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STATEMENT OF

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OF THE UNITED STATES

BEFORE THE

COMMITTEE ON THE BUDGET

UNITED STATES HOUSE OF REPRESENTATIVES

ON

OPPORTUNITIES TO ACHIEVE
SAVINGS THROUGH LEGISLATIVE ACTION

Mr. Chairman and Members of the Committee.

We welcome this opportunity to again testify on opportunities to achieve savings through legislative proposals contained in GAO reports. We share your concern on the implications of accelerating inflation on our national well-being. We also share your belief that we should eliminate waste and reduce Federal expenditures whenever practicable as one of the ways to help bring inflation under control. Hopefully, the current new sense of urgency provides the climate needed to compel those difficult decisions that must be made if these efforts are to succeed.

In our presentation before your Legislative Savings Task Force last year, we pointed out that one of our basic statutory mandates is to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures." We pointed out that the Congress has been generally responsive to our legislative recommendations. GAO, of course, is only one of a number of sources of information and advice on Federal programs that the Congress considers in the legislative process.

We also pointed out that of the $2.5 billion in measurable savings attributable to our work in fiscal year 1978, $580 million was due to actions by the Congress. The figures for fiscal year 1979 show that the Congress played even a larger role in our accomplishments. Thus, of our $2.6 billion in measurable savings last year, $1.2 billion involved congressional action. Attachment I to our statement contains detailed information, by agency, on the measurable savings attributable to our work in fiscal years 1979 and 1978.

In our earlier testimony, we observed that much of the good that results from our work cannot be quantified. For example, there is no good way to measure the benefits of favorable congressional action on GAO recommendations which

--enable handicapped Federal job applicants to enjoy the same rights as other minorities in challenging discrimination, or

--increase condominium home ownership opportunities, or

--help prevent radioactive wastes from harming the public by promoting the clean up of inactive uranium mills?

Similarly, agencies take action on recommendations which improve the economy, efficiency, or effectiveness of their operations--but which do not show up on our "savings scorecard." For example, as a result of our work

--the Department of Health, Education, and Welfare improved the controls over its payroll system,

--action was taken to improve quality control procedures in the National Cancer Institute's chemical testing programs, and

--the Department of the Treasury and the Federal Reserve Banks located and returned to their owners about 420,000 savings bonds, some of which had been held since World War II.

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We have not recited these examples to sing our own praises, but rather to illustrate the broad range of activities we engage in pursuant to our responsibility to seek out ways to improve the operations of the Government.

Our legislative recommendations are based on examinations of individual programs as to how economically and efficiently they are operating and how consistent they are with congressional intent as expressed in the legislative record. We do not make recommendations to the Congress lightly. Such proposals are carefully reviewed within our organization to ensure that our positions are objectively presented and well supported.

The recommendations for legislative action that we will highlight today should be judged in the context of our statements above. The GAO believes that these proposed actions have merit--but we are the first to recognize that others may not be persuaded by the same body of evidence.

OUR MAJOR RECOMMENDATIONS

When we appeared before the Task Force this past July, we discussed 15 major legislative recommendations which had not been acted upon by the Congress. These recommendations, and numerous others, were suggested by our operating divisions as having "significance" on the basis of potential savings involved.

Attachments II through XVI to this statement provide updated information for these 15 recommendations. Attachments XVII through XXIII present legislative recommendations made since our July appearance. I will now briefly identify each of these recommendations, which are described in greater detail in the attachments.

--The need to tighten the payment of compensation benefits to injured Federal employees. (Attachment II.)

--Actions are needed to improve pay-setting procedures for Federal white- and blue-collar employees. (Attachment III.)

--The Davis-Bacon Act is no longer needed and impossible to administer fairly; its repeal would result in large construction cost savings. (Attachment IV.)

--Large savings opportunities possible through competitive procurement of Medicaid supplies and laboratory services. (Attachment V.)

--Interagency sharing of Federal medical resources would reduce costs and improve effectiveness. (Attachment VI.)

--Costly veterans' benefits are being granted undeserving persons failing to complete initial enlistments. (Attachment VII.)

--Changes in the calculation of certain social security benefits would result in large savings. (Attachment VIII.)

--Consolidation and rationalization of Federal food assistance programs would reduce Federal expenditures. (Attachment IX.)

--Cost-of-living adjustments for Federal retirees are unnecessarily costly. (Attachment X.)

--Major wastewater treatment cost savings could be achieved if the Administrator of the Environmental Protection Agency was given certain discretionary authorities. (Attachment XI.)

--Improved management would avoid significant shortfalls in foreign military sales revenues. (Attachment XII.)

--Federal charges for uranium enrichment services are much too low. (Attachment XIII.)

--Authorizing the withholding of tax refunds could reduce Federal debt losses. (Attachment XIV.)

--Statutory performance standards for the Medicaid Management Information System would significantly reduce program costs. (Attachment XV.)

--There is a need to create a self-sustaining national trust-fund by assessing fees on the disposal of hazardous wastes. (Attachment XVI.)

--Discontinuing Social Security postsecondary student benefits could net taxpayers substantial savings. (Attachment XVII.)

--Priority and emphasis needed on energy conservation and management in the Federal sector (Attachment XVIII.)

--Reassessment of military health care system would reduce the operating costs of military hospitals and make better use of the Nation's health care facilities. (Attachment XIX.)

XX.)

--Improved management of GSA's multiple award schedule program would reduce Federal procurement costs. (Attachment XX.)

--Procurement reforms proposed by the Commission on Government Procurement are incomplete and require intensified effort. (Attachment XXI.)

--Inequities in Federal land payment programs are costly to the Government. (Attachment XXII.)

--Stricter controls on Federal land acquisition practices would prevent unnecessary expenditures. (Attachment XXIII.)

In each of the attachments we discuss recent congressional initiatives that we are aware of and our assessment

of any special sensitivities, political or otherwise, affecting each recommendation.

Also, since our last appearance before the Task Force we have provided you and other concerned committees with (1) discussions of legislative recommendations acted on by the Congress during fiscal year 1979, and of open legislative recommendations made during fiscal year 1979 and prior years, (2) summaries of reports issued, as a result of our audits and other review work in the Department of Defense and in civil departments and agencies, through the end of fiscal year 1979 that had open recommendations as of November 30, 1979, and (3) two GAO reports highlighting needed reform in areas of concern to cognizant committees. In addition, we recently provided you and the other committees with information on GAO reports relevant to the potential legislative savings identified in the President's budget.

COMMENTS ON CBO's LEGISLATIVE OPTIONS

As agreed, we examined the extensive document the Congressional Budget Office prepared for you on "Reducing the Federal Budget: Strategies and Examples." We believe our compilation is a useful supplement to the CBO report. Indeed, several of our recommendations are related to matters discussed by CBO.

I have directed my staff to carefully examine all 75 strategies contained in the CBO report, identify those on which we have something to contribute and prepare a document which specifically relates the CBO report to results of our own work. We will make this available to the Committee in the near future.

For example, CBO's report contains an item "Administrative Improvements in Public Assistance Programs." The potential savings by fiscal year in millions of dollars are estimated as follows:

1981	1982	1983	1984	1985
325	350	375	400	440

CBO's report observes that one possible means of reducing the cost of public assistance programs would be to establish a nationwide monthly income reporting system, along with a 1-month retrospective accounting system. It notes that a monthly reporting requirement would reveal changes in income not reported or detected under the current discretionary system.

Based on our audit work, we endorse CBO's analysis with certain caveats. Our own conclusions on this matter are as follows:

Administrative Improvements in Public Assistance Programs

Historically recipients of public assistance benefits have been reluctant to report changes in their circumstances that may reduce their benefit level. Our work has shown that even when changes in circumstances are reported promptly by the recipients, the administrative agency may fail to adjust benefits promptly. For example recent quality control findings for the AFDC program show that about one-third of all case errors are due to the agency's failure to act promptly. We believe that monthly reporting along with a 1-month retrospective accounting system would go a long way toward reducing these errors. In our May 1978 report to the Chairmen, Senate Committee on Finance and House Committee on Ways and Means, we pointed out that if SSI benefits were determined on a monthly retrospective basis, overpayments would be decreased by about $40 million annually.

In commenting on recent major welfare reform proposals, we have expressed our concern about requiring all recipients to report monthly primarily because of (1) the sheer volume of reports that must be processed accurately and timely so recipients' benefits are not delayed

or suspended and (2) the fact that certain types of recipients (SSI for example) expressed infrequent changes in circumstances so monthly reporting would serve no real value. By limiting the number of recipients reporting monthly, the volume of reports decreases and becomes more manageable.

The Social Welfare Reform Amendments of 1979 (H.R. 4904) call for a system of monthly reporting and retrospective accounting for the AFDC program. The House passed H.R. 4904 on November 7, 1979, and the Senate Committee on Finance is expected to consider the bill in 1980. Our past work would support these legislative changes to the AFDC program.

THE INDEXING ISSUE

We are informed that the Committee has a special interest in the use of indexing of Federal programs. This is a subject which I believe should receive priority attention in the Congress. At my direction, we prepared a report to the Congress on this subject. I understand that the Committee has been provided copies of this report, dated August 15, 1979, and entitled "An Analysis of the Effects of Indexing for Inflation on Federal Programs."

In this report, we describe how indexing affects Federal expenditures and the problems associated with its use. The report examines 12 Federal programs whose expenditures escalate essentially in direct proportion to inflation either as a result of explicit indexing or some other mechanism that achieves the same result.

Over the last decade, the Congress has indexed about 50 percent of the expenditures in the Federal budget. The main argument for indexing is that it provides an automatic and rapid adjustment in benefits to compensate for the effects of inflation. However, there are problems associated with indexing. First, there is the problem of choosing an appropriate indexing formula. There is a widely held view that the Consumer Price Index is a better indicator of price movements than a measure of changes in the cost of living. Having selected an index, there still remains the problem of relating changes in the index to changes in benefits.

Second, indexing makes it more difficult to control the growth of the Federal budget. To illustrate, when the rate of inflation is 10 percent, expenditures for indexed Federal programs increase automatically by $15 to $25 billion annually. Each additional percentage point of inflation adds another $1.5 to $2.5 billion in expenditures for these programs. Such large automatic increases in the indexed programs reduce the

opportunities for making reductions in the Federal budget. Because a uniform reduction in Federal expenditures is not possible with current indexing procedures, a disproportionate share of any reduction which does occur must fall on those programs which are not indexed and some benefits which are indexed may have lower priority than those which are not.

Given the large and growing share of the budget accounted for by indexed programs, it will be difficult to reduce substantially the growth in total Federal spending without some check on programs which are indexed. Limitations on the portion of Federal payments which are indexed is one possible anti-inflation measure.

One early step in analyzing expenditure cuts should certainly be a critical examination of the indexed programs themselves to identify needed changes. For example, one of our open recommendations is that the cost-of-living adjustment provisions for Federal retirees should be revised to include annual adjustments rather than the semi-annual adjustments now provided by law. Another recommends repeal of the provisions that allow new Federal retirees to receive higher starting annuities and initial adjustments based on increases in the cost of living that occurred before they retired. This latter provision in conjunction with the extremely high rate of inflation recently is undoubtedly a

contributing factor to the recent near mass exodus of valued rank and file and senior employees across Government.

In summary, given the large and growing share of the budget accounted for by indexed programs, it would be difficult to bring Federal spending under control without some check on indexing.

The question of index validity

As indicated, a very important issue of direct relevance to the preceding discussion involves widespread concern that the Consumer Price Index may be structurally flawed and may not accurately measure the inflationary impact on the recipients of indexed Federal programs. Each 1 percent rise in the rate of inflation increases the level of spending in indexed programs in the range of $1.5 to $2.5 billion. The consequences of any inaccurate measurements are significant. If 1979's 13.3 percent rate was actually 10.8 percent--a result achieved by one alternative adjustment, then Federal expenditures will have improperly increased by as much as $5 billion.

We have work underway addressing the issues of accuracy and applicability of the CPI. One major area of concern and controversy involves the way in which changes in homeownership costs are measured by the CPI.

Much of this discussion has been highly technical and complex, with the basic issue centering on whether it is more

appropriate to measure changes in home purchase prices and mortgage interest costs only for home purchasers or to measure changes in monthly homeownership expenses for all homeowners. As presently constructed, the CPI measures month-to-month changes in the costs faced by purchasers of houses. Many people have charged that this approach does not take into account that rising interest rates and house prices do not affect the mortgage payments of existing homeowners, and that, therefore, the CPI overstates the effect of inflation on the average household.

Further discussion of the CPI is provided in attachment XXIV.

CONTROLLABILITY, RECONCILIATION AND MULTIYEAR BUDGETING

Finally, we will comment briefly on three other matters you desire our views on:

--controllability of Federal spending

--use of the reconciliation process to compel action on potential legislative savings, and

--planning for legislative savings in multiyear budgeting.

Controllability

The issue of controllability involves the trade-off between the real need for longer term, stable commitment

by the Federal Government to people who participate in Federal programs and activities versus the real need for the Congress to "control" the budget in both the short-term and the long-term. There is no magic formula for making this trade-off. It requires constant long-range planning; monitoring of socio-economic trends; oversight, monitoring and evaluation of Federal programs and activities; and other "good administrative controls" to support the analysis and decisionmaking on budget priorities for both the short and long terms. Furthermore, the trade-offs have to be made on a program-by-program basis dealing with specific groups of people, specific sectors of the economy, and specific problems.

Individual program decisions can be made in the context of a budget policy of encouraging multiple year (but not permanent) commitments. General revenue sharing is a good illustration of this approach. And, of course, the policies and procedures in the proposed oversight reform legislation would encourage both longer-range thinking and actions as well as discourage permanent commitments.

Presently, both the Executive Branch and the Congress use a concept of "controllability" that requires all spending to be categorized as either controllable or uncontrollable. Both tend to use an idea of "uncontrollable" that focuses on (1) outlays only, (2) the budget year only, and (3) current

law only. There are, however, some differences in the way the Congress and Executive Branch classify individual programs. While the present concept is useful for distinguishing between spending levels that can be changed through appropriations actions alone from those that require changes in authorizing legislation, it seems to be too narrow a concept of controllability. We believe Congress should take a broader and longer-term approach, since there are varying degrees of control depending upon the nature of the basic commitment of the Government.

Reconciliation

I would like to now briefly offer our views on the practicality of the reconciliation process, provided for in section 310(c) of the Congressional Budget and Impoundment Control Act of 1974, as a means of effectively realizing legislative savings. The act requires reconciliation in the second concurrent resolution. We believe that without advance preparation the second resolution is too late in the budget process to successfully achieve reconciliation. One means of bringing about such advance preparation would be through a proposal that targets for legislative savings be set in the first concurrent resolution. These could then be substantially covered by a requirement in the second concurrent resolution for reconciliation on these items. Rather than reconciliation in the first

concurrent resolution, the proposed action would be to set targets for legislative savings. Section 301(a)(4) of the act already has a similar requirement as regards revenues. We believe a similar provision with regard to expenditures could be beneficial.

Multiyear approach

One other matter which should be considered when discussing legislative savings is the need for multiyear planning and budgeting, recognizing that legislative savings often take time. Planning through target setting followed by reconciliation within a single year's timespan can only achieve limited savings because of the proportion of the Federal budget that is uncontrollable in the short term. Achieving savings in such programs may require several years. These savings--as well as costs of new programs which can be expected to start small and grow in later years--need to be considered over a longer period of time. We believe that increased emphasis on multiyear planning and budgeting is desirable and will be necessary to achieve significant legislative savings.

I would like to close by emphasizing the availability of our staff to discuss the results of our work and otherwise assist this and the other committees of the Congress in searching for ways to trim Federal expenditures. We will be pleased to answer any questions you may have.

GAO cannot compel the agencies or the Congress to accept recommendations. Action on our recommendations rests on the persuasiveness of our arguments. Agency management and the Congress must be convinced that our analyses are sound and that it is in their interest to take the actions we recommend. Agencies' awareness of the Congress' attention to our reports no doubt stimulates interest in and attention to recommendations aimed at them.

The full effect of GAO's activities on financial savings and improvements in the operations and effectiveness of Government programs and activities cannot be measured. The increase in governmental effectiveness from actions taken on some of our recommendations simply cannot be stated in dollars and cents.

When actions taken by the Congress or an agency lead to measurable savings, we record them. The following table summarizes the $2.6 billion in collections and other measurable savings attributable to our work which we identified during the year. Of the $2.6 billion listed, about $1.9 billion represent one-time savings, while the benefits of the other $700 million will extend into future years as well. These amounts were $2.5 billion, $1.7 billion, and $800 million respectively for the prior year.

Table 8

Collections and Other Measurable Savings Attributable to the Work of the General Accounting Office Fiscal Year 1979

(000 omitted)

		Other measurable savings		
	Collections	Congressional action involved	Agency action involved	Total
DEPARTMENTS				
Agriculture	—	$35,000	$11,000	$46,000
Air Force	$24	32,000	95,884	127,908
Army	135	21,400	14,005	35,540
Commerce	—	6,800	11,000	17,800
Defense	8,570	693,500	190,242	892,312
District of Columbia Government	—	—	36	36
Energy	—	—	100,000	100,000
Environmental Protection Agency	—	300,000	—	300,000
Federal Judicial Center	—	510	—	510
General Services Administration	444	—	1,358	1,802
Health, Education, and Welfare	18,513	22,500	140,634	181,647
Housing and Urban Development	—	3,000	1,032	4,032
Interior	2,884	—	20,563	23,447
Justice	—	2,847	4,618	7,465
Labor	—	—	16	16
National Aeronautics and Space Administration	62	—	—	62
Navy	5,265	29,000	707,445	741,710
Postal Service	—	—	96	96
State	—	—	143	143
Transportation	17	30,000	—	30,017
Treasury	—	—	152	152
Veterans Administration	349	49,300	409	50,058
Washington Metropolitan Area Transit Authority	1,075	—	—	1,075
Government-wide	—	3,000	—	3,000
	37,338	1,228,857	1,298,633	2,564,828
General Claims Work	10,585	—	—	10,585
Total	$47,923	$1,228,857	$1,298,633	$2,575,413

C O N T E N T S

Table 8

Collections and Other Measurable Savings Attributable to the Work of the General Accounting Office Fiscal Year 1978

(000 omitted)

	Collections	Other measurable savings: Congressional action involved	Other measurable savings: Agency action involved	Total
DEPARTMENTS				
Agency for International Development	—	—	$33,211	$33,211
Agriculture	—	$108,000	4,010	112,010
Air Force	$567	9,000	273,275	282,842
Army	32,996	34,200	242,878	310,074
Commerce	—	44,000	5,541	49,541
Defense	683	231,700	178,636	410,019
Defense Logistics Agency	—	7,500	39	7,539
District of Columbia Government	—	—	536	536
Energy	—	—	70	70
Environmental Protection Agency	—	—	73,600	73,600
General Services Administration	105	—	157,626	157,731
Government Printing Office	—	—	300	300
Health, Education, and Welfare	1,987	40,000	28,960	70,947
Interior	—	22,577	5,933	28,510
International Communication Agency	—	—	14,000	14,000
Justice	—	—	6,700	6,700
Labor	92	—	9	101
National Aeronautics and Space Administration	9	3,000	75,400	78,409
Navy (and Marine Corps)	—	4,500	474,561	479,061
Postal Service	—	—	525	525
State	—	—	15,022	15,022
Transportation	—	7,800	480	8,280
Treasury	—	66,000	14,800	80,800
Veterans Administration	343	1,500	1,418	3,261
Government-wide	—	—	268,588	268,588
	36,782	579,777	1,875,118	2,491,677
General Claims Work	10,353	—	—	10,353
Total	$47,135	$579,777	$1,875,118	$2,502,030

THE NEED TO TIGHTEN THE PAYMENT OF COMPENSATION BENEFITS TO INJURED FEDERAL EMPLOYEES

GAO REPORTS

"Improvements Still Needed in Administering the Department of Labor's Compensation Benefits for Injured Federal Employees," HRD-78-119, September 28, 1978

"Multiple Problems with the 1974 Amendments to the Federal Employees' Compensation Act," HRD-79-80, June 11, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Labor and Human Resources

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATIONS

To help ensure the quality of determinations of causal relation, GAO recommended in its September 28 report that the Congress amend the Federal Employees' Compensation Act to place in the employing agencies the authority to appeal to the Employees' Compensation Appeals Board any finding of causal relation by Labor or any Labor decision continuing compensation benefits which, in the employing agency's opinion, is inconsistent with or not supported by the available evidence.

GAO recommended in its June 11 report that in order to reduce the number of minor and frivolous claims for compensation which divert Labor's efforts from more serious claims, to reduce the cost to taxpayers, and to give Federal employees an incentive to return to work, the Congress require that the 3-day waiting period for traumatic injuries be applied before continuation of pay, rather than 45 days later.

In the same report, to make the free-choice-of-physician provision allowed by the amendments more effective and to help employees return to full or light duty at the earliest possible time, GAO recommended that the Congress provide employing agencies with the authority--if there is a question about the initial diagnosis of an employee's injury or the length of disability resulting from that injury--to require the employee to submit to a second medical examination by a Federal medical officer or a physician designated by the Secretary of Labor.

DISCUSSION OF THE PROBLEM

GAO's September 28 report revealed that Labor's top program managers at headquarters have set the precedent of awarding workers' compensation benefits without reliable, probative, and substantial medical evidence that the injuries are job related. GAO found that this precedent has been followed by district office personnel involved in the claims adjudication process. Employing agencies often believe that Labor overlooks or ignores their evidence as to whether an injury was work related. GAO believes the quality of Labor's claims determinations would be improved if these agencies were given the right to appeal Labor's decisions.

GAO's June 11 report showed that the number of lost-time injury claims filed by Federal workers escalated sharply after the Federal Employees's Compensation Act was amended in 1974 to allow employees' pay to continue uninterrupted for 45 days after an injury. Previously, employees had to wait

3 days before receiving compensation. In fiscal year 1974 about 12,000 claims for compensation were filed for job-related lost-time traumatic injuries. Labor estimated that the number of claims will increase to 101,000 for fiscal year 1979. GAO believes that as many as 46 percent of all claims might be eliminated by a 3-day waiting period.

This report further explained that the 1974 amendments gave employees the option to select a physician of their choice for care and treatment. GAO's analysis of a random sample of claims showed that the free-choice-of-physician provision, without employing agency controls, has contributed to abuse of continuation of pay. Specifically GAO noted that:

--About 20 percent of the claims appeared abusive either in occurrence, job relatedness, or duration.

--In about 20 percent of the claims light duty could have been effectively utilized in returning employees to work.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Several agencies have proposed that they be given the right to participate directly in the adjudication process and believe that this would reduce Government's compensation costs. GAO reported in its September 28 report that during our review of the program, several agencies expressed concern that evidence they submit bearing on the decision as to whether an injury is work-related is often not considered by Labor. This same view has been expressed in recent congressional investigative reports and in the proposed final report of the Interagency Task Force on Workplace Safety and Health.

Agencies also believe that the current process is unfair because they cannot appeal a Labor decision while an employee can.

The Department of Labor has developed a set of legislative proposals to amend the Federal Employees' Compensation Act. These proposals are currently with OMB. Notwithstanding the above, these proposals would make no change in in the present nonadversarial adjudication process; but Labor stated it will revise its internal claims procedure manual to make certain that all evidence submitted by an employing agency is reviewed and considered.

Congressman Don J. Pease introduced legislation on June 11, 1979, which provides that (1) continuation of pay shall not be furnished for the first 3 days of wage loss due to traumatic injury, except when the disability exceeds 14 days, and (2) the immediate supervisor may require the individual to submit to an examination by a medical officer of the United States, or by a physician designated or approved by the supervisor, for purposes of obtaining a second opinion concerning the employee's claim. The results of that examination would be included in the report concerning the employee's claim furnished by the supervisor to the Secretary of Labor. The Congressman estimated that the enactment of his legislation would result in an annual savings of about $20 million.

ACTIONS NEEDED TO IMPROVE PAY-SETTING PROCEDURES FOR FEDERAL WHITE- AND BLUE-COLLAR EMPLOYEES

GAO REPORT

"Federal Compensation Comparability: Need for Congressional Action," FPCD-78-60, July 21, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Governmental Affairs

House Committee on Post Office and Civil Service

STATEMENT OF THE RECOMMENDATIONS

Legislation should be enacted changing Federal white-collar employee pay-setting process to

--establish Federal salary schedules that are more in line with labor market characteristics and pay practices on non-Federal employees,

--include State and local government employees in the occupational groups covered in annual wage surveys, and

--include both pay and benefits rather than just pay in determining comparability.

For Federal blue-collar employee pay-setting procedures to achieve comparability in both pay and benefits with the private sector, legislation is needed to revise

--the five-step system for each nonsupervisory grade with the average local prevailing rate equated to the second wage step even though 80 percent of Federal blue-collar employees are above this wage level,

--wage rates which are based on the private sector rates paid in another wage area, and

--night shift differentials that are not determined in accordance with prevailing industry practices but are based on a percentage of the scheduled wage rate.

DISCUSSION OF THE PROBLEMS

Establishing more realistic Federal white-collar salary schedules

The fixed structure of the general schedule for Federal white-collar employees does not permit realistic pay alignment between comparable positions in the Federal and private sectors. The many varied and nonhomogeneous occupations are grouped into 18 grade levels with uniform national pay rates for the 1.4 million employees it covers. The general schedule pay system does not provide the framework in which employees at many different skill levels and in a broad spectrum of occupations and geographic areas can be reasonably compensated. Further it fails to recognize that the labor market consists of distinctive major groupings, which have different pay treatments. In the private sector, economic and other considerations cause occupations at equivalent Federal work levels to receive different rates of pay.

Including State and local government employees in white-collar wage systems

The legislated pay principle of white-collar comparability with the private sector is too restrictive. In presenting the white-collar pay comparability concept to the Congress in 1962, the executive branch reasoned that State and local government

salaries would have little effect on national averages since their weight would be lost in the overwhelming weight of private enterprise data. State and local government employees, however, now make up a significant portion of the labor force--over 12 million employees representing about 14 percent of the total civilian work force. The significant increase in the number of State and local government employees and the changes in salary determination processes--rising importance of labor bargaining--have, in GAO's opinion, negated the original rationale for the survey restriction.

Including pay and benefits in white-collar comparability determinations

Major non-Federal employees view benefit programs generally as equally important as pay in determining compensation packages and have adopted definitive policies and procedures to govern their processes for determining benefits. The Federal Government, however, has no policy to guide the development of both pay and benefits in a coordinated and consistent movement towards a common goal. For contrast, the adoption of an objective standard and provision for annual reviews and adjustments have generally advanced the evolution of Federal pay.

By focusing only on pay, however, the comparability processes do not meet their primary purposes--to provide equity for the Federal employee with his private sector counterparts, to enable the Government to be a fair competitor in the labor market, and to provide a logical and factual standard for setting Federal pay.

Moreover, the credibility of the pay comparability processes becomes suspect if Federal benefits, and hence compensation, exceed or lag behind the private sector's.

LEGISLATIVE INITIATIVE/POLITICAL SENSITIVITIES

On June 6, 1979, the Administration forwarded proposed legislation which would in concept incorporate GAO's recommendations. Subsequently the Administration's proposal was introduced as H.R. 4477 and S. 1340. The Administration estimates that, if enacted, the proposed changes could save as much as $3 billion a year.

THE DAVIS-BACON ACT IS NO LONGER NEEDED AND IMPOSSIBLE TO ADMINISTER FAIRLY; ITS REPEAL WOULD RESULT IN LARGE CONSTRUCTION COST SAVINGS

GAO REPORT

"The Davis-Bacon Act Should Be Repealed"
HRD-79-18, April 27, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Labor and Human Resources

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATIONS

GAO recommended that Congress repeal the Davis-Bacon Act and rescind the weekly payroll reporting requirement of the Copeland Anti-Kickback Act. GAO also recommended that Congress repeal the provisions in 77 related statutes which involve federally assisted construction projects and which require that wages paid to contractor employees be no lower than those determined by the Secretary of Labor to prevail in the locality, in accordance with the Davis-Bacon Act.

DISCUSSION OF THE PROBLEM

GAO recommended that Congress repeal the Davis-Bacon Act because (1) there have been significant changes in the economy since 1931 which GAO believes make continuation of the act unnecessary; (2) after nearly 50 years, the Department of Labor has yet to develop an effective program to issue and maintain accurate wage determinations, and it may be impractical to ever do so; and (3) the act is inflationary, and could result in unnecessary construction and administrative costs of as much as $700 million annually and has an inflationary effect on the

areas covered by inaccurate wage rates and the economy as a whole.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

At least 11 bills have already been introduced in the 96th Congress (10 in the House and 1 in the Senate) calling for repeal of the Davis-Bacon Act. Two additional House bills propose certain amendments to the act.

The Comptroller General testified before two congressional committees on GAO's report. The Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs, held hearings on May 2, 1979, and the Subcommittee on Labor Standards, House Committee on Education and Labor, held hearings on June 14, 1979.

After GAO's testimony, the Senate Subcommittee on Housing and Urban Affairs, rejected, by an 8 to 6 vote, an amendment to exempt certain housing programs from the Davis-Bacon Act. However, the Senate Armed Services Committee voted 11 to 5 to exempt $1.4 billion in fiscal year 1980 military construction from Davis-Bacon coverage. The Senate also approved an amendment to the act raising the threshold of contracts for new construction covered under the act from $2,000 to $10,000. Although both the Committees' vote and the proposed admendment were eventually rejected, this was the first time action had been taken to repeal, at least a portion, of the act's impact on Government construction.

Also, Senate bill 1681 was introduced in the 96th Congress, which would amend the Copeland Anti-Kickback Act

to eliminate the requirement that construction contractors, including those subject to the Davis-Bacon Act, submit weekly statements to the Federal Government on the wages paid to each employer. On October 2, 1979, we testified in strong support of the bill before the Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs. We stated that as demonstrated in our report on "The Davis-Bacon Act" the requirements for weekly submission of payrolls under Department of Labor regulations are an unnecessary burden on both the contractors and contracting agencies, result in a substantial amount of unnecessary administrative costs for the contractors--and ultimately the Government--and serve very little purpose in enforcement of the act. The Subcommittee is still considering the bill.

Two other congressional committee reports were also critical of the Davis-Bacon Act. In a July 1977 report, the Joint Economic Committee stated that Davis-Bacon wage requirements discourage nonunion contractors from bidding on Federal construction work, thus harming minority and young workers who are more likely to work in the nonunionized sector of the construction industry. In a 1979 report on Indian housing, the Senate Select Committee on Indian Affairs recommended that the Department of Labor establish Davis-Bacon wage rates that are specific to each Indian area and that Labor, in conjunction with the Department of Housing and Urban Development, seriously consider

exempting from Davis-Bacon requirements HUD-assisted Indian Homes that are detached single family units.

The Davis-Bacon Act is an obscure but controversial law. The unions, the President, and OMB are in favor of retaining the law. They believe the problems GAO has identified can be resolved by the Labor Department improving its administration of the act.

Also, although Secretary of Labor Ray Marshall disagreed vehemently with our report and recommendation that the Davis-Bacon Act should be repealed, he has stated that his Department has moved to improve the act's administration. The proposed improvements include increasing the number of wage surveys Labor makes and overhauling and revising--for the first time in 15 years--the Davis-Bacon regulations. According to the notice in the Federal Register, revisions are needed in the Davis-Bacon, as well as the Copeland Anti-Kickback Act regulations, to reflect current policies to simplify and clarify existing language, to propose modification to wage determination procedures, and to provide for more effective enforcement. The proposed regulations, which have been under review for a number of months by Labor's Solicitor's Office, were published for review and comment in February 1980, and should be published in final form in early spring 1980.

We have not had an opportunity to review and evaluate Labor's proposed regulations. Nor have we evaluated Labor's other proposed improvements in the program. However, in our opinion, we believe that the problems and inadequacies we

have identified--over almost 20 years of reviews--cannot be corrected or improved significantly by any administrative action, modifying regulations or applying additional resources to the program.

In conclusion, we believe that the concept of issuing prevailing wages as stated in the Davis-Bacon Act is fundamentally unsound. We do not believe that the act can be effectively, efficiently, and equitably administered. The act should be repealed.

Finally, although a majority of the Members of Congress in both Houses are in favor of retaining the law, an increasing number of congressional Members are advocating repeal of the act. This is evidenced by a recent House bill introduced in the 96th Congress for repeal which had about 75 cosponsors. Others seeking repeal, in addition to GAO, include, but are not limited to, the Association of General Contractors, Associated Builders and Contractors, Inc.; the American Farm Bureau Federation; many leading economists, such as Arthur Burns; many contractors; and a number of State legislators. They believe, as GAO does, that the law has outlived its usefulness, is inflationary, is impossible to administer, and should be repealed.

LARGE SAVINGS OPPORTUNITIES POSSIBLE THROUGH COMPETITIVE PROCUREMENT OF MEDICAID SUPPLIES AND LABORATORY SERVICES

GAO REPORT

"Savings Available by Contracting for Medicaid Supplies and Laboratory Services," HRD-78-60, July 6, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Interstate and Foreign Commerce

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress enact legislation to the section of the Social Security Act authorizing Medicaid which would (1) authorize competitive procurement of laboratory services on an experimental basis and (2) limit Medicaid payments to a laboratory to the lowest charge to other purchasers for comparable services.

In addition, to facilitate the competitive procurement of Medicaid supplies by eliminating any possibility of questions being raised under the freedom-of-choice provision of the Medicaid law, GAO recommended that the Congress specifically exclude eyeglasses, hearing aids, oxygen, and such common items of durable medical equipment as the Secretary of Health, Education, and Welfare may prescribe.

DISCUSSION OF THE PROBLEM

Under the Medicaid programs, States normally pay providers of supplies and laboratory services amounts not exceeding usual

and customary charges in the locality. In some States, these charges are also subject to maximum fee schedules established by the States or localities. GAO found that much lower prices for laboratory services could be obtained through competitive procurement or by limiting payments to the lowest level which the laboratories charge others, such as doctors.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

H.R. 934 as reported by the Senate Finance Committee, includes a provision authorizing experiments in competitive procurement of laboratory services under Medicaid. H.R. 4000 as reported by the Health and Environment Subcommittee of the House Commerce Committee contains a similar provision. Both Houses passed provisions in 1978 which would have implemented this recommendation but the 95th Congress adjourned before the bills containing the provision went to a conference committee.

The Congressional Budget Office estimated savings at the Federal level of $16 million in 1979 increasing to $53.1 million in 1981 if competitive bidding for laboratory services is authorized under Medicaid. In January 1979, HEW estimated savings of $5 million per year for just eyeglasses and hearing aids when it proposed regulations basically covering points made in GAO's report.

INTERAGENCY SHARING OF FEDERAL MEDICAL RESOURCES WOULD REDUCE COSTS AND IMPROVE EFFECTIVENESS

GAO REPORT

"Legislation Needed to Encourage Better Use of Federal Medical Resources and Remove Obstacles to Interagency Sharing," HRD-78-54, June 14, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

Senate Committee on Human Resources

Senate Committee on Veterans' Affairs

House Committee on Armed Services

House Committee on Government Operations

House Committee on Interstate and Foreign Commerce

House Committee on Veterans' Affairs

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress enact legislation which would

--Establish a Federal policy that directs interagency sharing when appropriate.

--Authorize each Federal direct health care provider to accept all categories of eligible beneficiaries on a referral basis when advantageous to the Government and care of primary beneficiaries would not be adversely affected.

--Eliminate all restrictions on the types of medical services which can be shared between Federal facilities.

--Authorize Federal field hospital managers to enter into sharing arrangements, subject to headquarters veto only if judged not in the best interest of the Government.

--Permit agencies to expand services to treat beneficiaries of another Federal agency when such services would benefit the patient and the Government.

--Establish a policy requiring full use of available nearby Federal medical resources before using civilian or distant Federal medical resources.

--Authorize the establishment of a method of reimbursement based on negotiated cost under which the providing Federal hospital would receive any revenues received to offset any expenses incurred.

--Assign to the Office of Management and Budget the responsibility to (1) coordinate the implementation of an effective interagency Federal medical resources sharing program and (2) report annually to the Congress concerning the progress being made toward increased sharing of these resources.

GAO included in the report proposed legislation to implement the above recommendations.

DISCUSSION OF THE PROBLEM

Over the years, Federal agencies have become increasingly concerned with their abilities to provide quality health care to their primary beneficiaries. However, little attention has been given to taking advantage of the opportunities to improve patient care and reduce Federal health care costs through interagency sharing of medical resources. In fact, because of the emphasis on individual agencies' capabilities, several obstacles have evolved which now make sharing--even when it is tried--much more difficult.

Legislation is needed to require interagency sharing when appropriate and to encourage the establishment of Government-wide implementing procedures. Such legislation should encourage individual initiative without affecting any Federal agency's organizational or command structures. It should also give increased management options to local Federal medical officials to make the best use of our Nation's medical resources. The enactment of legislation would provide the impetus for an effective Federal medical resources sharing program and a concerted effort by the involved agencies to make sharing a routine occurrence.

In view of the increasing concern in the Nation regarding the spiralling costs of health care, enacting legislation which (1) establishes a firm Federal policy to promote Federal interagency sharing and (2) removes restrictions on the types of services which can be shared, would be both beneficial and timely.

Enacting such legislation would also complement the national health priorities established by the National Health Planning and Resources Development Act of 1974 and provide the impetus and direction needed by Federal agencies to make interagency sharing more a rule than an exception.

The total potential savings which would result from the implementation of coordinated planning and sharing of medical resources among Federal agencies are extremely difficult to quantify. However, GAO included in its report several case studies to illustrate that even a minimal amount of interagency sharing would result in substantial savings in several geographical areas of the country. Also, a recurring annual savings of between $70 and $80 million would result from each one percent reduction in the direct health care budgets of the Departments of Defense and Health, Education, and Welfare and the Veterans Administration (including those for operations and construction) which accrues from increased sharing of Federal medical resources. GAO believes savings of this magnitude can reasonably be expected if a legislatively mandated and fully operational interagency sharing program is achieved.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Congressional interest on this matter has generally been limited to the annual budget appropriation hearings for DOD, HEW, and VA. The Senate Veterans' Affairs Committee staff was briefed on this issue in October 1978. Currently, discussions are taking place between GAO staff and staff from Congressman Robin Beard's office on need for legislation to,

among other things, increase the sharing of medical resources among Federal agencies. In anticipation of congressional action on this issue, an interagency ad hoc panel of Federal officials operating under the direction of the Federal Health Resources Sharing Committee has begun deliberations towards drafting a legislative proposal which will encourage the development of an effective interagency sharing program.

The issue of sharing resources among Federal agencies is politically sensitive because the primary beneficiaries of the respective Federal direct health care systems have a tendency to believe GAO is advocating the creation of one Federal health care system. As GAO was careful to point out in the report, this view is totally untrue. GAO believes the legislation it proposed and included in its report would merely give increased management options to local Federal medical officials to make the best use of the Federal Government's medical resources.

The concept of interagency sharing has been adopted by DOD, HEW, and VA officials who have joined together to form the Federal Health Resources Sharing Committee. However, unless a legislative mandate similar to that which GAO proposed is adopted, the accomplishments of this Committee may be minimized by the obstacles to sharing GAO identified during its review.

COSTLY VETERANS BENEFITS ARE BEING GRANTED TO PERSONS FAILING TO COMPLETE INITIAL ENLISTMENTS

GAO REPORT

"High Cost of Military Attrition Can Be Reduced," FPCD-79-28, February 16, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Armed Services

Senate Committee on Veterans' Affairs

House Committee on Armed Services

House Committee on Veterans' Affairs

STATEMENT OF THE RECOMMENDATION

Because of the potential for substantial savings, GAO recommended that the Congress modify the law applicable to veterans benefits to require members to serve the full term of their initial enlistments in order to qualify. Exceptions should be made for individuals discharged for reason of a service-connected disability.

DISCUSSION OF THE PROBLEM

By law, veterans who serve more than 180 days of active duty and are discharged under honorable conditions are eligible for various benefits over their lifetimes. Individuals discharged for service-connected disabilities are eligible immediately for benefits regardless of length of service.

Over 444,000 persons entering the services during fiscal year 1974 through 1977 have been separated before completing

their initial enlistments. The cost to the Government for this attrition was $5.2 billion, including benefits available to the servicemen after discharge. This cost is $806 million greater than what might have been expected if attrition rates were the same during the draft era (1971-1973). Almost half of those attrited between 1974 and 1977 are eligible for lifetime veterans benefits costing about $2.7 billion.

The Congress can substantially reduce the cost of attrition by limiting veterans' benefits to those who complete their enlistments or who are separated with a service-connected disability.

LEGISLATIVE INITIATIVES

On June 7, 1979, Congressman Robin Beard and 25 other Members of the House of Representatives introduced a bill (H.R. 4367) to deny veterans' benefits to those who fail to complete their initial period of obligated service. Hearings on the bill were held on November 8, 1979, by the Subcommittee on Special Investigations of the House Veterans' Affairs Committee.

Senator Robert Morgan and two other Senators introduced a bill (S. 2182) on December 20, 1979, to deny veterans' benefits to certain former servicemen.

CHANGES IN THE CALCULATION OF CERTAIN SOCIAL SECURITY BENEFITS WOULD RESULT IN LARGE SAVINGS

GAO REPORTS

Letter report on reductions in erroneous Social Security payments and in administrative burdens when benefits are determined on a retrospective monthly basis, HRD-78-114, May 26, 1978

Letter report on potential savings to the Social Security system if benefits were calculated to the nearest penny, HRD-78-160, September 8, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Ways and Means

STATEMENT OF THE RECOMMENDATION

GAO recommended in its May 1978 report that the Social Security Act be amended to change the basis for determining Supplemental Security Income eligibility and benefit payment amounts from a quarterly accounting period to a retrospective monthly accounting period, with a 1-month lag.

GAO recommended in its September 1978 report that Congress amend the Social Security Act to require calculation of Social Security Retirement and Survivors Insurance Benefits to the nearest penny.

Both reports include suggested legislative language.

DISCUSSION OF THE PROBLEM

Accounting method for Social Security benefit payments

The original supplemental Security Income legislation generally requires Social Security to determine Supplemental

Security Income eligibility and benefit payment amounts on a quarterly basis. Social Security computes benefits prospectively; therefore, benefits are based on the income a recipient expects to receive over a projected 3-month period. Once computed, these payments are disbursed in equal monthly installments. The quarterly computations were established to minimize changes in the monthly benefit payments caused by income variations.

This requirement has resulted in substantial overpayments to Supplemental Security Income recipients. In 1976 alone, Social Security's Office of Quality Assurance estimated that at least $39 million of overpayments occurred because of the present accounting method.

Method of calculating Social Security benefit payments

Presently the Social Security Act requires that benefit payments be rounded up to the next highest dime. GAO computed a potential savings of $386 million to the Social Security Retirement and Survivors Insurance program for the period 1980 through 1986, if benefits were calculated to the nearest penny. A savings, although somewhat smaller, would also be achieved for the Disability Insurance program.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Section 232 of the Social Security Welfare Reform Amendments of 1979, introduced in both the House and Senate as H.R. 4321 and S. 1290, respectively, amends the currently used prospective quarterly accounting method in favor of a retrospective monthly accounting

period. Although this method of accounting would be an improvement over that currently used, GAO believes that computing benefits on this basis alone would not fully reduce erroneous payments. However, by allowing a 1-month lag between the month used for eligibility determinations and benefit calculations and the month payments are made to recipients, reductions in erroneous payments and in Social Security administrative burden should be realized. The 1-month lag is intended to provide Social Security with sufficient time to

--process an initial eligibility determination or reported benefit status change,

--notify recipients of their right to an evidentiary hearing, and

--calculate a benefit payment amount before any erroneous payments are disbursed.

The Administration proposed legislation in the fiscal year 1980 budget to round benefit checks in the Old-Age, Survivors, and Disability Insurance program and the Supplemental Security Income program to the nearest dollar instead of the higher dime as under present law. Although this approach is somewhat different than the approach suggested by GAO, we believe that it will achieve the same objective.

CONSOLIDATION AND RATIONALIZATION OF FEDERAL FOOD ASSISTANCE PROGRAMS WOULD REDUCE GOVERNMENT EXPENSES

GAO REPORT

"Federal Domestic Food Assistance Programs--A Time For Assessment and Change, CED-78-113, June 13, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Agriculture, Nutrition, and Forestry

House Committee on Agriculture

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress:

--On the basis of a proposal involving consistent income and asset program standards, which GAO recommended be developed by the executive branch, adopt a uniform definition of the term "needy" and establish consistent criteria for determining who is eligible for Federal food assistance programs; these criteria should include income and asset eligibility requirements as well as allowable exclusions and deductions from countable income and assets. In addition, consistent administrative procedures among the programs regarding accounting periods for measuring income and verification requirements for such eligibility factors as income and assets should be provided.

--Approve an explicit national policy on the appropriate levels of food assistance to be provided to needy Americans by the Federal Government.

--Consolidate major Federal food assistance programs by bringing under one program Federal cash and commodity assistance currently provided by the school lunch and school breakfast programs and evaluate the need for Federal reimbursement of free milk served under the special milk program in elementary schools and child care institutions already participating in the school lunch, school breakfast, and/or child care food programs.

--Authorize the Secretary of Agriculture to implement individualized food stamp allotments nationwide if demonstration projects, which GAO recommended be undertaken by the Department of Agriculture, show the administrative feasibility of such allotments.

--On the basis of the results of a feasibility study, which GAO recommended be carried out by the executive branch, eliminate the receipt of duplicative benefits, particularly between the food stamp and school lunch programs, by allowing consideration of benefits received from one Federal food assistance program when determining eligibility and benefit levels for other Federal food assistance programs.

--Also on the basis of the results of the executive branch's feasibility study, require a single State/local agency to be responsible for the application, certification, verification, referral, and monitoring aspects of designated Federal food programs (particularly the food stamp; child-feeding; and special supplemental food for women, infants, and children programs) to help assure, along with the authorization and implementation of consistent eligibility criteria and procedures, a more equitable and efficient delivery of Federal food assistance to needy Americans.

DISCUSSION OF THE PROBLEM

The Congress, in carrying out its intent to help needy Americans obtain more nutritionally adequate diets, has created over the past 40 years an array of domestic food assistance programs which, excluding the headstart, aid to families with dependent children, and supplemental security income programs, cost the Federal Government over $8 billion in fiscal year 1976 and a total of about $35 billion since fiscal year 1967. In total, the 13 major Federal food assistance programs represent a conglomeration of legislation that is expensive, administratively cumbersome and, for at least some households, inequitable in terms of the benefits provided.

Federal legislation specifically sanctions low-income families' participation in an many as six different programs that can provide food assistance simultaneously. Most program legislation specifically prohibits the consideration of benefits

received from one program when determining eligibility and benefits for another program.

Multiple participation could result in some needy households receiving more in food benefits than average amounts American families of comparable size spend for food. These benefits could potentially total as much as 230 percent of the amount a household would need to purchase a thrifty food plan diet--a low-cost food plan the Department of Agriculture has developed to provide most of the recommended dietary allowances established by the National Academy of Sciences.

Typical overlaps involved the following combinations:

--Free school lunches and food stamp (using nationwide Department of Agriculture data for fiscal year 1976, GAO estimated that this overlap resulted in a $112 million additional cost to the Federal Government).

--The women, infants, and children program and such programs as food stamps and school lunch (additional cost not determinable).

--Free special milk and free or reduced-priced school meals (estimated additional cost of $39 million annually).

Duplicate benefits and benefit gaps within the total array of Federal food assistance programs result from the absence of an explicit, uniform, and coordinated national policy on the appropriate level of Federal food assistance benefits to Americans.

In addition, the maximum value of food stamps a household could receive in fiscal year 1976 alone covered as much as 164 percent and as little as 82 percent of the cost of a thrifty food plan. This is because the maximum value of food stamps are based on the thrifty food plan for a hypothetical family of four with adjustments for differences in household size but without adjustments for the differing nutritional needs of households members of different ages and sexes. If such adjustments had been made, about $570 million less would have been paid out in food stamp benefits annually.

There is a need to standardize and simplify the complex, inconsistent, and, in some instances, inequitable administrative procedures which have had an adverse effect on how Federal food assistance programs interrelate. For example, there should be a single uniform definition of needy persons--the general target group at which all programs are at least in part directed. There should also be uniform criteria to determine who is needy and thereby eligible for food assistance.

In addition, there should be some standardization of the extent and methods of verifying applicant eligibility factors--primarily income. Further, effective coordination is needed among program administrators at local levels to avoid situations where individuals needing food assistance do not get it while ineligibles continue to receive benefits.

Finally, the Congress and the executive branch currently lack timely information on the nutritional status of the general population, as well as those groups most likely to be at risk nutritionally--the poor, the elderly, young children, and women of child-bearing age.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

GAO's report recommended legislative action based on various studies and demonstration projects recommended to the Secretaries of Agriculture and HEW and to the Director of the Community Services Administration. (See pages 64 and 65 of the report for recommendations to the agencies.) These studies and demonstration projects have not been undertaken and it does not appear likely that they will be undertaken in the absence of legislative or other outside requirements.

The Department of Agriculture during 1979 has proposed that the special milk program be eliminated in schools where there are other Federal child nutrition programs. However, this initiative was not adopted and the Department is in the process of proposing a reduction in the reimbursement rates for milk consumed by students which pay full price for school lunches.

COST-OF-LIVING ADJUSTMENTS FOR FEDERAL RETIREES ARE UNNECESSARILY COSTLY

GAO REPORT

"Cost-of-Living Adjustment Processes for Federal Annuities Need to be Changed," FPCD-76-80, July 27, 1976

"Cost of Living Adjustments for New Federal Retirees: More Rational and Less Costly Processes are Needed," FPCD-78-2, November 17, 1977

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Governmental Affairs

House Committee on Government Operations

House Commitee on Post Office and Civil Service

STATEMENT OF RECOMMENDATIONS

In its July 1976 report, GAO recommended that the Congress enact legislation making the annuity cost-of-living adjustment formula and related provisions of the civil service, uniformed services, Foreign Service, Central Intelligence Agency, Federal Reserve Board, District of Columbia judges, and District of Columbia public school teachers retirement systems more equitable and more consistent with those of non-Federal and other Federal pension programs by:

--Repealing the 1-percent add-on feature or, as a minimum, eliminating its overcompensating effect by adjusting the Consumer Price Index (CPI) base by 1 percent each time an adjustment occurs (This action was subsequently taken by the Congress.)

--Regularizing the adjustment process by repealing the current CPI triggering mechanism and providing

for annual adjustments based on the actual percentage rise in the CPI during the preceding year. (The Congress later repealed the existing mechanism but provided for adjustments to be provided every 6 months instead of annually).

--Repealing the provisions which permit retiring employees to receive higher starting annuities because of changes in the CPI before their retirement and providing that new retirees' initial cost-of-living adjustments be prorated to reflect only CPI increases after their effective dates of retirement. (No action has been taken on this recommendation.)

GAO's November 1977 report recommended that the Congress enact legislation making the cost-of-living adjustment processes of the civil service, uniformed services, Foreign Service, Central Intelligence Agency, Federal Reserve Board retirement systems more rational and less costly by:

--Repealing the provisions of existing law which permit retiring employees and new retirees to receive higher starting annuities because of changes in the CPI before their retirement, and

--Providing that new retirees' cost-of-living adjustments be prorated to reflect only CPI increases after their retirement.

DISCUSSION OF THE PROBLEM

The annuity cost-of-living adjustment processes for Federal retirees are more generous and costly than that of other private and public employees. Despite the fact that cost-of-living adjustments are designed to protect the purchasing power of those already in a retired status, existing law also permits new Federal retirees who were not retired when the living cost increases occurred to benefit equally from those adjustments. The initial adjustment for new retirees inflates the basic annuity, encourages valuable employees to retire, and escalates the cost of retirement. A more rational method of computing adjustments of new retirees would be to prorate their adjustments to reflect only the cost-of-living increases that occur after they retire.

Proration of the annuity adjustments of new retirees would be much less costly than the existing process. For the 92,000 civil service employees expected to retire in 1978, GAO estimated that the retirement fund would save over $800 million in annuity payments over their expected remaining lifespans. This savings estimate was conservative since annuity payments to survivors of former civil service employees and retirees were not considered in the calculation.

While GAO did not develop estimates of cost savings which could also be realized under the other Federal retirement systems if the annuity cost-of-living adjustments of new retirees were prorated, the savings would be considerable.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

At the request of the House Committee on Budget, the Congressional Budget Office prepared an April 1979 issue paper entitled "Federal White Collar Employees--Their Pay and Fringe Benefits," outlining various white-collar pay and retirement options which included (1) once a year annuity cost-of-living adjustments for retirees and (2) prorating new retirees' initial adjustment to reflect only cost-of-living increases which occur after their date of retirement. The paper discussed GAO's recommendations on cost-of-living adjustment processes.

The thousands of top-level and other valuable civil servants who retired before the March 1, 1980, annuity cost-of-living adjustment illustrates the critical need for the Congress to adopt our recommendation to prorate the adjustments of new Federal retirees. These former civil servants deduced that they were better off to retire rather than to continue working and lose hundreds of dollars a year in their retirement annuities. This anomaly, exacerbated by double-digit inflation and pay "caps" particularly for top-level Federal officials, is symptomatic of our long-standing concerns over the unrealistically low salary levels paid to top officials and the unnecessarily costly process that is used to maintain retirees' purchasing power.

MAJOR WASTEWATER TREATMENT COST SAVINGS COULD BE ACHIEVED IF THE ADMINISTRATOR OF THE ENVIRONMENTAL PROTECTION AGENCY WAS GIVEN CERTAIN DISCRETIONARY AUTHORITIES

GAO REPORT

"Secondary Treatment of Municipal Wastewater in the St. Louis Area--Minimal Impact Expected," CED-78-76, May 12, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Environment and Public Works

House Committee on Public Works and Transportation

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress amend the law to eliminate the mandatory requirement for secondary treatment of discharges to fresh water and to permit the Administrator of the Environmental Protection Agency to grant waivers, deferrals, and modifications on a case-by-case basis to this requirement when dischargers can demonstrate that the environmental impact of secondary treatment will be minimal or insignificant.

DISCUSSION OF THE PROBLEM

The Congress and the Environmental Protection Agency have--through the Federal Water Pollution Control Act Amendment of 1972--opted to clean up the Nation's waterways by imposing uniform technology-based wastewater treatment standards on polluters and by requiring compliance by a given date. The advantage of such an approach is that compliance in meeting the standards and moving toward a national goal is (1) measurable

and enforceable, (2) provides equal treatment to all municipal polluters, and (3) eases program administration. The main disadvantage is that this approach is rigid and focuses on meeting technology-based standards, rather than on improving water quality and increasing water uses.

Secondary treatment uses biological processes to accelerate the decomposition of sewage, particularly oxygen-demanding organic material. Mandatory secondary treatment, without the flexibility to consider alternatives or the characteristics and uses of the receiving waterways, commits scarce resources to projects which may have a minimal effect on the quality or use of receiving waters. The benefits of such treatment are not readily quantifiable and the harmful substances removed may be negligible. In addition, the quality of the river water may be only nominally improved and the extent to which water uses will be enhanced frequently appears negligible.

It is not possible to quantify the total potential savings that would result if GAO's recommendation was adopted although GAO estimates that the nationwide savings would be substantial. GAO noted for example that providing secondary treatment at two St. Louis municipal waste treatment plants was estimated to cost $216 million. Eliminating the secondary treatment requirement at these locations would have saved $163 million in Federal funding.

GAO's recommendation would require cost-benefit determinations for certain wastewater treatment plants. Nationwide savings of many hundreds of million of dollars are possible.

POLITICAL SENSITIVITIES

In February 1979, the Environmental Protection Agency estimated that national needs for constructing future publicly owned municipal wastewater treatment plants--$170 billion--far exceeded the Federal funds that had been provided or authorized--$44 billion through fiscal year 1979. GAO believes that the limited funds available for constructing such treatment works should be directed toward those projects which can best improve water quality at the lowest cost.

The Subcommittee on Oversight and Review, House Committee on Public Works and Transportation is generally concerned over construction grant expenditures. The Comptroller General testified before the Subcommittee in July 1978, on the construction grants program, and again in July 1979, on nonpoint sources of pollution control.

IMPROVED MANAGEMENT WOULD AVOID SIGNIFICANT SHORTFALLS IN FOREIGN MILITARY SALES REVENUES

GAO REPORT

"Improperly Subsidizing the Foreign Military Sales Program--A Continuing Problem," FGMSD-79-16, March 22, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Appropriations

Senate Committee on Armed Services

House Committee on Appropriations

House Committee on Armed Services

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress require the Secretary of Defense to come forward with a plan for overcoming the foreign military sales pricing problems discussed in the subject report. The plan should specify any organizational changes that will be made and set forth the number of additional personnel--with a description of their duties--to be assigned to these activities. If the Secretary determines that the expanded staff cannot be provided from present resources, then he should request an increase in the Department's personnel ceiling.

DISCUSSION OF THE PROBLEM

Over the years, GAO has issued numerous reports on the Department of Defense's continued failure to operate the foreign military sales program at no loss to the Government, as intended by law. This particular report discusses Defense's failure to

recover, as required, up to an estimated $370 million during the last six fiscal years for quality assurance services performed by U.S. Government employees on items sold to foreign governments.

GAO's reviews in the foreign military sales area have been limited to foreign military sales cases; only selected costs have been reviewed, and these reviews have been spread over several fiscal years. However, GAO believes implementation of its recommendation would increase Defense's recovery of costs from foreign customers by several hundred million dollars annually with the added benefit of a similar positive effect on the U.S. balance of payments position.

ATTACHMENT XIII

FEDERAL CHARGES FOR URANIUM ENRICHMENT SERVICES ARE TOO LOW

GAO REPORTS

"Comments on Proposed Legislation to Change Basis for Government Charge for Uranium Enrichment Services," RED-76-30, September 22, 1975

"Comments on Proposed Uranium Enrichment Pricing Legislation, EMD-77-73, September 27, 1977

"Fair Value Enrichment Pricing: Is It Fair?, EMD-78-66 April 19, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Energy and Natural Resources

House Committee on Science and Technology

STATEMENT OF THE RECOMMENDATION

In its September 1975 report, GAO recommended that the cognizant legislative committee retain control over changes to assumptions used by the Energy Research and Development Administration in arriving at a proposed fair value charge and other surcharges that in the future might be added so as to not discourage development of private supply sources.

In its September 1977 report GAO offered suggested language, in place of the proposed legislative changes being considered by the House and Senate, which would allow the Department of Energy to charge a fair value price for enrichment services.

In its 1978 report, GAO again supported the fair value pricing concept and recommended its adoption. GAO also offered several suggestions for strengthening the proposed pricing criteria.

DISCUSSION OF THE PROBLEM

Since 1975, the Department of Energy (and formerly the Energy Research and Development Administration) has sought to change the basis for charging its customers for uranium enrichment services. Federal charges for uranium enrichment services are set in accordance with section 161v. of the Atomic Energy Act of 1954. This section prescribes that charges are to be on the basis of full cost recovery. This basis, however, does not allow for return on investment, recovery of imputed taxes and insurance, and other factors which a private enricher would otherwise charge. Thus, the Federal charges have been viewed by some as constituting a subsidy for commercial nuclear power. The bottom line of the GAO prior reports in this area is aimed at eliminating this subsidy through adoption of the fair value pricing legislation. In 1978, GAO reported that the Department of Energy estimated additional revenues from 1979 through 1983 resulting from adoption of this legislation would amount to about $1.5 billion, including nearly $700 million in foreign revenues.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Previous bills to achieve fair value pricing, for one reason or another, have all died in Congress. GAO is not aware of any current initiative to resurrect this proposed legislative change. Although fair value pricing will result in an increase in the costs of electricity to the ultimate consumer, the Department of Energy has previously reported the increase will be small--less than 1 percent through 1983.

AUTHORIZING THE WITHHOLDING OF TAX REFUNDS COULD REDUCE FEDERAL DEBT LOSSES

GAO REPORT

"The Government Can Collect Many Delinquent Debts By Keeping Federal Tax Refunds As Offsets," FGMSD-79-19, March 9, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Joint Economic Committee

Joint Committee on Internal Revenue Taxation

Senate Committee on Appropriations

Senate Committee on Finance

House Committee on Appropriations

House Committee on Government Operations

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress provide any funding that may be necessary for the Internal Revenue Service to obtain the staffing necessary to accomplish the additional workload imposed by testing and adopting our recommended collection method.

DISCUSSION OF THE PROBLEM

Individuals and businesses owe the Government about $80 billion and that amount keeps growing. Over $400 million in nontax receivables was written off by the Government in fiscal 1978. A considerable portion of those nontax accounts could be collected by reducing future income tax refunds due the debtors. Such an offset procedure would be resorted to only after traditional collection efforts have failed.

IRS' present collection system could be adapted to match refunds with delinquent debts so that the debtor's refund would be retained to cover the debt. This report demonstrates the feasibility of this process and recommends that the Commissioner of Internal Revenue implement this process on a test basis.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

On May 24, 1979, Senator Sasser introduced a resolution stating it was the sense of the Senate that

> "the Internal Revenue Service should implement, on a test basis, a collection system to match refunds with delinquent debts so that debtor's refunds can be retained to cover the debts owed, and the Congress, through the appropriation process, should monitor such test and provide adequate funds to conduct it and, if such test is successful, provide adequate funds to implement such a collection system on a permanent basis."

This Senate resolution had 14 cosponsors on June 19, 1979. Funding for the offset test, however, was not included in the 1980 IRS appropriation.

The Commissioner of Internal Revenue has stated that the results of GAO's review do not support the desirability and practicability of this proposed offset program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws. Further, he said that:

--individuals might reduce their withholdings and eliminate the availability of refunds to be offset,

--there could be problems offsetting the refunds of individuals who filed joint returns when only one individual was a delinquent debtor, and

--lack of social security numbers could limit an offset program.

After considering the reservations expressed by IRS, GAO still believes the Government should collect debts by reducing future tax refunds. It is patently unfair to the honest citizen who pays his debts to the Government to allow other debts to go uncollected. This inequity is especially acute when the individual owing the debt has the ability to pay but does not, and the validity or amount of the debt is not in dispute.

At Senator Sasser's request, we are presently reviewing a tax refund offset program used by Oregon to collect delinquent debts. Preliminary indications are that the program is very successful and cost effective in collecting amounts that would otherwise be written-off and lost to the State. In addition, Oregon has not experienced any problems with reduced withholding, offsetting of joint returns, or lack of social security numbers.

STATUTORY PERFORMANCE STANDARDS FOR THE MEDICAID MANAGEMENT INFORMATION SYSTEM WOULD REDUCE PROGRAM COSTS

GAO REPORT

"Attainable Benefits of the Medicaid Management Information System Are Not Being Realized," HRD-78-151, September 26, 1978

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Interstate and Foreign Commerce

STATEMENT OF THE RECOMMENDATION

To enable the Department of Health, Education, and Welfare to better manage and control Medicaid management information systems, GAO recommended that the Congress amend title XIX of the Social Security Act to require HEW to establish systems performance standards and to require that HEW periodically re-evaluate approved systems to determine if they continue to meet Federal requirements.

DISCUSSION OF THE PROBLEM

The Medicaid Management Information System--developed in June 1970 at the recommendation of an HEW task force--is supposed to enable the States to vastly improve their management of Medicaid. Public Law 92-603 requires HEW to pay 90 percent of the State's cost to develop a system and, after approval, 75 percent of the operating costs.

The full potential of the system is not being realized either by the States or the Federal Government. None of the three State systems GAO reviewed fully complied with

requirements of legislation or implementing regulations even though HEW approved them as being operational. This noncompliance stemmed from weaknesses in HEW's system approval process and system design criteria. States should be reimbursed for operating a system that meets certain performance standards of efficiency and effectiveness--not for merely having an approved system. Increased administrative funding should be provided by HEW only for meeting performance standards which have a significant program impact, such as cutting cost or increasing service availability.

GAO believes the best method to ensure adequate State management is to establish performance standards for their systems, tieing the amount of Federal sharing to compliance with such standards, and periodically evaluating systems to ensure they meet Federal requirements. While some savings in administrative costs might occur if our proposal is enacted, the potential for reducing program costs through better management is tremendous.

LEGISLATIVE INITIATIVES

Senate Bill 731, designed to implement GAO's recommendation, was introduced on March 22, 1979, and referred to the Senate Finance Committee.

THERE IS A NEED TO CREATE A SELF-SUSTAINING NATIONAL TRUST-FUND BY ASSESSING FEES ON THE DISPOSAL OF HAZARDOUS WASTES

GAO REPORTS

"How to Dispose of Hazardous Waste--A Serious Question That Needs to be Resolved," CED-79-13, December 19, 1978

"Hazardous Waste Management Programs Will Not Be Effective: Greater Efforts Are Needed," CED-79-14, January 23, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee On Environment and Public Works

House Committee on Public Works and Transportation

STATEMENT OF THE RECOMMENDATIONS

GAO recommended in its December 1978 report that the Administrator of the Environmental Protection Agency propose legislation to create a self-sustaining national trust-fund, supported by fees assessed on the disposal of hazardous wastes. The trust-fund would cover liability and the costs necessary for remedial action to prevent continued contamination of the environment from dumpsites receiving permits under the Resource Conservation and Recovery Act of 1976. In its January 1979 report, GAO recommended that the Administrator request that the Congress amend the act to enable the Agency to include a fee system to cover hazardous waste program costs where a State cannot or will not assume responsibility for its program and the Agency is required to assume that responsibility.

DISCUSSION OF THE PROBLEM

The Environmental Protection Agency has not obtained the funding authorized to implement hazardous waste disposal programs under the Resource Conservation and Recovery Act. In addition, the financial and technical assistance promised to the States to assist them in establishing programs has not been provided. Unless adequate financial assistance is assured, many States have said they will not accept responsibility for carrying out the requirements of the act. Where a State cannot or will not operate hazardous waste programs, the act requires that the Environmental Protection Agency operate that State's program.

At the present time, no long-term funding sources are available from the Federal, State, and local levels. Self-supporting programs which charge for waste disposal--such as fee systems--would provide an alternative source to supplement existing funds and a means of long-term program support.

By 1980, an estimated 56 million metric tons of hazardous waste will be generated annually requiring environmentally safe disposal. On the basis of available information, an Agency contracted study provided a nationwide projection of costs to mitigate the hazardous waste problem. It was estimated that $6 billion would be needed to prevent existing problems from becoming worse, and $44 billion to completely correct the problem.

LEGISLATIVE INITIATIVES

Industry representatives on occasion have expressed the belief that the costs of environmental clean-up from past hazardous waste disposal practices should not be borne by existing industry, particularly where such disposals were not considered improper at the time they were made. On June 13, 1979, however, the President proposed the establishment of a $1.625 billion fund to assist the States in environmental clean-up from the effects of past practices of dumping of hazardous waste on the land and clean-up from oil and chemical spills. An estimated 80 percent of that amount would be obtained from fees to be charged the related industries and 20 percent from appropriations.

DISCONTINUING SOCIAL SECURITY POSTSECONDARY STUDENT BENEFITS COULD NET TAXPAYERS SUBSTANTIAL SAVINGS

GAO REPORT

"Social Security Student Benefits for Postsecondary Students Should be Discontinued," HRD-79-108, August 30, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance
Senate Committee on Labor and Human Relations
House Committee on Ways and Means
House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATIONS

GAO recommended that the Congress amend the Social Security Act to discontinue student benefits for postsecondary students and take the necessary steps to assure that the Office of Education, Department of Health, Education, and Welfare will have sufficient financial resources to meet any increased demand for aid arising from discontinuance of these benefits.

DISCUSSION OF THE PROBLEM

Nine out of ten American workers pay Social Security taxes in the expectation that Social Security will provide some minimum family income in the event of the taxpayer's retirement, disability, or death. That is Social Security's basic purpose.

A marginal program, student benefits, diverts tax money from that basic purpose. During the 1977-78 school year, it diverted $1.5 billion and is expected to divert $2.2 billion in 1979-80. It gives many students more money than their

school costs warrant, inequitably curtails--or bars altogether--benefits to other students, deprives nonstudents, and contributes to other Federal aid programs paying unneeded benefits. This is going on while, even after imposition of increased taxes upon Social Security contributors, there is doubt the system can fulfill its basic purpose without still further increases.

The Office of Education is willing to provide, more equitably, aid to most postsecondary students now receiving payments from Social Security. Were student benefits to postsecondary students to be terminated effective fall 1980, the estimated net first-year savings to the Social Security taxpayers would be $1.4 billion, and, the net savings to all taxpayers in that year would be about $1.1 billion.

POLITICAL SENSITIVITIES

Revision of the program and elimination of student benefits is not widely accepted. This measure was also proposed by the Carter Administration in the fiscal year 1980 budget along with other proposals to modify programs in need of reform, e.g., to reduce unnecessary Social Security benefits and to reflect changes that have occurred since certain programs were first implemented.

These proposals have been strongly opposed by a coalition of Social Security recipient groups who feared they would be the opening wedge in an attack on the Social Security programs.

Once entitlements are written into law, they become almost sacrosanct.

PRIORITY AND EMPHASIS NEEDED ON ENERGY CONSERVATION AND MANAGEMENT IN THE FEDERAL SECTOR

GAO REPORT

"The Federal Government Needs a Comprehensive Program to Curb Its Energy Use," EMD-80-11, December 12, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Energy and Natural Resources

House Committee on Interstate and Foreign Commerce

House Committee on Government Operations

House Committee on Public Works and Transportation

STATEMENT OF THE RECOMMENDATIONS

The Congress should enact legislation which expresses the priority and emphasis that should be placed on the issue of energy use and management in the Federal sector and consolidate existing laws. The legislation should:

--Require the President to develop and implement through the Department of Energy an aggressive and comprehensive Federal Energy Management Program and clearly define the roles, authority, and responsibilities that the Department of Energy and other executive branch agencies are to fulfill in the program.

--Require under the Federal Energy Management Program's purview the development and implementation of specific plans and programs.

--Require the President to complete action on the above items within 18 months after legislation is enacted and report to the Congress.

--Provide to the Department of Energy central funding and control over energy conservation funds and restrict such funds to energy conservation use.

DISCUSSION OF THE PROBLEM

The Federal Government is not making a sufficient commitment to curbing its energy use. Although the Congress has enacted several pieces of legislation with respect to the Federal Energy Management Program, a comprehensive and aggressive energy conservation program for the Federal sector has not been developed.

The Federal Government needs such a program to curb its energy use. It should be a leader in energy conservation. The Government is the Nation's largest single energy user, directly accounting for over 2 percent of U.S. energy consumption. This represents the equivalent of about 282 barrels of oil a year--worth over $4 billion. Considering that each percentage point reduction in Federal energy consumption saves the equivalent of about 8,000 barrels of oil a day, the importance of not setting goals too low is obvious.

Since the progress of this program has been very poor since enactment of the Energy Policy and Conservation Act

in 1975, the new legislation should provide specific time frames for the President and the executive agencies to complete their actions.

LEGISLATIVE INITIATIVE/POLITICAL SENSITIVITIES

For the past 4 years GAO has been examining, in detail, Federal inhouse efforts to conserve energy. Our work has shown, as indicated above, that the Government's program to conserve energy is in disarray. We have consistently proposed that the Department of Energy, which was created to be the national energy focal point, and charged in the Energy Policy and Conservation Act and the National Energy Conservation Policy Act with this role, take a leadership role in assuring that the Federal Energy Management Program is effective.

OMB has disagreed with our views and indicated that a decentralized management approach to Federal energy conservation is preferable. We do not concur with OMB's position and believe that unless the Federal Government establishes a more centralized approach it will not be possible to effectively manage and control energy use. Moreover, we find OMB's position most unusual for an agency with basic responsibility for assuring that Federal funds are well spent and programs well managed.

Most recently, members of the White House staff (not OMB) have shown renewed interest in this area and are

anxious to seek improvements. In addition, we are currently working with a Member of Congress to develop a legislative proposal which will consolidate under one statute the many facets of the Federal Energy Management Program, and thereby implement several of the recommendations made in our report.

REASSESSMENT OF MILITARY HEALTH CARE SYSTEM WOULD REDUCE MILITARY HOSPITALS' OPERATIONAL COSTS AND MAKE BETTER USE OF NATION's HEALTH CARE FACILITIES

GAO REPORT

"Military Medicine is in Trouble: Complete Reassessment Needed," HRD-79-107, August 16, 1979

COGNIZANT LEGISLATIVE COMMITTEE

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Armed Services

House Committee on Government Operations

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress:

--Clarify and formally recognize policies regarding:

(1) Whom the military's direct medical care system will serve in peacetime.

(2) How and to what extent beneficiaries unable to obtain care in the direct care system as a result of the policy adopted from (1) above would receive the assistance needed to obtain medical care from other sources.

--Reevaluate the role and structure of the military medical care system and direct DOD to establish a structure that will improve its ability to serve beneficiaries in peacetime.

As part of its deliberations, we recommended that the Congress adopt a policy to continue to provide care in military hospitals and finance care in civilian hospitals. but restrict access to care in military hospitals. The number of military hospitals in operation would be reduced to a number that could be efficiently and effectively staffed by existing and projected military physicians and other support personnel. Other alternative suggestions were provided in pages 53 and 54 of the report for consideration by the Congress.

DISCUSSION OF THE PROBLEM

Since the end of the military draft in 1973, the military's direct medical care system has been faced with a constant gap between the number of military physicians it needs to provide medical care and the number it has available. This situation has seriously impaired the system's ability to efficiently and effectively meet the peacetime demand for medical care.

The Army, Navy, and Air Force medical departments estimate that the physician supply will not meet fiscal year 1979 authorized levels until fiscal year 1984. However, even that level would be below what the medical departments believe is needed to meet demand. The lack of physicians has hampered hospital operations and beneficiaries'--including active-duty members'--ability to get medical care.

DOD data shows extensive closures and curtailments of medical services in military hospitals; all beneficiary groups--including active-duty personnel--are affected. Physician shortage is the primary reason for these closures and curtailments.

Statements of beneficiaries who tried to get care in military hospitals but either had to or preferred to go outside the direct care system are very revealing. Their responses and comments generally convey a strong sense of frustration and disappointment with the medical care system they believed was built to serve them, but now seemed to reject them with increasing frequency. Also, beneficiaries provide a clear message about medical care outside the direct care system--they liked it better than care received from the military system. Also, few beneficiaries have difficulties paying for care outside the system. Those who had difficulties tend to be lower ranking active-duty members and retirees with low income.

In view of the inability of the military's direct medical care system to adequately serve the large number of DOD beneficiaries in peacetime, the Congress needs to reevaluate the role and structure of the system and direct DOD to improve its ability to serve those beneficiaries.

A fundamental requirement for improvement is to establish and formally recognize the mission and role of the

direct medical care system as a peacetime health care delivery system as well as an instrument of national defense. The DOD direct care system can no longer continue to be all things to all people.

The policy issues confronting the Congress are complex and difficult. The issues have been previously addressed, to some extent, in the context of DOD's health facilities construction programs (that is, whom should new health facilities be built to serve). A wide range of alternative improvement measures is possible. Although we are unable to quantify the potential savings if our suggested alternative is adopted by the Congress, we believe the savings are substantial because of the improved operational efficiency within the military health care system and better use of other available capabilities in the civilian community. Our suggested alternative, to restrict access to care in military hospitals while financing care in civilian hospitals, would also give flexibility to the military in constraining the size of its direct care system if a national health insurance program were adopted that provided some beneficiaries with other options for obtaining care and thereby reduce demand on the military system.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

No action has been taken by the Congress on the issues discussed in the report.

The political sensitivity of this issue centers around the moral obligation of the military to provide care to dependents of active-duty members, retirees, and dependents of retired and deceased members. Although the guarantee of care extends only to active-duty members, the actions of the military services over the years have conveyed a different impression to military beneficiaries. To many beneficiaries the inability to get care amounts to a breach of faith by the military, which long touted the benefits of a complete medical package for dependents and retired families as an inducement for enlistment, reenlistment, and careers.

IMPROVED MANAGEMENT OF GSA's MULTIPLE AWARD SCHEDULE PROGRAM WOULD REDUCE FEDERAL PROCUREMENT COSTS

GAO REPORT

"Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem," PSAD-79-71, May 2, 1979

COGNIZANT LEGISLATIVE COMMITTEE

House Committee on Government Operations

STATEMENT OF THE RECOMMENDATIONS

GAO recommended that Congress enact legislation to:

--Put GSA under a mandatory time frame for accomplishing management improvements, and

--Strengthen the posture of GSA as a primary supplier of products to Federal agencies.

DISCUSSION OF THE PROBLEM

The Government is buying commercial products of a higher quality than needed and is paying more for them than it should because of GSA's poor management of its multiple award schedule program. GSA has been unable to bring about improvement in its major procurement program. An externally imposed mandatory technique would be an incentive for GSA to take action.

Federal agencies are not purchasing all their requirements from GSA. In addition, we have recommended that GSA reduce the wide variety of items available to the Federal agencies. In order to assure that agencies will continue to use GSA, we believe GSA's posture needs to be strengthened. This is also

necessary to permit GSA to make informed estimates of requirements.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Legislative initiatives for the mandatory time frame may not be necessary. GSA has proposed a detailed time schedule for accomplishing improvements. We are currently assessing the adequacy of GSA's actions.

Two bills have been introduced to address our concern on strengthening GSA's posture. H.R. 5381 was sponsored by the Subcommittee on Government Activities and Transportation. H.R. 5525 was sponsored by Congressman William Carney. Neither bill has been acted on.

PROCUREMENT REFORMS PROPOSED BY THE COMMISSION ON GOVERNMENT PROCUREMENT ARE INCOMPLETE AND REQUIRE INTENSIFIED EFFORT

GAO REPORT

"Recommendations of the Commission on Government Procurement: A Final Assessment," PSAD-79-80, May 31, 1979

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Governmental Affairs

House Committee on Government Operations

STATEMENT OF THE RECOMMENDATION

GAO recommended that the cognizant congressional committees review and resolve:

--Open legislative recommendations of the Commission identified in our July 1978 report (PSAD-78-100).

--Legislative matters summarized under "analysis" headings in this report dealing with architect and engineering services, Federal assistance, and patent policy reforms.

DISCUSSION OF THE PROBLEM

Of the 149 recommendations made by the Commission in 1972, 57 called for legislative action. About half of these are now in law or in pending legislation. Momentum is slowing and the outlook for the remainder is not encouraging.

Some of the open recommendations have major economic, political, and statutory ramifications and are complex and difficult to resolve. Concerned executive-legislative action

will therefore be needed. The recommendations address fundamental policy changes and the Commission believed savings could not be estimated with any degree of precision. Their potential for improving the operations of the Federal Government, however, were considered to be significant. The policy changes include:

--Establishing a national policy to rely on private enterprise for the Government's needed goods and services. (See GAO report on this issue, PSAD-78-118, September 25, 1978.)

--Executive-Congressional reexamination and streamlining of socio-economic programs applied through the procurement process.

--The use of mission budgeting as a basis for congressional authorization and funding. (See GAO report on this issue, PSAD-77-124, July 24, 1977.)

--The use of total cost to evaluate alternative supply systems so that Federal customers of interagency supplies will be charged full costs and commercial distribution systems will be used when more responsive and economical.

--Injecting more substantive competition into Government procurement of architect-engineering services.

--Establishing a Government-wide patent policy that emphasizes commercialization of intentions.

--Establishing a unified, modern statutory foundation for all of Federal procurement, now $100 billion a year.

LEGISLATIVE INITIATIVES

On the last two issues legislation has been introduced and hearings have been held (e.g., S. 414 on patent policy and S. 5 on a new procurement statutory foundation.) Also, a few committees are beginning to explore mission budgeting. Since the legislative actions involve fundamental policy change, they would be controversial.

(1) The "Office of Federal Procurement Act Amendments of 1979," (Public Law 96-83, October 10, 1979) renews OFPP by authorizing appropriations through fiscal year 1983.

(2) Action was never completed on S. 5, the "Federal Acquisition Reform Act," introduced by Senator Lawton Chiles in the 96th Congress. However, Public Law 96-83 requires the Administrator of the Office of Federal Procurement Policy to transmit a proposal for a uniform procurement system within 1 year of enactment.

(3) Public Law 96-83 also requires the Administrator to review the recommendations of the Commission on Government Procurement to determine those recommendations that should be completed, amended,

or rejected, and to propose the priority and schedules for completing the remaining recommendations.

(4) Further, the Administrator is required to propose to the House of Representatives and the Senate recommended changes in legislation relating to procurement by executive agencies. If the Administrator deems it necessary, these recommendations may include a proposal for a consolidated statutory base for procurement by executive agencies.

INEQUITIES IN FEDERAL LAND PAYMENT PROGRAMS ARE COSTLY

GAO REPORT

"Alternatives for Achieving Greater Equities in Federal Land Payment Programs," PAD-79-64, September 25, 1979.

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Energy and Natural Resources

House Committee on Interior and Insular Affairs

STATEMENT OF THE RECOMMENDATION

GAO believes the most logical rationale among the alternative payment programs is tax equivalency. This method of payment is feasible. GAO therefore recommends that the Congress should change the laws to require payments on a tax equivalency basis. Such changes should eliminate the permanent earmarking of receipts, set an expiration date on program authorization, and require periodic appropriation action. To lessen the impact to those counties that currently receive large receipt-sharing payments, the phasing out of the programs should be done over a number of years.

If the Congress eliminates or amends Public Law 94-565 by adopting a tax equivalency basis for payments or another alternative, many of the problems and inequities caused by the act would be solved. If, however, the Congress decides to continue receipt-sharing payments and acreage payments

under Public Law 94-565, it should take action to correct several weaknesses.

DISCUSSION OF THE PROBLEM

Under various land payment programs the Federal Government compensates States and counties for lost revenue on the approximately 760 million acres of tax-exempt Federal land. During fiscal year 1978 the programs paid States and counties about $610 million. The basic aim of Congress in enacting these programs was to compensate States and counties for lost tax revenues and the economic burdens of tax-exempt Federal land. As the laws were designed and implemented, most programs pay States and counties a percentage of the annual receipts generated from the public lands, rather than on the basis of equivalent taxes that would have been paid if the land were privately owned. Because the payment percentages, which range from 5 to 90 percent, bear no relationship to tax equivalency, States and counties do not receive equitable payments. Many States and counties are overpaid compared to tax equivalency, while others receive little or no payment.

In 6 of the 8 western States that we reviewed, States and counties received $187.3 million or an average of $1 more an acre from Federal land payments than they would have received on a tax equivalent basis. Land payments have grown from about $264 million in 1975 to about $610 million in 1978 because of increased income from Federal lands and congressionally

mandated increases in the percentages paid. Federal land receipts are likely to continue increasing in future years.

POLITICAL SENSITIVITIES

This is a very sensitive subject as evidenced by the many congressional, county government associations and State government inquiries. We have briefed many of the above on the issues of the report. This recommendation could substantially reduce payments to the western States for as much as $187 million, almost 90 percent of what they now get.

STRICTER CONTROLS ON FEDERAL LAND ACQUISITION PRACTICES WOULD PREVENT UNNECESSARY EXPENDITURES

GAO REPORT

"The Federal Drive to Acquire Private Lands Should Be Reassessed," CED-80-14, December 14, 1979.

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Energy and Natural Resources

Senate Committee on Environment and Public Works

House Committee on Interior and Insular Affairs

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress during its authorization, oversight, and appropriation deliberations require the Secretaries of Agriculture and the Interior to report on the progress made in implementing GAO's recommendations to (1) jointly establish a policy for Federal protection and acquisition of land, (2) evaluate the need to purchase additional lands in existing projects, and (3) prepare plans identifying lands needed to achieve project purposes and objectives at every new project before acquiring land.

Congressional oversight in implementation of GAO's recommendations is needed because of the

--Large sums of money available from the Land and Water Conservation Fund for acquisition of private lands;

--practice followed by Federal agencies of acquiring as much private land as possible resulting in unnecessary land purchases and adverse impacts on private landowners;

--successful use of alternatives to full-title acquisition to achieve project objectives; and

--reluctance on the part of many agency officials to use less than full-title acquisition to achieve project objectives.

DISCUSSION OF THE PROBLEM

The Federal Government owns over one-third of all the land in the United States. The Congress--through the Land and Water Conservation Fund Act of 1965--can authorize up to $10 billion over the next 11 years which assures that Federal agencies will continue to increase their inventories of land for a variety of conservation and recreation purposes.

At the present time, the Federal Government has no overall policy of how much land it should protect, own, and acquire. Federal agencies with major land management and acquisition programs have followed the general practice of acquiring as much land as possible regardless of need, alternative land control methods, and impacts on private landowners. Consequently, lands have been purchased that were not essential to achieving project objectives, and before planning how the land was to be used and managed.

Government acquisition of private lands is costly and usually prevents the land from being used for resource development, agriculture, and family dwellings. Agencies have bought land without adequate consideration of the impact on communities and private owners by viewing acquisition of full-title as the only way to protect lands within project boundaries.

It is not possible to quantify the total benefits and measurable savings that would result if GAO's recommendations were adopted; however, we believe them to be substantial. As an example, the Congress has already used our report to cut about $41.5 million from the Departments of Agriculture and the Interior's 1980 appropriation request for land acquisition.

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

GAO's report has spurred House and Senate committees to request our assistance in drafting legislation to implement the report recommendations. This has been done and it is expected that the bill will receive favorable congressional action.

GAO's report has also generated wide-spread congressional and public interest in this highly controversial area. It has attained high visibility in the news media throughout the country, especially in newspapers and on the radio. On December 16, 1979, the report was highlighted

on national television on NBC's "Prime Time Sunday." The program addressed an extremely sensitive issue outlined in the report dealing with the emotional, psychological and financial effects on landowners whose land has been acquired through condemnation by the Federal agencies.

GAO does not object to full-title acquisition of land when it has been determined that acquiring such land is essential to achieving project objectives. However, GAO believes that where it is feasible to protect areas and provide recreational opportunities to the American public by using alternatives to full-title acquisition, then an alternative should be used.

ATTACHMENT XXIV

DISCUSSION OF THE CONSUMER PRICE INDEX

The CPI is a well-known measure of price change. The CPI is used in many ways. One such use is for indexation of many Federal programs, such as Social Security. The index to which these and other payments are tied should be one which accurately measures how much these payments must be increased to maintain their real purchasing power. If, in fact, the CPI as currently constructed overstates the effect of inflation on Social Security recipients, then the use of the CPI to index their payments results in increases in benefits larger than what would be necessary to allow recipients to maintain their standard of living. Naturally, this implies that the Government budget has been increasing faster than would be necessary to simply offset the effect of inflation on recipients of indexed Government funds.

Recently the Bureau of Labor Statistics has begun publishing five experimental measures of homeownership costs. If any of these measures had been adopted during 1979, the increase in the CPI would have been smaller. The difference would have been anywhere from 0.1 percent to 2.5 percent, depending on which measure was chosen. But, let me add two notes of caution here. First, we do not want to state at this time that any of these measures is the most appropriate. Our review of this question is still ongoing. And, second, you should be aware that 1979 was not a typical year.

BLS's data suggest that in other years, using some of their experimental measures instead of the present method would have resulted in no change in the CPI or even an increase in the measured rate of inflation. Our concern is to evaluate alternate methods with respect to technical merit, not to find a method that guarantees a more slowly rising CPI.

The other issue we are exploring is whether, since the CPI is based on the buying practices of a broad cross-section of urbanites, it is a reliable indicator of what any particular population subgroup is experiencing? We have preliminary work underway on the feasibility of establishing a family of indexes that includes one for the elderly. Our initial target population is social security retirees. There are about 18 million retired workers receiving social security pensions totaling about $58 billion annually--a 1 percent cost-of-living adjustment increases monthly benefits about $580 million.

The applicability of the national CPI to the buying practices of the elderly is controversial. Some argue that the CPI understates the impact of inflation on the elderly because old persons spend a greater portion of their money in areas where prices are going up the fastest. Others argue that the CPI overstates the impact of inflation on the elderly because it fails to recognize that old persons

generally do not buy some market basket items that are currently driving the CPI such as houses.

Our immediate objective is to determine if we can develop sufficient data to make a contribution in this difficult area. The questions we are considering include:

--How do the spending and shopping patterns of the elderly compare with those of the general populace?

--How would differences in those patterns affect the CPI?

--What would be the monetary impact on the individual old person?

--How much would a separate old person's index cost?

That completes our discussion of indexing.