT) are presented. The conventions used by CBO and JCT to estimate budgetary savings are described in appendix I.

Following the events of September 11, 2001 and the return of unified budget deficits in fiscal year 2002, the Congress and the administration face both immediate and long-term challenges. In the near term, Congress and the administration are faced with the challenge of combating terrorism and ensuring the security of our homeland. In the long term, the nation faces immense fiscal and economic pressures created by known demographic trends and rising health care costs. Both new commitments undertaken after September 11 and longer-term pressures sharpen the need to look at competing claims and new priorities. As we have noted in a recent testimony,¹ there is a need to begin reexamining the base of government

programs, policies, and operations to make government more effective and relevant to a changing society.

In this report, we highlight opportunities for, and specific examples of, legislative and administrative change that might yield budgetary savings. These budget options are based on past GAO work. While this report is not intended to represent a complete summary of all possible options, it does provide specific examples that demonstrate the programmatic and fiscal oversight needed as our nation’s priorities are reassessed in light of short and long-term challenges.

As consistent with our prior budgetary implications reports, we have organized the options presented in this report as falling in one of the following three areas:

- **Reassess objectives**: Options for reconsidering whether to terminate or revise services and programs because goals have been achieved, have been persistently not met, or are no longer relevant due to changing conditions.

- **Redefine beneficiaries**: Options for revising formulas or eligibility rules or improving the targeting of benefits or fees.

- **Improve efficiency**: Options to address program execution problems through consolidation, reorganization, improving collections methods, or attacking high-risk activities.

The specific options described in each example are not intended to suggest the only way to address some of the significant problems identified in our reviews of federal programs and activities. Each example presents only one of many possible options available to the Congress, and including a specific option in this report does not mean that we endorse it or that the chosen option is the only or the most feasible approach.

Options in this report include a listing of relevant GAO reports and testimonies and a GAO contact. Although we derived the examples in this report from our existing body of work, there are similarities between the specific options presented in this report and other proposals. For example,
some options contained in this report have also been included in CBO's annual spending and revenue options publication.\textsuperscript{2}

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

This report was prepared under the coordination of Paul L. Posner, Managing Director, and Susan J. Irving, Director, Federal Budget Analysis, Strategic Issues, who may be reached at (202) 512-9573 or (202) 512-9142, respectively. Specific questions about individual options may be directed to the GAO contact listed with each option.

\[\text{Signature}\]

David M. Walker  
Comptroller General  
of the United States

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) provided cost estimates where possible for many of our options. As in our April 2002 report, a brief explanation is included with the option if specific estimates could not be provided. Where estimates are provided, the following conventions were followed:

- For revenue estimates, the increase in collections reflects what would occur, over and above amounts due under current law, if the option were enacted. Most of the estimates come from the JCT, although a few were produced by CBO.

- For direct spending programs, estimated savings show the difference between what the program would cost under the CBO baseline, which assumes continuation of current law, and what it would cost after the suggested modification.

- For discretionary spending programs the estimates show savings compared to the fiscal year 2004 funding level adjusted for inflation. Savings for most defense options are estimated relative to DOD's planned program levels.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in details of specific proposals, changes in assumptions that underlie the analyses, and updated baselines can all lead to significant differences in estimates.

Finally, some of the options could not be scored by CBO or JCT. Several of these involve management improvements that we believe can contribute to reduced spending or increased revenues but whose effects are too uncertain to be estimated. A few options are not estimated because they concern future choices about spending that are not currently in the baseline used to calculate annual spending and revenue. In other cases, savings are likely to come in years beyond the 10-year estimation period that CBO uses.

1 The options were not scored in our August 2003 report. Instead, we reported whether or not the CBO estimate was included in the April 2002 report.

2 For a complete discussion of the uses and caveats of the CBO estimates, see CBO's report, *Budget Options* (March 2003).
As consistent with our previous past budgetary implications reports, this appendix groups our options in one of three broad themes: reassess objectives, redefine beneficiaries, and improve efficiency. These three themes are based on an implicit set of decision rules that encourage decision makers to think systematically, within an ever-changing environment, about

- what services the government provides or should continue to provide,
- for whom these services are or should be provided, and
- how services are or should be provided.

Reassess Objectives

The first theme focuses on the objectives of federal programs or services. These options (see table 1) offer opportunities to periodically reconsider a program’s original purpose, the conditions under which it continues to operate, and whether its cost effectiveness is appropriate. Our work suggests three decision rules that illustrate this strategy.

Programs can be considered for termination if they have succeeded in accomplishing their intended objectives or if it is determined that the programs have persistently failed to accomplish their objectives.

Programs can be considered for termination or revision when underlying conditions change so that the original objectives may no longer be valid.

Programs can be reexamined when cost estimates increase significantly above those associated with original objectives, when benefits fall substantially below original expectations, or both.

For example, aircraft carrier strike groups are the centerpiece of the Navy’s surface force and significantly influence the size, composition, and cost of the fleet. Our analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier groups’ traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on battle groups centered around increasingly capable amphibious assault ships, surface combatants and Trident Nuclear-Powered Guided Missile Submarines for overseas presence and crisis response.
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Source: GAO analysis.
Redefine Beneficiaries

The second theme focuses on the intended beneficiaries for federal programs or services (see table 2). The Congress originally defines the intended audience for any program or service based on some perception of eligibility and/or need. To better reflect and target increasingly limited resources, these definitions can be periodically reviewed and revised. Our body of work suggests four decision rules that illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.

- Eligibility rules can be revised, without altering the objectives of the program or service.

- Fees can be targeted to individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that the direct beneficiaries share a greater portion of a program’s cost.

- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

For example, at a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with fewer needs and greater capacity to absorb cuts. Federal grant formulas could be redesigned to lower federal costs by disproportionately reducing federal funds to states and localities with the strongest tax bases and fewer needs, as shown in our option on formula grants.
### Table 2: Redefine Beneficiaries

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<td>Index Excise Tax Rates for Inflation</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

**Improve Efficiency**

The third theme addresses how the program or service is delivered (see table 3). This strategy suggests that focusing on the approach or delivery
method can significantly reduce spending or increase collections. Our body of work suggests the following decision rules that illustrate this strategy.

- Reorganizing and consolidating programs or activities with similar objectives and audiences can eliminate duplication and improve operational efficiency.

- Using reengineering, benchmarking, streamlining, and other process change techniques can reduce the cost of delivering services and programs.

- Using performance measurement and generally improving the accuracy of available program information can promote accountability and effectiveness and reduce errors.

- Attacking activities at risk of fraud, waste, abuse, and mismanagement.

- Improving collection methods and ensuring that all revenues and debts owed are collected can increase federal revenues.

- Establishing market-based prices can help the government recover the cost of providing services while encouraging the best use of the government’s resources.

As an illustration of this theme, in May 2000, GAO reported that the Department of Veterans Affairs (VA) and the Department of Defense (DOD) provide health care services to more than 12 million beneficiaries at a cost of about $34 billion annually; in 2003, the cost was nearly $50 billion annually. Over the past two decades, DOD and VA have entered into a sharing program that has yielded benefits in both dollar savings and qualitative gains, illustrating what can be achieved when the two agencies work together to identify where excess capacity and cost advantages exist. However, although VA and DOD continue to share resources to provide quality and cost-effective health care services, existing sharing agreements are not being taken full advantage of and additional sharing opportunities could be pursued. Long-standing barriers continue to present challenges for future collaboration and cost efficiencies, such as the current inability of VA and DOD to electronically share health data information in a two-way exchange. Given the changing health care environment, the criteria and conditions that make resource sharing a cost-effective option for the federal government need to be reviewed and strategies for sharing...
rethought. VA and DOD need to work together to determine an appropriate course of action to ensure that resource-sharing opportunities are realized.

<table>
<thead>
<tr>
<th>Budget function</th>
<th>Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>050</td>
<td>Acquire Conventionally Rather Than Nuclear-Powered Aircraft Carriers</td>
</tr>
<tr>
<td>050</td>
<td>Reorganize C-130 Reserve Squadrons</td>
</tr>
<tr>
<td>050</td>
<td>Continue Defense Infrastructure Reform</td>
</tr>
<tr>
<td>050</td>
<td>Improve DOD Procurement Practices Regarding Canceling Orders</td>
</tr>
<tr>
<td>050</td>
<td>Revising Occupancy Policies Could Reduce Barracks Requirements</td>
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<tr>
<td>050</td>
<td>Reduce Construction Cost of Military Barracks</td>
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<tr>
<td>050</td>
<td>Reduce the Corrosion of Military Assets</td>
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<tr>
<td>050</td>
<td>Address Overpayments to Defense Contractors</td>
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<tr>
<td>050</td>
<td>Require DOD Report Its Progress in Implementing the Debt Collection Improvement Act of 1996 (DCIA)</td>
</tr>
<tr>
<td>050</td>
<td>Improve the Administration of Defense Health Care</td>
</tr>
<tr>
<td>050</td>
<td>Seek Additional Opportunities for VA and DOD to Increase Joint Activities to Enhance Services to Beneficiaries and Reduce Costs</td>
</tr>
<tr>
<td>150</td>
<td>Streamline U.S. Overseas Presence</td>
</tr>
<tr>
<td>270</td>
<td>Improve the Department of Energy’s Management of Its Capital Asset Acquisition, Weapons Refurbishment, and Site Cleanup Projects</td>
</tr>
<tr>
<td>270</td>
<td>Reduce the Costs of the Rural Utilities Service’s Electricity Loan Program</td>
</tr>
<tr>
<td>300</td>
<td>Reassess Federal Land Management Agencies’ Functions and Programs</td>
</tr>
<tr>
<td>350</td>
<td>Consolidate Common Administrative Functions at the U.S. Department of Agriculture</td>
</tr>
<tr>
<td>350</td>
<td>Further Consolidate the U.S. Department of Agriculture’s County Offices</td>
</tr>
<tr>
<td>370</td>
<td>Reduce Federal Housing Administration’s Insurance Coverage</td>
</tr>
<tr>
<td>370</td>
<td>Merging Department of Agriculture and Department of Housing and Urban Development Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs</td>
</tr>
<tr>
<td>370</td>
<td>Consolidate Homeless Assistance Programs</td>
</tr>
<tr>
<td>370</td>
<td>Reorganize and Consolidate Small Business Administration’s Administrative Structure</td>
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<tr>
<td>370</td>
<td>Improve Reviews of Small Business Administration’s Preferred Lenders</td>
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<tr>
<td>400</td>
<td>Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities</td>
</tr>
<tr>
<td>400</td>
<td>Convert Some Support Officer Positions to Civilian Status</td>
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<tr>
<td>400</td>
<td>Improve the Coordination of Transportation Services for Transportation-Disadvantaged Populations</td>
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<tr>
<td>450</td>
<td>Improve Federal Foreclosure and Property Sales Processes</td>
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<tr>
<td>500</td>
<td>Change Borrower Interest Rate on Federal Consolidation Loans From Fixed to Variable</td>
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<td>550</td>
<td>Control Provider Enrollment Fraud in Medicaid</td>
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<td>Create a Uniform Federal Mechanism for Food Safety</td>
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(Continued From Previous Page)

<table>
<thead>
<tr>
<th>Budget function</th>
<th>Option</th>
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<tbody>
<tr>
<td>570</td>
<td>Adjust Medicare Payment Rates to Reflect Changing Technology, Costs, and Market Prices</td>
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<td>570</td>
<td>Increase Medicare Program Safeguard Funding</td>
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<tr>
<td>570</td>
<td>Modify the New Skilled Nursing Facility Payment Method to Ensure Appropriate Payments</td>
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<tr>
<td>570</td>
<td>Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System</td>
</tr>
<tr>
<td>570</td>
<td>Allow Provisions for Direct Laboratory Payment for Certain Medicare Pathology Services to Expire</td>
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<tr>
<td>570</td>
<td>Require Information on Enrollees from Private Health Insurers to Improve Identification of Medicare Beneficiaries with Other Health Coverage</td>
</tr>
<tr>
<td>600</td>
<td>Improve Social Security Benefit Payment Controls</td>
</tr>
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<td>600</td>
<td>Simplify Supplemental Security Income Recipient Living Arrangements</td>
</tr>
<tr>
<td>600</td>
<td>Sustain/Expand Range of SSI Program Integrity Activities</td>
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<td>600</td>
<td>Improve the Administrative Oversight of Food Assistance Programs</td>
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<tr>
<td>600</td>
<td>Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems</td>
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<tr>
<td>700</td>
<td>Reassess Unneeded Health Care Assets within the Department of Veterans Affairs</td>
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<td>700</td>
<td>Reducing VA Inpatient Food and Laundry Service Costs</td>
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<td>800+</td>
<td>Taking a Strategic Approach Could Improve Federal Agencies' Acquisition of Supplies and Services</td>
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<td>800+</td>
<td>Improper Benefit Payments Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared</td>
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<td>Increase Fee Revenue from Federal Reserve Operations</td>
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<td>800+</td>
<td>Eliminate the 1-Dollar Note</td>
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<td>800+</td>
<td>Better Target Infrastructure Investments to Meet Mission and Results-Oriented Goals</td>
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<td>800+</td>
<td>Identify and Dispose of Unneeded Real Property Assets Held by GSA</td>
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<tr>
<td>800+</td>
<td>Consolidate Grants for First Responders to Improve Efficiency</td>
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<td>Receipt</td>
<td>Enhance Nontax Debt Collection Using Available Tools</td>
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<tr>
<td>Receipt</td>
<td>Require Corporate Tax Document Matching</td>
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<tr>
<td>Receipt</td>
<td>Improve Administration of the Tax Deduction for Real Estate Taxes</td>
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<tr>
<td>Receipt</td>
<td>Increase Filing of Returns by U.S. Citizens Living Abroad</td>
</tr>
<tr>
<td>Receipt</td>
<td>Increase the Use of Seizure Authority to Collect Delinquent Taxes</td>
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<tr>
<td>Receipt</td>
<td>Increase Collection of Self-employment Taxes</td>
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<tr>
<td>Receipt</td>
<td>Increase the Use of Electronic Funds Transfer for Installment Tax Payments</td>
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<td>Receipt</td>
<td>Reduce Gasoline Excise Tax Evasion</td>
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<tr>
<td>Receipt</td>
<td>Improve Independent Contractor Tax Compliance</td>
</tr>
<tr>
<td>Receipt</td>
<td>Expand the Use of IRS's TIN-Matching Program</td>
</tr>
<tr>
<td>Receipt</td>
<td>Improve Administration of the Federal Payment Levy Program</td>
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</table>

Source: GAO analysis.
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

050 National Defense

- Reduce the Number of Carrier Strike Group Expansions and Upgrades
- Acquire Conventionally Rather Than Nuclear-Powered Aircraft Carriers
- Reorganize C-130 Reserve Squadrons
- Continue Defense Infrastructure Reform
- Improve DOD Procurement Practices Regarding Canceling Orders
- Revising Occupancy Policies Could Reduce Barracks Requirements
- Reduce Construction Cost of Military Barracks
- Reduce the Corrosion of Military Assets
- Limit Commitment to Production of the F/A-22 Fighter until Operational Testing Is Complete
- Reassess Business Cases for Selected Weapon Systems Before Making Further Investments
- Address Overpayments to Defense Contractors
- Require DOD Report Its Progress in Implementing the Debt Collection Improvement Act of 1996 (DCIA)
- Improve the Administration of Defense Health Care
- Seek Additional Opportunities for VA and DOD to Increase Joint Activities to Enhance Services to Beneficiaries and Reduce Costs
### Reduce the Number of Carrier Strike Group Expansions and Upgrades

<table>
<thead>
<tr>
<th>Primary agency</th>
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<tbody>
<tr>
<td>Accounts</td>
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<td>Discretionary</td>
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<td>051/Department of Defense—Military</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
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</table>

Aircraft carrier strike groups are the centerpiece of the Navy’s surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single Navy carrier strike group is about $2.2 billion (in fiscal year 2004 dollars) and is likely to increase as older units are replaced and modernized. The strike group includes the carrier and its air wing, and the cruisers, destroyers and other ships that accompany the carrier during its deployment, as well as the costs to support the carrier strike group. The Navy has several costly ongoing carrier-related programs: one nuclear-powered Nimitz-class carrier is under construction ($5.2 billion); a research and development program ($3.6 billion) for a new nuclear-powered carrier design is underway; production ($8.7 billion) of that new carrier is set to begin in 2007; and the second ship of the 10-ship Nimitz-class began its 3-year refueling complex overhaul in 2001 ($2.5 billion) and the third ship is scheduled to begin in 2006. AEGIS destroyers are being procured and the next generation of surface combatants is being designed; and carrier-based aircraft are expected to be replaced/upgraded by a new generation of strike fighters and mission support aircraft throughout the next decade.

Our analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier groups’ traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on strike groups centered around increasingly capable amphibious assault ships, surface combatants and Trident SSGNs for overseas presence and crisis response.

CBO estimates that savings could total $3.7 billion over the 2005-2009 period from retiring one aircraft carrier (CVN-70), and one carrier air wing. This estimate includes savings from foregoing the overhaul ($2.4 billion) and savings from not operating the carrier ($1.3 billion).
### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
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<tbody>
<tr>
<td>Savings from the 2004 defense plan</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Budget authority</td>
<td>640</td>
<td>1,440</td>
<td>720</td>
<td>0</td>
<td>900</td>
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<tr>
<td>Outlays</td>
<td>430</td>
<td>600</td>
<td>800</td>
<td>720</td>
<td>1,030</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: The Navy's plans call for production of a replacement carrier (CVN-21) in 2007 and a refueling complex overhaul of an existing carrier (CVN-70) in 2006. This option would continue the production of the CVN-21 carrier but would retire the CVN-70 in 2005.

### Related GAO Products


### GAO Contact

Henry L. Hinton, Jr., (202) 512-4300
Acquire Conventionally Rather Than Nuclear-Powered Aircraft Carriers

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

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

The United States maintains a continuous presence in the Pacific region by homeporting a conventionally powered carrier in Japan. If the Navy switches to an all-nuclear carrier force, it would need to homeport a nuclear-powered carrier there to maintain the current level of worldwide overseas presence with a 12-carrier force. Homeporting a nuclear-powered carrier in Japan could prove difficult and costly because of the need for
support facilities, infrastructure improvements, and additional personnel.\(^1\)

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

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

In assessing design concepts for the next class of aircraft carriers—and consistent with the Navy’s objectives to reduce life-cycle costs by 20 percent—our analysis indicates that national security requirements can be met at less cost with conventionally powered carriers rather than nuclear-powered carriers.

CBO estimates that savings could be achieved if the Congress chose to acquire a conventionally powered carrier in 2007 instead of a nuclear-powered carrier.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
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</thead>
<tbody>
<tr>
<td>Dollars in millions</td>
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<tr>
<td>Savings from the 2004 defense plan</td>
</tr>
<tr>
<td>Budget authority</td>
</tr>
<tr>
<td>Outlays</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: The Navy’s plans call for production of a replacement carrier (CVN-21) in 2007 and a refueling complex overhaul of an existing carrier (CVN-70) in 2006. This option would replace the CVN-21 carrier with a CVX carrier.

\(^1\)The State Department has noted that the entry of nuclear-powered vessels into Japanese ports remains sensitive in Japan and there would have to be careful consultations with the government of Japan should the U.S. Government wish to homeport a nuclear-powered carrier in Japan.
## Related GAO Products


## GAO Contact

Henry L. Hinton, Jr., (202) 512-4300
Reorganize C-130 Reserve Squadrons

<table>
<thead>
<tr>
<th>Primary agency</th>
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<td>051/Department of Defense—Military</td>
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<tr>
<td>Theme</td>
<td>Improve efficiency</td>
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</table>

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

The Air Force could reduce costs and meet peacetime and wartime commitments if it reorganized its reserve component C-130 aircraft into larger squadrons and wings at fewer locations. These savings would primarily result from fewer people being needed to operate these aircraft. For example, we reported in 1998 that redistributing 16 C-130 aircraft from two 8-aircraft reserve wings to one 16-aircraft reserve wing could save about $11 million dollars annually. This reorganization could eliminate about 155 full-time positions and 245 part-time positions; the decrease in full-time positions is especially significant, since the savings associated with these positions represents about $8 million, or 75 percent of the total savings. Fewer people would be needed in areas such as wing headquarters, logistics, operations, and support group staffs as well as maintenance, support, and military police squadrons.²

Several alternatives could be developed to redistribute existing reserve component C-130 aircraft into larger squadrons. Sufficient personnel could be recruited for the larger squadrons, and most locations’ facilities could be

²To the extent that alternatives are selected that would cause civilian personnel reductions that exceed the thresholds established in 10 U.S.C. 2687, the department would have to follow the procedures provided in that section.
inexpensively expanded to accommodate the unit sizes. Overall savings will depend on the organizational model selected, but each should produce savings to help make additional funding available for force modernization. The alternative that requires the most reorganizing would increase the squadron size to 16 aircraft for the C-130 by redistributing aircraft from 13 C-130 squadrons to other squadrons.

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
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</thead>
<tbody>
<tr>
<td>Dollars in millions</td>
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<tr>
<td>FY05</td>
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<tr>
<td>Savings from the 2004 defense plan</td>
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<tr>
<td>Budget authority</td>
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<tr>
<td>Outlays</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Product


GAO Contact

Henry L. Hinton, Jr., (202) 512-4300
Continue Defense Infrastructure Reform

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Defense</th>
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<tr>
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</tbody>
</table>

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

Secretary of Defense Rumsfeld announced his own management reform program in 2001, referred to as the DOD Business Transformation program, also with the intent of improving the effectiveness and efficiency of the department’s business operations. The new management structure—led by the Senior Executive Council and the Business Initiative Council—recommends ways to improve DOD’s business activities and transform the U.S. military into a 21st century fighting force. The Senior Executive Committee, which includes the Secretary and deputy secretaries of Defense and the service secretaries, is expected to meet monthly and use its members’ unique qualifications as business leaders to recommend changes to DOD’s business practices. The second committee, the Business Initiative Council, also includes the service secretaries but is chaired by the Under Secretary of Defense for Acquisition, Technology, and Logistics. Its

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DOD defines infrastructure as those activities that provide support services to mission programs, such as combat forces, and primarily operate from fixed locations. They include such program elements as installation support, acquisition infrastructure, central logistics, central training, central medical, and central personnel.
mission is to recommend good business practices and achieve cost savings that will help pay for other DOD priorities. While council members have put forth many new initiatives, they also have endorsed several initiatives that were part of the DRI program (e.g., family housing and utilities privatization and public-private competitions under the Office of Management and Budget's Circular A-76). Further, most of the other DRI initiatives have continued, although not under the direct oversight of the new business transformation structure. The new councils plan to offer opportunities to fundamentally change DOD's business practices and reduce infrastructure costs.

Despite the change in the management structure, a number of old initiatives continue. However, progress in achieving the goals is mixed, as the following illustrate. A major efficiency initiative is to subject 226,000 government positions to public-private competition using OMB Circular A-76 or to subject those positions to alternative sourcing such as partnering or divestiture. Competitive sourcing is one of the five governmentwide initiatives in the President's Management Agenda. Under this initiative, OMB directed agencies to compete 15 percent of positions deemed commercial in their fiscal year 2000 Federal Activities Inventory Reform Act inventories by the end of fiscal year 2003, with the ultimate goal of at least 50 percent through fiscal year 2008. DOD reported that as of June 1, 2003 it has met OMB's short-term goal. While OMB has revised its goals to allow each agency flexibility in order to better reflect agency missions, DOD's goal is to meet the 50 percent target by 2009. Regardless, this longer-term goal could be a challenge, requiring completion of a significantly larger number of positions for study than has actually been completed in a similar period in the past. DOD has not attached savings targets to these goals, although it has in the past. Nevertheless, we have noted that these efforts can produce significant savings regardless of whether governmental organizations or private contractors win the competitions. However, we have raised questions about the precision of DOD's past savings estimates and the likelihood that the savings will not be realized as quickly as projected. Congress authorized a base realignment and closure (BRAC) round in 2005 to reduce unneeded infrastructure and free up funds for readiness, weapon modernization, and other needs. DOD projects that base closure rounds could save several billion dollars annually once realignment and closure actions are completed and the costs of

implementing the actions are offset by savings. While we have previously raised questions about the precision of DOD’s savings estimate, our work has nevertheless shown that the department will realize net annual recurring savings once initial investment costs from implementing realignment and closure decisions have been offset.

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

CBO was not able to determine the budgetary effect of this option.

Related GAO Products


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


GAO Contact
Henry L. Hinton, Jr., (202) 512-4300
As of September 30, 2002, Department of Defense (DOD) records showed that the department had inventory on order valued at about $1.75 billion that would not have been ordered based on current requirements. We have issued several reports in the past few years highlighting weaknesses in the department’s requirements determination processes for materials and its procedures for canceling orders for items that are no longer needed. We reported in May 2003 that the causes most frequently cited by DOD inventory managers for excess inventory are (1) buildup of repair parts to support a new program or for a retrofit, modification, upgrade, or replacement; (2) foreign military sales program requirements; (3) low or decreasing demand for a specific part; and (4) retirement or phasing out of an aircraft. We also reported in May 2001 that the Army was unable to accurately identify its requirements for war reserve spare parts because (1) it was not using the best available data concerning the rate at which spares would be consumed during wartime and (2) a potential mismatch existed between how the Army determined spare parts requirements for war reserves and how the Army plans to repair equipment on the battlefield.

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

The Congress may wish to continue to monitor the DOD’s annual reports on the value of its unneeded inventory in order to ensure that the value continues to decrease. In addition, the Congress could consider requiring that the department’s logistics transformation initiatives include (1) enhancements to its models for computing inventory requirements to ensure greater accuracy and (2) more efficient procedures for canceling orders it determines are no longer needed.
CBO was not able to determine the budgetary effect of this option.

Related GAO Products


GAO Contact

William Solis, (202) 512-8365
Revising Occupancy Policies Could Reduce Barracks Requirements

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

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

GAO recommended that DOD revise its barracks occupancy guidance based, at least in part, on the results of objective, systematic analyses that consider the contemporary needs of junior servicemembers, quality-of-life issues, the services’ mission requirements, and other relevant data to determine who should be required to live in barracks on base or permitted to reside off base and seek to ensure greater consistency in requirements among the military services to the extent practical. DOD agreed, in principle, to base the department’s barracks policy revision and the
services’ barracks occupancy requirements—at least in part—on the results of systematic analyses, but left unclear the extent to which it is likely to do so. GAO continues to believe that, given the variations noted in the report, the services’ requirements determinations should be supported with more objective analyses to the extent practical. An option for Congress is to require DOD to revise its barracks occupancy guidance according to our above recommendation, lowering significantly the future construction and operation costs for barracks.

Although CBO agrees that the option may result in savings, it could not develop a savings estimate for this option.

Related GAO Products


GAO Contact

Barry W. Holman, (202) 512-8412
Reduce Construction Cost of Military Barracks

In June 2003, GAO reported that opportunities existed to reduce costs of constructing barracks through adoption of private-sector construction practices. Traditional barracks construction practices call for the use of steel frame, concrete, and cement block. Similar multi-unit housing in the private sector, such as college dormitories and hotels, normally use construction practices that include the use of wood frame construction.

The Army estimated that the use of private-sector wood frame construction instead of steel frame, concrete, and cement block could reduce barracks construction costs by 23 percent, or about $11,200 per occupant. Because of its lower initial construction costs and comparable operations and maintenance costs, Army analyses also indicate that total lifetime costs for barracks constructed with private-sector construction practices would be less than barracks using traditional construction practices. For example, the Army estimated that using residential construction practices will cost from $12,600 to $31,800 less per occupant at its pilot project under construction at Fort Meade, Maryland. However, barriers—including unanswered questions about durability and the ability of wood-frame barracks to meet all antiterrorism force protection requirements—have prevented widespread adoption of these cost saving private-sector practices.

GAO recommended that the military services jointly undertake an engineering study to resolve questions about use of private-sector construction practices for barracks. We also recommended that, if the engineering study shows that barracks built with private-sector construction practices can economically meet all force protection requirements, the military services adopt to the maximum extent practical private-sector construction practices for future barracks projects. DOD stated that it supports the study and that the Army Corps of Engineers had
begun a study of private-sector construction practices and compliance with antiterrorism force protection requirements for barracks.

One option for Congress, providing that the engineering studies show that barracks built with residential construction practices can economically meet all force protection requirements, is to require that the funding amounts that DOD requests for barracks construction projects be based on use of residential construction practices to the maximum extent practical.

CBO was not able to determine the budgetary effect of this option.

**Related GAO Products**


**GAO Contact**

Barry Holman, (202) 512-8412
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Reduce the Corrosion of Military Assets

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Congress has recognized the need to significantly reduce the economic burden on the military services from damage caused by corrosion on military equipment and infrastructure and of the efforts to mitigate its adverse affects. In fact, corrosion's impact on military costs appears to be enormous, representing one of the largest life-cycle cost components of military weapon systems and infrastructure. In a 2001 government-sponsored study, corrosion was estimated to cost the Department of Defense (DOD) at least $20 billion a year.

The Bob Stump National Defense Authorization Act for Fiscal Year 2003 required the DOD to take several steps to address corrosion and provide Congress a long-term strategy for corrosion prevention and mitigation. Major commands, program offices, and research and development centers servicewide have made and continue to make improvements in the methods and techniques for preventing corrosion. For example, durable coatings, composite materials, and cathodic protection are being incorporated to an increasing extent in the design and construction of military facilities and equipment to reduce corrosion-related maintenance. The military services estimate that as much as 25 to 35 percent of corrosion costs can be eliminated by using corrosion prevention efforts, amounting to billions of dollars in potential savings each year.

There is much evidence that corrosion is an extensive problem and impacts military costs, readiness and safety. For example, in 1993, the Army estimated spending about $2 billion to $2.5 billion a year to mitigate the

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5 Corrosion—the unintended destruction or deterioration of a material due to interaction with the environment—affects all military assets, including approximately 350,000 ground and tactical vehicles, 15,000 aircraft and helicopters, 1,000 strategic missiles, and 300 ships; and hundreds of thousands of additional mission support assets and thousands of facilities.
corrosion of wheeled vehicles, including 5-ton trucks. Also, in a 1998 analysis, the estimated cost to repair damage to Army helicopters attributed to corrosion was about $4 billion. In addition, many proposed projects—even those with the potential for very large future-cost savings—are often assigned a low funding priority compared to operations and repair projects offering more immediate results, potentially costing billions of dollars in additional net savings annually that would accrue from a long-term reduction in corrosion of military equipment and infrastructure. For example, the Naval Sea Systems Command has developed durable coatings that increase the amount of corrosion protection for various kinds of tanks (such as fuel and ballast tanks) on Navy ships to 20 years instead of 5 years. While the Navy has installed the coatings on less than 7 percent of the tanks, it has estimated the net savings at about $10 million a year. If the Navy fully funded this effort, it projects than an additional $161 million annual net cost savings could be achieved.

Without a more systematic approach to corrosion problems, prevention efforts that have a high return on investment potential will likely continue to be underresourced and continue to proceed at a slow pace. We have identified several examples of projects, such as the Army National Guard’s Controlled Humidity Preservation project that pumps dehumidified air into buildings or equipment to reduce the rate of corrosion, that show potential for a high return on investment and advances in the technologies of corrosion prevention but which have not, for various reasons, been fully implemented. In this case, project officials claimed net savings of $225 million through the end of fiscal year 2002.

DOD and the military services have not systematically assessed proposals for corrosion control projects; they have disseminated project results on a limited, ad hoc basis. This approach has led to readiness and safety issues as well as billions of dollars of corrosion-related maintenance costs for DOD and the services annually.

DOD recently submitted its report to Congress on its long-term strategy for reducing corrosion and its effects on military equipment and facilities.6 However, the department has had little time to implement the strategy and,

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6 In December 2003, DOD submitted to Congress its Long-Term Strategy to Reduce Corrosion and the Effects of Corrosion on the Military Equipment and Infrastructure of the Department of Defense. The Authorization Act also requires that GAO monitor the implementation of the strategy and provide an assessment no later than June 2, 2004.
as a result, has not yet demonstrated progress towards reducing corrosion impacts. To minimize the costs associated with corrosion-related maintenance, one option for the Congress is to require DOD to place a high priority on the implementation of its new strategy to prevent and mitigate corrosion, and that the strategy emphasize coordination within and among the services and has effective incentives and priorities.

Although CBO agrees that the option may result in savings, it could not develop a savings estimate for this option.

Related GAO Product


GAO Contact

William Solis, (202) 512-8365

In several reports over the last 8 years, and as recently as March 2003, GAO concluded that the DOD should minimize commitments to F/A-22 production until completion of initial operational testing, now planned for October 2004. Limiting initial production rates until completion of operational testing affords the opportunity to confirm the stability and soundness of a new system before committing large amounts of production funding to purchase aircraft. In the past, buying production articles before they could be adequately tested has resulted in buying systems that require modifications to achieve satisfactory performance. The F/A-22 development and test program is ongoing. Avionics problems have not been resolved and the start of initial operational testing has been delayed another 7 months to March 2004. While the start has slipped 7 months, the completion date has slipped only 4 months to October 2004, compressing the time available to complete this testing. With the aircraft still experiencing problems, the start of testing could be further delayed. Additionally, if problems occur during initial operational testing, more time will be needed to complete actual flight testing, analysis of data, and reporting of the results. These results are needed to prepare the Beyond Low-Rate Initial Production Report required to start full rate production.

The Congress for fiscal year 2004 has approved low-rate initial production of 22 aircraft. To avoid the acceleration of production until completion of operational testing, the low-rate production could be maintained at 22 aircraft through fiscal year 2005. If Congress were to limit funding to no more than 22 aircraft in fiscal year 2005, and then proceed with the planned acceleration of production to 26 aircraft in 2006, and 32 aircraft in 2007,
budget savings could be achieved. Conversely, lower production rates could increase average procurement cost over the life of the program and, if the Air Force maintains its plan to procure 277 production aircraft, lead to difficulties in completing the production program within the production cost estimate.

CBO estimates the following budgetary savings with this option.

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<td>Outlays</td>
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Source: Congressional Budget Office.

Related GAO Products


GAO Contact

Allen Li, (202) 512-4841
Reassess Business Cases for Selected Weapon Systems Before Making Further Investments

The Department of Defense (DOD) is currently in the midst of a modernization and transformation effort that will drive its spending priorities well into the next decade. Investment in the research, development, and procurement of major weapon systems is expected to grow considerably as these efforts progress, rising from $135 billion in fiscal year 2004 to a projected $166 billion in 2009. DOD’s total investment over this period will, in fact, approach almost $1 trillion. Weapon systems routinely take much longer to field, cost more to buy, and require more support than investment plans provide for. This results in reduced buying power of the defense dollar, delayed capabilities for the war fighter, and unplanned—and possibly unnecessary—trade-offs in desired acquisition quantities, as well as an adverse ripple effect among other weapon programs or defense needs.

The Army dealt with such consequences in its recent decision to end development of the RAH-66 Comanche helicopter program after almost 16 years of development. Since July 2000, the research and development costs had grown 41 percent, the unit costs had grown 62 percent and the quantities had shrunk 46 percent. While the need for an armed reconnaissance helicopter may remain, the Army in effect decided that the business case for investing in the Comanche as the best solution for that need was no longer valid. Instead the Army opted for other investments that would provide significantly more quantities of less expensive aircraft and take into consideration lessons learned from recent military operations. There are several weapon system programs that have experienced significant cost increases and schedule delays and were conceived before recent operations such as those in Afghanistan and Iraq. An option for the Congress is to have the Secretary of Defense reexamine the business cases for such programs before additional investments are made. Such a business case analysis should consider (1) the continued need for the capability and (2) whether the program at hand is still the best

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way to meet the need given lessons learned from recent military operations, the likelihood that the weapon system can be delivered within estimated costs and schedule, and the viability of alternatives. Weapon system programs that warrant a renewed look at their business cases follow.

F/A-22 Raptor Fighter

The Air Force’s F/A-22 program began in 1986. It was originally planned to be an air superiority fighter, but is currently planned to also have air-to-ground attack capability. It is being designed with advanced features, such as stealth characteristics, to make it less detectable to adversaries and capable of high speeds for long ranges. It also has integrated aviation electronics (avionics) designed to greatly improve pilots’ awareness of the situation surrounding them. It is designed to replace the Air Force’s F-15 aircraft.

Factors that affect its business case include:

- A 127 percent increase in development costs.
- A 122 percent increase in unit procurement costs.
- A 111 percent increase in development time.
- A 94 percent increase in testing time.

Instead of buying 750 aircraft as originally planned, the Air Force can only afford 218 aircraft, assuming a production cost limitation that Congress has imposed is maintained. Even without the limitation, the Air Force plans allow for only 277 aircraft.

Furthermore, the development and test program continues to experience problems and risks further delays. Initial operational testing, to demonstrate the system’s effectiveness and suitability, has not yet started. The F/A-22’s advanced avionics system, maintenance systems and its reliability are all experiencing problems that could result in further increases in development costs and delays in delivering the F/A-22 to the war fighter.

The Air Force has also decided to add, as part of its modernization plan, an air-to-ground attack capability not previously envisioned but now considered necessary to increase the utility of the aircraft. The Office of
Secretary of Defense estimated the Air Force would need as much as $11.7 billion to develop and incorporate the planned modernization efforts into the F/A-22. Excluding these improvements and assuming no new problems occur, $33 billion (in fiscal year 2004 dollars) will be needed to complete the program from fiscal year 2005 on. This does not include the cost needed to provide new avionics computer processors and architecture, which are needed to support some planned enhancements. The Air Force version of the Joint Strike Fighter currently in development will primarily be an air-to-ground replacement for the F-16 and the A-10, and should be considered in any review of the F/A-22 business case.

| Advanced SEAL Delivery System (ASDS) | The Special Operations Forces’ ASDS has been in development since 1994. It is a battery-powered, dry interior mini-submarine developed for clandestine insertion and extraction of Navy SEALs and their equipment. It is carried to its deployment area by a specially configured SSN-688 class submarine. ASDS is intended to provide increased range, payload, on-station loiter time, and endurance over current submersibles. Factors that affect its business case include:

- A 227 percent increase in development costs.
- A 985 percent increase in production costs.
- A 235 percent increase in unit procurement costs.

Two of ASDS’s three critical technologies, the battery and the propulsion, are not fully mature, even though system development began over 9 years ago. Key technical problems, such as the battery and the propeller, were discovered late—during testing on the first boat—rather than in component or subsystem-level testing. Although significant progress has been made in the past year, not all critical technologies have achieved maturity and will not meet maturity until the second ASDS boat is produced, currently estimated to be in 2008. Assuming no new problems are encountered, $1.3 billion (in fiscal year 2004 dollars) will be needed to complete the program from fiscal year 2005 and beyond. |

| Extended Range Guided Munition (ERGM) | The Navy’s ERGM program began development in 1996. It is a rocket-assisted projectile that is fired from a gun aboard ships. It can be guided to targets on land at ranges of between about 15 and 50 nautical miles to |
provide fire support for ground troops. ERGM is expected to offer increased range and accuracy compared to the Navy's current gun range of 13 nautical miles. ERGM requires modifications to existing 5-inch guns, a new munitions-handling system (magazine), and a new fire control system.

Factors that affect its business case include:

- A 316 percent increase in development costs.
- A 262 percent increase in unit procurement costs.
- A 147 percent increase in development time.
- A 63 percent reduction in quantities.

The ERGM program began development with very few of its critical technologies mature. Design stability was also not achieved by the design review in May 2003. Finally, due to several test failures, the program did not meet a Navy deadline that required successful completion of two land-based flight tests by November 2003. The Navy is conducting an independent assessment of the program's readiness to proceed with further flight-testing.

Program costs may grow because the current estimate is based on a much lower production quantity than is contained in current program documents and the Navy has yet to establish a firm ERGM inventory requirement.

In October 2003, the Navy issued a solicitation for alternative precision-guided munition concepts that could be a complement or competitor to ERGM. In particular, the Navy is concerned about the unit cost of the ERGM round and is looking to develop alternatives that could offer cost savings. The Navy plans to spend $35 million in fiscal years 2004 and 2005 to pursue a technology demonstration of other extended range munition concepts by September 2005. Assuming no new problems are encountered, $207 million (in fiscal year 2004 dollars) will be needed to complete the program from fiscal year 2005 and beyond.

CBO was not able to determine the budgetary effect of this option.

Related GAO Products

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


GAO Contact
Paul Francis, (202) 512-2811
Address Overpayments
to Defense Contractors

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

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

In December 2001, in response to GAO’s work, the Federal Acquisition Regulation (FAR) was revised to require contractors receiving overpayments on invoice payments to notify the government and seek instructions for disposing of the overpayment. However, the revision did
not address overpayments stemming from financing payments\textsuperscript{7}—although GAO found that most overpayments involve contracts with financing payments. Subsequently, in October 2003, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council revised the FAR to require contractors to notify the government when they received overpayments stemming from either invoice or financing payments on commercial item and non-commercial item contracts. In turn, contracting officers, in coordination with the cognizant payment office, are to promptly provide instructions to the contractor regarding the timely disposition of the overpayment.

Given the extent of the overpayment problem additional steps could be taken to create incentives for contractors to refund money they have not earned. For example, a requirement could be established for contractors to pay interest on overpayments at the discretion of DOD on a facts and circumstances basis if they do not return the money promptly.

CBO estimates the following revenues with this option.

| Five-Year Savings |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                    | FY05 | FY06 | FY07 | FY08 | FY09 |
| Increased revenue against the 2004 defense plan |
| Budget authority   | 4    | 4    | 4    | 4    | 4    |
| Outlays            | 4    | 4    | 4    | 4    | 4    |

\textsuperscript{7}Contract payments involve payments for the delivery of goods and services and financing payments. Financing payments include (1) progress payments to cover a contractor’s costs as they are incurred during the construction of facilities or the production of major weapons systems and (2) performance-based payments that are based on the accomplishment of particular events or milestones—typically used on production contracts.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs


GAO Contact

David E. Cooper, (617) 788-0555
Require DOD Report Its Progress in Implementing the Debt Collection Improvement Act of 1996 (DCIA)

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Department of Defense (DOD) and Internal Revenue Service (IRS) records showed that over 27,000 contractors registered in DOD's Central Contractor Registration system owed about $3 billion in unpaid taxes as of September 30, 2002. DOD has not fully implemented provisions of the Debt Collection Improvement Act of 1996 (DCIA) that would assist IRS in levying up to 15 percent of each contract payment to offset a DOD contractor's federal tax debt. We estimate that DOD could have collected at least $100 million in fiscal year 2002 had it and IRS fully utilized the levy process authorized by the Taxpayer Relief Act of 1997. As of September 2003, DOD had collected only about $687,000, in part, because DOD provides contractor payment information from only 1 of its reported more than 20 payment systems to the Treasury Offset Program (TOP).

IRS's continuing challenges in collecting unpaid federal taxes also contributed to the problem. In several of our case study contractors, IRS was not pursuing DOD contractors due to resource and workload management constraints. For other cases, control breakdowns resulted in IRS freezing collection activities for reasons that were no longer applicable. For many of our case study contractors, this resulted in businesses and individuals continuing to receive federal contract payments without making any payments on their unpaid federal taxes.

To improve collection of DOD contractor tax debt, we have recommended to DOD that it immediately provide its contractor payment information to TOP and to IRS to use the levy program as one of the first steps in the collection process. Until such time as DOD is able to demonstrate that it is meeting its responsibilities under DCIA, including providing payment information to TOP, and to facilitate action by the Department, Congress may wish to consider requiring that DOD report periodically to Congress on its progress in implementing DCIA for each of its contract and vendor payment systems. This report should include details of actual collections.
by system and in total for all contract and vendor payment systems during the reporting period.

We believe that DOD’s reporting of its progress in implementing DCIA to Congress is necessary to facilitate oversight since DOD, until recently, had taken little action to implement the offset provisions of DCIA since its passage almost 8 years ago. We believe that Congress may wish to consider such oversight as the federal government is missing opportunities to collect hundreds of millions of dollars in unpaid taxes owed by DOD contractors.

Although CBO agrees that the option may result in savings, it could not develop a savings estimate for this option.

Related GAO Product


GAO Contact

Gregory Kutz, (202) 512-9505
Improve the Administration of Defense Health Care

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

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

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

Related GAO Products


GAO Contact
Marcia Crosse, (202) 512-7114
Seek Additional Opportunities for VA and DOD to Increase Joint Activities to Enhance Services to Beneficiaries and Reduce Costs

Together, the Department of Veterans Affairs (VA) and the Department of Defense (DOD) provide health care services to about 12 million beneficiaries at a cost of more than $50 billion annually. To promote more cost-effective use of these health care resources and more efficient delivery of care, in 1982 the Congress passed the VA and DOD Health Resources Sharing and Emergency Operations Act. Specifically, the act authorizes VA medical centers (VAMC) and military treatment facilities (MTF) to become partners and enter into sharing agreements to buy, sell, and barter medical and support services.

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

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

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

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

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

CBO was not able to determine the budgetary effect of this option.
## Related GAO Products

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<td>DOD and VA Health Care: Jointly Buying and Mailing Out Pharmaceuticals Could Save Millions of Dollars.</td>
<td>GAO/T-HEHS-00-121</td>
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## GAO Contact

Cynthia A. Bascetta, (202) 512-7101
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Eliminate U.S. Contributions to Administrative Costs in Rogue States

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<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

International organizations, such as the U.N. Development Program, fund projects in countries that are legislatively prohibited from receiving U.S. funding under section 307 of the Foreign Assistance Act of 1961, as amended. The countries falling under section 307, known as rogue states, have varied over time but have included Burma, Cuba, Iran, Libya, and Syria. To comply with the legislation, the State Department withholds from its voluntary contributions to international organizations the U.S. share of funding for projects in these countries.

However, the department does not withhold administrative expenditures associated with the operation of field offices in these countries. Consequently, a portion of the U.S. contribution still supports projects in states prohibited from receiving U.S. funds. We did not attempt to calculate the total amount that the United States contributes to all international organizations for administrative expenses in rogue states.

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

Savings could be achieved if the State Department were to include field office administrative costs when calculating the amount of U.S. withholdings for all international organizations that are subject to section 307 of the Foreign Assistance Act of 1961.
CBO estimates the following budgetary savings with this option.

### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings from the 2004 funding level</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Outlays</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
</tr>
</tbody>
</table>

*Less than $500,000.

Source: Congressional Budget Office.

Related GAO Products


GAO Contacts

Joseph Christoff, (202) 512-8979
Tet Miyabara, (202) 512-8974
Streamline U.S. Overseas Presence

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

The costs of overseas operations and related security requirements are directly linked to the size of the overseas workforce. Reducing the number of employees at posts where U.S. strategic interests are lower priority, consolidating functions, establishing regional centers, or relocating personnel to the United States could significantly reduce the costs of overseas operations. The average annual cost of stationing an American (and dependents) overseas varies by location but can amount to several hundred thousand dollars (not including salary) and has been estimated at about twice the average cost for Washington-based staff. Reducing the number of personnel overseas also could substantially enhance the safety of Americans and other U.S. employees, lower the costly security demands placed on the State Department, and help control new embassy construction costs. (The State Department has embarked on a $16 billion program to build modern, safe, and secure diplomatic facilities.)

In late 1999, the Overseas Presence Advisory Panel concluded that substantial monetary savings and reductions in security vulnerabilities could be achieved through streamlining staffing at overseas posts. Because of the high cost of stationing personnel and their families overseas, The President's Management Agenda identified rightsizing of embassies and consulates as a management priority. One administration goal is to develop accurate staffing projections for new overseas construction. OMB is
leading an interagency effort to develop a cost-sharing mechanism for funding embassy construction that would provide more discipline for determining overseas staffing needs and encourage agencies to scrutinize their overseas staffing more closely.

We have encouraged actions to reevaluate overseas staffing requirements and levels since the mid-1990s. In 2002, we developed a rightsizing framework that facilitates basing overseas staffing decisions on a full consideration of cost, security, and mission factors. In 2003, we reported that staffing projections for new embassy compounds are developed without a systematic approach or comprehensive rightsizing analysis. The State Department gave agencies little guidance on factors to consider in developing staffing projections, and agencies consequently did not take consistent or systematic approaches to determining long-term staffing needs. Limited documentation of embassy staffing projection exercises further complicated the process. Additionally, the State Department did not consistently vet overseas posts’ staffing projections with agencies’ headquarters.

In 2003, we also reported on the administration’s plans for implementing cost-sharing arrangements, including proposals that would require agencies to pay rent or a construction surcharge based on their worldwide overseas staffing levels. The Overseas Presence Advisory Panel had reported that tenant agencies did not share overseas facility costs, particularly for capital improvements and maintenance. The panel recommended charging tenant agencies rent for space in overseas facilities, just as the General Services Administration would charge agencies for use of domestic office space. In 2003, we reported that a number of issues needed to be resolved before effective cost-sharing mechanisms could be implemented, such as how the mechanism would be structured and how charges would be calculated. Additionally, we reported that some agencies were reluctant to assume costs that the State Department had previously paid.

Since our 2003 report, the State Department and OMB have developed a cost-sharing mechanism. Starting in fiscal year 2005, all agencies with staff overseas will be required to pay a portion of the cost of State’s embassy construction program. In March 2004, we started a review of the development and implementation of this new cost-sharing mechanism.

Congress could consider a range of options for streamlining staffing at overseas posts, such as mandating rightsizing requirements or across-the-
board cuts for overseas staffing. CBO estimates that the following savings could be achieved for every 1 percent reduction in overseas staffing.

### Five-Year Savings

<table>
<thead>
<tr>
<th>Relocate overseas staffing domestically by 1 percent</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change from the 2004 funding level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>7</td>
<td>13</td>
<td>20</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td>Outlays</td>
<td>5</td>
<td>11</td>
<td>18</td>
<td>24</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

<table>
<thead>
<tr>
<th>Eliminate overseas staffing by 1 percent</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings from the 2004 baseline</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>12</td>
<td>23</td>
<td>35</td>
<td>47</td>
<td>59</td>
</tr>
<tr>
<td>Outlays</td>
<td>9</td>
<td>20</td>
<td>32</td>
<td>43</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

### Related GAO Products


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


GAO Contacts
Jess T. Ford, (202) 512-4268
John Brummet, (202) 512-5260
Reduce International Broadcasting Overlap

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Broadcasting Board of Governors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>Multiple</td>
</tr>
<tr>
<td>Spending type</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Budget subfunction</td>
<td>154/Foreign information and exchange activities</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

The Broadcasting Board of Governors oversees 5 broadcast entities that provide a variety of news and information programming to more than 125 markets worldwide. Each broadcast entity is responsible for a collection of language services that produce program content.

- The Voice of America provides news and the U.S. position on various foreign policy matters to a global audience;

- Radio Free Europe/Radio Liberty provides entertainment and regional and local news to countries in Central, Eastern, and Southeastern Europe; Russia; the Caucasus; and Central and Southwestern Asia;

- The Middle East Television Network provides entertainment and regional and local news to countries throughout the Middle East; and

- Radio Free Asia and Radio/TV Marti provide regional and local news to Asia and Cuba, respectively.

In July 2003, we reported that there was about a 55 percent overlap between the Voice of America and the other broadcast entities that was intended to allow them to achieve their distinct missions by offering...
separate program content in the same language.\textsuperscript{10} This overlap among language services has been a long-standing issue of concern to the Board given evolving broadcast priorities and a desire to maximize the use of limited resources. We recommended that the Board develop a vision of its target scope-of-operations and more precisely define the appropriate level of overlap between Voice of America’s and other broadcast entities’ language services.

In response to our recommendation, the board conducted a detailed overlap analysis as part of its 2003 language service review. This analysis reviewed all overlapping language services in light of several potential approaches to managing overlap. The Board’s 2004 program plan to Congress proposes the reallocation of $4.9 million in savings generated by this analysis. The Board plans to conduct this analysis annually to determine if additional opportunities for savings exist. Although it is difficult to predict potential future savings, the Board has noted that the Voice of America’s worldwide English broadcasts represent a special case of overlap that deserves closer scrutiny.\textsuperscript{11} According to Board records, only a very small number of individuals listen to the Voice of America’s broadcasts exclusively in English.\textsuperscript{12} The annual budget for the Voice of America’s worldwide English program is about $14.9 million.

CBO was not able to determine the budgetary effect of reducing international broadcasting overlap.

\textbf{Related GAO Products}


\textsuperscript{10} The Voice of America’s mission is to (1) serve as a consistently reliable and authoritative, accurate, objective, and comprehensive news source; (2) represent American society by presenting a balanced and comprehensive projection of significant American thought and institutions; and (3) present U.S. policies clearly and effectively and also present responsible discussions and opinion on these policies. In contrast, the other broadcast entities’ mission is to serve as temporary “surrogates” for the local media of countries where a free and open press does not exist.

\textsuperscript{11} These broadcasts are viewed as overlapping because they reach the same target audiences as the Board’s local language broadcasts.

\textsuperscript{12} The Board reported that English broadcasts added on average less than 0.2 percent to the Voice of America’s audience.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs


GAO Contacts

Jess T. Ford, (202) 512-4268
Diana Glod, (202) 512-8945
The Export-Import Bank of the United States (Eximbank) is an independent federal agency that assists in financing the export of U.S. goods and services to international markets. Eximbank is intended to absorb risks that the private sector is unable or unwilling to assume and also to help level the playing field for U.S. exporters by matching the financing that foreign governments provide to their exporters. Eximbank offers subsidized direct loans, guarantees of private loans, and export credit insurance; its congressional mandate is to supplement (but not compete with) private financing. Eximbank operates under a renewable charter that has been reauthorized through September 30, 2006.\(^\text{13}\) The President’s fiscal year 2005 budget requests $125.7 million for Eximbank subsidies and an additional $73.2 million for administrative expenses.\(^\text{14}\)

Eximbank programs require substantial levels of taxpayer support. Our work has identified two broad options that would allow Eximbank to reduce its subsidy costs and operate with reduced federal funding while remaining competitive with foreign export credit agencies. First, Eximbank could raise its loan risk exposure and insurance fees\(^\text{15}\) to the

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\(^{13}\) The Export-Import Bank Act of 1945, as amended.

\(^{14}\) Appropriations for subsidies totaled about $2.1 billion for fiscal years 2001-2003. No funds were requested for subsidies in fiscal year 2004 because Eximbank had sufficient unobligated balances from prior years for its lending operations.

\(^{15}\) Eximbank charges exporters risk exposure fees for its loan and loan guarantee programs and insurance premiums for its insurance programs. These fees (1) are intended to compensate Eximbank for the risk it assumes when supporting a loan, guarantee, or insurance transaction; (2) are payable as loans are disbursed or may be financed as part of the transactions; and (3) should not be confused with Eximbank’s application processing fees or commitment fees charged on the undisbursed portion of loans.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

mid-range of those charged by foreign export credit agencies. Currently its fees are as low as, or lower than, about 75 percent of those charged by other major export credit agencies. However, Eximbank officials have expressed concerns that raising fees could affect U.S. export competitiveness and need to be considered in the broader context of international efforts to reduce government export finance subsidies. Second, Eximbank could reduce program risks by capping the maximum allowable subsidies offered, limiting program availability in high-risk markets, or lowering loan risk protection. Eximbank provides financing in a greater number of high-risk markets than other major export credit agencies. Although financing commitments for high-risk markets represent a relatively small share of Eximbank’s total financing commitments—about 15 percent of total commitments over the period from 1999 to 2003—these markets absorb a relatively large share of its credit subsidy costs and, under Eximbank’s revised subsidy estimates, the share absorbed by high-risk markets has increased.

CBO estimates that providing only short-term coverage in high-risk markets could produce substantial subsidy savings relative to the President’s request.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dollars in millions</strong></td>
</tr>
<tr>
<td>Limit Eximbank Lending in High-Risk Markets</td>
</tr>
<tr>
<td>Savings from the President’s request</td>
</tr>
<tr>
<td>Budget authority</td>
</tr>
<tr>
<td>Outlays</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Eximbank provides 100 percent unconditional political and commercial risk protection on most of the medium-and long-term coverage it issues. In contrast, similar European export credit agencies generally require exporters and banks to assume a portion of the risks (usually 5-10 percent) associated with such support. Although Eximbank and its competitors generally offer similar products—direct loans, insurance and guarantees—only Eximbank offers all three products.

Some borrowers in high-risk markets miss payments or default on entire loans. Eximbank covers these losses, resulting in subsidy costs to the federal government.
Another option for achieving savings would be to consider reducing Eximbank’s program budget or eliminating Eximbank altogether. In recent years, there has been considerable debate about whether Eximbank makes a significant contribution to the U.S. economy by promoting exports and jobs or unfairly subsidizes large corporations that have adequate access to private export financing and insurance. Our past work indicates that the economic benefits of Eximbank’s programs are uncertain. However, the agency’s programs may help “level the playing field” for U.S. exporters by offsetting the subsidies that foreign governments provide to their exporters.

CBO estimates that reducing Eximbank’s program budget by 5 percent or eliminating Eximbank altogether would result in savings relative to the President’s request.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce Eximbank’s Program Budget by 5 Percent</td>
<td>Cost Avoidance relative to the President’s Request</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>18</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Outlays</td>
<td>1</td>
<td>11</td>
<td>17</td>
<td>18</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

18 In recent years, CBO’s budget options reports have included an option to eliminate the Eximbank, the Overseas Private Investment Corporation, and the Trade and Development Agency. See, for example, Congressional Budget Office, Budget Options (Washington, D.C.: March 2003).

19 All major industrialized countries have similar programs.

20 The 5 percent reduction was selected for illustrative purposes.
### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eliminate Eximbank</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Avoidance relative to the President's request</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>121</td>
<td>391</td>
<td>394</td>
<td>418</td>
<td>424</td>
</tr>
<tr>
<td>Outlays</td>
<td>0</td>
<td>128</td>
<td>275</td>
<td>341</td>
<td>389</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

### Related GAO Products


### GAO Contact

**Loren Yager, (202) 512-4347**
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

250 General Science,
Space, and Technology

Continue Oversight of the International Space Station and Related Support
Systems
Continue Oversight of the International Space Station and Related Support Systems

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>National Aeronautics and Space Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>Multiple</td>
</tr>
<tr>
<td>Spending type</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Budget subfunction</td>
<td>252/Space flight, research, and supporting activities</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

Since 1990, the National Aeronautics and Space Administration (NASA) has been on GAO’s high-risk list for contract management, in part because the agency has failed to implement a modern, fully integrated financial management system. The lack of such a system has hampered NASA’s ability to oversee contracts, control program costs, and ensure an effective human capital strategy, raising serious concerns about NASA’s management of its largest and most costly programs, including the space shuttle program and the International Space Station (ISS). Although NASA implemented the Core Financial module of its Integrated Financial Management Program in June 2003, the agency cannot ensure that the system routinely provides its program managers with the financial information needed to measure program performance and ensure accountability.

The importance of resolving this weakness was recently amplified. In January 2004, President Bush announced a new vision for space exploration that will provide NASA with increased funding and require the agency to examine its current space flight and exploration activities and direct them towards new goals. The President’s plan calls for (1) completing assembly of the ISS by 2010 with its research focused on the long-term effects of space travel on human biology, and retiring the space shuttle upon station completion, (2) developing a new multipurpose spacecraft—the Crew Exploration Vehicle (CEV)—to carry humans into space by 2014, and (3) returning to the moon by 2020 as a precursor for missions to Mars and beyond. The plan also calls for the development of enabling technologies, such as power generation, propulsion, life support, and other systems that can support more distant travels. The President’s estimate for the new vision is $12 billion over the next five years, $1 billion of which is additional funding.
The Congress is well aware of the challenges NASA faces in developing, building, and transporting crew to and from the ISS—challenges that have in the past resulted in schedule delays and higher program costs. However, the President’s vision offers additional challenges. First, NASA’s own Return to Flight Task Group recently reported that it is too soon to predict the timing of the next shuttle flight, thus rendering the ISS completion date uncertain. Second, the CEV is NASA’s fourth attempt since 1994 to modernize its human space transportation system. Finally, NASA will be challenged with effectively managing a larger budget and refocused programs and contracts. For example, the ISS and shuttle programs must undergo changes to align with the new vision, while a relatively new program—the nuclear systems initiative—could provide power generation and propulsion necessary for journeys to Mars and beyond.

As NASA returns the shuttle fleet to safe flight and refocuses its programs to implement the President’s vision, continued congressional oversight is critical to ensure that NASA’s priorities and supporting funding are appropriately matched. In addition, continued improvements in the Agency’s financial management infrastructure—people, systems and processes—must keep pace with anticipated project management challenges.

CBO was not able to determine the budgetary effect of this option.

**Related GAO Products**


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


**GAO Contact**

Allen Li, (202) 512-4841
<table>
<thead>
<tr>
<th>Section</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Corporatize or divest selected Power Marketing Administrations</td>
</tr>
<tr>
<td></td>
<td>Recover Power Marketing Administrations’ costs</td>
</tr>
<tr>
<td></td>
<td>Increase Nuclear Waste Disposal Fees</td>
</tr>
<tr>
<td></td>
<td>Recover Federal Investment in Successfully Commercialized Technologies</td>
</tr>
<tr>
<td></td>
<td>Improve the Department of Energy’s Management of Its Capital Asset Acquisition, Weapons Refurbishment, and Site Cleanup Projects</td>
</tr>
<tr>
<td></td>
<td>Reduce the costs of the Rural Utilities Service’s Electricity Loan Program</td>
</tr>
</tbody>
</table>
Corporatize or Divest Selected Power Marketing Administrations

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

The federal government began to market electricity after the Congress authorized the construction of dams and established major water projects, primarily in the 1930s to the 1960s. The Department of Energy’s (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Our March 1998 report identified options that the Congress and other policymakers can pursue to address concerns about the role of three PMAs—Southeastern, Southwestern, and Western—in emerging restructured markets or to manage them in a more business-like fashion. Our work has demonstrated that, although federal laws and regulations generally require that the PMAs recover the full costs of building, operating, and maintaining the federal power plants and transmission assets, in some cases federal statutes and DOE’s rules are ambiguous about or prohibit the recovery of certain costs. For fiscal years 1992 through 1996, the federal government incurred a net cost of $1.5 billion from its involvement in the electricity-related activities of Southeastern, Southwestern, and Western. In addition, appropriated and other debt that is recoverable through the PMAs’ power sales totaled about $19.5 billion at the end of fiscal year 2002. Furthermore, our work has demonstrated that the availability of federal power plants to generate electricity has, in the past, been below that of nonfederal plants because federal planning and resource allocation decisions do not always ensure that funds are available to make repairs when needed.

Our March 1998 report outlined three general options to address the federal role in restructuring markets: (1) maintaining the status quo of federal ownership and operation of the power generating projects, (2) maintaining the federal ownership of these assets but improving how they are operated (an example of which is reorganizing the PMAs to operate as federally owned corporations), and (3) divesting these assets. The third option would eliminate the government’s presence in a commercial activity and,
depending on a divestiture’s terms and conditions and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury. Corporatization or divestitures of government assets have been accomplished in the United States and also overseas, and corporatization could serve as an interim step toward ultimate divestiture. Our March 1997 report concluded that divesting the federal hydropower assets would be complicated but not impossible. Such a transaction would need to balance the multiple purposes of the water project as well as other claims on the water.

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

### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discretionary spending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>233</td>
<td>241</td>
</tr>
<tr>
<td>Outlays</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>230</td>
<td>237</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: Figures are based on the most recent audited statements of assets and liabilities.

### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct spending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>0</td>
<td>0</td>
<td>-6,891</td>
<td>537</td>
<td>547</td>
</tr>
<tr>
<td>Outlays</td>
<td>0</td>
<td>0</td>
<td>-6,891</td>
<td>537</td>
<td>547</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: Figures are based on the most recent audited statements of assets and liabilities. The receipt in 2007 would be an inflow of cash to the government from the sale of PMA assets. The loss of receipts after that would be from the loss of the stream of annual receipts received from the sale of electricity.
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal Programs

Related GAO Products


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

GAO Contacts

Bob Robinson, (202) 512-3841
Jim Wells, (202) 512-3841
Four of the Department of Energy’s (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Except for Bonneville, these PMAs receive annual appropriations to cover operating and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets. Federal law requires the PMAs to repay these appropriations as well as the power-related O&M and the capital appropriations expended by the operating agencies generating the power.

In part because the PMAs sell power generated almost exclusively from hydropower and are not required to earn a profit or pay taxes, they are generally able to sell power more cheaply than other providers. The Congress has the option of requiring the PMAs to sell their power at market rates to better ensure the full recovery of the appropriated and other debt that is recoverable through the PMAs’ power sales. This debt totaled about $19.5 billion at the end of fiscal year 2002. This option would likely also lead to more efficient management of the taxpayers’ assets.

If the PMAs were authorized to charge market rates for power in conjunction with federal restructuring legislation, some preference customers who now purchase power from the PMAs at rates that are less than those available from other sources would see their rates increase. However, we have reported that slightly more than two-thirds of the preference customers, which are located in varying portions of 29 states, that purchased power directly from Southeastern, Southwestern, and

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21In 1974, the Congress stopped providing Bonneville with annual appropriations and instead provided it with a revolving fund maintained by the Treasury; however, Bonneville remains responsible for repaying its debt prior to 1974 and debt stemming from appropriations expended by the operating agencies on power-related expenses.
Western would experience small or no rate increases—increases of one-half cent per kilowatt hour or less—if those PMAs charged market rates.

Although CBO agrees that the option will result in savings, it could not develop a savings estimate.

Related GAO Products


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


GAO Contacts
Bob Robinson, (202) 512-3841
Jim Wells, (202) 512-3841
Increase Nuclear Waste Disposal Fees

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. The Nuclear Waste Policy Act requires DOE to annually assess the adequacy of the fee. Despite this requirement, DOE has not reported on the fee adequacy since May 2001. Accordingly, utilities continue to pay a fee of 0.1 cent per kilowatt-hour, without any adjustment for inflation. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, we recommend that the Congress amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund.

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<table>
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</table>

Source: Congressional Budget Office.

Note: Since this is a mandatory account, the increase in receipts is a negative number. However, the proposal would end up bringing in more receipts to the Treasury.

Related GAO Products


### GAO Contacts

<table>
<thead>
<tr>
<th>GAO Contacts</th>
<th>Bob Robinson, (202) 512-3841</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Robin Nazzaro, (202) 512-3841</td>
</tr>
</tbody>
</table>
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Recover Federal Investment in Successfully Commercialized Technologies

The Department of Energy (DOE) and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. We identified four DOE programs that require industry repayment if the technologies are ultimately commercialized. The offices in which we focused most of our work planned to devote about $8 billion in federal funds to cost-shared projects over their lifetime, of which about $2.5 billion would be subject to repayment. However, we found that DOE generally has not required repayment of its investment in technologies that are successfully commercialized. Our June 1996 report discussed the advantages and disadvantages of having a repayment policy and pointed out that many of the disadvantages can be mitigated by structuring a flexible repayment requirement with the disadvantages in mind. It also discussed the types of programs and projects that would be the most appropriate or suitable for repayment of the federal investment.

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

CBO agrees that the option may result in savings, but it could not develop a savings estimate.

Related GAO Products

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


GAO Contacts
Bob Robinson, (202) 512-3841
Jim Wells, (202) 512-3841
Improve the Department of Energy’s Management of Its Capital Asset Acquisition, Weapons Refurbishment, and Site Cleanup Projects

As of January 2002, the Department of Energy (DOE) had at least 42 ongoing projects estimated to cost more than $100 million at its national laboratories, weapons production facilities, and other locations. These projects included the construction of new specialized facilities, such as the National Ignition Facility at Lawrence Livermore National Laboratory; the refurbishment of nuclear weapons; and the cleanup of nuclear waste at active and closed DOE facilities. Our September 2002 review of 16 major DOE projects found no indication that DOE or its contractors had improved their management performance as compared with our 1996 assessment of management performance. Specifically, we found that the estimated cost of 6 of the 16 projects was more than double DOE’s initial estimate and that 6 projects had experienced schedule delays of 5 years or more.

DOE has taken several steps to improve the way its major projects are managed. For example, in 2000 DOE issued new policy, order, and guidance on managing and controlling projects, including enhancing the project management skills within the department. The DOE Order requires detailed project reviews by senior managers at five different decision points during the project. In addition, DOE’s Office of Engineering and Construction Management set a goal for 2002 that 85 percent of the projects it tracks (projects costing more than $5 million) will have less than a 10-percent variance in cost and schedule. For 2004, the office’s goal is that 90 percent of the projects it tracks will have less than a 10-percent variance in cost and schedule.

Even with these project management requirements and controls in place, performance problems continue. One reason for continuing problems is that DOE is not consistently applying the requirements and controls to all of its acquisition, refurbishment, and cleanup projects. For example, some projects in DOE’s Office of Science and its National Nuclear Security

<table>
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<tr>
<td>Theme</td>
<td>Improve efficiency</td>
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</table>
Administration (NNSA) have avoided project validation and other requirements. As a result, the cost and schedule estimates may not be reliable and the projects may have a greater likelihood to cost more and take longer to complete than DOE had estimated.

One option available to the Congress to help minimize cost and schedule increases on DOE projects is to require that all DOE projects costing more than $5 million, regardless of the responsible DOE program office, (1) follow the requirements in DOE's project management order and (2) be validated and approved by DOE's Office of Engineering and Construction Management—or a similar office within NNSA for nuclear weapons refurbishment—before construction funding is requested in DOE's budget submission to Congress.

CBO was not able to determine the budgetary effect of this option.

Related GAO Products


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


GAO Contacts

Bob Robinson, (202) 512-3841
Robin Nazzaro, (202) 512-3841
Reduce the Costs of the Rural Utilities Service’s Electricity Loan Program

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Agriculture</th>
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The Rural Utilities Service (RUS), created by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (PL 103-354, Oct. 13, 1994), was established to provide loan funds intended to assist in the development of the utility infrastructure in the nation's rural areas. RUS finances the construction, improvement, and repair of electrical, telecommunications, and water and waste facility systems through direct loans and through repayment guarantees on loans made by other lenders. According to the Financial Statements For Fiscal Year 2003 of Rural Development (the U.S. Department of Agriculture agency responsible for administering RUS), RUS loans receivable totaled about $40.1 billion as of September 30, 2003. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency continues to have significant financial problems with the electricity loan program. For example, since fiscal year 1992, RUS wrote off the debt of 9 electricity loan borrowers totaling more than $4.9 billion.

The Congress may need to consider options to reduce RUS's vulnerability to losses in its electricity program such as (1) establishing loan and indebtedness limits, (2) setting the loan repayment guarantee at a level below 100 percent, and (3) prohibiting loans to delinquent borrowers or to borrowers who have caused the agency to incur loan losses.

CBO agrees that the option would result in savings, but it could not develop a savings estimate.

Related GAO Products


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

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**GAO Contacts**

Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
McCoy Williams, (202) 512-6906
### 300 Natural Resources and Environment

- Terminate Land-Exchange Programs
- Deny Additional Funding for Commercial Fisheries Buyback Programs
- Revise the Mining Law of 1872
- Reexamine Federal Policies for Subsidizing Water for Agriculture and Rural Uses
- Reassess Federal Land Management Agencies’ Functions and Programs
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Terminate Land-Exchange Programs

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

Several fundamental issues create significant problems in the use of land exchanges. For instance, in 1998, the cognizant inspectors general identified exchanges in which lands were inappropriately valued and the public interest was not well served. Also, although current law does not authorize BLM to retain or use proceeds from selling federal land, BLM sold federal land and retained the sales proceeds in escrow accounts. Further, BLM did not track these sales proceeds in its financial management system. At least some of BLM’s and the Forest Service’s continuing problems may reflect inherent underlying difficulties associated with exchanging land—rather than buying and selling land for cash. In fiscal year 2002, BLM contracted with the Appraisal Foundation to conduct a review of the agency’s appraisal organization, policies, and procedures. The Appraisal Foundation’s report listed numerous problems with BLM’s appraisal process and concluded “violations of law may have occurred.” The report contained seven principal recommendations including the recommendation that the “previously recommended moratorium on BLM
land exchanges be implemented immediately." The Foundation performed a similar evaluation for the U.S. Department of Agriculture (USDA) Forest Service in 2000. That study resulted in a number of recommendations, which the Foundation noted, “have been successfully implemented.” In most circumstances, cash-based transactions would be simpler and less costly.

While both agencies have taken steps to improve their land-exchange programs, problems still exist given the inherent difficulties and inefficiencies in exchange programs in general. On the basis of these difficulties and inefficiencies, the Congress may wish to consider directing both agencies to terminate their land-exchange programs.

CBO could not develop a savings estimate for this option.

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Barry Hill, (202) 512-3841
## Deny Additional Funding for Commercial Fisheries Buyback Programs

<table>
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Fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available for harvest. In response to this growing imbalance, the federal government provided $140 million from 1994 to 2002 to purchase fishing permits, fishing vessels, and related gear from fishermen, thereby reducing the capacity of fishermen to harvest fish. Generally, the government designed these purchases, called buybacks, to achieve multiple goals, such as reducing the capacity to harvest fish, providing economic assistance to fishermen, and improving the conservation of fish. Coastal states issue permits and develop and enforce regulations for fishing in waters that are near their shores. In areas outside state jurisdiction, the National Marine Fisheries Service (NMFS) within the Department of Commerce is responsible for issuing permits and developing and enforcing regulations for harvesting fish. Because excessive fishing capacity continues to be a problem in many fisheries, several additional buybacks have been proposed and authorized since we last reported on this issue in June 2000.

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

The problems of past buyback programs should be addressed as part of the design of any future programs. Given the experiences of buyback programs to date—both in terms of their limited effects on reducing fishing capacity and in terms of their inability to effectively address the root causes of over-fishing—one option the Congress may wish to consider is limiting additional funding for proposed programs until these fundamental weaknesses are resolved.

CBO agrees that the option may result in savings, but it could not develop a savings estimate for this option.

**Related GAO Products**


**GAO Contact**

Anu Mittal, (202) 512-9846
Revise the Mining Law of 1872

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

Since we issued our report in 2001, one option that remains available is to require the payment of fair market value for a patent, or otherwise modify the requirements for patenting. Without a specific definition of fair market value or other specific proposals to reform the patenting system, CBO cannot estimate savings from this option.

Legislation could also be enacted to impose royalties on hardrock minerals extracted from federal lands, such as a 5 percent royalty on net smelter returns. CBO estimates below that a 5 percent royalty could increase gross receipts, but the estimates do not account for subsequent receipt-sharing, if any, with states.

Five-Year Savings

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<tr>
<th>Dollars in millions</th>
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<td>Savings from increased offsetting receipts</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
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</table>

Source: Congressional Budget Office.
Note: Estimates do not account for subsequent receipt-sharing, if any, with states.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Barry Hill, (202) 512-3841
Reexamine Federal Policies for Subsidizing Water for Agriculture and Rural Uses

Federal water programs to promote efficient use of finite water resources for the nation's agricultural and rural water systems have been used to provide higher subsidies than Congress may have intended. To improve the effectiveness and efficiency of federal water programs, the Congress could consider several options to reduce duplication or inconsistencies. Although we first raised this issue in 1990, these options remain valid.

The Congress could, for example, consider collecting the full costs of federal water for large farms. The Reclamation Reform Act of 1982 limits to 960 the maximum number of owned or leased acres that individuals or legal entities (such as partnerships or corporations) can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, the act does not prohibit multiple landholdings from being operated collectively as one farm while individually qualifying for federally subsidized water. Some farmers have reorganized large farming operations into multiple, smaller land holdings to be eligible to receive federally subsidized irrigation water. As a result, the flow of federally subsidized water to large farms has not been stopped, and the government is not receiving the revenues to which it would have been entitled if the multiple landholdings were considered collectively as one farm subject to the act's 960 acre limit.

Another option would be for the Congress to consider restructuring the subsidies for crops produced with federally subsidized water. According to the Department of the Interior, a portion of the acreage served by the Bureau of Reclamation was used to produce crops that were also eligible for USDA commodity subsidies. Farmers received the water subsidy for using irrigated water from Interior as well as USDA subsidies per crop production.

CBO was not able to develop a savings estimate without a specific proposal.
Related GAO Products


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


GAO Contacts
Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-0692
The responsibilities of the four major federal land management agencies—the National Park Service, the Bureau of Land Management (BLM), the Fish and Wildlife Service within the Department of the Interior, and the Forest Service within the Department of Agriculture—have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments—the federal government’s increased emphasis on downsizing and budgetary constraints and scientists’ increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies operate.

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

Over the last several years, the Forest Service and BLM have colocated some offices or shared space with other federal agencies. They have also pursued other means of streamlining, sharing resources, and saving rental costs. However, no significant legislation has been enacted to streamline or reorganize federal land management agencies and the four major federal

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<td>302/Conservation and land management</td>
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<tr>
<td>Theme</td>
<td>Improve efficiency</td>
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</table>
land management agencies have not, to date, developed a strategy to coordinate and integrate their functions, systems, activities, and programs.

CBO could not develop a savings estimate for this option.

Related GAO Products


Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
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GAO Contacts

Bob Robinson, (202) 512-3841
Barry Hill, (202) 512-3841
Appendix III
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350 Agriculture

- Eliminate or Reduce the Agriculture Department’s Market Access Program
- Consolidate Common Administrative Functions at the U.S. Department of Agriculture
- Further Consolidate the U.S. Department of Agriculture’s County Offices
- Eliminate Public Law 480 Title I Food Aid Program
- Reduce or Eliminate the Export Credit Guarantee Program
Eliminate or Reduce the Agriculture Department’s Market Access Program

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

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

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

The Conference Report on the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 directed the Secretary of Agriculture to submit a report that, among other things, estimates the economic impact of the Market Access Program, analyzes the costs and benefits of the program in a manner consistent with government benefit-cost guidelines, and evaluates the additional spending of participants and additional exports resulting from the program. As of 2003, the Foreign Agricultural Service had not completed this report. CBO’s budget options reports in recent years have included an option to eliminate the Market Access Program.\(^{22}\) Congress might choose to terminate the program or significantly reduce its funding absent convincing evidence that the program has a positive economic impact, results in increased exports that would not have occurred without the program, and supplements (rather than supplants) private sector expenditures.

CBO estimates the following budgetary savings with this option.

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<td>Outlays</td>
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<td>188</td>
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</table>

Source: Congressional Budget Office.

Related GAO Products


\(^{22}\)See, for example, Congressional Budget Office, Budget Options (Washington, D.C.: March 2003).
Appendix III
Opportunities to Improve the Economy,
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Programs


GAO Contacts

Loren Yager, (202) 512-4347
Phil Thomas, (202) 512-9892
Consolidate Common Administrative Functions at the U.S. Department of Agriculture

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

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

In terms of merging and streamlining administrative functions, some progress has been made in sharing space and equipment and agreeing upon some common human capital practices. However, to further streamline its organization, increase efficiency, and reduce overhead costs associated with running separate offices, USDA could still do more to combine agencies' support functions, such as legislative and legal affairs and public
information, into a single office serving the needs of all mission component agencies. In addition, even though USDA has developed a plan to converge administrative functions for county-based agencies, a number of obstacles need to be overcome if the plan is to be successfully implemented, including the selection of a strong leadership team to implement the convergence plan. While it has been a few years since we last reported on this issue, the situation has not materially changed.

CBO agreed that this option would result in budgetary savings, but it could not develop a savings estimate.

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
Further Consolidate the U.S. Department of Agriculture’s County Offices

The U.S. Department of Agriculture (USDA) maintains a field office structure that dates back to the 1930s when transportation and communication systems limited the geographic boundaries covered by a single field office and when there were a greater number of small, widely disbursed, family-owned farms. In 1933, the United States had more than 6 million farmers; today the number of farms in the United States is less than 2 million and a small fraction of these produce more than 70 percent of the nation’s agricultural output. About one-third of USDA’s approximately 100,000 employees are involved in delivering the nearly $25 billion a year farm and rural programs. As the client base for the USDA programs changes and as technology offers opportunities for program delivery efficiencies, USDA needs to consider alternative program delivery approaches. In this regard, the service center agencies—Farm Service Agency, Natural Resources Conservation Service, and Rural Development—need to reassess the types of services they now provide and how they can work more efficiently to deliver these services in the future with fewer office locations.

At various times, the Congress has attempted to reduce the number of county offices serving farmers and/or reduce county office staffing. The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994) directed the Secretary of Agriculture to streamline departmental operations by consolidating county offices. In response to this act, USDA has closed over 1,000 county office locations and reduced staffing at its county offices. However, as the agency states in its September 2001 Food and Agricultural Policy: Taking Stock for the New Century, “Further actions are necessary to ensure that the USDA farm service structure is appropriately sized, configured, and located for efficient provision of the new services demanded by a rapidly evolving food and agriculture system.”
USDA could further consolidate its county office field structure, for example, by closing more of its small county offices. Criteria for determining which small county offices to close could include the (1) distance from another county office, (2) time spent on administrative duties, and (3) number of farmers who receive USDA financial benefits. USDA’s county offices are managed through a state office structure that could also be streamlined. Currently, USDA maintains a state office for each of its three service center agencies in each of the 50 states. As with the county offices, as the client base for USDA’s programs change and as technology offers opportunities for program delivery efficiencies, USDA could consolidate some state offices to a regional or national level.

CBO agreed that this option would result in budgetary savings, but it could not develop a savings estimate.

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
Eliminate the Public Law 480 Title I Food Aid Program

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>P.L. 480 Grants (12-2278)</td>
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<td>P.L. 480 Program (12-2277)</td>
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<td>Budget subfunction</td>
<td>351/Farm income stabilization</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
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Over the past 50 years, the United States has allocated billions of dollars in food assistance under Title I of the 1954 Agricultural Trade Development and Assistance Act, commonly known as P.L. 480. Under the Title I program, administered by the Department of Agriculture (USDA), U.S. agricultural commodities are sold to eligible countries under concessional terms. In support of broad U.S. foreign policy goals, the program’s objectives are to enhance food security, promote broad-based sustainable development, develop and expand markets for U.S. agricultural commodities, and prevent conflict. However, the Title I program does not effectively further these goals.

First, there is little evidence that the Title I program has promoted broad-based sustainable development. In 1995, we reported that the primary means by which Title I assistance could contribute to broad-based sustainable development would be by helping recipient countries save foreign exchange when importing U.S. agricultural commodities; the savings could be invested in projects that promote long-term economic development. However, we found that the value of foreign exchange that countries might save through purchasing Title I commodities on concessional terms is small relative to their development needs. Also, the program provides USDA with little leverage to influence development activities or initiate policy reforms in recipient countries, and competing objectives dilute whatever leverage might be associated with the program.

23This option does not address P.L. 480 Titles II or III, which fund the donation of commodities for emergency and developmental needs.

24Title I offers credit terms with low interest rates with a maximum 30-year repayment period and a maximum 5-year grace period.
Second, there is little evidence that the Title I program has contributed to the long-term, foreign market development for U.S. agricultural goods. None of the many studies of the Title I program that we reviewed established a link between Title I assistance and the establishment of a long-term commercial market for U.S. agricultural products. Title I commodities tend to be price sensitive, making it difficult to transform the concessional market share established through the Title I program into commercial market share.

Moreover, we found that legislative requirements impose constraints on recipient countries that undermine market development efforts. For example, “cargo preference” provisions require that 75 percent of food aid tonnage be shipped on U.S.-flagged ships. As a result, some recipient countries were forced to purchase different commodities than planned based on the availability of U.S.-flagged ships rather than the availability of U.S. commodities. Other program requirements severely restrict recipients’ ability to reexport Title I commodities after processing, which discouraged potential importers from participating and eliminated an important source of foreign exchange earnings for recipient countries.

Since the 1980s, the Title I program has accounted for a declining share of total U.S. food assistance. Title I accounted for about 52 percent of the $15.8 billion in food assistance provided between fiscal years 1980 and 1989 but only about 11 percent of the $9.2 billion in food assistance provided between fiscal years 2000 and 2004. This decline reflects a growing need and priority for humanitarian food assistance provided under other programs (primarily Title II) and concerns about the Title I program’s effectiveness.

In 2001, The President’s Management Agenda identified U.S. food aid programs (including Title I) as 1 of 14 government areas most in need of reform and characterized these programs as duplicative, wasteful, and inefficient. The agenda commented on the fact that six different food aid programs are administered by two government agencies with similar bureaucracies (USDA and the U.S. Agency for International Development). The agenda called for more direct feeding of hungry populations as a primary goal; better analysis of benefits, costs, and performance to determine priorities; minimizing bureaucratic duplication and inefficiency; and greater efficiency and transparency in program management and implementation.
OMB’s fiscal year 2004 Program Assessment Rating Tool rated USDA’s food aid programs as “results not demonstrated.” OMB’s assessment concluded that these programs were not optimally designed, lacked performance measures linked to strategic goals and the budget, and did not collect annual performance data or make such data available to the public in a transparent and meaningful manner. Additionally, OMB’s assessment identified the need for better coordination between USDA and the U.S. Agency for International Development, but concluded that meaningful steps to address this and other strategic planning deficiencies had not been taken.

In summary, there is little evidence that the Title I program has promoted economic development or contributed to developing long-term foreign markets for U.S. agricultural goods. Moreover, multiple and sometimes competing objectives, as well as contradictory program requirements, encumber the program, making it difficult to create and implement an effective program strategy. Furthermore, the trend in U.S. food aid reflects a growing need and priority for humanitarian food assistance provided under other programs. Thus, one option that Congress may wish to consider is the elimination of the Title I program.

CBO estimates that eliminating the Title I program would produce savings.

### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
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</table>

Source: Congressional Budget Office.

**Related GAO Products**


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25OMB’s assessment included the following USDA programs: P.L. 480 Title I, 416(b), Food for Progress, and the Bill Emerson Humanitarian Trust. It did not include the Global Food for Education program.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs


GAO Contacts
Loren Yager, (202) 512-4347
Phil Thomas, (202) 512-9892
Reduce or Eliminate the Export Credit Guarantee Programs

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Agriculture</th>
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<td>Accounts</td>
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Export credit guarantee programs are intended to promote the export of U.S. agricultural products by facilitating access to export credit for countries that lack adequate commercial credit. These programs encourage U.S. lenders to extend credit to approved foreign banks financing imports of U.S. agricultural products. Under these programs, the Department of Agriculture (USDA) provides a guarantee to U.S. banks willing to finance such transactions for exporters shipping U.S. products to foreign importers in eligible countries. The Export Credit Guarantee Program covers loans up to 3 years, while the Intermediate Export Credit Guarantee Program covers loans up to 10 years. Through 2007, USDA is authorized to make a total of $5.5 billion in government loan guarantees available each year to finance imports of U.S. agricultural commodities, plus an additional $1 billion for “emerging markets” — countries that are in the process of becoming commercial markets for U.S. agricultural products. The actual level of credit guarantees depends on market conditions and the demand for financing by eligible (i.e., creditworthy) countries.

Since the export credit guarantee programs began in the 1980s, the U.S. government has paid billions in claims because foreign country buyers

26 Also known, respectively, as the General Sales Manager (GSM)-102 and GSM-103 programs.

27 The 2002 Farm Security and Rural Investment Act authorized this level of export credit guarantees annually through fiscal year 2007. The act gives USDA's Commodity Credit Corporation the flexibility to determine the allocation between short- and intermediate-term programs.
rescheduled or defaulted on their loan repayments. USDA reports that, as of February 2004, the government had paid claims totaling about $8.9 billion against issued guarantees of about $77.6 billion. In 1997, we reported that the programs had incurred high claims costs because USDA provided a large amount of loan guarantees to high-risk countries (such as Iraq and the former Soviet Union) for market development reasons and foreign policy considerations. According to USDA officials, claims have been lower in recent years because fewer guarantees have been issued for exports to high-risk countries. USDA reports that activity in fiscal year 2003 for both export credit programs totaled $2.55 billion. The major recipient countries were Turkey ($532 million), South Korea ($372 million), and Mexico ($177 million). Guarantees have helped facilitate sales of a broad range of commodities but, according to CRS, have mainly benefited exports of wheat, wheat flour, oil seeds, feed grains, and cotton.

Proponents of the export credit guarantee (and other export assistance) programs, including USDA and some industry groups, maintain that these programs benefit the overall U.S. economy, benefit the U.S. agricultural sector, counter competitor nations’ agricultural export programs, and promote U.S. trade negotiating objectives. However, we reported in 1997 that there is limited evidence that these programs have (1) measurably expanded aggregate employment and output, (2) reduced trade and budget deficits, or (3) provided income and employment benefits in the U.S. agricultural sector. These programs largely reallocate production, employment, and income between sectors or targeted markets. Regarding competitor nations’ programs, we reported that lack of openness in other nations’ agricultural assistance efforts makes it difficult to determine

28 Under these programs, if a purchaser defaults on its loan, the lending bank may file a claim with USDA’s Commodity Credit Corporation. The corporation then becomes responsible for collecting the amount of the claim and any accrued interest (calculated using the bank’s lending rate).

29 The Export Credit Guarantee Program (GSM-102) issued the bulk of these guarantees—more than $75.4 billion. The Intermediate Export Credit Guarantee Program (GSM-103), which has not been used much in recent years, issued over $2.2 billion.

30 In 1997, we reported that as of January 1997, the government had paid claims totaling about $7.8 billion since 1980 (an average of about $488 million per year). Between January 1997 and February 2004, the government paid additional claims totaling about $1.1 billion (an average of about $157 million per year).

conclusively how effectively U.S. export programs counter these foreign practices. Additionally, several economic studies indicated that foreign competitors find U.S. export subsidies relatively inexpensive to offset.

Concerning U.S. trade negotiating objectives, we reported in 1997 that there are widely divergent views about the amount of leverage these programs have provided in the past. Although USDA views the credit guarantee programs as commercial programs, the European Union and other trading partners charge that these programs have a subsidy element that gives the United States an unfair competitive advantage. In September 1999, U.S. negotiators presented a comprehensive proposal for significant disciplines on the use of agriculture export credit programs to the Organization for Economic Cooperation and Development. Many in the U.S. agricultural community have expressed concern that these programs—which they regard as effective tools for expanding agricultural exports—not be adversely affected by trade negotiations. The Trade Act of 2002 (P.L. 107-210) makes preservation of export credit programs a principal U.S. negotiating objective for the current round of multilateral trade negotiations. Nevertheless, CRS reports that U.S. officials have indicated a willingness to discuss new disciplines on export credit programs. These new disciplines would mainly focus on limiting the repayment period of the credit programs.

Congress may wish to consider reducing these programs' costs. One option would be to reduce credit guarantees to high-risk countries, which would lessen the potential for additional program costs due to defaults. A second option would be to reduce USDA's annual program budget for credit guarantees, allowing USDA to determine where to make reductions. A third option would be to eliminate one or both of the programs.

Although CBO agreed that these options could result in budgetary savings, it could not develop savings estimates.

Related GAO Products


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


GAO Contacts
Loren Yager, (202) 512-4347
Phil Thomas, (202) 512-9892
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

370 Commerce and
Housing Credit

Recapture Interest on Rural Housing Loans
Require Self-Financing of Mission Oversight by Fannie Mae and
Freddie Mac
Reduce Federal Housing Administration’s Insurance Coverage
Merging U.S. Department of Agriculture and Department of Housing and
Urban Development Single-Family Insured Lending Programs and
Multifamily Portfolio Management Programs
Consolidate Homeless Assistance Programs
Reorganize and Consolidate Small Business Administration’s
Administrative Structure
Improve Reviews of Small Business Administration’s Preferred Lenders
Eliminate NIST’s Advanced Technology Program
Recapture Interest on Rural Housing Loans

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

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

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
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</tr>
</tbody>
</table>

Source: Congressional Budget Office.
### Related GAO Product


### GAO Contact

Thomas J. McCool, (202) 512-8678
Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac

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

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

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

CBO estimates the following budgetary savings with this option.
### Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

#### Five-Year Savings

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<th></th>
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Source: Congressional Budget Office.

### Related GAO Products


### GAO Contact

Thomas J. McCool, (202) 512-8678
Reduce Federal Housing Administration’s Insurance Coverage

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

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

Legislative changes could be made to reduce FHA’s insurance coverage. Savings under this option would depend on future economic conditions, the volume of loans made, how higher risk and lower risk borrowers would
be identified for exclusion from the program, and whether some losses may be shifted from FHA to the Government National Mortgage Association. In addition, reducing FHA’s insurance coverage does pose trade-offs affecting lenders, borrowers, and FHA’s role, such as diminishing the federal role in stabilizing markets. Low-income, first-time, and minority home buyers and those individuals purchasing older homes are most likely to experience greater difficulty in obtaining a home mortgage.

CBO could not provide an estimate for this option.

Related GAO Products


GAO Contact

Thomas J. McCool, (202) 512-8678
Merging Department of Agriculture and Department of Housing and Urban Development Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs

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

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

As we reported, to optimize the federal role in rural housing, the Congress may wish to consider requiring USDA and HUD to examine the benefits and costs of merging those programs that serve similar markets and provide similar products. As a first step, the Congress could consider requiring RHS and HUD to explore merging their single-family insured lending programs and multifamily portfolio management programs, taking
advantage of the best practices of each and ensuring that targeted populations are not adversely affected.

Although CBO agrees that the option may result in savings, it could not develop a savings estimate for this option.

Related GAO Product


GAO Contact

Thomas J. McCool, (202) 512-8678
In 1987, the Congress passed the Stewart B. McKinney Act (P.L. 100-77) to provide a comprehensive federal response to address the multiple needs of homeless people. The act encompassed both existing and new programs, including those providing emergency food and shelter, those offering long-term housing and supportive services, and those designed to demonstrate effective approaches for providing homeless people with services. Over the years, some of the original McKinney programs have been consolidated or eliminated, and some new programs have been added. Today homeless people receive assistance through these programs as well as other federal programs that are not authorized under the McKinney Act but are nevertheless specifically targeted to serve the homeless population. In February 1999, we reported that seven federal agencies administer 16 programs that are targeted to serve the homeless population. In fiscal year 2001, the targeted programs were funded at roughly $1.7 billion.

While these federal programs offer a wide range of services to the homeless population, some of these services appear similar. For example, food and nutrition services can be provided to homeless people through eight different programs administered by five different agencies. Moreover, our work at the state and local level has found that state and local government officials generally believe that the federal government has not done a good job of coordinating its various homeless assistance programs. This perceived lack of coordination could adversely affect the ability of states and localities to integrate their own programs. Also, we reported that, because different homeless assistance programs have varying sets of eligibility and funding requirements, they can cause coordination difficulties for the federal agencies administering them as well as administrative and coordination burdens for the states and communities that have to apply for and use these funds.
The Congress may wish to consider consolidating all homeless assistance programs under HUD because HUD (1) has taken a leadership role in the area of homelessness, (2) has developed a well-respected approach for delivering homeless assistance programs called the Continuum of Care, and (3) is responsible for administering most of the funds for programs targeted to the homeless. Consolidating all of the homeless assistance programs under HUD should result in administrative and operational efficiencies at the federal level as well as reduce the administrative and coordination burdens of state and local governments.

CBO was not able to estimate the budget savings for this option.

Related GAO Products


**GAO Contact**

Thomas J. McCool, (202) 512-8678
The Small Business Administration’s (SBA) complicated and overlapping organizational relationships and a field structure that does not consistently match mission requirements have combined to impede staff efforts to deliver services effectively. Some of the complex organizational relationships stem from legislative requirement. Others result from past SBA realignment efforts that changed how the agency performs its functions but left aspects of the previous structure intact.

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

In 2002, GAO reported that SBA drafted a 5-year workforce transformation plan. The draft plan recognizes SBA’s need to restructure its workforce, privatize noncore functions, adjust incentives and goals, and streamline its headquarters’ operation. In October 2003, GAO reported that SBA had made some progress in implementing the first phase of its transformation but that further progress could be hampered by budget staff realignment challenges. Improvements in SBA’s organizational structure could lead to savings in human capital and office space costs.
Some options that the Congress could consider to assist SBA in its transformation effort include

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

CBO agrees that this option would result in budgetary savings, but it could not develop a savings estimate.

Related GAO Products


GAO Contact

Davi D'Agostino, (202) 512-8678
Improve Reviews of Small Business Administration’s Preferred Lenders

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

SBA is required by law to review preferred lenders at least annually. SBA has made progress in developing its lender oversight program, including ranking SBA lenders based on their projected financial risk to the agency. However, SBA has yet to fully develop and implement effective oversight programs that assess lenders’ decisions on borrowers’ creditworthiness and eligibility.

To improve its reviews of preferred lenders, SBA should develop specific criteria to apply to the “credit elsewhere” standard, and perform qualitative assessments of lenders’ performance and lending decisions. Implementation of these recommendations could lead to lower defaults on 7(a) loans and/or a smaller 7(a) loan program.

CBO could not estimate the budget savings for this option.

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32The “credit elsewhere” standard is a test to determine whether the borrower can obtain credit without the SBA guarantee.
### Related GAO Product


### GAO Contact

Davi D'Agostino, (202) 512-8678
Eliminate NIST’s Advanced Technology Program

The Advanced Technology Program, administered by the National Institute of Standards and Technology (NIST), was established in 1988 to improve the competitive position of U.S. businesses by supporting private industry research that accelerates the development of high-risk technologies with potential for broad-based economic benefits for the nation. The Advanced Technology Program is designed to fund research that businesses alone would not fund. While NIST has reported successes, NIST cannot ensure that the business or a competitor would not conduct this research in the same time period without government assistance. For example, our April 2000 retrospective look at three Advanced Technology Program research projects found that their goals were similar to research goals already being funded by the private sector.

In 2004, U.S. businesses are in a markedly improved competitive position compared with Japanese and other foreign businesses competing in the global economy. In addition, NIST cannot ensure that Advanced Technology Program funding is critical for the timely development of generic technologies that may be vital to the U.S. and global economies. For these reasons, one option for the Congress is to terminate the Advanced Technology Program.

CBO estimates the following budgetary savings with this option.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Robin Nazzaro, (202) 512-3841

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### Five-Year Savings

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<thead>
<tr>
<th></th>
<th>FY05</th>
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<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
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Source: Congressional Budget Office.
<table>
<thead>
<tr>
<th>400 Transportation</th>
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<tbody>
<tr>
<td>Make Further Appropriations on the Pulsed Fast Neutron Analysis Inspection System Dependent on Results of Operational Testing</td>
</tr>
<tr>
<td>Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities</td>
</tr>
<tr>
<td>Convert Some Support Officer Positions to Civilian Status</td>
</tr>
<tr>
<td>Develop a Passenger Intercity Rail Policy to Meet National Goals</td>
</tr>
<tr>
<td>Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs</td>
</tr>
<tr>
<td>Increase Aircraft Registration Fees to Enable the Federal Aviation Administration to Recover Actual Costs</td>
</tr>
<tr>
<td>Improve the Coordination of Transportation Services for Transportation-Disadvantaged Populations</td>
</tr>
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</table>
One type of technology under development for detecting explosives and narcotics is a pulsed fast neutron analysis (PFNA) inspection system. PFNA is designed to directly and automatically detect and measure the presence of specific materials (e.g., cocaine) by exposing their constituent chemical elements to short bursts of subatomic particles called neutrons. Four government agencies—the Transportation Security Administration (TSA), Bureau of Customs and Border Protection (CBP), Department of Defense (DOD), and Federal Aviation Administration (FAA)—are currently involved in two separate joint efforts to test and demonstrate PFNA’s capabilities at ports of entry. As we reported initially in 1999 and in subsequent budget options reports for Congress, the agencies involved in developing PFNA believed that PFNA was too expensive and too large for operational use in most ports of entry or other sites. TSA continues to believe that PFNA will not meet its operational requirements for maritime and land applications. While CBP also believes PFNA will not be able to meet its operational requirements, it also believes PFNA shows enough promise to continue with the operational test. DOD now prefers not to express an opinion on whether PFNA would satisfy its requirements or be too expensive until after operational testing and a cost benefit analysis are completed.

---

33 We reported last year that PFNA was estimated at between $10 million to $15 million per unit to acquire. See U.S. General Accounting Office, Opportunities for Oversight and Improved Use of Taxpayer Funds: Examples of Selected GAO Work, GAO-03-1006 (Washington, D.C.: Aug. 1, 2003).
The first PFNA effort, is a DOD-led joint operational evaluation with CBP and TSA at the Ysleta border crossing in El Paso, Texas. This operational evaluation will test PFNA’s ability to detect drugs, explosives, chemical warfare agents, currency, and nuclear materials. It is currently scheduled for completion in October 2004 with a final report due in December 2004, and a cost benefit analysis scheduled for completion in March 2005. It is estimated to cost $17.8 million to the government, which includes $8.5 million for a firm, fixed-price contract with PFNA’s manufacturer, The Ancore Corporation, to deliver a system to Ysleta and provide support and maintenance for the test. The $17.8 million total consists of $6.7 million from DOD, $4.8 million from TSA, and $6.3 million from CBP. DOD officials stated that its lead role in the joint Ysleta operational test is as an independent evaluator and does not indicate an endorsement of the system for use by DOD.

The second PFNA effort, is a demonstration at the George Bush Intercontinental Airport in Houston, Texas. TSA is currently in discussions with FAA and Ancore’s parent company, OSI Systems, Inc., to conduct a joint demonstration. A total of $8 million in government funds has thus far been allocated for the demonstration—$4 million each from TSA and FAA with an additional $4 million to be provided by OSI Systems. TSA began the discussions in February 2004 and could not provide additional information at this time. TSA also stated that this demonstration is unrelated to a previous cooperative agreement it had made with Ancore to


35 We reported in the August 2003 report that the operational test was scheduled for completion in June 2004. DOD stated that the completion date slipped to October 2004 because the initial location selected at the Ysleta test site had to be changed, which resulted in additional costs and delaying the program until the required funds were identified.

36 We reported in the August 2003 report that the estimated cost of the operational test was $13.9 million.

37 See Conference Report 108-401, Making Appropriations for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies for the Fiscal Year Ending September 30, 2004, and for Other Purposes, November 25, 2003, page 926. Congress initially provided FAA $4 million in fiscal year 2004 to conduct the demonstration and directed it to provide a status report on the demonstration by July 1, 2004. However, according to TSA and FAA officials, FAA agreed to transfer both its $4 million and the responsibility of the PFNA demonstration to TSA since it no longer has authority over airport security. The FAA had been involved for several years with the PFNA program until TSA assumed responsibility of the program after its creation.
test PFNA in a laboratory for aviation applications, which could have led to an operational test at an airport, as we reported last year. TSA stated that it discontinued funding the cooperative agreement before systems development was completed.

One option is for the Congress to make further appropriations dependent upon a careful evaluation of the results of both the Ysleta land border crossing operational test and the Bush Intercontinental Airport demonstration.

CBO said that it could not estimate the savings from this option, since it is subject to appropriation, which could be higher or lower, depending on the results of the evaluation.

Related GAO Product

*Terrorism and Drug Trafficking: Testing Status and Views on Operational Viability of Pulsed Fast Neutron Analysis Technology.*


GAO Contact

Laurie E. Ekstrand, (202) 512-8777
Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities

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

Given the serious budget constraints the Coast Guard now faces and the fundamental challenges in being able to accomplish new homeland security responsibilities it has been given while maintaining levels of effort in its traditional missions, it will need to achieve significant budgetary savings to offset the increased budgetary needs of the future. Closing, consolidating, or privatizing training and operating facilities, including the Curtis Bay facility, 20 small boat stations, the vessel traffic service centers, and one of its training centers in Petaluma, Calif., would help the Coast Guard to achieve these required savings.

Although CBO agreed that this option would result in budgetary savings, it could not develop a savings estimate.
### Related GAO Products


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

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


### GAO Contact

Margaret Wrightson, (415) 904-2200
Convert Some Support Officer Positions to Civilian Status

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

Of 5,760 commissioned officer positions in the Coast Guard’s workforce (as of the end of fiscal year 1999), GAO selectively evaluated nearly 1,000 in 75 units likely to have support positions. Of these positions, GAO found about 800 in which officers were performing duties that offered opportunities for conversion to civilian positions. Such positions include those in, among other things, personnel, public affairs, civil rights, and data processing. In comparing all of the relevant costs associated with military and civilian positions, GAO found that employing active-duty commissioned officers in the positions we reviewed is, on average, 21 percent more costly than filling the same positions with comparable civilian employees. The cost differential is based on a comparison of average annual pay, benefits, and expenses associated with the Coast Guard’s commissioned officers at different military ranks and federal civilian employees at comparable civilian grades for fiscal year 1999.
From July 31, 2001 through February 28, 2003, the Coast Guard had converted 68 commissioned officer positions to civilian positions. Converting support positions currently filled by military officers to civilian status would reduce costs associated with delivering these services with no apparent impact on performance. By converting commissioned officer positions to civilian positions, savings would accrue to the federal government in the form of retirement savings, tax advantage savings, and savings to the Coast Guard's discretionary budget.

Although CBO agreed that this option would result in budgetary savings, it could not develop a savings estimate.

**Related GAO Product**


**GAO Contact**

Margaret Wrightson, (415) 904-2200
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

Develop a Passenger Intercity Rail Policy to Meet National Goals

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>National Railroad Passenger Corporation</th>
</tr>
</thead>
<tbody>
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<td>Discretionary</td>
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<tr>
<td>Budget subfunction</td>
<td>401/Ground transportation</td>
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<tr>
<td>Theme</td>
<td>Reassess objectives</td>
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</table>

The National Railroad Passenger Corporation (Amtrak) operates the nation’s intercity passenger rail service. As a private corporation, it operates trains in 46 states, and, in fiscal year 2002, served about 23.4 million riders (about 64,000 per day). Amtrak plays only a small part in the nation’s overall transportation system with the exception of some short-distance routes. It has sizeable market shares (compared to travel by air) between certain relatively close cities. However, by far, the automobile dominates most intercity travel. Like major national intercity passenger rail systems outside the United States, Amtrak receives government support. Since Amtrak’s creation in 1970, the federal government has provided Amtrak with operating and capital assistance, and in the past 5 years, it has provided Amtrak an average of about $1 billion each year.

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

Amtrak and the administration have offered differing views on Amtrak and the future of intercity passenger rail service in America. Amtrak focuses primarily on the importance of Amtrak’s receiving the funding it needs to improve the condition of its equipment, its reliability and utilization, and its infrastructure. In contrast, the administration has proposed a fundamental restructuring of intercity passenger rail in the U.S. The administration’s proposal would transition the responsibility for Amtrak operations to the states. The federal government would support capital costs. States and
multi-state compacts would decide the type and amount of passenger rail service to be provided, and states would select operators for passenger trains based on competition. Various members of Congress have also proposed other legislative visions for intercity passenger rail.

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

CBO was not able to estimate the budgetary savings of this option.

Related GAO Products


GAO Contact

JayEtta Z. Hecker, (202) 512-8984
Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs

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

The effect of cargo preference laws has been mixed. These laws appear to have had a substantial impact on the U.S. merchant marine industry by providing an incentive for vessels to remain in the U.S. fleet. However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. Our work showed that four federal agencies—the Departments of Defense, Agriculture, Energy, and the Agency for International Development—were responsible for almost all of the government cargo subject to cargo preference laws and that these laws increased these agencies’ transportation costs substantially. In recent years, the Office of Management and Budget's Program Assessment Rating Tool summaries have stated that the Public Law 480 Title II food aid program would be more cost effective if these laws were eliminated, because they increase delivery cost and time.

CBO estimates the following budget savings if cargo preference laws were eliminated.
### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
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<tbody>
<tr>
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<td>476</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

### Related GAO Products


### GAO Contacts

Loren Yager, (202) 512-4347  
Phil Thomas, (202) 512-9892
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

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

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a $5 fee. As of the end of fiscal year 2003, 334,594 aircraft were registered in the United States. In fiscal year 2003, 61,074 certificate registrations were issued.

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

CBO estimates additional revenue could be achieved if the FAA recovers the full cost of processing aircraft registration applications.

<table>
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<td>Redefine beneficiaries</td>
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<th>FY06</th>
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</table>

Source: Congressional Budget Office.
| GAO Contact                                                                     | Gerald Dillingham, (202) 512-4803 |
Improve the Coordination of Transportation Services for Transportation-Disadvantaged Populations

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Multiple</th>
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</thead>
<tbody>
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<td>Budget subfunction</td>
<td>Multiple</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

The ability to access personal or public transportation is fundamental for people to connect with employment opportunities, health and medical services, educational services, and the community at large. However, transportation-disadvantaged persons—those who may have an age-related condition, a disability, or income constraints—lack the ability to provide their own transportation or have difficulty accessing whatever conventional public transportation may be available. This is a sizeable group; according to the 2000 U.S. Census, 35.1 million people were over the age of 65, 44.5 million were over age 21 and disabled, and 33.9 million people were living below the poverty line.

Providing transportation services to these populations and coordinating them across program lines are becoming more critical issues as the transportation-disadvantaged populations grow and financial constraints on the federal government and other government levels increase. With these trends, it will become more important to maximize efficiency wherever possible to avoid having to reduce services. The coordination of transportation services—through pooling resources, consolidating transportation services under a single state or local agency, or sharing information about available services—has been found to improve the cost-effectiveness and quality of service. At the state and local levels, some agencies have realized substantial benefits by coordinating their transportation services while others that do not coordinate have experienced overlapping, fragmented, or confusing services. In locations where coordination among programs has occurred, agencies and users are realizing significant benefits such as improved customer service. In areas without coordination, local officials reported some examples of (1) overlapping services, such as the transportation provider who often runs two vehicles on the same route at nearly the same time to accommodate different paperwork requirements; (2) fragmented services, when transportation services by different counties or programs do not
connect and riders have difficulty scheduling complete trips; and (3) confusion, when both providers and users are overwhelmed by the sheer number of programs and their different requirements.

Although decision makers face numerous obstacles in trying to coordinate transportation services for the transportation-disadvantaged, GAO identified several options to mitigate the obstacles and improve coordination among federal, state, and local agencies. We grouped the obstacles into three categories: (1) reluctance to share vehicles and fund coordination activities due to concerns about possible adverse effects on clients; (2) different eligibility requirements, safety standards, and other programmatic requirements that can limit programs’ ability to share transportation resources; and (3) lack of leadership and commitment to coordinate, as evidenced by the limited guidance and information provided by federal and state agencies on the possible techniques for coordinating services. The options for addressing these obstacles include:

- Harmonizing program standards among federal programs so that programs can serve additional populations or better share transportation resources, e.g., providing more flexible regulatory language that would allow providers to serve additional client groups, developing consistent cost accounting methods, and adopting common safety standards.

- Expanding interagency forums that would facilitate communication among agencies involved in coordination efforts and sharing additional technical guidance and information on coordination among federal and state agencies through a central clearinghouse or improved Web site.

- Providing financial incentives or mandates that would give priority in federal funding to those grant applicants that show a strong commitment to coordinate or requiring specific coordination efforts among grant recipients as a condition of receiving federal funding.

CBO could not estimate a budget savings for this option.

Related GAO Products


GAO Contact

Kate Siggerud, (202) 512-6570
<table>
<thead>
<tr>
<th>Community and Regional Development</th>
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<tbody>
<tr>
<td>Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss</td>
</tr>
<tr>
<td>Eliminate Flood Insurance for Certain Repeatedly Flooded Properties</td>
</tr>
<tr>
<td>Reduce or Eliminate the Trade Adjustment Assistance Program for Firms and Industries</td>
</tr>
<tr>
<td>Improve Federal Foreclosure and Property Sales Processes</td>
</tr>
</tbody>
</table>
Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss

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

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

CBO estimates the following budgetary savings with this option.

<table>
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<th>Five-Year Savings</th>
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<td>Outlays (net increased receipts)</td>
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</table>

Source: Congressional Budget Office.

Related GAO Products


GAO Contact

William Jenkins, Jr., (202) 512-8757
Eliminate Flood Insurance for Certain Repeatedly Flooded Properties

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

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

CBO estimates the following budgetary savings with this option.
### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
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Source: Congressional Budget Office.

### Related GAO Products


### GAO Contact

William Jenkins, Jr., (202) 512-8757
Reduce or Eliminate the Trade Adjustment Assistance Program for Firms and Industries

<table>
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<tr>
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<td>Theme</td>
<td>Reassess objectives</td>
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The Trade Adjustment Assistance Program for Firms and Industries is designed to assist domestic firms that have been adversely affected by imports. The Department of Commerce’s Economic Development Administration (EDA) administers the program. EDA is responsible for certifying firms’ eligibility to receive assistance and approving the certified firms’ business plans for economic recovery. Twelve regional centers help firms prepare petitions for certification, assess their economic viability, develop business recovery plans, and fund and oversee consultants’ efforts to implement the business recovery plans. In 2002, Congress extended the Trade Adjustment Assistance Program through fiscal year 2007 at an authorized annual funding level of $16 million. The President’s fiscal year 2003 budget request was for $13 million.

Between fiscal years 1995 and 1999, EDA annually certified an average of 157 firms as eligible for assistance (about 13 per regional center) and 127 firms had certified recovery plans (about 11 per regional center). During this period, most Trade Adjustment Assistance Program funding—61 percent—was used to fund operational and administrative costs at the 12 regional centers, including helping firms become certified for assistance and developing firm-specific business recovery plans. The remainder of the program funding—an annual average of $3.8 million, or approximately 39 percent of the total—was used to fund technical assistance to implement the business recovery plans.

---

38 At the time of certification, firms had annual sales that ranged from $1,563 to more than $219 million, with median sales of $3.2 million. The number of employees ranged from 1 to more than 3,000, but the median number was 45. About half of these firms came from four industries—industrial machinery and computers (14 percent), electronic equipment (13 percent), apparel manufacturers (12 percent), and fabricated metals (10 percent).
In December 2000, we reported that the impact of the Trade Adjustment Assistance Program was unclear. EDA had not developed appropriate outcome measures to demonstrate the program’s value in achieving its goal of assisting firms adversely affected by imports and did not formally monitor and track program outcomes for program recipients. In April 2003, the Congressional Research Service reported that evaluation of the program had been largely inconclusive. An independent study suggested that the Trade Adjustment Assistance Program had been helpful to firms at the margin; however, this study had several flaws that may have biased its results. EDA added new performance measures for the Trade Adjustment Assistance Program for fiscal year 2003 to better track outcomes of the assistance provided by the regional centers. However, we have not evaluated whether these new measures are sufficient to assess how the program is helping firms adjust to import competition.

Given the low percentage of program funds used to implement the business recovery plans and the lack of information about the program’s impact, Congress may wish to consider several options for this program:

- Direct the Commerce Department to consolidate the 12 regional centers to reduce administrative and overhead costs.
- Direct the Commerce Department to co-locate the regional centers with other programs (such as the department’s Manufacturing Extension Partnership) to reduce administrative and overhead costs and provide some synergy with other federal efforts to assist firms.
- Reduce or eliminate the Trade Adjustment Assistance Program.

CBO estimates that the following budgetary savings would occur if the Congress chooses to terminate the program.
### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
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<tr>
<td>Savings from the 2004 funding level</td>
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<tr>
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<td>4</td>
<td>7</td>
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<td>Budget authority</td>
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<td>13</td>
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</tr>
</tbody>
</table>

Source: Congressional Budget Office.

*a Estimate reflects savings if the Trade Adjustment Assistance Program is eliminated.

#### Related GAO Product


#### GAO Contacts

- Loren Yager, (202) 512-4347
- Phil Herr, (202) 512-8509
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Appendix III

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

<table>
<thead>
<tr>
<th>Primary agencies</th>
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</thead>
<tbody>
<tr>
<td>Accounts</td>
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</tr>
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<td>Spending types</td>
<td>Direct/Discretionary</td>
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<tr>
<td>Budget subfunctions</td>
<td>Multiple</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

39 Generally, FHA, VA, and RHS pay claims to mortgage servicers to cover the outstanding loan balances on foreclosed mortgages and interest and other expenses. If foreclosed properties are resold at relatively low prices, then the organizations’ ability to recover their claim payments may be limited.
FHA procedures can delay the initiation of critical steps necessary to preserve the value of foreclosed properties and to sell them quickly. While Fannie Mae, Freddie Mac, VA, and RHS designate one entity as responsible for the custody, maintenance, and sale of foreclosed properties, FHA divides these responsibilities between its mortgage servicers and management and marketing contractors. We found that FHA’s divided approach to foreclosed property custody can prevent the initiation of critical maintenance necessary to make properties attractive to potential buyers, such as the timely removal of all exterior and interior debris, and results in disputes between servicers and contractors. Because FHA’s divided approach delays maintenance and other steps necessary to preserve the value and marketability of foreclosed properties, the properties may be sold at lower prices than would otherwise be the case. In fact, we estimated that FHA takes about 55 to 110 days longer to sell foreclosed properties than the other organizations. In a June 2003 conversation, an FHA official said that the agency continues to consider unified custody as the best means of managing its inventory of foreclosed properties. Given legal and other complexities associated with changing its approach to selling foreclosed properties, FHA does not expect to complete its ongoing review of the best means of implementing unified custody until October 2004.

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

As an option, Congress may wish to consider enacting legislation to establish unified custody as a priority for the sale of foreclosed properties.
that FHA takes into its inventory and directing the agency to complete its review of the best means of implementing unified custody by the close of fiscal year 2004.

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

CBO was not able to determine if this option would result in a budget savings.

Related GAO Product  

GAO Contact  
Thomas J. McCool, (202) 512-8678
<table>
<thead>
<tr>
<th>500 Education, Training, Employment, and Social Services</th>
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</thead>
<tbody>
<tr>
<td>Improve Targeting of Title I Basic Grants</td>
</tr>
<tr>
<td>Change Borrower Interest Rate on Federal Consolidation Loans From Fixed to Variable</td>
</tr>
</tbody>
</table>
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Improve Targeting of Title I Basic Grants

<table>
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<th>Department of Education</th>
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<td>Budget subfunction</td>
<td>501/Elementary, secondary, and vocational education</td>
</tr>
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<td>Theme</td>
<td>Redefine beneficiaries</td>
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</table>

Title I is the largest federal program supporting elementary and secondary education. While state and local funds account for the vast majority of total education expenditures nationally, Title I is an important source of funding for many high-poverty districts and schools. Created in 1965 as part of the War on Poverty, Title I is designed to help educate disadvantaged children—those with low academic achievement attending schools serving high-poverty areas.

To distribute Title I funds to school districts, the law authorizing the program provides for several types of grants; “basic grants,” however, are the primary vehicle for Title I funding and are the easiest grants for which school districts can qualify. Districts are eligible for basic grants if they have at least 10 poor children and the number of poor children is more than 2 percent of the district’s school-age children. Nationally, about 92 percent of school districts (containing over 99 percent of poor children) received basic grants in fiscal year 1999, accounting for about 85 percent of total Title I funds.

Title I grants have sometimes been criticized because the poverty threshold for basic grant eligibility is so low that nearly all school districts can participate in the program. It is often noted that by funding nearly all districts, less funding is available for districts with higher concentrations of poverty. One policy option to further target funding for higher poverty districts would be to raise the basic grant eligibility threshold, making fewer districts eligible. With fewer districts eligible, the remaining districts would receive more funds per poor child, even if total Title I funding were to remain constant. Another policy option would be to raise the basic grant eligibility threshold, but redistribute only half of the funds resulting from fewer districts being eligible, while reducing federal expenditures by retaining the remaining funds. Yet another option would be to raise the
basic grant eligibility threshold without redistributing any of the funds obtained from doing so. We reported in 2002 that increasing the poverty threshold for basic grant eligibility from 2 to 10 percent would reduce the percentage of school districts qualifying for basic grants from 92 to 74 percent of school districts nationwide. Such an increase in the eligibility threshold would have generated over $570 million, which could have been used to redistribute to school districts remaining eligible for Title I basic grants and/or to reduce federal expenditures.

CBO estimates no budgetary savings from this option with a decrease in appropriation.

Related GAO Product


GAO Contact

Marnie S. Shaul, (202) 512-7215
Student consolidation loans, available under the Department of Education’s two major student loan programs—the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program (FDLP)—were created to help borrowers cope with large amounts of federal student loan debt. Consolidation loans allow borrowers to combine loans, extend their repayment period, and reduce monthly repayments, thereby helping to reduce the government’s costs of paying for defaults. Consolidation loans also allow borrowers to lock in a fixed interest rate, unlike most other federal student loans, which carry an interest rate that varies from year to year. Between fiscal year 2000 and 2002, the number of borrowers consolidating their federal student loans nearly doubled to almost 1 million, and the total amount of loans being consolidated rose from $12 billion to over $31 billion. Lower interest rates and the increased consolidation loan volumes of recent years have increased the estimated long-term cost—or subsidy cost—to the government of guaranteeing FFELP consolidation loans. The estimated subsidy costs for FFELP consolidation loans grew from $1.3 billion for loans made in fiscal year 2002 to nearly $3 billion for loans made in fiscal year 2003. Interest rates and loan volume also affected costs for FDLP consolidation loans by reducing the net gain to the government to $286 million for loans made in fiscal year 2003, down from $460 million the year before.

The surge in the number of borrowers consolidating their loans suggests that many borrowers who face little risk of default are choosing consolidation as a way of obtaining low fixed interest rates. If borrowers continue to consolidate their loans in the current low interest rate environment, and interest rates rise, the government will continue to
assume relatively high subsidy costs for FFELP consolidation loans due to the payments the government must make to lenders to ensure their statutorily guaranteed rate of return on the loans they make. (Lenders’ guaranteed rates of return vary, based on prevailing market interest rates and are projected to be higher in the future.) Providing for higher subsidy costs for consolidation loans may outweigh any government savings associated with the reduced costs of loan defaults for the smaller number of borrowers who might default in the absence of the repayment flexibility offered by consolidation loans.

One option for the Congress is to change the interest charged to borrowers on consolidation loans from a fixed to a variable rate that is consistent with the interest rates carried by most other federal student loans—which underlie borrowers’ consolidation loans. Such an option might reduce overall federal costs by reducing the volume and subsidy costs of consolidation loans. When low fixed interest rates are no longer an option on consolidation loans, borrowers who are not experiencing difficulty in managing their student loan debt would have less incentive to consolidate their loans. For borrowers who are, however, experiencing difficulties in paying their student loans and at risk of default, the program would continue to be an important tool to help them manage their educational debt by consolidating multiple loan repayments into one and extending their repayment term, thereby reducing their monthly repayments.

CBO was not able to determine if this option would result in a budget savings.

Under current law, borrower interest rates on Stafford loans—which comprise the majority of student loans underlying consolidation loans—originated on or after July 1, 2006 will carry a fixed borrower interest rate of 6.8 percent. Presently, borrower interest rates on Stafford loans are variable and based on a statutorily established market-indexed rate setting formula, while borrower interest rates on consolidation loans are determined by taking the weighted average of the interest rates in effect on the loans being consolidated rounded up to the nearest one-eighth of 1 percent. Unless current law is changed, future borrowers with fixed-rate Stafford loans will have less of an interest rate incentive to obtain consolidation loans. However, borrowers who will have obtained loans prior to July 1, 2006 may still have an interest rate incentive to obtain consolidation loans beyond July 1, 2006. Further, in this fiscal year 2005 budget request, the President has proposed eliminating the scheduled interest rate change for Stafford loans and maintaining the variable interest rate formula.
## Related GAO Product

*Student Loan Programs: As Federal Costs of Loan Consolidation Rise, Other Options Should be Examined.*  

### GAO Contact

Cornelia M. Ashby, (202) 512-8403
<table>
<thead>
<tr>
<th>Health</th>
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<tr>
<td>Improve Fairness of Medicaid Matching Formula</td>
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<tr>
<td>Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government</td>
</tr>
<tr>
<td>Control Provider Enrollment Fraud in Medicaid</td>
</tr>
<tr>
<td>Eliminate Federal Funding for SCHIP Covering Adults without Children</td>
</tr>
<tr>
<td>Charge Beneficiaries for Food Inspection Costs</td>
</tr>
<tr>
<td>Redirect Carcass-by-Carcass Inspection Resources in Meat and Poultry Plants</td>
</tr>
<tr>
<td>Create a Uniform Federal Mechanism for Food Safety</td>
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Improve Fairness of Medicaid Matching Formula

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Health and Human Services</th>
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</thead>
<tbody>
<tr>
<td>Account</td>
<td>Grant to States for Medicaid (75-0512)</td>
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<tr>
<td>Spending type</td>
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<tr>
<td>Budget subfunction</td>
<td>551/Health care services</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
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The Medicaid program provides medical assistance to individuals who are low-income, aged, blind, or disabled. The federal government and the states share the financing of the program through an open-ended matching grant whereby federal outlays rise with the cost and use of Medicaid services. The federal share of the program costs varies inversely with state per capita income. Consequently, high-income states pay a larger share of the benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent.

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

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


GAO Contact
Kathryn G. Allen, (202) 512-7114
Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government

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

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

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41SCHIP is the State Children's Health Insurance Program.
to issue a final regulation that further curtailed states’ ability to claim excessive federal matching funds through financing schemes, which HCFA, now called the Centers for Medicare & Medicaid Services (CMS), did in January 2001.

Despite these legislative and regulatory restrictions, our ongoing work has demonstrated that some states continue to benefit from financing schemes to draw down federal Medicaid payments that substantially exceed costs. Moreover, while CMS has taken steps to strengthen its oversight of states’ financing arrangements, these steps have not gone far enough to ensure that federal funds are used for the purposes for which Medicaid funds are intended. For example, a 2001 regulation limited the use of these arrangements and provided for transition periods for states to phase out their excessive claims for federal matching funds. Our ongoing work has found that CMS’s decisions to grant 8-year transition periods to two states with nursing home arrangements were not consistent with the stated purpose of the agency’s regulation intended to curtail these financing schemes. We are also currently examining the extent to which states are hiring private consulting firms to inappropriately maximize federal reimbursement through the Medicaid program.

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

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

CBO agrees that the option may result in savings, but it could not develop a savings estimate for this option.

Related GAO Products

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


GAO Contact
Kathryn G. Allen, (202) 512-7118
Control Provider Enrollment Fraud in Medicaid

<table>
<thead>
<tr>
<th>Primary agency</th>
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</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

Continuing prosecutions of provider fraud in the California Medicaid program, which have resulted in more than $134 million in restitution and 550 criminal convictions since 1999, involve cases in which closer scrutiny would have raised questions about the legitimacy of the providers involved. State Medicaid programs are responsible for processing millions of providers’ claims each year, making it impossible to perform detailed checks on a significant portion of them. While most providers bill appropriately, states need enrollment procedures to help prevent entry into Medicaid by providers intent on committing fraud. Preventing such providers from billing the program is more efficient than attempted recovery once payments have already been made. Since 1999, California has coupled its increased enforcement with closer monitoring of providers and increased scrutiny prior to enrollment.

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

At present, the federal government has no uniform or minimum requirements in approving providers’ applications. As a result, we believe that it would be beneficial for the Centers for Medicare & Medicaid Services (CMS)—the agency formerly called the Health Care Financing Administration (HCFA)—to assist states in developing effective provider
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Related GAO Products

enrollment procedures. If states could limit entrance of even a small percentage of dishonest providers by adopting such procedures, future Medicaid costs would be reduced substantially. CMS has a work group that is considering options for a limited pilot project to study coordinating aspects of Medicaid and Medicare provider enrollment activities.

CBO agrees that the option may result in savings, but it could not develop a savings estimate for it.


GAO Contact

Leslie G. Aronovitz, (312) 220-7767
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

Eliminate Federal Funding for SCHIP Covering Adults without Children

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Health and Human Services</th>
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<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
</tr>
</tbody>
</table>

In July 2002, we reported both legal and policy concerns about the extent to which the Department of Health and Human Services (HHS) has ensured that approved demonstration waivers, authorized under section 1115 of the Social Security Act, were consistent with the goals and fiscal integrity of the Medicaid and State Children’s Health Insurance Program (SCHIP). The legal concern was that HHS approved a waiver to allow a state to use unspent SCHIP funding to cover adults without children, despite the program’s statutory objective of expanding health coverage to low-income children. We also reported policy concerns that approved waivers may increase the federal liability for program expenditures. Specifically, despite HHS's oversight responsibilities for ensuring that states’ demonstration programs do not put the federal government at risk for spending more on Medicaid than it would have without such programs, two of the four approved waivers we reviewed could potentially cost the federal government at least $330 million more than if they had not been approved. We recommended that the Congress consider amending title XXI of the Social Security Act to specify that SCHIP funds are not available to provide health insurance coverage for childless adults. We also recommended that the Secretary of HHS better ensure that valid methods are used to demonstrate budget neutrality and appropriately adjust the federal obligation for the reviewed waivers. In January 2004, we reported that HHS has continued to approve waivers that allow states to use SCHIP funds to cover childless adults. We concluded that it appeared likely that HHS will, in the absence of action in response to the matters for congressional consideration raised in our July 2002 report, continue to allow states to use SCHIP funds to cover childless adults.

CBO estimates the following budgetary savings with this option.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
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<td>-46</td>
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<td>-174</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


GAO Contact

Kathryn G. Allen, (202) 512-7118
User fees—charges individuals or firms pay for services they receive from the federal government—are not new but play an increasingly important role in financing federal programs, particularly since the Balanced Budget Act of 1985. In general, federal food inspection agencies have charged user fees only to beneficiaries of premarket reviews, such as the grading of grain and other commodities for quality. Federal food inspection agencies generally do not currently charge user fees or fully cover the cost of services provided for (1) compliance inspections of meat, poultry, domestic foods, and processing facilities to ensure adherence to safety regulations, (2) import inspections and export certifications to ensure that food products in international trade meet specified standards, and (3) standards setting and other support services essential to these functions. Office of Management and Budget (OMB) Circular A-25, User Charges, states that user fees should be charged to cover the full cost of federal services when the service recipient receives special benefits beyond those received by the general public. The U.S. Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) provides a special benefit to meat and poultry slaughter and processing plants that incidentally benefits the general public.

USDA inspection agencies recovered through user fees only about $403 million of the $1.3 billion they spent in 2002 to inspect, test, grade, and approve agricultural commodities and products. Federal appropriations have traditionally funded the agencies’ remaining inspection expenses. While it has been a few years since we last reported on this issue, the situation has not materially changed. Accordingly, an option the Congress may want to consider is to set the user fees to cover the full cost of USDA inspection services provided to meat and poultry slaughter and processing plants.
CBO estimates the following budgetary savings with this option.

<table>
<thead>
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<th>Five-Year Savings</th>
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<tr>
<td>Outlays</td>
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<tr>
<td>-342 -745 -810 -840 -871</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
Redirect Carcass-by-Carcass Inspection Resources in Meat and Poultry Plants

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Agriculture</th>
</tr>
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<tr>
<td>Account</td>
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<td>Budget subfunction</td>
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<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
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Foodborne illness in the United States is extensive and expensive. Foodborne diseases cause about 76 million illnesses, 325,000 hospitalizations, and 5,200 deaths annually. In terms of medical costs and productivity losses, illness from just the five principal foodborne pathogens alone costs the nation about $7 billion annually, according to U.S. Department of Agriculture (USDA) estimates.

Currently, USDA's meat and poultry inspection system does not efficiently and effectively use its resources to protect the public from foodborne illness. USDA's system relies on outdated, labor-intensive inspection methods. Under current law, USDA inspects each of the over 8 billion livestock and bird carcasses slaughtered annually. Further, USDA's Food Safety and Inspection Service (FSIS) states that current law requires it to inspect each of the approximately 6,000 processing plants at least once during each operating shift. While these inspections consume most of FSIS's budget ($730 million in 2002), they are unable to detect most microbial contamination. While USDA has implemented a risk-based meat and poultry inspection system, it still maintains a carcass-by-carcass inspection system under current law.

Legislative revisions could allow FSIS to further emphasize risk-based inspections. Much of the funding used to fulfill current meat and poultry carcass-by-carcass inspection activities could be redirected.

CBO agrees that the option may result in savings, but it could not develop a savings estimate for this option.
Related GAO Products


GAO Contacts

Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
Create a Uniform Federal Mechanism for Food Safety

<table>
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<tr>
<th>Primary agency</th>
<th>Department of Agriculture</th>
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Today, a multitude of agencies oversees food safety. Two agencies account for most federal spending on, and regulatory responsibilities for, food safety. The Food Safety and Inspection Service (FSIS), under the U.S. Department of Agriculture (USDA), is responsible for the safety of meat, poultry, eggs, and some egg products, while the Food and Drug Administration (FDA), under the Department of Health and Human Services (HHS), is responsible for the safety of most other foods.

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

The Congress could consider the following options to improve the effectiveness and efficiency of the federal food safety system and ensure a comprehensive farm-to-table approach—one that starts with growers and extends to retailers. One option would be to consolidate federal food safety agencies and activities under a single, independent, risk-based food safety agency responsible for administering a uniform set of laws. A second option would be to consolidate food safety inspection activities in an existing department, such as USDA or HHS.

CBO agrees that the option may result in savings, but it could not develop a savings estimate for this option.
### Related GAO Products

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GAO Contacts
Bob Robinson, (202) 512-3841
Lawrence J. Dyckman, (202) 512-3841
## 570 Medicare

- Reassess Medicare Incentive Payments in Health Care Shortage Areas
- Adjust Medicare Payment Rates to Reflect Changing Technology, Costs, and Market Prices
- Increase Medicare Program Safeguard Funding
- Modify the New Skilled Nursing Facility Payment Method to Ensure Appropriate Payments
- Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System
- Allow Provisions for Direct Laboratory Payment for Certain Medicare Pathology Services to Expire
- Require Information on Enrollees from Private Health Insurers to Improve Identification of Medicare Beneficiaries with Other Health Coverage
Reassess Medicare Incentive Payments in Health Care Shortage Areas

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The Medicare Incentive Payment program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services cause access problems for Medicare beneficiaries in underserved areas. The program pays physicians a 10-percent bonus payment for Medicare services they provide in areas identified by the Department of Health and Human Services (HHS) as having a shortage of primary care physicians. In 2002, Medicare Incentive Payments totaled $104 million.

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

- The need for this program may have changed; since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. In addition, surveys of Medicare beneficiaries who have access problems, including those who may live in underserved areas, generally cite reasons other than the unavailability of a physician—such as the cost of services not paid by Medicare—for their access problems.

- The relatively small bonus payments most physicians receive—a median payment of $341 for the year in 1996—are unlikely to have a significant impact on physician recruitment and retention.

- Specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply, while shortages of specialists, if any, have not been determined.

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

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

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

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


**GAO Contact**

A. Bruce Steinwald, (202) 512-7114
Adjust Medicare Payment Rates to Reflect Changing Technology, Costs, and Market Prices

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Medicare’s supplementary medical insurance program (Medicare Part B) spent almost $9.4 billion for durable medical equipment, prosthetics, orthotics, and supplies in 2002 on behalf of its beneficiaries. For most medical equipment and supplies, Medicare payments are primarily based on historical charges, indexed forward, rather than current costs or market prices.

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

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

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

Several options could help to better align Medicare fees with actual costs and market prices. One option that the Congress has recently acted upon is to give CMS the authority to implement competitive bidding for durable medical equipment, prosthetics, orthotics, and supplies. Competitive bidding creates incentives for providers to provide items and services at lower costs to obtain business. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires CMS to develop programs for the competitive acquisition of durable medical equipment and supplies and off the shelf orthotics in 10 of the largest statistical metropolitan areas in 2007, 80 of the largest metropolitan statistical areas in 2009, and in additional areas thereafter. Priority may be given to those items and services that represent the highest cost and volume to the Medicare program or have the greatest potential for program savings. CMS can use information on the payments determined through competitive bidding in these localities for specific items to adjust the amounts Medicare will pay for them in other localities.

In November 2003, CBO estimated that giving CMS authority to conduct competitive bidding for durable medical equipment, off-the-shelf orthotics and supplies and other changes in payment for these items in the Medicare legislation could result in a net reduction of Medicare spending of $6.8 billion from fiscal years 2004 through 2013.
A second option for paying more appropriately for medical equipment and supplies would be to base Medicare payments on the lower of the fee schedule allowance or the lowest amount a provider has agreed to accept from other payers. CMS would need legislative authority to pursue this option. Yet another approach would be to develop separate fee schedules that distinguish between wholesale and retail acquisition to ensure that large suppliers do not receive inappropriately large Medicare reimbursements. Although none of these options specifically targets expensive, evolving technologies, we believe significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


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

Medicare: Problems Affecting HCFA’s Ability to Set Appropriate
Reimbursement Rates for Medical Equipment and Supplies. GAO/HEHS-

Medicare: Comparison of Medicare and VA Payment Rates for Home

Medicare Spending: Modern Management Strategies Needed to Curb

Medicare High Spending Growth Calls for Aggressive Action.

GAO Contact
Leslie G. Aronovitz, (312) 220-7767
Medicare program safeguard activities designed to combat fraud, waste, and abuse have historically returned about $10 in savings for each dollar spent, and Centers for Medicare & Medicaid Services (CMS) reported a return of $16 for each dollar spent in fiscal year 2002. These types of activities include pre- and post-payment medical review of claims to determine if services are medically necessary and appropriate, audits, and fraud unit investigations. The Health Insurance Portability and Accountability Act of 1996 established the Medicare Integrity Program (MIP) and provided the agency now called CMS with increased funding for program safeguard activities. CMS has taken a number of actions under MIP to promote more efficient and effective contractor safeguard operations.

While funding has increased, in 2002 it remained below program safeguard funding levels in the previous decade, adjusted for inflation. Comparing program safeguard expenditures from fiscal years 1995 through 1998—2 years before and after MIP implementation—shows that expenditures increased by more than one-quarter to $544.6 million. However, in constant 1998 dollars, the amount spent on program safeguards per claim processed is still almost one-third less than was spent in fiscal year 1989. Further, the combined effects of increased claims volume of 3 to 5 percent annually in recent years and inflation will erode part of the benefits of increased funding authorized for future years. In response to reduced resources, contractors apply fewer or less stringent payment controls resulting in payment of claims that otherwise would not be paid.
We believe that additional program safeguard funding might better protect Medicare from erroneous payments and yield net savings. As a result, we have suggested that the Congress consider increasing the agency’s MIP funds to allow an expansion of postpayment medical review and other effective program safeguard activities. However, CMS needs a better understanding of costs and savings from particular activities—such as desk reviews and cost audits. It also needs to consistently code savings from different activities to understand their relative value, as well as determine which contractors are realizing the highest return on investment from their program safeguard activities. Therefore, we also recommended that CMS evaluate the effectiveness of prepayment and postpayment activities to determine the relative benefits of various safeguards.

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


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


GAO Contact
Leslie G. Aronovitz, (312) 220-7767
Modify the New Skilled Nursing Facility Payment Method to Ensure Appropriate Payments

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

However, problems with the design of the PPS, the services excluded from the daily rate, and inadequate data used to establish rates could compromise Medicare’s ability to stem spending growth while maintaining beneficiary access. We are concerned that the PPS preserves the opportunity for providers to increase their compensation by supplying unnecessary services, such as additional therapy services, and by changing their patient assessment practices to qualify patients into higher paying payment categories. Consistent with the PPS incentives to minimize costs, SNFs have provided fewer therapy services to patients categorized into rehabilitation payment groups. Without adequate adjustments, this could result in higher payments relative to service costs for some categories of patients. We are also concerned that increases in payments intended to encourage SNFs to increase their nursing staff appear to have been ineffective in increasing staffing ratios. This is true despite the fact that Medicare margins were high—a median of almost 19 percent for freestanding facilities in 2000. In addition, excluding certain services from the daily rate, and paying for them separately, may encourage service provision and unnecessarily increase Medicare spending. For example, some services are excluded only when provided in hospital outpatient departments, which may encourage providers to use this setting when

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other, less costly ambulatory settings could be appropriate. Furthermore, the payment rates were computed using data that may overstate the reasonable cost of providing care and may not appropriately reflect the differences in costs for patients with different care needs.

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

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

CBO agrees that improved payment methods and oversight could reduce spending. However, by convention, CBO only estimates the costs or savings of proposals that change current law, not administrative changes.

Related GAO Products


GAO Contact
Laura A. Dummit, (202) 512-7114
Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System

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Following a dramatic increase in Medicare spending for home health agencies (HHA), the Balanced Budget Act of 1997 (BBA) required the implementation of a prospective payment system (PPS) for HHAs. Under the PPS, which began October 1, 2000, Medicare pays a fixed, predetermined amount for each 60-day episode of care, adjusted for patient characteristics that are expected to affect the costs of providing care. Under this system, agencies are rewarded financially for keeping their per-episode costs below the payment rate and thus have a strong incentive to reduce the number of visits provided during an episode and to shift to a less costly mix of visits.

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

In order to reduce these incentives, the Congress could require CMS to implement a risk-sharing arrangement, in which total Medicare PPS payments to an HHA are adjusted at year-end in light of the provider's actual costs, to mitigate any unintended consequences of the payment change. Such an arrangement could moderate the incentive to manipulate...
services to maximize profits and the uncertainties associated with payment rates that are based on averages when so little is known about appropriate patterns of home health care. Limiting an HHA's losses or gains would help protect the industry, the Medicare program, and beneficiaries from possible negative effects of the PPS until more is known about how best to design the PPS and the most appropriate home health treatment patterns.

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


GAO Contact

Laura A. Dummit, (202) 512-7114
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Allow Provisions for Direct Laboratory Payment for Certain Medicare Pathology Services to Expire

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Hospitals receive fixed, predetermined amounts under Medicare’s hospital inpatient and outpatient prospective payment systems (PPS) for providing necessary services to Medicare beneficiaries. By paying hospitals fixed amounts under a PPS, Medicare seeks to encourage them to operate efficiently, because hospitals retain the difference if payments exceed their costs to provide necessary services. Hospitals that outsource services for their patients generally pay suppliers of those services directly, and the suppliers do not receive payment from Medicare.

In 2000, the Congress enacted provisions in the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) to delay for 2 years application of a rule issued by the Health Care Financing Administration (HCFA), now called the Centers for Medicare & Medicaid Service (CMS). The rule terminated an exception to the inpatient and outpatient PPS that permitted one type of supplier—laboratories—to receive payment directly from Medicare when providing technical pathology services to beneficiaries who are hospital patients. The BIPA provisions applied only to “covered hospitals,” those hospitals that had agreements with laboratories for outsourced technical pathology services in effect as of July 22, 1999, the date HCFA proposed the rule. By terminating direct payments to laboratories, HCFA’s 1999 rule would have resulted in hospitals either paying laboratories for outsourced services or providing the services themselves.

Technical pathology services involve the preparation of tissue samples removed during surgery for examination by a pathologist. Such services involve cutting, mounting, and staining the specimen on a microscope slide.
Although the BIPA provisions expired at the end of 2002, CMS made an administrative decision to continue directly paying laboratories for technical pathology services provided to hospital patients. In the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, the BIPA provisions were amended to also apply to technical pathology services provided during 2005 and 2006.

We reported in 2003 that if laboratories had not received direct payment for services to hospital patients, Medicare spending would have been an estimated $42 million less in 2001, with $18 million and $24 million in savings for inpatient and outpatient services, respectively. In addition, overall beneficiary cost sharing would have been reduced by $2 million. We believe hospitals are unlikely to experience a large financial burden from paying laboratories to provide technical pathology services.

In light of expected Medicare savings, we suggest that for calendar year 2005, the Congress may wish to consider permanently removing the exception that allows direct Medicare payment to laboratories for technical pathology services provided to hospital patients.

CBO estimates the following budgetary savings with this option.

### Five-Year Savings

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Source: Congressional Budget Office.

**Related GAO Product**  
*Medicare: Modifying Payments for Certain Pathology Services Is Warranted.*  

**GAO Contact**  
A. Bruce Steinwald, (202) 512-7119
Require Information on Enrollees from Private Health Insurers to Improve Identification of Medicare Beneficiaries with Other Health Coverage

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Until 1980, the Medicare program was the primary payer for covered health services for all beneficiaries, except those involving workers' compensation or veterans benefits. Since 1980, new laws have made Medicare the secondary payer for individuals with certain employer group health plan coverage and other categories of beneficiaries. The Centers for Medicare & Medicaid Services (CMS) uses a contractor to conduct a variety of activities to identify whether beneficiaries might have other sources of health insurance coverage with primary payment responsibility for their health care claims. For example, CMS's contractor matches Medicare data with employment and earnings data maintained by the Internal Revenue Service and the Social Security Administration to identify beneficiaries who may have health insurance through their or their spouse’s employer. However, there can be a 2-year time lag between when a beneficiary or spouse is employed and when contractors can confirm the information about employment. As a result, even with current data match activities, Medicare can have paid for claims long before another liable insurer is identified.

43 Employer-sponsored group health plans can be the primary payers for Medicare beneficiaries. An employer with 20 or more employees must offer the same health insurance coverage to workers age 65 and over as to other employees, and, if it is offered, health insurance coverage for employees' spouses aged 65 and older. If a worker accepts the coverage, then Medicare is the secondary payer. A large group health plan, defined as a health plan offered by an employer with 100 or more employees, is the primary payer for disabled Medicare beneficiaries under age 65 who are working or the spouses of individuals who are working.
GAO has long recognized that private health insurance companies and employers sponsoring their own health plans are in the best position to routinely identify enrollees who might also be Medicare beneficiaries. Currently, private health insurance companies are under no obligation to inform CMS that some of their enrollees are Medicare beneficiaries, unless there is a court settlement requiring such data sharing. CMS has entered into voluntary data sharing agreements with some private health insurers and employers to obtain data on their working enrollees and dependents. These private health insurers and employers represent over 40 percent of Medicare beneficiaries and their voluntary data sharing agreements resulted in at least $61 million in Medicare savings in fiscal year 2003.

We believe if private health insurers were required to share the names and identifying information on their enrollees, CMS could more effectively identify beneficiaries with other primary health insurance coverage. As a result, one option we have suggested is that the Congress consider requiring private health insurers to provide CMS information on their enrolled beneficiaries, on a schedule and using a format determined by CMS. The President’s budget made a similar proposal for fiscal year 2003, with a cost savings estimate of $1.0 billion over a ten-year period.

CBO estimates the following budgetary savings with this option.

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Source: Congressional Budget Office.

Related GAO Product

*Medicare: HCFA Could Do More to Identify and Collect Overpayments.*


GAO Contact

Leslie G. Aronovitz, (312) 220-7767
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

600 Income Security

- Revise Benefit Payments under the Federal Employees' Compensation Act
- Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections
- Improve Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs
- Improve Social Security Benefit Payment Controls
- Simplify Supplemental Security Income Recipient Living Arrangements
- Sustain/Expand Range of SSI Program Integrity Activities
- Better Congressional Oversight of PRWORA's Fugitive Felon Provisions
- Improve the Administrative Oversight of Food Assistance Programs
- Share the Savings from Bond Refundings
- Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Revise Benefit Payments under the Federal Employees’ Compensation Act

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers’ compensation benefits under the Federal Employees’ Compensation Act (FECA). Several GAO reviews have identified ways in which benefit payment policies can be revised to better address eligibility and/or need or to bring FECA benefits more in line with other federal and state workers’ compensation laws.

Basing FECA Compensation on Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66 and two thirds percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. We reported that nearly 30 percent of the more than 23,000 beneficiaries included in our analyses received FECA compensation benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were from 90 to 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers’ compensation program analysts are reluctant to take a position on what the “correct” level of workers’ compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide adequate income, but not so high as to discourage an employee’s return-to-work when he or she is no longer disabled. The 1972 Report of the National Commission on State Workmen’s Compensation Laws recommended that workers’ weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state’s maximum
weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee’s gross pay at the time of injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee’s actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employees from returning to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings.

CBO was not able to determine if this option would result in a budget savings.

**Revising Benefits for Retirement-Eligible Beneficiaries**

Retirement-eligible federal workers who continue to be disabled as a result of work-related injuries could receive tax-free workers’ compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. We reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, “retire” on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

We identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers’ compensation benefits and to the individual’s entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.
To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a FECA annuity.

CBO estimates the following budgetary savings with this option.

### Five-Year Savings

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<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
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Source: Congressional Budget Office.

### Five-Year Savings

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</table>

Source: Congressional Budget Office.

### FECA Cases Involving Third Parties

FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees’ on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees’ Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to injuries for which third parties were responsible. We recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third-party recoveries.

CBO estimates the following budgetary savings with this option.

Comparability of FECA and Other Compensation Laws

We identified three major ways in which FECA differs from other federal and state workers’ compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers’ compensation laws. As of January 1, 2003, maximum authorized weekly FECA benefits were equal to $1,596, 75 percent of the base salary of a GS-15, step 10. Only six states authorize additional benefits for dependents (about $5-$10 per week per dependent). However, one state authorizes an additional flat rate of $25 per week for dependents, regardless of the number of dependents. In all cases, the total benefits are not to exceed maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal

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</table>

Source: Congressional Budget Office.
and state workers’ compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA’s authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits.

CBO estimates the following budgetary savings with this option.

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<tr>
<th>Five-Year Savings</th>
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Source: Congressional Budget Office.

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<tr>
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</thead>
</table>
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

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**GAO Contact**

Robert E. Robertson, (202) 512-7215
Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections

The Child Support Enforcement program is a federal/state/local partnership designed to obtain child support for both families eligible for Temporary Assistance for Needy Families (TANF) and non-TANF families. The services provided to clients include locating noncustodial parents, establishing paternity and support orders, and collecting and distributing child support payments. From fiscal years 1984 through 1998, non-TANF caseloads and costs rose about 500 percent and 1200 percent, respectively. For fiscal years 1999 through 2002, about 80 percent of the total cases were non-TANF cases—about 45 percent were former TANF recipients and about 36 percent had never received TANF benefits.

The federal government pays 66 percent of the Child Support Enforcement program costs. While states have the authority to fully recover the costs of their services, states have exercised their discretion and most have charged only minimal application and service fees. Since 1992, we have reported on opportunities to defray some of the costs of child support programs. Based on this work, we believe that mandatory application fees should be dropped and that states should be mandated to charge a minimum percentage service fee on successful collections for non-TANF families. Congressional action is necessary to put such a requirement in place. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed. The costs recovered from such a service fee would be determined by the percentage rate set by the Congress.

CBO made the following estimates based on a service fee of 5 percent for each successful non-TANF child support collection.
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Five-Year Savings

Dollars in millions

<table>
<thead>
<tr>
<th></th>
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<td>560</td>
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</table>

Source: Congressional Budget Office.

Note: Estimates based on a service fee of 5 percent for each successful non-TANF child support collection.

Related GAO Products


GAO Contact

Cornelia M. Ashby, (202) 512-8403
### Improve Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs

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<td>Theme</td>
<td>Redefine beneficiaries</td>
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The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system were also among the 800,000 personnel who participated in National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, and the Air Force Reserve) in fiscal year 2002.

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. Our 1996 analysis of benefit and Reserve data from seven states showed that some Reserve personnel were receiving improper benefit payments from state UI programs. In the seven states in our analysis, we estimated that UI claimants who were active participants in the Reserve failed to report over $7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately $3.6 million, of which federal trust fund losses were about $1.2 million. We expect that the federal and state trust fund losses from all UI programs were much greater because the seven states we reviewed accounted for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states’ limited ability to detect nonreporting.

The Department of Defense and the Department of Homeland Security’s Coast Guard have acted to ensure that reservists are reminded of their...
responsibility to report income from reserve activity to state UI agencies. All reservists now receive an annual notice with their leave and earnings statements reminding them of their duty to disclose their affiliation and any Reserve related earnings when filing an UI claim. In addition, the Department of Labor has issued a directive to all state employment security agencies to ensure that they inform prospective and continuing UI benefit claimants of their responsibility to report Reserve-related income.

These actions should improve general reservist compliance with state UI program income reporting requirements. However, to detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income regularly. DOD has stated that it will develop an action plan to provide such data to the state UI programs. However, completion of this plan was delayed because of other competing agency priorities and a recognition that the task was more complex than originally envisioned.

It is important to note that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs we analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

DOD reports that, given its effort to ensure any action taken be cost-effective and commensurate with potential savings, it does not intend to take further action to respond to this recommendation. According to DOD, 13 states effectively exempt Reserve wages from any unemployment insurance payment offset, and there could be significant costs associated with providing automated data on the earnings of part-time reservists. We do not agree that implementation costs would necessarily outweigh savings. We found millions of dollars in unemployment insurance overpayments for just 7 states and 27 percent of the reservists, which would likely lead to even greater levels of overpayments for the remaining states that offset reservist wages. The potential for overpayments may be even greater given current national security conditions that involve a greater role for reservists.
CBO estimates the following budgetary savings with this option.

### Five-Year Savings

<table>
<thead>
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Source: Congressional Budget Office.

**Related GAO Product**


**GAO Contact**

Sigurd R. Nilsen, (202) 512-7215
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal Programs

Improve Social Security Benefit Payment Controls

<table>
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The Social Security Administration (SSA) is required by law to reduce social security benefits to persons who also receive a pension from noncovered employment (typically persons who work for the federal government or state and local governmental agencies). The Government Pension Offset provision requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually their spouse's). The Windfall Elimination Provision requires SSA to use a modified formula to calculate a person's earned social security benefit whenever a person also earned a pension through a substantial career in noncovered employment. The modified formula reduces the social security benefit significantly.

We found that SSA payment controls for these offsets were incomplete. For state and local retirees, SSA had no third-party pension data to verify whether persons were receiving a noncovered pension. At the time of our 1998 report, an analysis of available data indicated that this lapse in payment controls for state and local government retirees cost the trust funds from $129 million to $323 million from 1978 to about 1995.

In 1998, we recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income on IRS tax form 1099R. IRS has subsequently advised SSA that it needs a technical amendment to the Tax Code to obtain the information SSA needs. In 2003, we testified that complete and accurate reporting of government pension income is still needed. Given the IRS response to our previous recommendation, we have provided the following matter for congressional consideration: “To facilitate complete and accurate reporting of government pension income, the Congress should consider giving IRS the authority to collect this information, which could perhaps be accomplished through a simple modification to a single form.” We believe that millions of dollars in
reduced overpayments could be achieved each year with better payment controls. However, it should be noted that these savings would be offset somewhat by administrative costs associated with conducting additional computer matching at SSA.

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
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<td><strong>Dollars in millions</strong></td>
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<td>Outlays</td>
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Source: Congressional Budget Office.

Related GAO Products


GAO Contact

Barbara D. Bovbjerg, (202) 512-7215
Simplify Supplemental Security Income Recipient Living Arrangements

<table>
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The Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation’s largest cash assistance program for the poor. Since its inception, the SSI program has been difficult to administer because, similar to other means tested programs, it relies on complicated criteria and policies to determine initial and continuing eligibility and benefit levels. One of the factors considered is the living arrangements of the beneficiary. When determining SSI eligibility and benefit amounts, SSA staff apply a complex set of policies to document an individual’s living arrangements and any additional support they may be receiving from others. This process depends heavily on self-reporting by recipients of whether they live alone or with others; the relationships involved; the extent to which rent, food, utilities, and other household expenditures are shared; and exactly what portion of those expenses the individual pays. These numerous rules and policies have made living arrangement determinations one of the most complex and error prone aspects of the SSI program, and a major source of overpayments.

We have reported that SSA has not addressed long-standing SSI living arrangement verification problems, despite numerous internal and external studies and many years of quality reviews denoting this as an area prone to error and abuse. Some of the studies we reviewed recommended ways to simplify the process by eliminating many complex calculations and thereby making it less susceptible to manipulation by recipients. Other studies we reviewed suggested ways to make this aspect of the program less costly to taxpayers. In light of the potential cost savings associated with addressing this issue, we recommended in September 2002 that SSA identify and move forward in implementing cost-effective options for simplifying complex living arrangement policies, with particular attention to those policies most vulnerable to fraud, waste, and abuse. We also suggested that an effective
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Related GAO Products


GAO Contact

Robert E. Robertson, (202) 512-7215
Sustain/Expand Range of SSI Program Integrity Activities

<table>
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The Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation’s largest cash assistance program for the poor. Since its inception, the SSI program has been difficult and costly to administer because even small changes in income, available resources, or living arrangements can affect recipients’ monthly benefit amounts or continued eligibility. To a significant extent, SSA relies heavily on recipients to accurately report important eligibility information. The agency also verifies certain income and resource information through computer matching with the records of other federal and state agencies. To determine whether a recipient remains eligible for SSI benefits, SSA also periodically conducts financial redetermination reviews, which involve personal contact with recipients to document their income, resources, living arrangements, and other eligibility factors. Recipients are reviewed at least every 6 years, but reviews may be more frequent if SSA determines that changes in eligibility are likely.

We recently reported that SSA has made a variety of changes to improve its ability to detect SSI payment errors and recover overpayments. We also noted that SSA officials had estimated that conducting substantially more redeterminations would yield hundreds of millions of dollars in additional overpayment detections and preventions annually. In 2001, SSA estimated that it would be cost beneficial to do another 2.5 million redeterminations. The additional reviews would produce $1.1 billion in overpayment benefits (additional overpayment recoveries and future overpayments prevented). Subsequently, we recommended that SSA sustain and expand its program integrity activities. SSA processed 138,000 more financial redeterminations in FY 2003 than it did in FY 2002, and plans to increase redeterminations in FY 2004. SSA should continue to increase the number of redeterminations processed to the extent feasible.
CBO agrees that this option would result in budgetary savings, but it could not develop a savings estimate.

### Related GAO Products


### GAO Contact

Robert E. Robertson, (202) 512-7215
Better Congressional Oversight of PRWORA’s Fugitive Felon Provisions

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<td>Theme</td>
<td>Redefine beneficiaries</td>
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In response to concerns that individuals wanted in connection with a felony, or violating terms of their parole or probation, could receive benefits from programs for the needy, the Congress added provisions to the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 that prohibit these individuals from receiving Supplemental Security Income (SSI) administered by the Social Security Administration (SSA), Food Stamp benefits administered by the Department of Agriculture (USDA), and Temporary Assistance to Needy Families (TANF) administered by the Department of Health and Human Services (HHS). These provisions also make fugitive felon\(^{14}\) status grounds for termination of tenancy in many federal housing assistance programs, administered by the Department of Housing and Urban Development (HUD).

In our September 2002 report, we found that, since PRWORA was enacted the SSI, Food Stamp, and TANF programs identified over 110,000 beneficiaries who are fugitive felons—largely through computer matches of automated arrest warrant and recipient files. When these programs took the initiative or were in a position to match automated recipient and warrant data, many fugitive felons were identified, which led to substantial cost savings. SSA, for example, conducted the most comprehensive matches, comparing data from its entire SSI applicant and recipient files each month to warrant data it obtained from various federal, state, and local law enforcement agencies. SSA recently reported that, between August 1996 and February 2003, it identified more than 51,000 fugitive felons on the SSI rolls, incurring savings of over $83 million. In addition, SSA estimates that it may save an additional $206.9 million through

\(^{14}\)Here, the term “fugitive felons” also refers to probation and parole violators.
recovery of fugitive felon overpayments for months up to and including February 2003.

Use of computer matches of benefit recipient and arrest warrant files to prevent fugitive felons from collecting benefits varies widely across programs, however. While SSA had by far the most comprehensive computer matching initiative, fewer than one-third of the state agencies administering the TANF and Food Stamp programs used periodic computer matching, to any extent. HUD had not conducted any matches of this kind since the enactment of PRWORA in 1996, but our own match of HUD's recipient file and arrest warrant files in a single year turned up nearly 1,000 housing assistance recipients for whom there were arrest warrants in Ohio and Tennessee, alone. We estimated that HUD could have saved $4.2 million annually in program costs if the housing assistance these individuals received had been terminated.

Given the savings SSA and some state Food Stamp and TANF programs have incurred using computer matching to identify and drop fugitive felons from their benefit rolls, and the potential savings we demonstrated HUD could achieve in the same way, use of computer matching for this purpose by additional state Food Stamp and TANF programs, as well as the HUD housing assistance program, represent opportunities for greater cost savings in this area.

Moreover, the law, as it applies to housing assistance programs, states that fugitive felon status is only grounds for termination of tenancy and not that fugitive felons are ineligible for housing assistance. Therefore, according to HUD officials, while public housing agencies and landlords have the authority to evict fugitive felons, they are not required to do so. This may explain why HUD has done little to ensure that fugitive felons do not receive housing assistance. The Congress may wish to consider amending the Housing Act of 1937 to explicitly make fugitive felons ineligible for housing benefits.

CBO was not able to determine if this option would result in a budget savings.

Related GAO Products


Social Security Programs: The Scope of SSA’s Authority to Deny Benefits to Fugitive Felons and to Release Information About OASI and DI Beneficiaries Who are Fugitive Felons. GAO-02-459R. Washington, D.C.: February 27, 2002.

GAO Contact
Robert E. Robertson, (202) 512-7215
Improve the Administrative Oversight of Food Assistance Programs

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<td>Budget subfunction</td>
<td>605/Food and nutrition assistance</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
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</table>

The U.S. Department of Agriculture (USDA) continues to face serious challenges in ensuring that eligible individuals receive the proper benefits from the food assistance programs administered by its Food and Nutrition Service. Each day, about 1 in every 5 Americans receives nutrition assistance through 1 or more of the 15 programs administered by this agency. These programs, which accounted for more than half of USDA's budget authority for fiscal year 2003, provide children and low-income adults with access to food, a healthful diet, and nutrition education. Specifically, for fiscal year 2003, the Congress appropriated about $41.9 billion to operate these programs, including the Food Stamp Program and child nutrition programs, such as the school-breakfast and school-lunch programs. This high level of support dictates that USDA must continually address and minimize the amount of fraud and abuse occurring in these programs in order to ensure their integrity.

USDA's Food Stamp Program, the cornerstone of its nutrition assistance programs, provided 21.3 million individuals with more than $21.4 billion in benefits in fiscal year 2003. As noted in the President's Management Agenda, USDA must continue to address the challenge of accurately issuing food stamp benefits to those who are eligible. Specifically, USDA estimated that about $1.4 billion in erroneous payments were made to food stamp recipients in fiscal year 2001—about $1 billion of the benefits issued were estimated to be overpayments and more than $370 million of the benefits issued were estimated to be underpayments—an error rate of approximately 9 percent. To deal with the complexity of the Food Stamp Program and the high error rate, the 2002 Farm Bill contained a number of administrative and simplification reforms, such as allowing states to use greater flexibility in considering the income of recipients for eligibility purposes and to extend simplified reporting procedures for all program recipients.
In addition to ensuring that eligible individuals receive proper benefits, USDA faces the challenge of minimizing the illegal sale of benefits for cash—a practice known as trafficking. Food Stamps are accepted by about 152,000 authorized retail food stores, and in a July 2003 report, USDA estimated that stores trafficked about $395 million, or about 2.5 cents of every dollar of food stamp benefits issued per year from 1999 through 2002. In addition, store owners generally do not pay the financial penalties assessed for trafficking. In May 1999, we reported that USDA and the courts collected only $11.5 million, or about 13 percent, of the $78 million in total penalties assessed against storeowners for violating food stamp regulations from 1993 through 1998.\(^45\) USDA reduced the remaining amount owed by storeowners by about $49 million, or about 55 percent, through waivers, adjustments, and write-offs. While weaknesses in debt collection practices contribute to low collection rates, USDA officials noted that these rates also reflect the difficulties involved in collecting this type of debt, including problems in locating storeowners who have been removed from the Food Stamp Program and the refusal of some storeowners to pay their debts.

Better use of information technology has the potential to help USDA minimize fraud, waste, and abuse in the Food Stamp Program. For example, in our May 1999 report we recommended that the Food and Nutrition Service make better use of data from electronic benefit transfers (EBT) to identify and assess penalties against storeowners who violate the Food Stamp Program’s regulations. Since that time, they have developed a new EBT-based technique for fighting trafficking that has become an important source of findings of trafficking. Also, we recommended in March 2000 that the Food and Nutrition Service work with the states to implement best practices for using EBT data to identify and take action against recipients engaged in trafficking of food stamp benefits.\(^46\) The Food and Nutrition Service has taken some actions to implement this recommendation, by providing increased financial incentives for states to be more aggressive in pursuing recipients who traffic food stamp benefits and by assisting states in the use of EBT data to identify traffickers.


USDA also faces fraud and abuse challenges in other nutrition programs, including the Child and Adult Care Food Program (CACFP), which for fiscal year 2003 was funded at $1.9 billion, and the National School Lunch and School Breakfast programs, which for that year were funded at $8.8 billion. In fiscal year 2003, CACFP provided subsidized meals for a daily average of 2.9 million participants in the care of about 215,000 day care providers. Over the years, USDA's Office of Inspector General (OIG) has identified examples of the intentional misuse of CACFP funds, including cases in which program sponsors created fictitious day care providers and inflated the number of meals served. In response to our November 1999 recommendation\(^{47}\) and reports by the OIG, legislation was enacted in June 2000 to strengthen CACFP management controls and to reduce its vulnerability to fraud and abuse. As a result, the Food and Nutrition Service has intensified its management evaluations at the state and local levels and has trained its regional and state agency staff on revised management procedures.

Furthermore, in its strategic plan for fiscal years 2000 through 2005, USDA specifically identified the challenge it faces in ensuring that only eligible participants are provided benefits in the National School Lunch Program. In fiscal year 2003, this program provided nutritionally balanced, low-cost or free lunches for over 28 million children each school day in more than 99,000 public and nonprofit private schools and residential child care institutions. One study found that the number of children certified as eligible to receive free lunches in this program might have been as much as 27 percent greater than the number of children estimated eligible for this benefit. However, this estimate was based on a broad review of certain Census data and is best seen as an indicator of a problem rather than a precise measure of program misuse. USDA has taken some initial steps to develop a cost-effective strategy to address this integrity issue. One option for Congress to consider as it reauthorizes this program is to direct that USDA take steps to ensure that only eligible children receive low-cost or free lunches. USDA pilot tested certain policy changes and suggested other measures for Congress to consider during reauthorization. However, the agency believes more research and evaluation on the nature and extent of the problem would be invaluable in identifying additional measures to

improve program integrity without simultaneously deterring participation by eligible children.

CBO was not able to determine if this option would result in a budget savings.

**Related GAO Products**


**GAO Contacts**

Sigurd R. Nilsen, (202) 512-7003
David Bellis, (415) 904-2272
During the 1970s and early 1980s, the Department of Housing and Urban Development (HUD) administered programs to develop housing for low-income households using various types of financing arrangements and long-term Section 8 rental housing assistance contracts. While some properties were financed by loans and grants from HUD, others were financed by bonds issued by state and local housing finance agencies. During the late 1970s and early 1980s, the cost to finance housing development rose to unprecedented levels. In response, HUD authorized higher Section 8 rental assistance payments to cover the higher bond financing costs, first in 1980 and then in 1981. Since then, as interest rates declined, many state and local housing finance agencies have refunded the bonds they issued and issued new bonds at lower interest rates. This action has generated substantial savings for the state agencies. These savings represent the difference between the amounts needed to repay the original bonds and the lower amounts needed to repay the new bonds. Agencies typically use these savings to provide affordable housing in their states.

In 1999, we reported that HUD had not issued clear guidance on when state agencies are required to share the savings associated with bond refundings with the federal government. The need for clearer guidance specifically relates to state agency compliance with the bond refunding provisions in an October 1992 amendment to Section 1012 of the McKinney Act. The amendment was unclear as to whether the states were required to share the savings from bond refundings with the federal government for all properties covered by Section 8 rental assistance contracts that were entered into from 1979 through 1984. In the absence of clear guidance from HUD, we found that some state agencies have shared the savings from bond refunding for such properties with the federal government while other agencies have retained the savings.
Legislative changes could be made to clarify the Congress’s intent that state agencies should be required to share bond refunding savings with the federal government for all properties covered by Section 8 rental assistance contracts entered into from 1979 through 1984.

CBO agrees that this option would result in budgetary savings, but it could not develop a savings estimate.

Related GAO Product


GAO Contact

Thomas J. McCool, (202) 512-8678
Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Health and Human Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account</td>
<td>Payments to States for Child Support Enforcement and Family Support Programs (75-1501)</td>
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<tr>
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<tr>
<td>Budget subfunction</td>
<td>609/Other income security</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

The Department of Health and Human Services’ (HHS) Office of Child Support Enforcement (OCSE) oversees states’ efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and nonwelfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states’ development costs. From fiscal year 1981 through fiscal year 2002, the states reportedly spent about $7.0 billion to develop these systems, including about $5.0 billion from the federal government.

The 90 percent funding participation rate for development costs was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. The federal government will continue to reimburse states’ costs to operate these systems at the 66 percent rate established for administrative expenses. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) provided additional funding for the states to meet new systems requirements under this law. An 80 percent federal funding participation rate for development costs, with a total national funding cap of $400 million, was authorized through fiscal year 2001. The 66 percent federal funding participation rate was continued for systems operation costs.
The Congress could choose to reduce the federal funding participation rate for modification and operation of these systems from 66 percent to the 50 percent rate now common for such costs in other programs, such as Food Stamps and other welfare programs.

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
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<tbody>
<tr>
<td>Dollars in millions</td>
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<tr>
<td>Savings from the CBO baseline</td>
</tr>
<tr>
<td>Budget authority</td>
</tr>
<tr>
<td>Outlays</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


GAO Contact

Joel C. Willemssen, (202) 512-6408
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

700 Veterans Benefits and Services

Discontinue Veterans' Disability Compensation for Nonservice Connected Diseases
Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses
Reassess Unneeded Health Care Assets within the Department of Veterans Affairs
Reducing VA Inpatient Food and Laundry Service Costs
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

Discontinue Veterans’ Disability Compensation for Nonservice Connected Diseases

<table>
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<tr>
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<td>701/Income security for veterans</td>
</tr>
<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
</tr>
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</table>

In fiscal year 2002, the Department of Veterans Affairs (VA) paid more than $18.5 billion in compensation to more than 2.3 million veterans for service-connected disabilities. A disease or injury resulting in disability is considered service-connected if it was incurred or aggravated during military service. No causal connection is required. In 1989, GAO reported on the U.S. practice of compensating veterans for conditions that were probably neither caused nor aggravated by military service. These conditions included diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis. In 1993, GAO reported that other countries were less likely to compensate veterans when diseases were unrelated to military service, when the relationship of the disease to military service could not be established, or for off-duty injuries such as those that happen while on vacation.

The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities. In 1996, the CBO reported that about 230,000 veterans were receiving about $1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service.
CBO estimates the following budgetary savings with this option.

### Five-Year Savings

<table>
<thead>
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<td>Outlays</td>
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<td>91</td>
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<td>156</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

The Congress may also wish to consider enacting legislation proposed by VA to prohibit the payment of compensation for a disability related to drug or alcohol abuse, even if it is secondary to a service-connected disability such as Post-Traumatic Stress Disorder. Payment of VA compensation for alcohol or drug abuse related disabilities as a primary service-connected condition has been expressly prohibited by law since 1990. VA proposed this legislation in response to a February 2001 court decision that allowed VA to compensate veterans for substance abuse-related disabilities if they arose secondarily from a service-connected disability. VA estimated that this legislative change, if enacted, would lead to savings of $55.1 million in fiscal year 2004, and $2.8 billion over 10 years.

CBO estimates the following budgetary savings with this option.

### Five-Year Savings

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
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<td>14</td>
<td>19</td>
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</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products

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SSA and VA Disability Programs: Re-Examination of Disability Criteria

VA Disability Compensation: Disability Ratings May Not Reflect

Disabled Veterans Programs: U.S. Eligibility and Benefit Types

VA Benefits: Law Allows Compensation for Disabilities Unrelated to

GAO Contact
Cynthia A. Bascetta, (202) 512-7101
Revise VA’s Disability Ratings Schedule to Better Reflect Veterans’ Economic Losses

The Department of Veterans Affairs’ (VA) disability program is required by law to compensate veterans for the average loss in earning capacity in civilian occupations that results from injuries or conditions incurred or aggravated during military service. Veterans with such service-connected disabilities are entitled to monthly cash benefits under this program even if they are working and regardless of the amount they earn. The amount of compensation received is based on disability ratings that VA assigns to the service-connected conditions. In fiscal year 2002, VA paid more than $22 billion in compensation to more than 2.3 million veterans, and more than 300,000 veterans’ survivors and children, for these service-connected disabilities.

The disability ratings schedule that VA uses is still primarily based on physicians’ and lawyers’ judgments made in 1945 about the effect service-connected conditions had on the average individual’s ability to perform jobs requiring manual or physical labor. Although the ratings in the schedule have not changed substantially since 1945, dramatic changes have occurred in the labor market and in society. The results of an economic validation of the schedule conducted in the late 1960s indicated that ratings for many conditions did not reflect the actual average loss in earnings associated with them. Therefore, it is likely that some of the ratings in the schedule do not reflect the economic loss experienced by veterans today. Hence, the schedule may not equitably distribute compensation funds among disabled veterans.

The Congress may wish to consider directing VA to determine whether the ratings for conditions in the schedule correspond to veterans’ average loss in earnings due to these conditions and adjust disability ratings accordingly. Generally accepted and widely used approaches exist to statistically estimate the effect of specific service-connected conditions on veterans’ average earnings. These estimates could be used to set disability
ratings in the schedule that are appropriate in today's socioeconomic environment. In 1997, we reported the cost to collect the data to produce these estimates was projected to be between $5 million and $10 million, which would be a small fraction of the more than $22 billion VA paid in disability compensation to veterans and their families in fiscal year 2002. Any savings associated with this option would depend on how the new disability schedule alters payments to beneficiaries. A reexamination of the disability schedule could find that some conditions are overpaid while others may require increased payments.

CBO was not able to determine the budgetary effect of this option.

Related GAO Products


**GAO Contact**

Cynthia A. Bascetta, (202) 512-7101
Reassess Unneeded
Health Care Assets
within the Department of Veterans Affairs

<table>
<thead>
<tr>
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<td>Theme</td>
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The Department of Veterans Affairs (VA) health care system owns 4,900 buildings and 15,500 acres of land. Its health care delivery system includes over 160 major medical facilities and over 500 community based outpatient clinics. To improve the delivery of health care services, VA has shifted emphasis from inpatient to outpatient care in many instances and shortened lengths of stay when hospitalization was required. This change in health care delivery has resulted in excess inpatient capacity at many locations. As a result, VA's infrastructure is not efficiently aligned to meet veterans' needs. Without a realignment of its infrastructure, VA will continue to spend millions of dollars to operate unneeded VA facilities and miss the opportunity to reinvest the savings it could realize from asset realignment into better health care for all veterans.

In response to GAO concerns, VA initiated its Capital Asset Realignment for Enhanced Services (CARES) program to realign its assets and resources to better serve veterans. Any realignment—which could include facility closings—will take into consideration future directions in health care delivery, demographic projections, physical plant capacity, community health care capacity, and workforce requirements. VA plans to reinvest savings generated through the implementation of CARES to meet veterans' health care needs. VA plans to announce its proposed realignment plan in early calendar year 2004. Continued congressional oversight is warranted to review VA's plans and assess their impact on costs and services.

CBO was not able to determine the budgetary effect of this option.

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Programs

GAO Contact
Cynthia A. Bascetta, (202) 512-7101
Reducing VA Inpatient Food and Laundry Service Costs

<table>
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<td>703/Hospital and medical care for veterans</td>
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The Department of Veterans Affairs (VA) provides inpatient food services and laundry processing for thousands of inpatients a day in hospitals, nursing homes, and domiciliaries. In fiscal year 1999, VA spent about $324 million (food service) and $52 million (laundry) for these activities and employed 7,000 Nutrition and Food Service (NFS) wage-grade workers, not including dietitians and 1,100 laundry processing workers. The NFS workers cook and prepare food, distribute food to patients, and retrieve and wash plates, trays, and utensils. The laundry processing workers sort, wash, dry, fold, and transport laundry.

As of November 2000, VA had consolidated 28 of its food production locations into 10, begun using less expensive Veterans Canteen Service (VCS) workers in 9 locations, and contracted out in 2 locations. For laundry services, VA had consolidated 116 of its laundries into 67 locations and used competitive sourcing to contract with the private sector in other locations.

VA has the potential to further reduce its inpatient food service and laundry costs by systematically assessing, at all its health care delivery locations, options it is already using at some of its health care locations. For example, VA could consolidate food production locations within a 90-minute driving distance of each other and laundry locations within a 4-hour driving distance of each other. VA could also use less expensive VCS employees at all inpatient food locations. In addition, competitive sourcing could be a cost effective alternative for providing both food and laundry services.

VA has established a plan to complete studies of competitive sourcing of 55,000 positions, including about 13,000 laundry and food service positions, by 2008. However, VA has suspended this effort because its general counsel determined that VA could not use Veterans Health Administration
appropriations for such studies without specific authorization from the Congress. VA has requested that Congress grant it this authorization.

CBO agrees that the option may result in savings, but it could not develop a savings estimate for this option.

Related GAO Products


GAO Contact

Cynthia A. Bascetta, (202) 512-7101
800 General Government; 900 Net Interest; 999 Multiple

<table>
<thead>
<tr>
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<tr>
<td>Taking a Strategic Approach</td>
<td>Could Improve Federal Agencies’ Acquisition of Costs of Supplies and Services</td>
</tr>
<tr>
<td>Improper Benefit Payments</td>
<td>Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared</td>
</tr>
<tr>
<td>Prevent Delinquent Taxpayers from Benefiting from Federal Credit Programs</td>
<td>Increase Fee Revenue from Federal Reserve Operations</td>
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<tr>
<td>Eliminate the 1-Dollar Note</td>
<td>Better Target Infrastructure Investments to Meet Mission and Results-Oriented Goals</td>
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<tr>
<td>Identify and Dispose of Unneeded Real Property Assets Held by GSA</td>
<td>Target Funding Reductions in Formula Grant Programs</td>
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<tr>
<td>Adjust Federal Grant Matching Requirements</td>
<td>Consolidate Grants for First Responders to Improve Efficiency</td>
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<tr>
<td>Improve IRS’s Ability to Collect Delinquent Taxes</td>
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</table>
Taking a Strategic Approach Could Improve Federal Agencies’ Acquisition of Supplies and Services

Federal agencies procured more than $250 billion in goods and services during fiscal year 2002. Additionally, federal civilian agencies spent over $15 billion using purchase cards in fiscal year 2002. Further growth in contract spending, at least in the short term, is likely given the President’s request for additional funds for defense and homeland security, agencies’ plans to update their information technology systems, and other factors.

The growth in contract spending, combined with decreases in the acquisition workforce, creates a challenging acquisition environment. The degree to which individual agencies contract for goods and services also underscores the importance of ensuring that acquisitions are managed properly. This money, however, is not always well spent. Our work, as well as the work of other oversight agencies, continues to find that millions of dollars of service contract dollars are at risk at defense and civilian agencies because acquisitions are poorly planned, not adequately competed, or poorly managed. Moreover, because agency procurement processes are decentralized and uncoordinated, it is not apparent that the federal government is fully leveraging its enormous buying power to obtain the most advantageous terms and conditions for its purchases. With the events of September 11, and the federal government’s short- and long-term budget challenges, it is more important than ever that agencies effectively transform business processes to ensure that the federal government gets the most from every dollar spent.

In view of these challenges, we have examined alternative ways developed by leading companies to manage their spending on goods and services in order to reduce costs, stay competitive, and improve service levels. Leading companies are taking a strategic approach—centralizing and reorganizing their procurement operations to get the best value for the company as a whole. Taking a strategic approach involves a range of activities from developing a better picture of what the company was
spending to buying goods and services on a corporate rather than business unit basis.

A strategic approach pulls together participants from a variety of places within an organization who recommend changes in personnel, processes, structure, and culture that can constrain rising acquisition costs. These changes can include adjustments to procurement and other processes such as instituting companywide purchasing of specific services; reshaping a decentralized process to follow a more center-led, strategic approach; and increasing the involvement of the enterprise procurement organization, including working across units to help identify requirements, select providers, and manage contractor performance.

The procurement best practices of leading companies should be considered in reforming the acquisition of goods and services in the federal government. Taking a strategic approach clearly pays off. One recent survey of 147 companies in 22 industries indicated a strategic approach to procurement had resulted in savings of more than $13 billion in one year. Studies have reported some companies achieving reported savings of 10 to 20 percent of their total procurement costs through the use of a strategic approach to buying goods and services. The leading companies we studied reported achieving and expecting to achieve billions of dollars in savings by developing companywide spend analysis programs and strategic sourcing strategies.

Thus far, our work has focused on applying best practices to improving Department of Defense (DOD) acquisition of services—an agency where spending on information technology, administrative support, research and development and a wide range of other services is approaching $100 billion annually. Recent legislation intends for DOD to manage its services procurement more effectively by promoting the use of best commercial practices. As a result, DOD is in the early stages of a pilot to analyze spending data from a DOD-wide perspective. The pilot is expected to identify 5 to 10 categories of smaller service requirements that can be consolidated for large-scale savings opportunities and other efficiencies over the current decentralized contracting environment. The military departments are also in the early stages of separate initiatives that may lead them to adopt a strategic approach to buying services at lower cost. Such commercial best practices could also benefit civilian agencies’ procurement by leveraging buying power to reduce costs of supplies and services.
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Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

CBO was not able to determine if this option would result in a budgetary savings.

Related GAO Products


GAO Contact

David E. Cooper, (617) 788-0555
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Improper Benefit Payments Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared

<table>
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<td>Theme</td>
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</table>

Many federally funded benefit and loan programs rely on applicants and current recipients to accurately report information, such as the amount of income they earn, that affects their eligibility for assistance. To the extent that such information is underreported or not reported at all, the federal government overpays benefits or provides loans to individuals who are ineligible. Others and we have demonstrated that federally funded benefit and loan programs, such as housing and higher education assistance, have made hundreds of millions of dollars in improper payments. Some of these payments were made improperly because the federal, state, and local entities that administer the programs sometimes lacked adequate, timely data needed to determine applicants’ and current recipients’ eligibility for assistance. Our previous work has demonstrated that improper payments can be avoided or detected more quickly by using data from other programs, or data maintained for other purposes, to verify self-reported information.

Federally funded benefit and loan programs provide cash or in-kind assistance to individuals who meet specified eligibility criteria. Because these programs require similar information to make eligibility determinations, it is more efficient to share the necessary data with one another rather than requiring each program to independently verify similar data. These programs may verify self-reported information by comparing their records with independent, third-party data sources from other federal or state agencies as well as private organizations. For example, benefit and loan programs can compare large amounts of information on applicants and recipients by using computers to match automated records. Electronic transmission of data and on-line access to agencies’ databases are additional tools program administrators can use to share important information on applicants and recipients in a timely, efficient manner. If used consistently, they can help program administrators check the accuracy of individuals’ self-reported statements as well as identify
information relevant to eligibility that the applicants and recipients themselves have not provided.

Various opportunities exist for federal, state, and local agencies to save taxpayer dollars by sharing information that affects individuals’ eligibility for benefits. For example, based on a study that matched Department of Education (Education) and Internal Revenue Service (IRS) income information, the Education estimates that it made approximately $602 million in grant overpayments during fiscal years 2001 and 2002. Access to IRS taxpayer information could have helped Education prevent some of these overpayments. Improper payments could also be avoided or detected more quickly in other programs. For example, four states and the District of Columbia estimate that they prevented about $16 million in improper Temporary Assistance to Needy Children (TANF), Medicaid, and Food Stamp benefit payments by participating in the Public Assistance Reporting Information System (PARIS). PARIS could also help other states save program funds by identifying and preventing future improper payments.

The three federally funded benefit and loan programs we examined—TANF, Tenant-Based Section 8 and Public Housing, and student grants and loans—all use data sharing to varying degrees to verify information that applicants and current benefit recipients provide. However, the weaknesses in these programs’ eligibility determination processes could be mitigated if additional data sources were available for sharing. For example, the Congress could grant the Department of Education access to IRS taxpayer data, which could reduce overpayments in student loan programs. The Administration’s fiscal year 2004 budget estimates that access to IRS income data could save $638 million in Pell Grant costs over 2003-2004.

CBO was not able to determine if this option would result in a budgetary savings.

Related GAO Products


GAO Contact

Robert E. Robertson, (202) 512-7215
Prevent Delinquent Taxpayers from Benefiting from Federal Credit Programs

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
</tr>
</tbody>
</table>

The federal government’s operations are funded primarily through tax revenue collected from the nation’s taxpayers. In fiscal year 2002, the federal government, through the Internal Revenue Service (IRS), collected over $2 trillion in federal tax revenue to finance government operations. However, while most taxpayers comply with their tax obligation, a significant portion of taxpayers do not. Over time, this has led to unpaid taxes, penalties, and interest, which totaled about $246 billion at the end of fiscal year 2003. Of this amount, the IRS estimates that only $20 billion, or about 8 percent, will be collected.

A significant number of taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes receive significant federal benefits and other federal payments. In addition to Social Security Administration benefit payments, federal civilian retirement payments, and federal civilian salaries, payments on federal contracts and Small Business Administration loans are also provided to these delinquent taxpayers. Federal law, generally, does not prevent businesses or individuals from receiving federal payments or loans when they are delinquent in paying federal taxes.

The Office of Management and Budget’s (OMB) Circular A-129, revised, provides policies for the administration of federal credit programs. These policies specifically direct agencies to determine whether applicants are delinquent on any federal debt, including tax debt, and to suspend the processing of credit applications if applicants have outstanding tax debt until such time as the applicant pays the debt or enters into a payment plan. Unfortunately, GAO reviews of unpaid taxes conducted as part of its annual audits of IRS’s financial statements, and as part of other financial management work at the agency, indicate that these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes.
In order to fully realize this benefit, the Congress could enact legislation implementing the prohibitions contained in OMB Circular A-129, as revised, that relate to this matter. A key aspect of this legislation would be to ensure that IRS’s efforts to modernize its business systems are successful in enabling it to generate timely and accurate information on the taxpayer’s status to assist other agencies in making determinations about eligibility for federal benefits and payments.

CBO was not able to determine if this option would result in a budgetary savings.

Related GAO Products


GAO Contacts

Steven J. Sebastian, (202) 512-3406
James R. White, (202) 512-9110
Increase Fee Revenue from Federal Reserve Operations

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Federal Reserve Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve’s primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

One way to enhance the Federal Reserve’s revenue would be to charge fees for bank examinations, thus increasing the Federal Reserve’s return to taxpayers. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Taxpayers in effect bear the cost of these examinations, which total hundreds of millions of dollars annually.

CBO estimates that budgetary savings could be achieved if fees were assessed similar to those charged national banks, with a credit allowed for fees paid to state regulators.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added receipts</td>
<td>89</td>
<td>94</td>
<td>99</td>
<td>103</td>
<td>108</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


GAO Contact

Thomas J. McCool, (202) 512-8678
Replacing the 1-dollar note with the new gold-colored 1-dollar coin would save the government hundreds of millions of dollars annually. Substituting a dollar coin for a 1-dollar note could yield over $522 million of savings to the government per year, on average, over a 30-year period. The savings come about because a coin lasts longer than paper money, the Federal Reserve has lower processing costs with coins than paper money, and a coin would result in interest savings from the additional seigniorage earned on a coin (i.e., the difference between the face value of a coin and its production cost).

In the past, neither the Congress nor the executive branch has supported the replacement of the 1-dollar note with a coin. All western economies now use a coin for monetary transactions at the same value that Americans use the more costly paper note. These countries have demonstrated that public resistance to such a change can be managed and overcome. The United States released a new gold-colored dollar coin in 2000. While initial demand for the coin had been strong, for it to realize its savings potential, the note has to be eliminated. Most of the coins that were issued are being held by collectors and do not circulate. With proper congressional oversight, public resistance to elimination of the 1-dollar note could be overcome and public support for the coin improved. For example, the Congress could require the Treasury or the Federal Reserve to conduct a public awareness campaign, explaining the savings that could be achieved by eliminating the 1-dollar note. In addition, the Congress could require the Federal Reserve or the Department of the Treasury to designate a central spokesperson who would handle all public and press inquiries about the elimination of the 1-dollar note.

CBO estimates that budgetary savings could be achieved by eliminating the 1-dollar note.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

## Five-Year Savings

<table>
<thead>
<tr>
<th>Change from the CBO baseline</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget authority</td>
<td>22</td>
<td>45</td>
<td>67</td>
<td>90</td>
<td>112</td>
</tr>
<tr>
<td>Outlays</td>
<td>22</td>
<td>45</td>
<td>67</td>
<td>90</td>
<td>112</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

### Related GAO Products


### GAO Contact

Mark L. Goldstein, (202) 512-2834
The federal government plays a prominent role in identifying the nation’s infrastructure investment needs and spent $160.6 billion on the nation’s infrastructure in 2002. A sound public infrastructure plays a vital role in encouraging a more productive and competitive national economy and meeting public demands for safety, health, and improved quality of life. Little, however, is known about the comparability and reasonableness of federal agencies’ estimates for infrastructure needs. In fact, infrastructure “need” is difficult to define and to distinguish from “wish lists” of capital projects.

The Office of Management and Budget (OMB) has developed a Capital Programming Guide to assist agencies with developing a disciplined capital programming process. OMB strongly recommends, but does not require, agencies to follow its guidance. In addition, GAO’s Executive Guide: Leading Practices in Capital Decision-Making summarizes fundamental practices that have been successfully implemented by organizations that are recognized for their outstanding capital decision-making practices and provides examples of leading practices from which the federal government may draw lessons and ideas. In a review of seven federal agencies’ U.S. infrastructure investment practices, GAO found that none of them followed leading practices for capital decision-making. In particular, five of the agencies did not develop assessments of the infrastructure needed to meet outcomes. Rather, these agencies developed estimates that were summations of the costs of projects eligible to receive federal funding or projects identified by the Congress and others. Also, agencies were not likely to (1) develop a long-term capital plan, (2) use cost-benefit analysis as the primary method to compare alternative investments, (3) rank and select projects for funding based on established criteria, and (4) budget for projects in useful segments. Similarly, in a January 2004 review of four agencies’ use of capital planning, GAO found that, while some of these agencies have long-term planning documents,
none has a comprehensive plan that defines its long-term investment decisions.

Given the importance of federal infrastructure investment to the nation, developing long-term agency capital plans and following other leading practices are critical for sound infrastructure investment. One option for improving capital planning is to have the OMB require that agencies comply with the principles and practices of its *Capital Programming Guide*. Requiring agencies to link the benefits of investment projects to the achievement of mission goals and long-term strategic goals would give decisionmakers better information to base funding decisions on. Infrastructure investment requests based on other leading practices, especially those enumerated above, could also increase the Congress’s capacity to make better investment decisions.

CBO was not able to determine if this option would yield budgetary savings.

Related GAO Products


GAO Contact

Katherine Siggerud, (202) 512-6570
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

Identify and Dispose of Unneeded Real Property Assets Held by GSA

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>General Services Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account</td>
<td>Federal Building Fund (47-4542)</td>
</tr>
<tr>
<td>Spending type</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Budget subfunction</td>
<td>804/General property and records management</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

Despite significant changes in the size and mission needs of the federal government in recent years, the federal portfolio of real property assets in many ways still largely reflects the business model and technological environment of the 1950s. Many of the assets are no longer aligned with, or responsive to, agencies’ changing missions, and are therefore no longer needed. Retaining unneeded assets presents significant potential risks for (1) lost dollars because such properties are costly to maintain; and (2) lost opportunities because the properties could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. According to government data, as of September 2002, the federal government owned about 3 billion square feet of building floor space in the United States, and the General Services Administration (GSA) was the second largest nondefense holder of this space, after the U.S. Postal Service. GSA provides real estate services for federal agencies and owns approximately 1,700 facilities with about 200 million square feet of building floor space. GSA facilities include office buildings, courthouses, and border stations.

In June 2001, GSA started an overall effort, commonly referred to as the portfolio restructuring initiative, where it is reviewing its real property inventory nationwide to identify and remove all vacant and underutilized assets that are not financially self-sustaining, or for which there is not a substantial, long-term federal purpose. The objective of this initiative is to better align GSA’s properties with its mission of providing quality space and services at a cost that is competitive with the private sector. GSA plans to complete implementation of the portfolio restructuring initiative by 2007 and expects by that time to have a portfolio of strong, income-producing properties that is much more responsive to changing agency mission needs. As of October 1, 2002, GSA reported that it had 236 vacant and underutilized properties with about 18.4 million square feet of space.
As part of its oversight of this effort, Congress could consider having GSA provide information on the status of properties it has identified as candidates for disposal or transfer and identify the specific steps Congress could take to facilitate the disposal or transfer of these properties. Oftentimes, GSA is hampered by factors outside of its control. Our work has shown that decisions about real property often do not reflect the most cost-effective alternative that is in the interest of the agency or the government as a whole but instead reflect other priorities. In particular, this situation often arises when the federal government attempts to consolidate facilities or otherwise dispose of unneeded assets. Congress’s direct involvement could serve as a catalyst for action on individual properties. This would be particularly important in light of the cost of securing and maintaining these unneeded properties; the opportunity costs associated with not selling or exchanging these assets; and the image of government waste and inefficiency that these facilities present to the public.

CBO was not able to determine if this option would yield budgetary savings.

Related GAO Products


GAO Contact

Mark L. Goldstein, (202) 512-2834
Target Funding Reductions in Formula Grant Programs

<table>
<thead>
<tr>
<th>Primary agencies</th>
<th>Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts</td>
<td>Multiple</td>
</tr>
<tr>
<td>Spending types</td>
<td>Discretionary/Direct</td>
</tr>
<tr>
<td>Budget subfunctions</td>
<td>Multiple</td>
</tr>
<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
</tr>
</tbody>
</table>

Many federal grant programs with formula-based distribution of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, as we pointed out in 1996 and in 1998, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs may enjoy a higher level of services than available in harder pressed areas. Alternatively, these wealthier areas can provide the same level of services but at lower tax rates than harder pressed areas.

At a time when federal discretionary resources are increasingly constrained, better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas that are most vulnerable. There are a variety of ways in which budgetary savings could be achieved to improve the targeting of these programs, including the following:

- Reduce the minimum federal reimbursement rate to below 50 percent for Medicaid, for example. This example would focus the burden of the reduced federal share on those states with the highest per capita income. To the extent that per capita income provides a reasonable basis for comparing state tax bases, this example would require states with the strongest tax bases to shoulder the burden of a reduced federal share.

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• Reduce federal reimbursement rates only for those states with comparatively low program needs and comparatively strong tax bases. Under this example, the matching formula could be revised to better reflect the relative number of people in need, geographic differences in the cost of services, and state tax bases. Under the revised formula, states with comparatively low need and strong tax bases would receive lower federal reimbursement rates while states with high needs and weak tax bases would continue to receive their current reimbursement percentage. This example would focus the burden of a reduced federal share in those states with the lowest need and the strongest ability to fund program services from state resources.

Many other formulas used to distribute federal grant funding do not recognize the different fiscal capacities of states to provide benefits from their own resources. Moreover, many of these formulas have not been reassessed for years or even decades. One option that would realize budgetary savings in nonentitlement programs such as these would be to revise the funding formula to reflect the strength of state tax bases. A new formula could be calibrated so that funding is maintained in states or local governments with weak tax bases in order to maintain needed program services but reduced in high tax base states to realize budgetary savings. Examples of these types of formula grant programs include the following.

• Federal Aid Highways: This program, the largest nonentitlement formula grant program, allocates funds among the states based on their historic share of funding. This approach reflects antiquated indicators of highway needs, such as postal road miles and the land area of the state.

• Community Development Block Grant: This program allocates funds among local governments based on housing age and condition, population, and poverty, and does not include a factor recognizing local wealth or fiscal capacity. For example, Greenwich, Conn., received five times more funding per person in poverty in 1995 than that provided to Camden, N.J., even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. This disparity is due to the formula’s recognition of older housing stock and population and its exclusion of fiscal capacity indicators.

An option that illustrates the potential savings from targeting formula grant programs is a 10 percent reduction in the aggregate total of all close-ended...
or capped formula grant programs exceeding $1 billion. The estimated savings achieved through this option could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, as the above examples indicate, the Congress may wish to determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings from the CBO baseline</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Mandatory savings</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Budget authority</td>
<td>6,940</td>
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<td>7,143</td>
<td>7,170</td>
<td>7,277</td>
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<tr>
<td>Outlays</td>
<td>1,316</td>
<td>2,556</td>
<td>2,674</td>
<td>2,765</td>
<td>2,745</td>
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<tr>
<td>Discretionary savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget authority</td>
<td>3,618</td>
<td>5,301</td>
<td>5,566</td>
<td>5,693</td>
<td>5,803</td>
</tr>
<tr>
<td>Outlays</td>
<td>2,146</td>
<td>5,564</td>
<td>7,209</td>
<td>7,927</td>
<td>8,437</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


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


GAO Contact
Paul L. Posner, (202) 512-9573
Adjust Federal Grant Matching Requirements

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to approximately 660 in 2001 with outlays of $317 billion, about 17 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. Our review of economists' estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

Our 1996 analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important programs. Critics of this approach argue that such redesign would put a
higher burden on states because they would have to finance a greater share of federally aided programs.

The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the trade-off decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

We were unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, for example from 100 percent to 90 percent, a reduction unlikely to discourage states from participating in the program.

CBO estimates the following budgetary savings with this option.

<table>
<thead>
<tr>
<th>Five-Year Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dollars in millions</strong></td>
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<tr>
<td><strong>FY05</strong></td>
</tr>
<tr>
<td>Savings from the CBO baseline</td>
</tr>
<tr>
<td>Budget authority</td>
</tr>
<tr>
<td>Outlays</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Related GAO Products


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

---


GAO Contact
Paul L. Posner, (202) 512-9573
Consolidate Grants for First Responders to Improve Efficiency

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Homeland Security</th>
</tr>
</thead>
<tbody>
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<td>Spending type</td>
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<tr>
<td>Budget subfunctions</td>
<td>Multiple</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

GAO's work over the years has repeatedly shown that mission fragmentation and program overlap are widespread in the federal government and that crosscutting program efforts are not well coordinated. As far back as 1975, GAO reported that many of the fundamental problems in managing federal grants were the direct result of the proliferation of federal assistance programs and the fragmentation of responsibility among different federal departments and agencies. While we noted that the large number and variety of programs tended to ensure that a program is available to meet a defined need, we found that substantial problems occur when state and local governments attempt to identify, obtain, and use the fragmented grants-in-aid system to meet their needs.

In a specific example of this fragmentation, in September 2003 GAO identified at least 21 different grant programs that can be used by the nation's first responders to address homeland security needs. Multiple fragmented grant programs can create a confusing and administratively burdensome process for state and local officials seeking to use federal resources for pressing homeland security needs.

It now falls to the Congress to redesign the nation's homeland security grant programs in light of the events of September 11, 2001. In so doing, the Congress must balance the needs of our state and local partners in their call for both additional resources and more flexibility for meeting the nation's goals of attaining the highest levels of preparedness. In addressing the fragmentation prompted by the current homeland security grant system, Congress' alternatives might include consolidating existing grants, using performance partnerships, and simplifying and streamlining administrative and planning requirements. These approaches could provide state and local governments with increased flexibility while potentially improving intergovernmental efficiency and homeland security program outcomes. An example of how consolidation of first responder
 grants might be achieved would be to merge the existing Emergency Management Performance Grant, the State Homeland Security Grant Program, and the Urban Area Security Initiative into one new grant program. If such a consolidation can be assumed to yield administrative efficiencies, then the Congress might reduce the amount of the combined grant by, for example, 10 percent. Alternatively, if the Congress did not want to reduce the overall amount of the consolidated grant, efficiencies achieved through consolidation could possibly result in an improved level of program performance given the current level of funding.

CBO was not able to determine if this option would yield budgetary savings.

Related GAO Products


GAO Contact

Paul L. Posner, (202) 512-9573
From fiscal years 1996 through 2001, the Internal Revenue Service’s (IRS) compliance and enforcement programs experienced almost universal declines in workload coverage, cases closed, direct staff time used, productivity, and dollars of unpaid taxes collected. While IRS has other efforts to help taxpayers comply with tax laws, such as ensuring the clarity of tax forms and instructions, IRS’s enforcement programs are viewed by many as critical for maintaining the public’s confidence in our tax system. The Congress and others have expressed concern about the compliance and collections trends for their potential to undermine taxpayers’ motivation to fulfill their tax obligations. IRS’s inventory of delinquent accounts continues to grow and age as the gap in workload and capacity to complete work increases. For example, in 2002, IRS was deferring collection action on tax debts at a rate equal to one out of three new collection cases. One way to reverse the declines in IRS’s compliance and enforcement programs would be to: devote more resources to them. This would enable IRS to close more delinquent tax cases and collect more unpaid tax revenues.

Congress has two basic alternatives if it wishes to devote more resources to IRS’s enforcement programs. One, increase IRS’s budget with additional funds targeted to compliance and collection staff and two, reallocate resources from other IRS programs. In recent years, IRS has proposed increasing enforcement staff funded partly out of budget increases and partly by reallocating resources from other areas within IRS. Despite budget requests that were almost fully funded and despite realizing some savings, the number of skilled enforcement staff actually declined between 1998 and 2003 because of other priorities including unbudgeted expenses.

JCT was not able to estimate a revenue effect for this option because the JCT does not estimate discretionary re-allocations of IRS resources.
Nevertheless, we believe that should IRS succeed at increasing its ability to collect delinquent taxes, it would bring in additional revenues.

Related GAO Products


GAO Contact

James R. White, (202) 512-9110
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Receipts

Enhance Nontax Debt Collection Using Available Tools
Increase Highway User Fees on Heavy Trucks
Implement Tolling or Other Alternative Revenue Sources for the Fuel Tax on Highways
Restrict the Preferential Federal Income Tax Treatment of Business-Owned Life Insurance
Reassess Annual Charges for FERC-licensed Hydropower Projects that Use Federal Lands
Tax Interest Earned on Life Insurance Policies and Deferred Annuities
Further Limit the Deductibility of Home Equity Loan Interest
Limit the Individual Tax Exclusions for Employer-Paid Health Insurance
Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels
Index Excise Tax Rates for Inflation
Require Corporate Tax Document Matching
Improve Administration of the Tax Deduction for Real Estate Taxes
Increase Filing of Returns by U.S. Citizens Living Abroad
Increase the Use of Seizure Authority to Collect Delinquent Taxes
Increase Collection of Self-employment Taxes
Increase the Use of Electronic Funds Transfer for Installment Tax Payments
Reduce Gasoline Excise Tax Evasion
Improve Independent Contractor Tax Compliance
Expand the Use of IRS's TIN-Matching Program
Improve Administration of the Federal Payment Levy Program
Increase Penalties and Consistency of Disclosure for Abusive Tax Shelters
Authorize IRS to Use Private Collection Agencies to Collect Certain Delinquent Taxes
Enhance Nontax Debt Collection Using Available Tools

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of the Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending types</td>
<td>Direct/Discretionary</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

Nontax federal debt delinquent more than 180 days continues to be a significant problem governmentwide. The Department of Treasury reported that such debt totaled over $60 billion annually in recent years. As delinquent debts age, they become increasingly difficult to collect. In 1996, the Congress enacted the Debt Collection Improvement Act of 1996 (DCIA) to provide for more aggressive pursuit of delinquent debt. Treasury's Financial Management Service (FMS) has been instrumental in helping agencies identify and refer more seriously delinquent nontax debts to FMS for additional effort. FMS has had some success in these centralized efforts; however, two key aspects of the 1996 legislation have lagged behind other initiatives.

In particular, the law authorized federal agencies to perform administrative wage garnishment (AWG) for certain delinquent debt. Debt collection experts have emphasized that AWG is a powerful instrument for collecting debt since the mere threat of using it is often enough to motivate voluntary payment. Properly used in tandem with other debt recovery techniques such as Treasury's centralized debt collection program, AWG should generate collections and provide leverage for agencies to obtain voluntary payments from delinquent debtors. However, few agencies are using AWG. Although the Department of Education had implemented AWG granted under separate authority, none of the nine large Chief Financial Officers Act agencies we reviewed in fiscal year 2001 had fully implemented AWG as authorized by the DCIA. According to a Treasury official, as of October 2003 only two of the nine large agencies, the Departments of Housing and Urban Development and Education (for administrative debts), had authorized Treasury to perform AWG as part of its centralized debt collection efforts. Although AWG is not mandatory, by failing to employ this tool—more than 7 years after the DCIA's enactment—agencies have missed collection opportunities.

DCIA also called for steps to prevent certain delinquent debtors from receiving additional federal financial assistance in the form of loans, loan
guarantees, and loan insurance. Our March 2002 report discussed three major information sources that contain data on delinquent federal debtors: credit bureau reports, the Department of Housing and Urban Development’s Credit Alert Interactive Voice Response System, and the Department of the Treasury’s offset program (TOP) database. Each information source contained certain information on delinquent federal nontax debtors, but none provided all-inclusive, timely data or maintained data long enough to be an adequate basis for successfully barring future financial assistance to current or prior delinquent debtors. According to a Treasury official, FMS has implemented a new Internet-based program to assist agencies in identifying delinquent debtors. As of June 17, 2003, SBA is using this system to initiate searches of limited information from the TOP database to determine whether SBA applicants owe delinquent nontax debt. FMS is planning for additional agencies to participate in the future.

We have recommended that agencies begin implementing AWG and that FMS enhance or supplement information in the TOP database to assist agencies in identifying delinquent debtors to prevent them from obtaining access to future federal financial assistance in the form of loans, loan guarantees, and loan insurance. Because it is not clear at this time how much federal agency debt is eligible for AWG, an estimate of additional receipts from full implementation of this debt collection tool would only be a preliminary indication. The same uncertainty exists for estimated benefits related to full implementation of the delinquent debtor bar provision. Given the pace of implementation, it may be desirable for the Congress to establish certain milestones and performance expectations for the debt collection function.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Related GAO Products


GAO Contact
Gary T. Engel, (202) 512-8815
Increase Highway User Fees on Heavy Trucks

To develop and maintain highways, the federal government collects user fees including fuel taxes, a heavy vehicle use tax, an excise tax on truck and tractor sales, and an excise tax on heavy tires. In fiscal year 2002, about $33.9 billion was collected from general federal highway user taxes. For many years, questions have been raised concerning whether highway users, including owners of heavy trucks, pay taxes in proportion to the wear and tear that their vehicles impose on highway pavement.

In 1982, the Congress passed the first major increase in federal highway use taxes since 1956 in order to increase highway revenues and to respond to a Federal Highway Administration (FHWA) report that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent. The 1982 tax increase required that the ceiling for the heavy vehicle use tax be increased from $240 a year to $1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from $1,900 to $550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As GAO recommended in June 1994, FHWA conducted a cost allocation study. The study, released in August 1997, noted that the overall equity of highway user fees could be incrementally improved by implementing either a weight-distance tax or eliminating the existing $550 cap on the Heavy Vehicle Use Tax. However, the study made no recommendations; the administration continues to monitor highway user fees but plans no action unless the overall equity of highway user fees worsens.

JCT made the following revenue estimates, effective the taxable years beginning after December 31, 2004.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

### Five-Year Revenues

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue gain</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

### Related GAO Products


### GAO Contact

Katherine Siggerud, (202) 512-6570
Implement Tolling or Other Alternative Revenue Sources for the Fuel Tax on Highways

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Department of Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

The Transportation Equity Act for the 21st Century (TEA-21) expired on September 30, 2003, and while the Congress has passed a short extension, it is considering a new reauthorization bill this session. The House has passed a $275 billion bill over six years, and the Senate has passed a $318 billion bill. To provide the necessary revenues needed, proposals such as spending down the balance in the Highway Trust Fund and transferring some gasohol tax revenues (currently deposited in the General Fund) into the Highway Trust Fund have been discussed.

Other sources of funding are available to supplement the current gas tax structure. Tolling has perhaps the most widespread support and appeal as an additional revenue source, and this method is more closely aligned with the “user pays” principle supported by GAO and most transportation experts. It is recognized, for example, that motor fuel taxes have the attribute of being a pay-as-you-go form of user charge. However, the amount of excise tax a user pays is only weakly related to the costs generated. Heavier trucks, for example, pay a smaller share of the expenditures highway agencies incur to serve them. Therefore, it may appear that these trucks are a less expensive means for shippers to transport their goods than railroads or other modes, resulting in a distortion of the competitive environment. From the standpoint of efficiency, motor fuel taxes are not entirely sufficient because it is not possible for government agencies to provide incentives to vehicle operators to change the nature of their road use. Improved pricing of transportation facilities could yield large payoffs in efficiency and promote competition. The more widespread use of tolling to raise revenues could provide this system benefit.

Congress may wish to consider several other revenue sources, including tolling and a weight-distance tax (where vehicles are charged based on the distance driven and the weight of the vehicle). Tolling of our nation’s most congested highways could provide needed revenue as well as change driving patterns to reduce congestion. Based on estimates developed in a
recent Federal Highway Administration (FHWA) study, we estimate that net revenues derived from peak-period tolling at the nation’s 26 most congested urban areas would amount to $1.9 billion annually. However, one challenge in implementing congestion pricing is that, at present, greater use of pricing is limited by statutory restrictions. Another challenge involves effectively addressing concerns raised about equity and fairness. One equity concern that has frequently been raised about congestion pricing of public roads has been the potential effects of surcharges or tolls on lower-income drivers. Because a surcharge would represent a higher portion of the earnings of lower-income households, it imposes a greater financial burden on them and, therefore, is considered unfair. Other revenue approaches, such as a weight-distance tax, would also provide a more equitable tax form that would tie more closely to the “user pays” principle.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Related GAO Products


GAO Contacts

JayEtta Z. Hecker, (202) 512-8984
Kate Siggerud, (202) 512-6570
Restrict the Preferential Federal Income Tax Treatment of Business-Owned Life Insurance

Business-owned life insurance—permanent life insurance on employees where the business is both the owner and the beneficiary—receives preferential federal income tax treatment because the policies’ accumulated earnings are tax-deferred and death benefit payments are tax-free. Businesses purchase such policies for various reasons, such as to insure against financial losses associated with the deaths of key employees and to fund employee benefits. Questions have been raised about whether these policies should continue to receive preferential tax treatment, particularly when they cover other than key employees, and legislative proposals have sought to limit the preferences. Federal revenue estimators have estimated forgone tax revenues from the tax preferential treatment on policies’ accumulated earnings for the 5-year period 2004-2008 as $7.3 billion to $9.5 billion, not including the forgone tax revenues on additional income from death benefit payments.

Disagreement exists over the appropriateness of preferential tax treatment on business-owned life insurance policies when businesses use policy proceeds to meet their general business needs, including the payment of employee benefits. Some assert that the purchase of business-owned life insurance is often related to employee benefit liabilities and that the tax preferential treatment is needed to help reduce these costs. Others state that allowing preferential tax treatment of business-owned life insurance undermines the laws Congress enacted that define the type and scope of preferential tax treatment businesses should receive for providing employee benefits. Also, the preferential tax treatment of business-owned life insurance provides this investment vehicle an advantage over other investments that lack such preferences.

IRS and others have expressed concern that businesses may be borrowing to indirectly finance life insurance purchases, even though 1986, 1996, and 1997 laws sought to restrict such borrowing. However, firms increase their liabilities for many purposes, making it difficult to make a direct connection between borrowing and purchasing life insurance. The Health
Insurance Portability and Accountability Act of 1996 provided that no
deduction is allowed for interest paid or accrued on any debt with respect
to a life insurance contract, with an exception which allowed deduction for
interest paid to insure key persons. The Taxpayer Relief Act of 1997
provided that no deduction is allowed for that portion of a business’s total
deductions for interest expense equal to the portion of its total assets
invested in permanent life insurance, with an exception for life insurance
on 20-percent owners, officers, directors, and employees. An amendment
was offered during the House Budget Committee’s mark up of the Fiscal
Year 2004 Concurrent Budget Resolution in March 2003, as well as in prior
Clinton administration budget proposals, to change the exception to only
apply to key persons, but the change was not adopted. The Congressional
Budget Office included a similar proposal in its March 2003 budget options.

Several other congressional proposals have attempted to limit the tax
preferential treatment of business-owned life insurance. In May 2003, a bill
was introduced in the House of Representatives and an amendment was
offered in the Senate to repeal the preferential tax treatment of the
proceeds related to certain business-owned life insurance policies. In
addition, an amendment passed the Senate Finance Committee in
September 2003 that would have required businesses to treat life insurance
policy payments received as gross income, if the insured had not been an
employee in the year preceding his or her death. These various proposals
generally made an exception for insuring against the death of a key
employee and may have included other exceptions, such as when the life
insurance was held by a qualified retirement plan. Also, these various
proposals would have generally grandfathered existing policies, allowing
businesses to continue receiving tax-preferred proceeds from existing
policies. None of the proposals was enacted by the end of the first session
of the 108th Congress.

To the extent that only new purchases of business-owned life insurance are
taxed, revenues from changes in the tax treatment of the policies will be
more limited because, without preferential tax treatment, purchases of the
policies will likely decline. Because it is unclear what alternative
investments businesses will make, the tax implications of their actions
cannot be determined. Nonetheless, without further restrictions on the
tax-preferred treatment of business-owned life insurance, the federal
government will continue to forego tax revenue attributable to deferred
policy earnings and tax-free death benefit payments.
In light of the potential for collecting tax revenues on business-owned life insurance and reducing the amount of foregone federal tax revenue attributable to business-owned life insurance, Congress may wish to consider further restrictions on the tax-preferred treatment of these policies.

JCT made the following revenue estimates, effective the taxable years after December 31, 2004.

<table>
<thead>
<tr>
<th>Five-Year Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars in billions</td>
</tr>
<tr>
<td>FY05</td>
</tr>
<tr>
<td>Revenue gain</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Product


GAO Contact

Davi M. D’Agostino, (202) 512-8678
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

Reassess Annual Charges for FERC-licensed Hydropower Projects that Use Federal Lands

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Federal Energy Regulatory Commission (FERC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Theme</td>
<td>Reassess objectives</td>
</tr>
</tbody>
</table>

The Federal Power Act directs the Federal Energy Regulatory Commission (FERC) to establish and collect reasonable annual charges from hydropower projects that use federal lands. Since 1987, FERC’s annual charges for the use of federal lands have been based on a linear rights-of-way fee schedule that was originally used to determine the annual fees other agencies charged for the rights to locate, among other things, powerlines, pipelines and communications lines on federal lands—uses that are generally less valuable than hydropower. FERC chose this system because it was simple and predictable and would not subject the commission to appeals from the electricity industry. However, this system has no relationship to the economic benefit of the federal lands used to produce hydropower.

The annual charges FERC currently collects for the use of federal lands are significantly less than the fair market value of these lands, according to our analysis of a stratified random sample of 24 hydropower projects that use federal lands. On the basis of this analysis, FERC is receiving less than 2 percent of the fair market value for the use of these lands. In total, the estimated fair market value of the land used by our sample of projects is at least $157 million annually and, under some market conditions, the value of these lands is worth hundreds of millions more. In comparison, FERC collected about $2.7 million in annual charges from the 24 sample projects in 2002.

One option would be for Congress to direct FERC to develop new strategies for assessing annual charges for the use of federal lands that are proportionate with the benefits conveyed to hydropower project owners. If FERC decides to collect annual charges that more closely reflect the fair market value of federal lands, it would need to take into account the Federal Power Act’s requirement to seek to avoid unreasonable rate increases to consumers, and the act’s goal of encouraging the development of hydropower.
CBO agrees that this option would result in budgetary savings, but it could not develop a savings estimate.

Related GAO Product  


GAO Contact  

Barry T. Hill, (202) 512-3841
Interest earned on life insurance policies and deferred annuities, known as “inside buildup,” is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments, such as certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Coverage for low-income people is largely provided through the Social Security system, which provides both insurance and annuity protection. The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. Investment income from annuities purchased as part of a qualified individual retirement account would be tax-deferred until benefits were paid.

JCT estimated the following revenues, effective the taxable years after December 31, 2004.

<table>
<thead>
<tr>
<th>Five-Year Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars in billions</td>
</tr>
<tr>
<td>Revenue gain</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.
### Related GAO Product


### GAO Contact

James R. White, (202) 512-9110
Further Limit the Deductibility of Home Equity Loan Interest

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to $100,000 of home equity indebtedness and $1 million of indebtedness used to acquire a home. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility up to $300,000 of indebtedness for the taxpayer's principal and second residence.

JCT made the following revenue estimates, effective the date of enactment.

<table>
<thead>
<tr>
<th>Five-Year Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars in billions</td>
</tr>
<tr>
<td>FY05 FY06 FY07 FY08 FY09</td>
</tr>
<tr>
<td>Revenue gain</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Product

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

| GAO Contact    | James R. White, (202) 512-9110 |
Limit the Individual Tax Exclusions for Employer-Paid Health Insurance

The current tax treatment of health insurance gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary business expenses and employer contributions are not included in an employee’s taxable income. The same is true for a portion of the premiums paid by self-employed individuals. Although some employers or employees could drop employer-sponsored coverage without the tax exemption, some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation’s health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—including in a worker’s income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing individuals a refundable tax credit of 20 percent of premiums that they or their employers would pay, with eligible premiums capped at $500 and $200 per month for family coverage and individuals, respectively.

JCT agrees that the option has the potential for increased revenue, but an estimate is not available.

Related GAO Product

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

GAO Contact

James R. White, (202) 512-9110
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Appendix III

Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Redefine beneficiaries</td>
</tr>
</tbody>
</table>

The tax code partially exempts biomass-derived alcohol fuels—made from nonfossil material of biological origin—from excise taxes on motor fuels. The tax code also provides that income tax credits for alcohol fuel use may be claimed instead of the excise tax exemption. However, the credit is in almost all cases less valuable than the exemption and is rarely used.

Tax incentives that encourage alternatives to fossil fuels might have merit if energy security or environmental benefits were realized. However, as we reported in 1997, if alcohol fuel use was not subsidized it is unlikely that U.S. energy security or air quality would be significantly affected. Even with tax subsidies, alcohol fuels were not competitive in price with fossil fuels in most markets. In 1995, alcohol fuels accounted for less than 1 percent of total U.S. energy consumption for transportation. Our report concluded that the incentives have not created enough usage to affect the likelihood of an oil price shock. Nor could their use be expanded enough to counter such a shock given existing production technologies. (As of 2002, alcohol fuels still accounted for less than 1 percent of U.S. energy consumption for transportation.) Use of oxygenated fuels such as ethanol-gasoline mixtures in motor vehicles generally produces less carbon monoxide pollution than does straight gasoline. However, the Clean Air Act Amendments of 1990 reduced the need for an ethanol subsidy by mandating the minimum oxygen content of gasoline in areas with poor air quality. The global warming effects of using ethanol are likely to be no better than, and could be worse than, those of gasoline.

The Congress may wish to consider repealing the partial excise tax exemption and the alcohol fuels tax credit. The repeal could result in higher federal outlays for price support loan programs, but any increase in outlays probably would be much smaller than the estimated revenue increase. The excise tax exemption is currently scheduled to expire on October 1, 2007; the equivalent blender’s tax credit is scheduled to expire on January 1, 2008.
JCT estimated the following revenues, effective January 1, 2005.

<table>
<thead>
<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue gain</td>
<td>1.0</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.
Note: JCT provided its revenue estimates in billions of dollars.


GAO Contact: James R. White, (202) 512-9110
Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered, and administrative difficulties may be encountered, but they are not insurmountable. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco.

JCT made the following revenue estimates, for beverages and tobacco removed after December 31, 2004.

<table>
<thead>
<tr>
<th>Five-Year Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars in billions</td>
</tr>
<tr>
<td>FY05</td>
</tr>
<tr>
<td>Revenue gain</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Products


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

GAO Contact

James R. White, (202) 512-9110
Require Corporate Tax Document Matching

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

The Internal Revenue Service's (IRS) document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Department of the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS's assumptions, we estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, we estimated that for years 1995 through 1999, IRS’s annual costs would have been about $70 million and annual increased revenues about $1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Related GAO Product


GAO Contact

James R. White, (202) 512-9110
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Improve Administration of the Tax Deduction for Real Estate Taxes

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

Based on the Internal Revenue Service’s (IRS) last compliance measurement study, individuals overstated their real estate tax deductions by about $1.5 billion nationwide in 1988. We estimate that this resulted in about $400 million federal tax loss for 1992. However, this may understate lost revenues because our review also found that IRS auditors detected only about 29 percent of $127 million in overstated deductions in three locations we reviewed. Revenues could be lost not only for the federal government but also for the state governments that tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements.

JCT made the following revenue estimates, effective for rebates issued after December 31, 2004, and amounts reported on tax bills after December 31, 2005.
## Five-Year Revenues

<table>
<thead>
<tr>
<th>Revenue gain</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

*a Gain of less than $50 million.

**Related GAO Product**


**GAO Contact**

James R. White, (202) 512-9110
Increase Filing of Returns by U.S. Citizens Living Abroad

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
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</tbody>
</table>

U.S. citizens residing abroad are generally subject to the same filing requirements as citizens residing in the United States. Some evidence suggests that the failure to file tax returns may be relatively prevalent in some segments of the U.S. population abroad, and the revenue impact, while unknown, could be significant.

IRS's ability to identify and collect taxes from nonfilers residing abroad is restricted by the limited reach of U.S. laws in foreign countries, particularly U.S. laws on tax withholding, information reporting, and enforced collection through liens, levies, and seizures. Another factor that could contribute to nonfiling abroad is the ambiguity in IRS's filing instructions for its Form 1040 and related guidance. For example, it may not be clear that income qualifying for the foreign earned income or housing expense exclusions must be considered in determining whether one's gross income exceeds the filing threshold.

In pursuing nonfilers abroad, IRS has not fully explored the usefulness of passport application data as a means of identifying potential nonfilers. While passport applications contain no income information, they could be used to collect applicants’ social security number, age, occupation, and country of residence.

IRS may want to take additional steps to enforce the current information requirement that all passport applicants provide their social security numbers as a means of identifying potential nonfilers abroad. IRS may also want to clarify its instructions for determining what income must be considered in determining whether gross income exceeds the filing threshold. Initial projects to increase the number of returns filed from overseas suggest that the potential increase in tax revenues would justify the costs to improve compliance.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

Related GAO Products


GAO Contact

James R. White, (202) 512-9110
Increase the Use of Seizure Authority to Collect Delinquent Taxes

<table>
<thead>
<tr>
<th>Primary agency</th>
<th>Internal Revenue Service</th>
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</thead>
<tbody>
<tr>
<td>Spending type</td>
<td>Direct</td>
</tr>
<tr>
<td>Theme</td>
<td>Improve efficiency</td>
</tr>
</tbody>
</table>

The Internal Revenue Service’s (IRS) use of its statutory authority to seize taxpayer assets has been instrumental in bringing into compliance (i.e., full pay status) many delinquent taxpayers who had been unresponsive to other tax collection efforts, including demands for payment through letters, phone calls, personal visits, and levies on bank accounts and wages.

Since the enactment of the IRS Restructuring and Reform Act of 1998 (Restructuring Act), IRS’s use of seizure authority has declined. In fiscal year 1997, IRS carried out 10,090 seizures compared to only 399 in fiscal year 2003. At this greatly reduced level of seizures, IRS is at risk of foregoing the collection of millions of dollars as indicated in our 1999 report. We reported that, of the approximate 8,300 taxpayers whose assets were seized by IRS in fiscal year 1997, about 42 percent became fully tax compliant—resolving about $186 million in tax debts—as a result of the seizures. In total, the seizure of taxpayer property in fiscal year 1997 resulted in resolving about $235 million, or about 22 percent of the $1.1 billion of tax debts owed by the 8,300 taxpayers.

Our 2002 survey of IRS employees showed that nearly two-thirds of those who collect tax debts said that their likelihood of recommending a seizure of a taxpayer’s assets had decreased due to concerns about the Restructuring Act’s requirements. According to an IRS official in 2003, the level of seizures is expected to remain substantially below the level before the Restructuring Act given (1) IRS program changes that provide taxpayers with additional opportunities to resolve their tax delinquencies prior to seizure, (2) expanded definition of taxpayer property statutorily exempt from seizure, and (3) increased time available to taxpayers to exercise rights to challenge seizures.

At the greatly reduced level of seizures that IRS has implemented since 1997, it is at risk of foregoing the collection of millions of dollars. Although it may not be necessary to revert back to the 1997 levels, the Congress may...
want to ask IRS whether it is making full appropriate use of its seizure authority.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Related GAO Products


GAO Contact

James R. White, (202) 512-9110
Increase Collection of Self-employment Taxes

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<th>Primary agency</th>
<th>Internal Revenue Service</th>
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<td>Spending type</td>
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<td>Theme</td>
<td>Improve efficiency</td>
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Self-employed taxpayers can get Social Security benefits based on earnings for which they did not pay taxes because the Social Security Act requires the Social Security Administration to grant earnings credits, which are used to determine benefit eligibility and amounts, and pay benefits without regard to whether the Social Security taxes have been paid. We reported in 1999 that, as of September 1997, more than 1.9 million self-employed taxpayers were delinquent in paying $6.9 billion in self-employment taxes. Also, more than 144,000 taxpayers with delinquent self-employment taxes of $487 million were receiving about $105 million annually in monthly Social Security benefits.

While IRS’s ability to collect self-employment taxes before taxpayers become delinquent is hampered because there is no withholding on self-employment income, most self-employed taxpayers are required to make estimated tax payments. However, as of September 1997, about 90 percent of the delinquent self-employed taxpayers required to make estimated tax payments did not.

In the past, there have been proposals to deny social security credits to taxpayers that fail to pay their self-employment taxes and to require withholding on certain self-employment income. No actions were taken on these proposals. One way to collect self-employment taxes before taxpayers become delinquent that does not require a law change would be to encourage more self-employed individuals to make their required estimated tax payments. IRS could do this by establishing a program to remind previously noncompliant taxpayers (i.e., those who were assessed an estimated tax penalty the previous year) to make such payments.

JCT cannot estimate the revenue effect of this option without additional specification.

Related GAO Product

*Tax Administration: Billions in Self-Employment Taxes Are Owed.*
Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

GAO Contact

James R. White, (202) 512-9110
Increase the Use of Electronic Funds Transfer for Installment Tax Payments

The Internal Revenue Code authorizes the Internal Revenue Service (IRS) to allow taxpayers to pay their taxes in installments, with interest, if this arrangement would facilitate collection of the liability. As of April 2003, IRS had about 251,000 installment agreements outstanding, worth about $2.3 billion. At the end of fiscal year 2000, approximately 35 percent of such installment agreements were in default.

A number of states use electronic funds transfer (EFT) to make their installment agreement program more efficient and effective. In 1998, we reported on two states’ use of EFT. Minnesota, requires taxpayers to pay by EFT, with some exceptions. As of late 1997, approximately 90 percent of Minnesota’s installment agreements were EFT agreements, and the default rate had dropped from about 50 percent to between 3 percent and 5 percent in the 2 years the EFT requirement had been in effect. In California, within 6 months of implementing its EFT procedures, its default rate for new installment agreements dropped from around 40 percent to 5 percent.

EFT payments also produce administrative savings through lower processing costs involved in recording and posting remittances, lower postage and handling costs associated with sending monthly payment reminders, and lower collection enforcement costs needed to pursue fewer taxpayers in default. IRS’s initial comparison of the cost of EFT payments with the cost of having taxpayers send installment payments to lockboxes in commercial banks showed that EFT payment costs were about 37 percent less than the lockbox costs.

The reported benefits for IRS of using EFT for installment agreement payments include the potential to reduce the percentage of taxpayer defaults, decrease administrative costs, and achieve faster collections. At the end of fiscal year 2000, less than 1.5 percent of IRS’s outstanding installment agreements were EFT agreements.
Appendix III
Opportunities to Improve the Economy,
Efficiency, and Effectiveness of Federal
Programs

JCT cannot estimate the revenue effect of this option without additional specification.

**Related GAO Products**


**GAO Contact**

James R. White, (202) 512-9110
Reduce Gasoline Excise Tax Evasion

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Although no current and reliable estimate of gasoline excise tax evasion exists, the most recent Federal Highway Administration estimate, from 1992, was that evasion amounted to between 3 and 7 percent of gasoline excise tax revenue. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, we suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery.

JCT made the following revenue estimates, effective January 1, 2005.

<table>
<thead>
<tr>
<th>Five-Year Revenues</th>
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<tr>
<td>Dollars in billions</td>
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<td></td>
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<td>FY05</td>
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<tr>
<td>Revenue gain</td>
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</table>

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

*Gain of less than $50 million.

Related GAO Product

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

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GAO Contact
James R. White, (202) 512-9110
Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through its Employment Tax Examinations program. For fiscal year 2002, 90 percent of the examinations found misclassified workers and associated unpaid taxes. Establishing clear rules is difficult. Nevertheless, taxpayers need—and the government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

In the past, the Congress considered but rejected extending information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations could have been on equal footing, and IRS could have had a less intrusive means of ensuring their tax compliance.

While there have been various proposals on clarifying the definition of independent contractors and improving related information reporting, as well as various congressional hearings that have dealt with some of these bills, there remain opportunities for change. One option the Congress may consider is to require the IRS clarify the definition of independent contractors and extend information reporting requirements for unincorporated independent contractors to incorporated ones. We believe that revenues from this option could possibly increase by billions of dollars.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.
### Related GAO Products


### GAO Contact

James R. White, (202) 512-9110
Expand the Use of IRS’s TIN-Matching Program

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The Internal Revenue Service’s (IRS) and the Department of Treasury’s Financial Management Service (FMS) have initiated a continuous tax levy program designed to identify and levy federal payments to taxpayers that owe federal taxes. The potential effectiveness of this program will be reduced because payment records submitted to FMS by federal agencies often have an inaccurate Taxpayer Identification Number (TIN) and/or name.

Since 1997, IRS has had a TIN-matching program that federal agencies can use to verify the accuracy of TIN and name combinations furnished by federal payees that are necessary for issuing information returns. This program was intended to reduce the number of notices of incorrect TIN and name combinations issued for backup withholding by allowing agencies the opportunity to identify TIN and name discrepancies and to contact payees for corrected information before issuing an information return. Monthly, federal agencies may submit a batch of name and TIN combinations to IRS for verification. IRS matches each record submitted and informs the agency whether the TIN and name submitted match its records. However, IRS cannot explicitly tell an agency what the correct TIN, name, or both TIN and name should be if the records do not match. To do so would violate tax disclosure laws.

In an April 2000 report, we found that about 33 percent of vendor payment records submitted by federal agencies to FMS during one quarter in fiscal year 1999 had TINs and/or names that differed with the TINs and/or names in IRS’s accounts receivable records. As a result, vendor payment records totaling almost $20 billion were unsuitable for matching against IRS’s accounts receivable records and therefore would not be included in the joint FMS/IRS continuous tax levy program for the purpose of reducing federal tax delinquencies.

The Congress may wish to expand the use of IRS’s TIN-matching program for purposes other than information reporting to enable federal agencies to
specifically verify the accuracy of vendor TINs and names. This would help to reduce the number of federal payment records that are unsuitable for matching against IRS's accounts receivable records and to increase the number of federal tax delinquencies that could be collected through the continuous tax levy program. We estimate that resolving inconsistencies between the names payees use to receive federal payments and the names payees use on their federal tax returns could generate as much as $74 million annually.

JCT estimates the following revenue for contracts entered into or after December 31, 2004.

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Revenue gain

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

*Gain of less than $50 million.

Related GAO Product


GAO Contact

James R. White, (202) 512-9110
Improve Administration of the Federal Payment Levy Program

The Internal Revenue Service (IRS) and the Department of Treasury’s Financial Management Service (FMS) have initiated the Federal Payment Levy Program, which is designed to continuously levy federal payments made to taxpayers that owe federal taxes. The potential effectiveness of this program will be reduced because IRS has blocked certain delinquent taxpayers from being levied.

Since July 2000, IRS has been levying federal payments of delinquent taxpayers. Certain taxpayers are not levied because they meet certain exclusion criteria, such as taxpayers who are paying their taxes through installment agreements or those who have contacted IRS and demonstrated that they currently do not have the means to pay their taxes. However, there are many other delinquent taxpayers who do not meet IRS’s exclusion criteria but are not having their federal payments levied. In a March 2003 report, we found that about 112,000 delinquent taxpayers were collectively receiving about $6.8 billion in federal payments and owed about $1.6 billion in delinquent taxes that IRS had blocked from the levy program. While IRS began to unblock about 20,000 of these accounts in January 2003, it does not plan to unblock the remaining portion until sometime in 2005 because of expected impact on workload. The sooner IRS unblocks these accounts, the more likely it is to collect the delinquent taxes.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.

Related GAO Product  

GAO Contact  
Michael Brostek, (202) 512-9110
Increase Penalties and Consistency of Disclosure for Abusive Tax Shelters

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Abusive tax shelters tend to be very complicated transactions promoted to corporations and wealthy individuals to exploit tax loopholes by providing these taxpayers with large, unintended tax benefits designed to lower their overall tax bills. By their nature, abusive tax shelters are varied, complex, and difficult to detect and measure.

Recently, Internal Revenue Service (IRS) has been giving abusive tax shelters substantially increased attention. IRS’s strategy for combating the use of abusive tax shelters includes assessing penalties and requiring taxpayers to disclose information about their use of abusive transactions. IRS has data that suggest the tax loss to be in the tens of billions of dollars. As of September 2003, an IRS database of tax avoidance transactions contained information estimating a tax loss of $33 billion, the majority of which concentrated from tax year 1993 to the present.

Measures such as increased penalties and consistency of disclosure could possibly reduce the use of abusive shelters and the resulting loss of tax revenues. In 2002, the Treasury Department developed an enforcement proposal to increase penalties and uniformity of disclosure for taxpayers and promoters of abusive tax shelters. Similar enforcement measures are contained in the President’s FY 2005 budget proposal, which has provisions for expanded penalties and more uniform disclosure rules for taxpayers and promoters involved in abusive tax shelters.

Congress has considered various options for expanding abusive shelter penalties including the Treasury proposal. To reduce the use of abusive shelters and the loss of tax revenues, one option the Congress may want to consider is enacting legislation to expand penalties and make disclosure more uniform for taxpayers and promoters of abusive tax shelters.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without more specifics of penalties and disclosures to be required.
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**GAO Contact**  
Michael Brostek, (202) 512-9110
Authorize IRS to Use Private Collection Agencies to Collect Certain Delinquent Taxes

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The Department of the Treasury has proposed that Congress authorize the Internal Revenue Service (IRS) to contract with private collection agencies (PCA) to help collect the growing inventory of tax debts. According to IRS, as of May 2003, the total amount of outstanding tax liabilities was $283.5 billion, of which IRS believes $85.4 billion has a realistic possibility of being collected. Treasury and IRS have identified a portion—as much as 25 percent of the $85.4 billion—as potentially being eligible for referral to PCAs. In addition, IRS is continuing to assess the inventory of outstanding tax liabilities to determine whether additional amounts may be appropriate for referral to PCAs.

In pursing the private collection of tax debts, IRS would have to address certain important issues, including selecting cases appropriate for PCAs and assuring the protection of taxpayer rights. IRS's 1996-1997 pilot program using private collection agencies showed that various challenges must be overcome to assure the success of such a program. As of January 2004, IRS has taken a number of steps to address critical success factors for this proposed program. For example, IRS has (1) developed program performance measures and goals, (2) been planning to implement a computer system to transmit data to PCAs, (3) been developing a method to select PCA cases based on collection potential, and (4) written draft contract provisions to govern the security of taxpayer data and PCAs' interactions with taxpayers.

The proposal would allow IRS to pay PCAs from money collected. According to Treasury, using PCAs would yield $1.5 billion over 10 years. One option the Congress may wish to consider is allowing IRS to contract with private collection companies to collect delinquent taxes.

JCT agrees that the option has the potential for increased revenue, but it cannot be estimated without additional specification.
## Appendix III
Opportunities to Improve the Economy, Efficiency, and Effectiveness of Federal Programs

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<td>GAO Contact</td>
<td>Michael Brostek, (202) 512-9110</td>
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