GAO Staff Views On The President's Fiscal Year 1984 Budget Proposals

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We thought it would be useful if GAO provided the views of our staff on the President's fiscal year 1984 budget proposals. Our analyses are based on work we have completed or have in process, and are related to the program descriptions provided by the President in Part 5 of the budget entitled "Meeting National Needs: The Federal Program By Function."

Should you want more detailed information on the material which we have enclosed, the name and telephone number of the appropriate GAO staff member is provided at the end of each discussion paper.

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ADMINISTRATION PROPOSALS COMMENTED ON

DEFENSE SPENDING

With the fiscal year 1984 defense budget, the administration continued the funding growth trend established since 1980. The budget for 1984 is $36 billion bigger than the $238 billion apportioned in the fiscal year 1983 Continuing Resolution and $132 billion larger than was spent in fiscal year 1980--a total overall growth of 93 percent over the 5-year period.

DOD has targeted its spending to enhance military capability and quality of life in four specific areas; (1) to make the forces ready (2) sustain the forces in battle, (3) to increase the size of the force structure, and (4) to modernize the weapon systems and the equipment available to our forces. GAO has examined the increases in defense's budget for both 1982 and 1983 and concluded that DOD has obligated the increased funding as they said they would, but several problems which cut across the various appropriations accounts categories surfaced:

--Budget execution data are not fed back to link spending levels to program goals and objectives and subsequent budget submissions. For example, the budget accounts GAO reviewed were monitored during execution to ensure that funds were obligated on a preplanned schedule and resources were consumed as expected; actual program achievements, such as increased levels of capability are not fed back nor or they used as a basis for future budget requirements.

--Budget accounts are not always coordinated as well as they should be. This results in interrelated accounts and programs not being properly synchronized and large amounts of program funding being reprogramed to other accounts. For example, problems were noted in Army's program to modernize the forces and its flying hour program.

--Budget estimates are not always based on total mission requirements and the most accurate costing criteria available which also results in significant reprograming. For example, each of the services experienced similar problems in estimating the amount of unfunded work backlogged in their real property maintenance programs.

--As a result of the problems discussed above and late passage of appropriations bills and supplemental appropriations bills funds are not always spent to satisfy the DOD's highest priority requirements. For example, over $1.6 billion has been reprogramed to real property maintenance and repair accounts since fiscal year 1980. A large part of the reprograming has surged in the fourth quarter of the fiscal year, some as late as the last day of the year. When funds surge late in the year the services obligate them as best they can; often to lower priority projects.

Major problems affecting the DOD budget cut across the three major types of DOD appropriations and most of the accounts within these appropritions: Operations and Maintenance, Procurement, and Military Personnel. (Major decisions affecting the level of defense spending also cuts across these accounts.) There are also other specific problems GAO has reported that are unique to specific appropriation accounts. The broad-cutting problems and the account specific problems are discussed in the following issue papers. Where we can, we will suggest questions Congress might ask to obtain more relevant data that are linked to program achievement.

BUDGET EXECUTION FEEDBACK AND ACCOUNTABILITY

GAO Views

A poor link exists between the justification for increased funding, program execution, and what is accomplished. The services' systems for monitoring budget execution focus primarily on obligations and outlay rates and appear to provide little systematic evaluation of how well programs are performing or feedback into planning and programing. The situation is more prevalent in the Operations and Maintenance accounts but does occur within the others. For example, the budget execution goals and objectives established for the programs we reviewed are based on consumption requirements, such as how many barrels of fuel were used or financial requirements, such as how much of the appropriation has been obligated. None of the programs attempt to relate resources and achievements such as how much increased capability was acquired by spending the money and burning fuel.

This lack of sound linkages on progress or lack of progress manifests itself in two distinct ways. First, DOD does not generally establish budget criteria in terms of outputs, such as increased performance or capability. Second, DOD does not report what has been accomplished in terms of what programs have achieved compared to program objectives. Even using DOD's current procedures for identifying program objectives and reporting on these programs in subsequent years, as in Navy's aircraft depot maintenance program, DOD does not identify when slippages or deviations occur. Consequently, the Congress and, in some cases, the services are not immediately aware that program costs increase, resulting in less than the initially expected improvement. Following are some questions GAO has recommended the Congress ask to get a better handle on the services enhanced capabilities as a result of increased budget authority.

During GAO's review of the fiscal year 1982 defense budget several systemic problems were noted that probably can be eliminated with very little effort and costs.

--What effort is being made to relate budget resources and achievement-oriented goals and objectives?

--What effort is being made to improve the program indicators being tracked so that they better relate the use of funds to progress in achieving program goals.

--What effort is being made to ensure budget estimates are as accurate as possible and synchronized across accounts thus eliminating the need to annually reprogram millions of dollars?

--What effort is being made to ensure that funds can be and are absorbed in the most efficient manner, i.e., increase productivity not increase funded backlogs awaiting work?

Relevant GAO Report: PLRD-82-62; report expected to be issued in April 1983

GAO Contact: James A. Elgas, 275-3950

PROGRAM SYNCHRONIZATION

GAO Views

Program synchronization difficulties are common to all appropriations accounts: Personnel, Operations and Maintenance, and Procurement. Generally, program budgets are initially prepared giving consideration to other programs which affect program requirements. As time passes, events occur in sequences which were not always anticipated. In some cases, sufficient flexibility is incorporated into the planned program, so that these events do not adversely affect the plan. In other instances, changes in related programs did affect the programs to such a degree that program funding changes were needed. For example:

--The Army could not execute its fiscal year 1982 flying hour program as planned because of a shortage of spare parts. In part this was caused by a failure to fully coordinate lead times for spare parts with expanding flying hour requirements.

--The Army encountered problems with the fielding of weapon systems because distribution was not coordinated with the logistical support (such as spare parts) to operate and maintain the system. As a result, units could not logistically support the systems received.

--Review of portions of the Army's 30mm. ammunition request supporting the AH-64 helicopter revealed that the request was not synchronized with the planned delivery of the aircraft. As a result, the Army's 1983 ammunition funding request will provide an excessively large quantity of ammunition before the first AH-64 helicopter is delivered in 1984.

Following are some questions GAO has recommended the Congress ask to determine if programs are coordinated to ensure that they can be executed as planned and budgeted.

Programs, such as flying hours, that are dependent upon other programs such as logistical support, must be closely coordinated to ensure all essential support is on hand in the needed quantities at the time needed.

--How do the services ensure that operational programs, such as flying hours, are thoroughly coordinated with support functions such as personnel, spare parts, and maintenance?

--What procedures have been established to provide an oversight capability?

Relevant GAO Report: Report expected to be issued April 1983.

GAO Contact: James Elgas, 275-3950

President's
Proposal -

MILITARY PERSONNEL

GAO Views

DOD has credited recent increases in quality of life investments and substantial increases in basic pay as the major reasons for the upturn in enlistments and retention of senior grade enlisted personnel. GAO agrees that higher pay and more benefits have helped the services come closer to attaining their personnel goals; however, because the military personnel position has improved so dramatically over the past 3 years--68 percent of eligible personnel reenlisted in fiscal year 1982 up from 55 percent in 1980 and the services have exceed congressional goals by recruiting more high school graduates--we believe it is time to start targeting pay and benefits increases in lieu of across the board raises. We believe targeting is essential to keep technical and non-technical skills in balance and to control the growth of military pay. We also believe the condition of the economy should be a very visible variable in DOD's recruiting and retention plans. As the economy improves it is likely the services will experience a much tougher time recruiting and retaining the skills it needs. This factor will take on even more importance as new high technology weapon systems are fielded and more higher skilled and better educated people are needed. To help get a better handle on military personnel matters GAO has recommended the Congress consider asking the following questions during the budget review process.

The shortage of non-commissioned officers (NCOs) that the services experienced in 1970s is being relieved in the 1980s in part because of higher retention rates.

--Is the trend continuing into 1983? Has DOD fully considered this in their estimates for basic pay and related pay categories such as targeted enlistment and reenlistment bonuses.

--How soon will NCO vacancies be filled if present trends continue?

--To what extent are the services' technical needs being satisfied? Do we have more or fewer non-technical personnel at the higher NCO ranks than we need?

DOD expects to increase active duty end strength by 130,000 between 1983 and 1987 to operate and maintain new, high technology weapon systems. There are different estimates as to what increasing end strengths will cost. The Congressional Budget Office (CBO) estimates in their study on Army ground force modernization for the 1980s[1]/ that adding 100,000 more troops to the Army would cost $6.7 billion over the next 5 years assuming that the increases are phased in at steady annual rates. This covers pay and allowances, and additional recruiting incentives needed to get more recruits while keeping recruit quality high. An additional $10.3 billion is estimated for associated basing and operating costs. CBO also comments that should an economic recovery materialize there would be tough competition for needed Army personnel. When the economy becomes more vigorous the skills DOD needs are the ones that will be most in demand. In addition, the demographic trend reveals fewer young males will be in the labor pool in the future.

--In light of these new requirements and the possible competition for skills DOD will likely face in the future, to what extent have you fully considered the personnel requirements of the new systems being fielded in planning and estimating bonus structures and costs? What do your studies show the differences in costs will be under the different possible situations?

Relevant GAO Reports: FPCD-83-7, FPCD-83-17, FPCD-82-96, FPCD-82-78, FPCD-82-70, FPCD-82-38, FPCD-82-16.

GAO Contact: Clifford Gould, 275-3819

1/Army Ground Combat Modernization for the 1980s: Potential Costs and Effects for NATO, Congressional Budget Office, November 1982.

President's
Proposal - CHANGE IN MILITARY RETIREMENT

GAO Views

The military retirement system is a prime target for budget-cutting because of (1) its enormous cost--$17 billion for fiscal year 1984, projected to grow to $34 billion by 1994--and (2) the perception that the system provides more generous benefits than necessary--members may retire at any age upon completing 20 years of service and, up to 1983, retired pay was fully indexed to changes in the Consumer Price Index (CPI). The President's 1984 budget proposes to introduce legislation to make permanent the current limitation on cost-of-living adjustments (COLA's) for nondisability military retirees under age 62 by allowing one-half of the full COLA increase. Because a temporary one-half COLA provision is currently in effect, the proposal to make this provision permanent will have little or no impact on the 1984 budget.

Over the past decade, at least five major commissions or study groups have recommended changes to the military retirement system. However, the services have generally supported the current system because (1) they believe it insures a stable supply of experienced personnel and (2) it supports the up-or-out promotion system. They have generally been able to fend off reform proposals on the basis that the studies and reviews have not adequately addressed what they consider to be the underlying reason for the current retirement system structure--that is, that the system must remain responsive to the management of the active force in support of defense requirements. In short, the services argue correctly that any changes in the retirement component of the compensation system will have some affect on the age/experience profile of the active force. The question the services have not satisfactorily answered to date, however, is whether the force profile produced by the current retirement system is the most effective or whether different profile structures produced by a different retirement system would be more effective and less costly.

GAO has taken the position that the current military retirement system does not appropriately support the services' manpower requirements by producing the most effective force profile at the least cost. GAO believes that the current system causes active duty members to make career decisions which are not always in the services' best interest. However, we have also recognized that major changes to the retirement system which substantially reduce life-stream earnings of active duty personnel should not be made without a full understanding of how such a change will affect the force profile.

There is little question that the current proposal to limit the COLA increase for retirees under age 62 to one-half of the CPI would reduce the life-stream earnings of active duty personnel. For example, the purchasing power of a typical E-7 retiring at age 41 would be reduced by 46 percent by age 62 and that of the typical 0-5 retiring after 20 years of service by about 40 percent. What is not known, however, is how this change in the retirement system will affect active duty members' career decisions and whether the cumulative affect of members' career decisions will produce a more or less effective force at a higher or lower cost.

GAO has suggested in the past that annual COLA increases for both Federal civilian and military retirees could be limited to something less than the full CPI increase. However, we also believe that such action should not be entered into without knowing the full consequences of the action. Whereas, the Fifth Quadrennial Review of Military Compensation, currently underway, is conducting an overall review of military retirement--their work is not addressing the merits of the COLA-limitation proposal. Further, their report is not expected to be available for use during current congressional hearings and deliberations.

Relevant GAO Report(s)

B-130150, July 1, 1980; B-199649, December 15, 1980; B-202082, June 24, 1982; FPCD-77-81, March 13, 1978; GAO/FPCD-82-38, August 20, 1982.

GAO Contact

Dr. Kenneth Coffey, Associate Director, or Mr. Jim Johnson, Group Director, 275-3980.

President's
Proposal -

MILITARY PAY FREEZE

GAO Views

The fiscal year 1984 budget reflects the President's decision that Federal employees, including uniformed military personnel, will not receive a "comparability" pay raise on October 1, 1983. The decision not to grant military personnel an across-the-board increase in basic pay and allowances will save about $2.9 billion in fiscal year 1984. This savings was calculated using DOD's planning assumption that an across-the-board 7.6-percent increase in basic pay and allowances would be needed to maintain "comparability."

Despite popular misconceptions, the statutory concept of pay comparability with the private sector, as applied to the Civil Service, does not now and never has applied to military compensation. The permanent legislation which provides for the periodic adjustment of the basic pay and allowances components of military compensation did not establish a level of comparability between military and private sector levels of work, experience, or responsibility. Rather, the legislation intended that, until a military pay standard could be established whenever Federal white-collar pay went up, military basic pay and allowances would go up by a like percentage.

GAO has taken the position that this traditional across-the-board approach to adjusting military pay to maintain an undefined level of comparability with the private sector is unnecessarily costly. While across-the-board adjustments to basic pay and allowances may, at times, be appropriate, GAO believes that a more cost-effective and efficient military pay system would target available monies to those occupational areas dictated by relevant labor market conditions.

The primary issue with regard to the President's decision to forego an across-the-board military pay raise in fiscal year 1984 is whether this decision will adversely affect the services' ability to recruit and retain the quantity and quality of people they need to meet the manning requirements for each occupational specialty. To the extent that funds are available for fiscal year 1984 for targeted increases in special and incentive pays, including enlistment and reenlistment bonuses, the President's decision to forego an across-the-board pay raise need not adversely affect the services' ability to man the force. Furthermore, provided that the services appropriately use the incentive mechanisms currently at their disposal, the decision to forego a general pay raise would not be inconsistent with GAO's position

that the military compensation should be targeted, and thus more cost-effective and efficient.

Relevant GAO Report(s)

FPCD-78-27, July 12, 1978; FPCD-79-11, May 9, 1979; PLRD-82-62, April 13, 1982; GAO/FPCD-82-78, September 28, 1982; B-202082, June 24, 1982; Testimony, House Committee on the Budget (Mar. 10, 1981), Senate Committee on the Budget (Mar. 31, 1981), Senate Committee on Armed Services (May 8, 1981, Nov. 19, 1981, and Aug. 10, 1982), and House Committee on Appropriations (June 1, 1982).

GAO Contact

Dr. Kenneth Coffey, Associate Director, or Mr. Jim Johnson, Group Director, 275-3980.

President's Proposal - INCREASED FUNDING FOR OPERATIONS AND MAINTENANCE

GAO Views

The Defense Department currently spends about $12.4 billion and uses over 170,000 people in its depots to maintain its weapon systems and equipment. The scope and costs of this effort have stimulated much interest on the part of the Congress to find ways to keep these expenditures to a minimum without compromising readiness of the military forces.

GAO has responded to this interest by performing during the past few years a number of reviews which have focused on whether the Department of Defense could execute its proposed depot maintenance workloads in a timely and cost-effective manner. One recently completed and two ongoing reviews suggest that the Department of Defense is experiencing difficulties using budgeted depot maintenance funds efficiently.

The Navy's Ship Depot Maintenance Program - At the request of the Senate Appropriations Committee we recently assessed the ability of the shipbuilding and ship repair industry to execute assigned maintenace workloads in fiscal year 1983 and beyond in a timely and cost-effective manner. The Committee believed that various other Navy programs such as battleship reactivations, aircraft carrier service life extensions, and the Administration's accelerated shipbuilding program might adversely affect the timeliness, quality, and/or cost of the depot level ship maintenance program.

Our review of the assumptions used and factors considered by the Navy in concluding that the fiscal year 1983 ship maintenance and modernization program could be executed in a timely and cost-effective manner disclosed that the Navy had not developed a formal, integrated program execution plan that included what assumptions the Navy had made to assure themselves that the various shipbuilding and ship maintenance programs were executable. We also reported that the Navy has historically had some difficulty staying within budgeted schedules and costs for complex ship overhauls because of erratic workloading of Navy yards and the Navy's inability to qualify private sources for overhaul of complex combatant ships and their associated subsystems. We concluded that in view of the expanded fiscal year 1983 ship overhaul program and the historical trends we had reservations as to whether the Navy's ship maintenance program could be executed in a timely and cost-effective manner.

Problems in executing the Army's depot program - The Army's depot maintenance program funding increased by $436 million between fiscal year 1980 and 1983. The justification for the increase was to maintain a zero backlog of depot maintenance. However, what we found is that the maintenance requirement has simply been funded, but not necessarily accomplished. The Army's year-end carryover of work not completed has continued to increase because more work is being funded than is being completed. This practice does not appear to be an efficient use of funds.

For example, at the Corpus Christi Army Depot, despite extensive overtime use the carryover increased by 64 percent between fiscal years 1981 and 1982. Some carryover is considered necessary to ensure continuity in the production process. The goal for Army depots is to maintain an average of no more than 3 months carryover. At Corpus Christi the 1981 year-end carryover represented 3.7 months of workload and 4.3 months in 1982. During these same years Corpus Christi has used extensive overtime, but this is neither efficient nor cost effective. From fiscal year 1980 to 1982 the direct labor overtime increased from 9.6 percent to 26 percent whereas the Army believes any rate above 11 percent is inefficient.

The carryover projects for fiscal year 1983 appear to be even more serious than prior years. With an imbalance in workload and available labor hours, maintenance personnel would have to work over 27 percent overtime to reduce the projected 1983 carryover to a 3-month level. If overtime is limited to the more efficient 11-percent goal, the carryover is expected to be 5.2 months at the end of fiscal year 1983. This increasing funded carryover means that funds are tied up and not available for requirements that may be essential during the current fiscal year. This condition is undesirable and the Congress should be aware of this when debating the budget.

The Navy's Aircraft Depot Maintenance Program - The program has grown from $1.0 billion in FY 83 to almost $2.3 billion in FY 84. We are currently conducting a survey of the Navy program and have concluded that many of the efficiency problems cited by GAO over the years still plague depot operations. We believe substantial performance improvements are possible and that program reductions can be taken without jeopardizing fleet aircraft mission readiness.

Our current work at the Alameda and Norfolk depots as well as at the program managers offices shows that two Depots don't use enough engineered workload standards for specific jobs. None of the six Navy Depots meet the goal of using these standards on 80 percent of their work, however, two depots fall far below the others in their usage. We have previously reported that labor cost savings on the order of 15-40 percent are possible when the Depots use engineered labor hours standards.

Our work also shows that some Depots are not relying on the supply system, and instead are concurrently reworking components taken from aircraft during maintenance. This concurrent rework is more costly, increases aircraft turn-around times and decreases the responsiveness of the supply system. Navy instructions recognize these effects and require the Depots to use the supply system whenever possible. We believe increased management controls over its own regulations could reduce the amount of concurrent reworks and thus reduce costs.

We found that the Depots continue to package all items reworked at the highest level of protection. Because many items will remain in local supply or will be used by the Depots themselves, packaging costs can be reduced. We first reported on this in 1973 and we still believe savings are possible.

Finally, the Navy can reduce its depot costs by offering more of its workload to the Army or Air Force. The Navy only has about 5 percent of its work done by the other Services and we believe that substantially more work should be given to the "least cost" source.

Relevant GAO Work

Fact Summary and Questions and Related Briefing Documents on the Executability of the Navy's FY 1983 Ship Maintenance and Modernization Program (Code 943378).

The Defense Budget: A look at Budgetary Resources, Accomplishments, and Problems (Work ongoing at this time - Code 940002).

Survey of the Executability of the Navy's FY 1984 Aircraft Depot Maintenance Program (Work ongoing at this time - Code 943510).

The Navy Depot Level Aircraft Maintenance Program--Is There A Serious Backlog? (Sept. 1, 1977 LCD-77-432)

Followup On the Navy's Efforts To Improve Productivity at Navy Aircraft Overhaul Depots (Dec. 5, 1979 LCD-80-23)

GAO Contact - Ken Hoeth 275-4133

President's Proposal - INCREASED FUNDS FOR SPARE PARTS

GAO Views

The 1984 budget proposal, as have other recent Defense proposals, highlights increased purchases of spares and repair parts for improving readiness. From 1980 to 1984, such funding rose from $2.8 to almost $10.4 billion, an increase of about 270 percent.

Defense problems in determining requirements for spare parts, however, raise questions about whether the increased funds will be spent effectively. Recent GAO reports have identified need for improvements in the services' systems for determining and meeting requirements. These included

--improving the process and bringing about more consistency in requirements determinations' assumptions and methods,

--combining spares orders with orders placed by contractors for their production line requirements,

--improving procedures for identifying and canceling excess on-order stocks, and

--identifying and solving problems in unpredictable parts performance rather than buying more parts than the minimum amount required to support mission-capability goals.

Such actions can result in significant cost savings. The Air Force, for example, estimates it saved more than 14 percent ($64 million) by using combined purchasing procedures to buy investment spares and components for production of its A-10 aircraft. Also, Defense's agreement to implement our recommendation for using combined purchasing to buy F/A-18 investment spares may reduce program costs by $250 million to $330 million. In response to a 1979 GAO report, the Air Force made a policy change which increased the potential for canceling excess on-order stocks by $39 million or more, and a recent followup shows potential for additional cancellations of $58 million or more.

In view of the billions of dollars worth of spare parts purchased annually, the potential for further significant savings is great. DOD needs to continue to give top management attention to this area. In particular, DOD needs to assure that its basic policies are being consistently and routinely implemented.

Relevant GAO Reports

The Services Should Improve Their Processes For Determining Requirements For Supplies And Spare Parts (PLRD-82-12, November 30, 1981)

The Army Should Improve Its Requirements Determination System (PLRD-82-19, December 1, 1981)

Less Costly Ways To Budget And Provision Spares For New Weapons Systems Should Be Used (PLRD-81-60, September 9, 1981)

DOD Can Save Millions Of Dollars By Improving The Management Of Air Force Inventories (LCD-80-6, October 25, 1979)

Continued Improvements Needed In Air Force Procedures And Practices For Identifying And Canceling Excess On-order Stocks (GAO/PLRD-83-36, February 7, 1983)

Factors Limiting The Availability Of F-15 Aircraft At The 1st Tactical Fighter Wing (GAO/PLRD-82-83, June 7, 1982)

GAO Contact: Henry W. Connor, 275-4141

President's
Proposal -

BACKLOG OF MAINTENANCE AND REPAIR (BMAR)

GAO Views

Despite huge funding increases--more than $1.5 billion since 1980--reported BMAR levels remain high; about $3.3 billion at the end of fiscal year 1982. The most astounding fact clouding the the BMAR question is one of credibility. In 3 prior reports GAO has pointed out that the BMAR levels reported by the services' were not reliable as a basis for budget allocations and more recently each of the services internal reviews have reported the same. At the close of 1982 both the Air Force and Army reported reductions in their BMAR. The number indicates that the services have used part of the $1.5 billion increase in obligations for real property maintenance and repair since 1980 to cut into the backlog. However, that may not be the case. Although the Army and Air Force reduced BMAR in 1982, there is some question about whether the reduction can be attributed to increased funding. Both services implemented new programs to reassess BMAR with the intent of reducing the numbers, thus, showing the Congress that the huge funding increases since fiscal year 1980 have been achieving service goals.

The Air Force switched projects to future years resulting in a $22 million BMAR reduction at the end of fiscal year 1982 compared to fiscal year 1981. The Army's achievement at the end of 1982 was even better, its BMAR was reduced by $249 million as a result of directions from major commands that BMAR would not increase in fiscal year 1982. At one base more than $800,000 that should have been reported as BMAR was not. The OSD should take a hard look at BMAR being reported by the services and the Congress should assure itself that the numbers are validated before any funds are appropriated specifically to reduce backlogs. Following are some questions GAO has recommended the Congress ask to get a better handle on the entire real property maintenance and repair program.

1. The services have justified increased funding for real property maintenance to not only enhance readiness but also improve the working and living conditions of service personel.

--What guidance and criteria have the services developed to ensure that funds are spent prudently on readiness and quality of life projects?

--What measurable improvements have resulted from increased real property maintenance funding?

2. Each year millions of dollars migrate from mission-related programs to real property maintenance. Because much of this funding migrates in the last months of the fiscal year, projects of questionable need are sometimes funded in an attempt to spend the money before year end.

   --What have the services done to incorporate expected migration levels into their real property maintenance budgets?

3. The backlog is considered a symptom of inadequate prior-year funding. However, GAO and the services' internal review activities have found that backlog levels are inaccurate and thus questionable as an indicator of need for increased funding.

   --What has been done to validate the backlog level for this year's budget?

   --How much confidence can be placed in the reported backlog?

4. In part, the services have justified increased funding for real property maintenance because of a growing backlog of projects.

   --Have the services validated their backlogs to ensure that only essential projects are included?

   --What progress have the services made in reducing their backlogs since fiscal year 1980? If a reduction has occurred, is it a result of increased funding or a revalidation of the backlog?

Relevant GAO Reports: LCD-79-314 Aug. 31, 1979; LCD-81-19 Feb. 2, 1981

GAO Contact: James Elgas, 275-3950

President's
Proposal -

MODERNIZING THE FORCES

GAO Views

The fiscal year 1984 budget represents the administration's continuing effort to modernize the forces. However, DOD lacks a well planned strategy for applying funds for modernization as evidenced by the fact that the Army could not obligate about $118 million to modernize its forces as planned in the fiscal year 1982 budget.

Our review of the Army's fiscal year 1982 force modernization program found a variety of problems contributing to the situation. Foremost among them were:

--Incorrect cost factors were used to calculate operation and support costs.

--Systems for which funds were budgeted were not fielded as planned.

--Field distribution plans, which provide for the fielding of equipment and the logistical support needed to maintain and use the equipment, were not always followed.

If the problems with fielding new systems are not corrected, they could affect future year budget requests because of the Army needing additional funding in later years to field these systems. More importantly, continued fielding problems could thwart the Army's efforts to modernize its forces. Following are some questions GAO has recommended the Congress ask to get a better handle on the Army's force modernization program.

1. Operation and sustainment costs are not assumed to be equal for each year during the useful life of the equipment. However, Army officials believe that such costs are lower in the initial year of fielding and escalate with the age of the equipment.

--How does the Army plan to determine if costs are lower during the initial years and, if so, to make corresponding cost adjustments?

2. The Army has incorporated the standard mid-year review concept into force modernization management. The review identified fund excesses and shortages for the major commands but did not determine specific reasons for them.

--Has the Army identified specific reasons why funds for force modernization cannot be spent as planned? If so, why?

--Do repeated program excesses indicate that stated requirements for fielding new systems exceed the actual need?

Relevant GAO Report: Report expected to be issued April 1983

GAO Contact: James A. Elgas, 275-3950

President's Proposal - **IMPROVEMENT OF COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE SYSTEMS**

GAO VIEWS

The President's 1984 Budget lists Command, Control, Communications and Intelligence (C3I) as one of the major initiatives for defense modernization. This modernization consists of an assortment of sophisticated and highly complex strategic and tactical systems requiring about $15 billion annually to develop, acquire, and maintain. Among these systems are those designed to conduct electronic warfare--a rapidly emerging force that consumes a significant portion of C3I dollars.

The $34 billion increase requested for defense spending is predicated on the administration's policy of maintaining survivable strategic and tactical capability in the event of a protracted nuclear war. Given this policy, the primary issues on which DOD should focus regarding C3I modernization are (1) the affordability of developing worldwide systems capable of withstanding a protracted nuclear conflict, (2) the adequacy of its investment strategy for implementing programs of this magnitude and (3) its ability to cost-effectively exploit advances in EW technology.

Our experience in auditing C3I programs indicates that the Defense Department has had only limited success in developing and acquiring systems that are affordable in terms of cost-effectiveness and following an investment strategy designed to satisfy its most critical requirements. Following are some examples that demonstrate weaknesses in prior DOD attempts at C3I modernization.

--A multiyear production program for a global positioning and navigation system has technical and program risks that could adversely impact total costs as well as system design and full operational capability. Multiyear procurement costs are uncertain and efforts to offset high program costs are not likely to materialize.

--Current development of a military space shuttle operations facility has uncertainties and problems associated with its justification, design and requirements. These problems will have a negative effect on project cost and expected mission performance.

--Analysis of a five year investment strategy for improving strategic C3 programs indicates that the impact of this funding on critical needs is likely to be far less than desired.

--The Navy and Air Force have ignored DOD guidance to maximize commonality and establish joint acquisition programs for radar warning receiver development. This has resulted in excessive cost growth and duplication of effort.

--DOD efforts to provide electronic counter-countermeasures (ECCM) protection to existing and planned tactical communications systems have not been effective. Inadequate management has resulted because no overall architecture or implementing management plan for ECCM development has been prepared.

Relevant GAO Reports

Issues Concerning the Department of Defense's Global Positioning System As It Enters Production, January 26, 1983, GAO/MASAD-83-9

GAO Position on Several Issues Pertaining to Air Force Consolidated Space Operations Center Development, August 12, 1982, GAO/MASAD-82-45

Department of Defense's Strategic Command, Control and Communications Investment Plans, Report is planned for issue in March, 1983.

Lack of Cooperation Precludes Navy and Air Force From Developing Common Radar Warning Receivers, June 11, 1982, GAO/C-MASAD-82-38

Much Remains to be Done to Minimize Tactical Communications Vulnerability to Electronic Warfare, August 17, 1982, GAO/C-MASAD-82-18

GAO Contact: C. O. Smith, 275-1811

President's Proposal - IMPROVING WEAPON SYSTEMS READINESS

GAO Views

Effective and efficient logistical support for defense weapon systems and equipment throughout their life is a critical factor in this Nation's ability to field a military force which is ready and which can be sustained. Good integrated logistics support (ILS) planning is a key ingredient in assuring that DOD's systems are logistically supportable. However, our audit work has shown that improvements are needed in ILS planning to better assure cost effective support. Specifically, we found that:

--The Army delayed detailed ILS planning for its High Mobility Multi-purpose Wheeled Vehicle because of the advanced state of its development and extensive use of commercial components. As a result, the vehicle's test program takes on increased importance in evaluating supportability. We have concerns about whether sufficient testing and evaluation will be done in the logistics supportability area before the vehicle's production.

--Opportunities existed to improve integrated logistics support planning for the Air Force's air-launched cruise missile (ALCM) and the related B-52 carrier aircraft modifications. Identified problems in logistics support planning were caused by the program's concurrent development and production acquisition strategy which was adopted to meet the required operational availability date for the ALCM.

--While DOD and the services have placed increased emphasis on accomplishing logistic support analysis--a process which is critical to the effective accomplishment of ILS planning--further improvements could be made. DOD and the services have moved slowly to eliminate duplicate data requirements from contracts and develop data reporting systems.

As part of DOD's recent initiatives to improve the weapon system acquisition process a number of actions are being implemented which should improve "integrated logistics support planning." However, the Secretary of Defense must aggressively followup on the initiatives to assure effective implementation and to assess their impacts. Traditionally management priorities have placed greater emphasis on cost, schedule and performance objectives. To assure that logistics planning receives equal emphasis, as called for in the Secretary's initiatives, close review of logistics planning on a system by system basis will be required.

Relevent GAO Reports:

Logistics Support Analysis: Progress Has Been Made but More Emphasis Is Needed, November 10, 1982, GAO/PLRD-83-10.

Concerns About Logistic Planning for the High Mobility Multi-Purpose Wheeled Vehicle, October 20, 1982, GAO/PLRD-83-7.

Air-Launched Cruise Missile: Logistics Planning Problems and Implications For Other Weapon Systems, May 10, 1982, PLRD-82-68.

GAO Contact: Charles W. Thompson, 275-4162

President's Proposal - MODERNIZATION OF AIR DEFENSE
Over-The-Horizon Backscatter Radar

GAO Views

The Over-the-Horizon Backscatter (OTH-B) radar system is to provide a long-range tactical warning capability to help counter a threat of a Soviet bomber attack preceding a ballistic missile attack against the United States. Acquisition costs are estimated to be almost $1 billion for east and west coast OTH-B facilities and about $1.3 billion if a third facility is needed.

Both the Air Force and the Navy plan to develop more endurable tactical warning systems than OTH-B for use during the 1990s. Also, the Air Force plans to randomly patrol with some existing airborne warning and control system aircraft to strengthen tactical warning capabilities until OTH-B is operational.

Considering the threat described in intelligence reports, along with the alternatives to OTH-B, GAO questions the need to acquire the OTH-B radar system as now planned and recommends that the Secretary of Defense direct the Air Force to fully reassess the need and justify the decision to acquire the OTH-B radar system.

Although the Department of Defense did not concur with this recommendation for various reasons, GAO believes a reassessment is needed based on the threat, the status of efforts to develop more endurable tactical warning systems, and the potential and cost effectiveness of using existing airborne warning and control system aircraft to strengthen surveillance coverage against a surprise bomber attack until a more endurable system than OTH-B can be deployed.

Relevant GAO Report(s)

Acquisition of The Over-the-Horizon Backscatter Radar System Should Be Reevaluated, GAO/C-MASAD-83-14, February 1983

GAO Contact

Bernard D. Easton - 275-4593

President's
Proposal - SERGEANT YORK AIR DEFENSE GUN

GAO Views

The Army's plans to test the reliability and maintainability of its new Sergeant York air defense gun had to be abandoned when the prototype the prime contractor delivered for testing in May 1982 was found to be unacceptable. Some reliability tests were rescheduled, but they will be done by the Sergeant York project manager and the prime contractor, Ford Aerospace and Communications Corporation.

The Army has no plans to have its test and evaluation agencies perform reliability and maintainability testing until after initial production units become available in March 1984. By that time, Sergeant York will have been in production almost 2 years. The contract with Ford has three production options. The first, for 50 systems, was exercised in May 1982. A decision on the second, for 96 systems, is due by May 1983. The third option, for 130 systems, must be exercised by May 1984. Altogether, the Army plans to procure 618 Sergeant Yorks at a program cost it now estimates to be $4.2 billion.

GAO recommends that the Secretary of Defense require the Army to have the project manager prepare an assessment of Sergeant York's progress in the reliability and maintainability tests that the contractor is doing, and to have this report forwarded to the Under Secretary of the Army before the decision for exercising the second production options comes due in May 1983.

Relevant GAO Report

The Army Should Confirm Sergeant York Air Defense Gun's Reliability and Maintainability Before Exercising Next Production Option, GAO/MASAD- 83-8, January 27, 1983

GAO Contact

Hyman S. Baras - 275-4530

President's
Proposal - AH-64 ADVANCED ATTACK HELICOPTER

GAO Views

The Army's AH-64 advanced attack helicopter is now at a critical juncture--the transition from development into production. Two types of uncertainty remain in the program. First, the principal contractor must overcome formidable production hurdles. Also, the government must complete testing and evaluation to verify the success of modifications made to certain critical components which earlier had exhibited some performance problems.

Procurement costs for the 446 helicopter program are now estimated at $6.15 billion which includes $528 million to cover potential production risks.

In March 1982 the Army decided that based on successful price negotiations with the AH-64 prime contractor for the first increment to be purchased, the $528 million of production risk money was not needed to cover the balance of the production run. Instead, the Army plans to use this money to buy more AH-64s, subject to congressional approval.

GAO recommends that the Secretary of Defense withhold approval for a program quantity increase above the currently planned procurement of 446 AH-64 aircraft. The Secretary should wait until sufficient actual production experience permits establishing a credible program cost estimate and a conclusive determination is made that the risk money will not be needed for contingencies.

GAO also recommends that the Secretary of Defense, before approving future funding requests for higher production rates of the AH-64, weigh the progress made in demonstrating production capabilities and overcoming technical problems.

Relevant GAO Report

The Army's AH-64 Helicopter and Hellfire Missile Retain Risks as They Enter Production, GAO/C-MASAD-83-9, January 26, 1983

GAO Contact

Hyman S. Baras - 275-4530

President's
Proposal - PATRIOT AIR DEFENSE SYSTEM

GAO Views

For fiscal year 1983 the Congress approved the Department of Defense request to increase Patriot's production from the previous 9 fire units and 176 missiles to 12 fire units and 376 missiles. The Army plans to request additional production increases in its fiscal year 1984 budget. Currently, tests of the initial production units are being conducted. Operational tests, using production hardware are scheduled to be completed in August 1983. While test results to date provide a basis for optimism about the Patriot's ultimate performance capabilities, thus far only prototype models have been tested.

GAO recommends that the Secretary of Defense permit the fiscal year 1983 funds to be applied towards an increase in the production rate over the current level of nine fire units, only upon a showing in the production tests that deficiencies have been corrected.

Defense officials disagreed with this recommendation, and said that the risks of increasing production now are outweighed by the potential additional cost if production were held to nine fire units a year for another 2 years.

GAO believes that delaying the fiscal year 1983 contract for a few months would have minimal, if any, effect on the program's schedule and cost in view of the contractor's current inability to keep up with scheduled deliveries and the likelihood that it will be almost 1-1/2 years before the contractor draws even with the schedule.

Relevant GAO Report

Results of Production Testing Should Be Considered Before Increasing Patriot's Production, GAO/C-MASAD-83-7, January 26, 1983

GAO Contact

Hyman Baras - 275-4530

President's
Proposal - U.S. ANTISATELLITE PROGRAM

GAO Views

The United States is pursuing an antisatellite development program, using miniature vehicles launched from an F-15 aircraft and propelled by a two-stage missile. The cost to complete the system has been estimated at about $3.6 billion.

When the Air Force selected the miniature vehicle technology as the primary solution to the antisatellite mission, it was envisioned as a relatively cheap, quick way to get an antisatellite system that would meet the mission requirements. This is no longer the case. It will be a more complex and expensive task than originally envisioned, potentially costing in the tens of billions of dollars.

Now is the time to determine whether the United States is developing the appropriate capability to perform the antisatellite mission.

GAO recommends that the Congress review DOD's plans for performing the antisatellite mission. The Congress may wish to direct DOD to provide it with a current assessment of alternatives to the miniature vehicle type antisatellite system to enable it to make a timely evaluation of DOD's plans before the air-launched miniature vehicle enters production.

DOD disagreed with GAO's interpretation of the facts presented and said that this course of action best recognizes the current political, military, and financial realities.

Relevant GAO Report

U.S. Antisatellite Program Needs a Fresh Look, GAO/C-MASAD-83-5, January 27, 1983

GAO Contact

J. Klein Spencer - 275-4580

President's Proposal -

CHEMICAL DEFENSIVE WARFARE

GAO Views

The services are developing a chemical warfare (CW) capability to deter, or if that fails, defend against the perceived Soviet CW threat to U.S. forces. Their CW initiatives are estimated to cost $7.2 billion from 1978 to 1987. However, progress may be slow, due to technology limitations, political constraints, lack of enthusiasm among field commanders, lack of multi-service planning, and research and development efforts that are not always focused on realistic objectives. Since these problems are too far-reaching to be resolved effectively and efficiently at the service level, central DOD direction is needed to ensure that program results are commensurate with the costs incurred and efforts are balanced with other readiness initiatives.

DOD recently established a focal point position with responsibility for some of these issues. Some problems that need to be addressed include the development of (1) CW program priorities, long-term and short-term goals on a multi-service basis, and timeframes and incremental costs for accomplishing these goals; and (2) a process by which a service's CW program proposal is evaluated to determine its relative priority and cost effectiveness. Such a system would help resolve questions like what is the appropriate shelf-life for protective clothing which now may be unnecessarily consuming tens of millions of dollars annually.

To complement this system, DOD needs to improve its CW readiness reporting to provide a basis for assessing capability and making informed decisions regarding the program. In September 1982, DOD advised GAO that it intended to assure that those responsible for equipping and employing the forces are aware of their units' chemical defense capabilities; and include related direction in the Defense Guidance.

Before funding any subtantial amounts in fiscal year 1984 for CW programs, Congress should determine if the Office of the Secretary of Defense has made any progress in resolving the problems identified by GAO.

Relevant GAO Report(s)

Strong Central Planning and Direction are needed to Guide the Services' Chemical Warfare Defensive Programs (GAO/C-PLRD-82-13, July 20, 1982)

GAO Contact

Edward Cramer (275-4390)

President's Proposal - PREPOSITIONING IN SOUTHWEST ASIA

GAO Views

The ability of U.S. forces to respond to crises worldwide depends upon rapid deployment. Despite plans to improve strategic mobility (airlift, sealift, prepositioning and host nation support), a shortfall remains in the ability to quickly deploy forces to Southwest Asia. Over the next four years, these enhancements are expected to cost about $30 billion. This shortfall can be reduced by prepositioning supplies and equipment to reduce the lift required. It would appear to be prudent for DOD to coordinate service prepositioning requirements to ensure a balanced, efficient approach. However, the opposite appears to be true. There is little evidence that DOD is addressing all the services' prepositioning programs in concert.

GAO is concerned that each service is pursuing its own program for Southwest Asia without regard to the programs and needs of the other services. DOD has not assessed the services' actions or costed out the most effective mix of airlift, sealift, and prepositioning. We are concerned also that materiel is being bought for prepositioning in Southwest Asia although the countries involved have not yet agreed to prepositioning. These additive materiels are being stored in the U.S. Consequently, the problem of reducing lift requirements has not been solved. Furthermore, the Army has not yet decided whether it wants to preposition or rely on strategic lift.

Before Congress approves future funding requests for the services' prepositioning programs for Southwest Asia, it should be assured that host country agreements for prepositioning have been finalized and DOD has developed a strategic mobility program which considers the services' efforts in total as opposed to an individual service approach.

Relevant GAO Report(s)

(Draft in Process)

GAO Contact

John Gentry (275-4363)

President's Proposal - MORE RELIABLE INFORMATION FOR DETERMINING WAR RESERVE REQUIREMENTS FOR BOTH U.S. AND KOREA FORCES IN KOREA

GAO Views

GAO's recent evaluation of the Army's procedures for determining war reserve stocks requirments for its forces in Korea disclosed that the stated requirements are unreliable because combat loss and consumption rates necessary for accurately determining needs are themselves unreliably determined. For example, ammunition consumption rates are based on combat simulation models for U.S. Forces in Europe and on WWII, Korean War and Vietnam conflict experiences, rather than on a Korean combat scenario. The Army's intended actions to remedy those problems will not be completed until May or June, 1984 at the earliest.

The Army has similar problems in determining war reserve stocks requirements for Korean Army Forces. The U.S. Army assists the Republic of Korea in increasing its forces' combat sustainability by agreeing to provide certain combat essential war reserve materiel the Koreans cannot provide for themselves. The Army reports critical shortages in all classes of war reserve materiel for Korean Army Forces.

GAO's evaluation of the U.S. Army's management of the war reserve stocks for the Korea program disclosed weaknesses in the Army's procedures for determining (1) the appropriate Korean force structure to be supported (2) reliable materiel combat loss and consumption rates, and (3) the extent to which the Koreans cannot provide war reserve stocks for themselves.

The Army plans to spend, by 1987, billions of dollars for war reserve stocks for its forces in Korea and elsewhere around the world. Also, in February 1982, the Secretary of Defense announced to the Congress plans to increase war reserve stocks for Korean Forces. GAO believes, when DOD requests appropriations to procure war reserve equipment and material for U.S. and South Korean Army Forces, the Congress needs assurances that the Army accurately determines war reserve requirements and that procurement funds are targeted toward only necessary and high priority items.

Relevant GAO Report(s)

The Readiness and Sustainability of U.S. Army Forces In Korea: Considerations for Decisionmakers (draft in process)

GAO Contact

David R. Martin (275-4366)

President's Proposal - SALE OF STRATEGIC AND CRITICAL MATERIALS FROM THE NATIONAL DEFENSE STOCKPILE

GAO Views

We question the estimated $314 million to be derived from the sale of strategic and critical materials from the National Defense stockpile. While $214 million would come from excess materials already authorized for disposal, the remaining $100 million would be derived from the sale of stockpile silver, which is contingent on congressional approval.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) authorized the disposal of 105.1 million troy ounces, or about 75 percent, of the stockpile silver in fiscal years 1982-84. However, the fiscal year 1982 Defense Appropriation Act (Public Law 97-114) suspended the disposal pending (1) a July 1, 1982, redetermination by the President that the silver to be disposed of is excess to stockpile requirements and (2) congressional approval of any proposed disposal method. In making the redetermination, the President is required to consider certain factors, including the findings and recommendations in our January 11, 1982, report, "National Defense - Related Silver Needs Should Be Reevaluated and Alternative Disposal Methods Explored" (EMD-82-24).

On June 29, 1982, the Secretary of the Interior informed the Congress that the redetermination had been postponed. The administration is currently preparing a report to the Congress as required by Public Law 97-114. The report is tentatively scheduled to be released during the spring of 1983. However, our February 1983 report, "Unresolved Issues Concerning the Disposal of Stockpile Silver" (GAO/RCED-83-7), raises new issues that we believe must be addressed and resolved in reevaluating the need for the stockpile silver and in exploring alternative disposal methods. Unresolved issues include

--lack of consideration of defense-related monetary uses of silver;

--inadequacies in the decisionmaking data base relating to legislatively mandated supply factors;

--lack of consideration of the estimated cost of alternative sources of silver and the impact of proposed disposal methods on foreign relations; and

--the viability of various alternative disposal methods, such as bullion coins and convertible bonds backed by silver.

Relevant GAO Reports

National Defense - Related Silver Needs Should Be Reevaluated and Alternatiave Disposal Methods Explored (GAO/EMD-82-24, Jan. 11, 1982)

Unresolved Issues Concerning the Disposal of Stockpile Silver (GAO/RCED-83-7, Feb. 18, 1983)

GAO Contact

Charles S. Cotton, (202) 275-4951

President's
Proposal -

ENCOURAGING INCREASED COMPETITION IN DOD PROCUREMENTS

GAO Views

Maximum free and open competition is the preferred method for assuring that the Federal Government obtains fair and reasonable prices and reduces the possibility of collusion for the goods and services it purchases. Although substantial savings and other benefits result from competitive procurements, over 59 percent of DOD's purchases during the first half of FY 1981 were noncompetitive. Congress has expressed frequent concern about this high percentage and is aware of the potential savings that are lost in noncompetitive procurements.

GAO, in its recent study of competition in DOD procurement (PLRD-81-45; July 29, 1981), estimated that DOD awarded about $289 million in fiscal year 1979 contracts without obtaining available competition. DOD, in July 28, 1981, testimony before the Senate Armed Services Committee, added, "increased stress on competition" as one of its principal initiatives to improve the acquisition process. The initiative required each service to develop specific plans for increasing its competitive profile. The Navy's plan, for example, established "competition advocates" in certain purchasing offices and established a goal of increasing its competitive purchases by 3 percentage points. The Secretary of Defense, in a September 9, 1982, letter, reaffirmed DOD's policy of maximizing competitive procurements.

We believe that opportunities still exist for DOD to increase its competitive profile and we support DOD efforts in this area.

In addition, we believe that S.338, a bill to revise the procedures for soliciting and evaluating bids and proposals for Government contracts, etc. would serve to open up more procurements to competition. Essentially the bill, if enacted, would (1) remove the present strong statutory preference for sealed bidding and in its place focus on competition either by sealed bids or competitive proposals, (2) seek to limit noncompetitive procurements, (3) strengthen requirements for publicizing prospective awards that invite competition, and (4) mandates that agencies use advance procurement planning and market research to obtain competition.

Relevant GAO Report(s)

DOD Loses Many Competitive Procurement Opportunities (PLRD-81-45; July 29, 1981).

Reporting Competition in Defense Procurements--Recent Changes Are Misleading (PLRD-82-45; March 8, 1982).

Contact

Sidney Wolin - 275-4265

President's
Proposal -

MULTIYEAR CONTRACTING FOR DOD'S MAJOR WEAPONS SYSTEMS

GAO Views

Multiyear contracts covering periods of up to 5 years, are being proposed more frequently by DOD to satisfy its major weapon systems needs. Public Law 97-86, enacted in December 1981, expanded DOD's authority to propose multiyear contracting for major weapon systems. It set forth the following five criteria for its use:

--benefit to the Government (national security and reduced contract costs)
--confidence in cost estimates
--stability of requirement
--stability of design, and
--stability of funding.

In fiscal year 1982 Congress approved $5.4 billion for multiyear contracts under three major weapon systems--$1.4 billion under the NAVSTAR Global Positioning System; $3.1 billion for the F-16 Aircraft Program; and $.9 billion for the Blackhawk Helicopter Program. The only contract negotiated as of February 1983 was the Blackhawk Helicopter.

For fiscal year 1983 Congress has tentatively approved $4.9 billion for 2 additional multiyear contracts for major weapon systems--$1.7 billion for the Multi-Launch Rocket System and $3.2 billion for the KC-10A aircraft. These contracts were not negotiated as of February 1983.

Fiscal year 1984 funds are being requested to initiate multiyear contracts on four more major weapon systems valued at about $16.7 billion: B-1B weapon system, $12.2 billion; KC-135 re-engining, $2.5 billion; LSD-41 over $1 billion; and the F-15 aircraft over $1 billion.

GAO has long maintained that multiyear contracting can be a viable acquisition method for reducing defense procurement costs. However, until the risks and benefits associated with such contracting for major weapon systems are better understood, GAO believes Defense should proceed with caution and follow the criteria for its use as set forth in Public Law 97-86.

GAO's April 29, and September 13, 1982, analyses of the defense projects proposed for multiyear contracting in fiscal year 1983 raised a number of concerns about (1) the accuracy and

validity of the cost savings estimates and whether savings are commensurate with risks (2) the application of the criteria for identifying programs most suitable for multiyear contracing, and (3) the effects of multiyear contracting on Defense and overall Government budgets and whether Congress's budgeting flexibility is being unduly restricted due to the use of multiyear contracting.

The B-1B proposal is of particular concern because this is a concurrent development and production program, and the first of the 100 planned weapon sytems has not been delivered. In September 1982 we reported that the projected cost savngs were based on a methodology we considered very unreliable and that discounting had not been utilized to consider the time value of money. We also questioned whether two criteria of PL 97-86, design stability and degree of cost confidence, could be met since the B-1B is barely into production and firm contractor cost proposals on annual and multiyear contract bases had not been obtained.

GAO intends to closely monitor DOD's efforts a use multi-year contracting on major weapon systems and is currently conducting and in-depth case study of the Blackhawk Helicopter Program.

Relevant GAO Reports

GAO Analysis of Projects Proposed by the Department of Defense for Multiyear Contracting in its Fiscal Year 1983 Budget Request (PLRD-82-72, April 29, 1982, September 13, 1982 update) and also, Issues Concerning the Department of Defense's Global Positioning System As It Enters Production (GAO/MASAD 83-9) January 26, 1983.

GAO Contact Robert T. Bontempo, 275-4285

Departments of Treasury, State
and Defense.

INTERNATIONAL AFFAIRS

President's
Proposal- Provide $4.4 billion in off-budget foreign military sales credits

GAO Views

GAO does not support the off-budget nature of the $4.4 billion foreign military sales financing program. GAO believes that off-budget loans do not show the total expenditure for foreign military assistance and require the United States to charge the recipient a high interest rate. However, some countries cannot afford the high interest charges associated with these off-budget loans. GAO recommends that all financing be placed on-budget.

GAO also recommends that the administration provide funding for the Guaranty Reserve Fund. This Fund provides the only resources to pay the lender in the event of borrower default or loan rescheduling. Since December 1980, the funds balance will fall from $1.1 billion to $860 million while authorized guaranteed loans will increase to $18.9 billion by the end of fiscal year 1983. GAO believes that the credit position of the major recipients of guaranteed loans requires a substantial increase in the Funds balance.

Relevant GAO Report

Unrealistic Use of Loans To Support Foreign Military Sales (GAO/ID-83-5, January 19, 1983).

GAO Contact

Louis H. Zanardi
(695-1713)

INTERNATIONAL AFFAIRS

President's
Proposal - Provide $602 million for international organizations and conferences

GAO Views

In seeking improvements in the operations of international organizations the Administration has encouraged these organizations to delete low-priority and obsolete activities and has stated that the United States will support only those organizations' budgets that exhibit significant restraint. The $83 million increase in budget authority for 1984 over 1983 largely reflects the completion of a phased shift in the timing of appropriations for U.S. assessments for several international organizations to a year later than previous practice.

GAO recommended that the Secretary of State annually advise the appropriate congressional committees on the status of U.N. efforts to identify low-priority and obsolete activities and the effect on U.S. contributions. The Department did not comment on this recommendation. GAO believes that in view of congressional interest in restraining U.N. budget growth, such information would be useful.

GAO observes that the United States is required to pay the assessments made by the international organizations of which it is a member whether or not it supported the organizations' budgets.

The shift in the timing of appropriations for U.S. assessments for several international organizations came about as the result of a deferral of payments to the organizations during fiscal years 1981 to 1983. GAO proposes the following alternatives for congressional and executive branch consideration:

1. Continue with the payment schedule intended by the deferral, making the full U.S. payment in the last quarter of the calendar year.

2. Continue the process but withhold payments to organizations which are not performing satisfactorily.

3. Continue the process but selectively reverse the deferral policy for those organizations demonstrating financial restraint.

4. Withdrawal from organizations which are not performing satisfactorily or when membership is no longer considered essential to U.S. interests.

5. Reducing the precentage of contribution the U.S. pays.

6. Reversal of the deferral--return to the original payment cycle.

Relevant GAO Reports

Identifying Marginal Activities Could Help Control Growing U.N. Costs (GAO/ID-81-61, September 30, 1981).

Delaying U.S. Payments To International Organizations May Not Be The Best Means To Promote Budget Restraint (GAO/ID-83-26, February 15, 1983).

GAO Contact

Eugene C. Wohlhorn
(275-5790)

President's Proposal -

FUNDING THE NUCLEAR FUSION RESEARCH AND DEVELOPMENT PROGRAM

GAO Views

The President's fiscal year 1984 budget cites the magnetic confinement fusion program as an example of the administration's commitment to long-term, high-risk research that the private sector is presently unable to significantly invest in. Although funding for the fusion program has remained high compared with other energy research efforts, funding has not reached the level envisioned by the Magnetic Fusion Energy Engineering Act of 1980 which, according to DOE, caused the Department to deviate from the fusion development strategy set out by the act. The 1984 budget proposes $467 million for the program--about $150 million less than called for by the act.

Given this reduced funding level, the fact that the Department has yet to furnish the Congress its program plan--required by the act to be issued in January 1982--becomes increasingly important. This plan, when completed, should aid the Congress in its oversight of the fusion development program by clearly explaining the administration's evolving fusion strategy.

Relevant GAO Report

Fusion--A Possible Option For Solving Long-Term Energy Problems (EMD-79-27, Sept. 28, 1979)

GAO Contact

Daniel C. White, (301) 353-4761

President's Proposal - **ENRICHED URANIUM SALES WILL ALMOST MATCH ENRICHMENT PROGRAM SPENDING**

GAO Views

The Department's uranium enrichment program is expected to realize sales receipts of $2.2 billion in 1984. These receipts are estimated to almost match 1984 spending for the program.

Included in the 1984 spending total is about $600 million for continued construction of the Portsmouth, Ohio, gas centrifuge enrichment plant. In a 1982 report, we raised a number of questions about this plant centering on (1) the future demand for enrichment services, (2) the availability and comparative economics of a more advanced enrichment technology, and (3) the Department's prospects for improving its competitive position in the world enrichment services market place.

We said that the Congress should consider the information in our report along with information on other relevant factors in making future funding decisions on the plant.

Relevant GAO Report

Issues Concerning the Department of Energy's Justification for Building the Gas Centrifuge Enrichment Plant (EMD-82-88, May 25, 1982)

GAO Contact

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President's
Proposal -

CLINCH RIVER BREEDER REACTOR DEMONSTRATION

GAO Views

Outlays for the breeder reactor program are estimated to be $700 million in 1984, including $300 million for the Clinch River Breeder Reactor demonstration project. Decisions about the future pace and direction of the breeder program and, within that program, the Clinch River Breeder Reactor, require policy judgments about many factors which are not quantifiable--the future growth of nuclear power, budget priorities, and possible reliance on foreign technologies and energy sources.

Last year we issued our fourth comprehensive report on the breeder program. The report (1) summarizes our work in recent years on both the breeder program and the Clinch River project, (2) provides a current perspective on nuclear power from which to judge the breeder program's pace and direction, and (3) discusses the fundamental program options available to decisionmakers. We also analyzed and reported the Department of Energy's cost estimate for the Clinch River Breeder Reactor demonstration project.

In December 1982, the Congress directed the Department of Energy to investigate private financing of the Clinch River project and to reconsider the existing Government-industry cost-sharing arrangement. The Department is to report the results of this investigation to the Congress by March 15, 1983. This information, when considered with our reports, should assist the Congress in making decisions on the breeder program and the Clinch River project.

Relevant GAO Report

The Liquid Metal Fast Breeder Reactor--Options For Deciding Future Pace and Direction (EMD-82-79, July 12, 1982)

Analysis of the Department of Energy's Clinch River Breeder Reactor Cost Estimate (GAO/RCED-83-74, Dec. 10, 1982)

GAO Contact

Daniel C. White, (301) 353-4761

President's Proposal -

THE DEPARTMENT OF ENERGY'S REORGANIZATION

GAO Views

The administration's budget request for DOE states that legislation will be proposed in 1983 to reorganize Federal energy functions. In a January 1982 report we stated that the then proposed reorganization should be examined with particular emphasis on the efforts that such a change would have on program management and decisionmaking. In an August 1982 report we concluded that the administration had not yet developed reliable information on key aspects of the proposed reorganization, including its potential savings and expenses.

Despite the administration's reorganization plans, the budget request for DOE is presented in a format appropriate to the existing Department. Nonetheless, in requesting funding for the Department's Management and Administration account, the budget request states that funding for the account has been reduced both as a result of program reductions and in anticipation of the reorganization of DOE's functions. Although the portion of the reduction attributable to program reductions and to reorganization are not specified, the total reduction is $15.4 million from the fiscal year 1983 appropriation level for this account. Given the uncertainty of a DOE reorganization, congressional committees should seek information from DOE during budget and appropriation hearings on funding requirements for management and administration under the current organizational structure.

Relevant GAO Reports

Analysis of Federal Energy Roles and Structures (GAO/EMD-82-21, Jan. 20, 1982)

Analysis of Energy Reorganization Savings Estimates and Plans (GAO/EMD-82-77, Aug. 2, 1982)

Response to OMB Comments on our Aug. 2, 1982, report entitled "Analysis of Energy Reorganization Savings Estimates and Plans" (GAO/EMD-82-127, Aug. 20, 1982)

GAO Contact

Edward Kratzer, (202) 376-9713

President's Proposal -

FUNDING OF QUALITY ASSURANCE ACTIVITIES OF THE ENERGY INFORMATION ADMINISTRATION

GAO Views

The fiscal year 1984 budget request defers about $5 million of the Energy Information Administration's (EIA's) quality assurance activities, which continues the trend toward reduced quality assurance for energy data. The budget reductions of 1981 led to the elimination of EIA's Office of Energy Information Validation and most of the data validation studies performed by that office. In addition, the fiscal year 1983 budget reduced funding for EIA's quality control and maintenance activities.

In presenting the fiscal year 1984 budget request to the House Appropriations Committee, Subcommittee on Interior and Related Agencies, the EIA Administrator acknowledged that reduced funding for quality related activities could result in lower quality products. He stated, however, that the reductions are warranted in view of other national priorities and limited financial resources. Based on our participation in reviews of EIA activities through the Professional Audit Review Team, we believe that EIA is likely to experience future problems in providing credible energy data and analyses in the absence of a higher priority on quality control and assurance activities.

Relevant Report

Performance Evaluation of the Energy Information Administration, (PART-82-1, May 19, 1982)

GAO Contact

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President's Proposal -

PHASE-OUT OF ECONOMIC REGULATORY ADMINISTRATION'S ENFORCEMENT OF ITS OIL PRICING REGULATIONS

GAO Views

In our June 1982 report on the Economic Regulatory Administration's (ERA's) crude oil reseller program, we questioned whether its proposed fiscal year 1983 budget would be adequate to effectively conclude this program. ERA's proposed fiscal year 1984 budget raises a similar concern; namely, whether the requested $7.1 million for its compliance program will enable ERA to bring this program to a fair and effective conclusion. The fiscal year 1984 request is a $13.9 million (66 percent) decrease from fiscal year 1983. ERA's justification for such a decrease is that by the end of fiscal year 1983 the remaining audit and investigation work is expected to be completed and all but 2 or 3 of the 34 major refiner cases with alleged violations will be settled. When viewed with ERA's current workload, these projections appear to be overly optimistic.

At the start of fiscal year 1983 ERA had 492 civil cases and 62 special investigations underway and was in the process of settling with 12 of the major refiners. As of January 15, 1983, 395 civil cases and 60 special investigations were still underway and all 12 major refiner cases remained to be settled. To meet the projections in the fiscal year 1984 budget, therefore, ERA would have to significantly increase its case completions over the last three quarters of fiscal year 1983. For example, the 97 civil case and 2 special investigation completions in the first quarter would have to increase to 131 civil case and 20 special investigation completions in each of the last three quarters. Therefore, we question whether ERA will be able to accomplish these goals during the remainder of fiscal year 1983 and, consequently, whether the $7.1 million requested for fiscal year 1984 is adequate to bring the compliance program to a fair and effective conclusion.

Relevant GAO Report

Department of Energy Has Made Slow Progress Resolving Alleged Crude Oil Reseller Pricing Violations (GAO/EMD-82-46, June 1, 1982)

GAO Contact

Gerald Elsken, (202) 376-9710

President's Proposal - UTILIZATION OF USER FEES AS A SOURCE OF REVENUE

GAO Views

We question whether the Federal Energy Regulatory Commission (FERC) will be able to collect $60 million in user fees during fiscal year 1984. In its fiscal year 1984 budget of $94.6 million, FERC assumes that user fees will provide $60 million, an increase of 70 percent over the $35 million in user fees collected in fiscal year 1982. We recognize that FERC's user fees will be increasing as a result of efforts to expand its fee collections. However, FERC has experienced delays in its expansion efforts. The issuing notices of proposed rulemakings to establish or increase fees has been more time-consuming than FERC originally estimated. Although six of the eight proposals had been issued as of December 15, 1982, none of them had been finalized. When finalized, the proposed rules are expected to be challenged, which could delay their final implementation by as much as 2 or 3 years.

Also, as pointed out in our February 1983 report, FERC still needs to (1) perform a current user requirements analysis for its proposed accounting system, giving special consideration to the requirements of the user fee program, and (2) assign overall responsibility for managing and directing the user fee program to one office. Any delays in implementing these recommendations could further impede the collection of increased revenues.

Relevant GAO Report

Federal Energy Regulatory Commission Makes Progress Toward Expanding User Fee Program (GAO/RCED-83-2, Feb. 9, 1983)

GAO Contact

Gerald Elsken, (202) 376-9710

President's
Proposal -

REDUCE THE FILL RATE OF THE STRATEGIC PETROLEUM RESERVE

GAO Views

The administration proposes to significantly reduce the fill rate of the Strategic Petroleum Reserve (SPR) in fiscal years 1984 through 1986--lower than the accelerated fill rates required by the Energy Emergency Preparedness Act for the first 500 million barrels. The lower fill rates will extend the time needed to reach the 500 million barrel level by about 2 years--from January 1985, which could be achieved by filling at 300,000 barrels per day in fiscal years 1984 and 1985, to March 1987 under the fill rates proposed in the administration's budget.

The administration believes that the amount of oil now stored in the reserve (about 300 million barrels) has lessened the Nation's vulnerability to oil supply interruptions and that the current slack oil market would mitigate the consequences of an interruption. In establishing the fill rate requirements of the Energy Emergency Preparedness Act, the Congress demonstrated the importance it attached to quickly filling the SPR to a minimum 500 million barrel level. The current energy supply situation and the relative softness in oil prices make this an ideal time to acquire oil for the reserve.

The administration also has proposed a fiscal year 1983 deferral of $57.4 million for the development of the 150 million barrels of storage capacity, mainly at the new Big Hill, Texas site. These funds, which would become available in fiscal year 1984, would then be reallocated for the development of planned storage capacity other than at Big Hill. The administration states that it will reassess the schedule for developing the Big Hill storage site as part of the fiscal year 1985 budget process. The proposed deferral and reallocation would delay completion of the 750-million barrel SPR from the original date of 1989 until at least 1991. It follows a proposed fiscal year 1982 deferral of Big Hill development, which the House of Representatives disapproved in July 1982.

Relevant GAO Report

Status of Strategic Petroleum Reserve Activities as of December 31, 1982 (GAO/RCED-83-93, Jan. 14, 1983)

GAO Contact

Clifford L. Gardner, (202) 275-4956

General Services Administration
Department of Agriculture
Department of Interior

President's
Proposal - FEDERAL SURPLUS PROPERTY DISPOSITION

GAO Views

Receipts from the disposal of surplus Federal real property are dependent on a number of factors: (1) the quantity of unneeded property identified by Federal agencies (2) how promptly Federal agencies make this property available for disposal by the General Services Administration and the Bureau of Land Management, the principal Federal real property disposal agencies (3) how quickly the property is sold (4) the effect of current economic conditions on the marketability of the property and the anticipated sales proceeds, and (5) the extent to which previous programs authorizing no-cost or discount conveyances are continued or restricted. Receipts for fiscal year 1983, estimated in the 1983 budget to be over $1 billion, are forecast in the 1984 budget to be about $400 million. Receipts for fiscal year 1984, estimated in the 1983 budget to be $4 billion, are forecast in the 1984 budget to be about $1 billion. The revised estimates appear to be more realistic and seem to recognize some of the disposal problems GAO has reported in the past.

Relevant GAO Report(s)

Increasing Public Use and Benefits From Surplus Federal Real Property, September 12, 1978, LCD-78-332.

Real Property Disposal Procedures and Controls of Related Personal Property Need Improvement, September 12, 1979, LCD-79-321.

Misuse of Airport Land Acquired Through Federal Assistance, August 13, 1980, LCD-80-84.

Protection and Prompt Disposal Can Prevent Destruction of Excess Facilities in Alaska, September 12, 1980, LCD-80-96.

Delays in Disposing of Former Communication Sites in Alaska - Millions in Property Lost - Public Safety Jeopardized, May 28, 1981, PLRD-81-28.

Improvements Needed in GSA's Role in the Real Property Utilization Survey Program, July 20, 1982, PLRD-82-93.

Numerous Issues Involved in Large-Scale Disposals and Sales of Federal Real Property, December 11, 1981, CED-82-18.

Sale of Metal Forging Facilities to the Aluminum Company of America and the Wyman-Gordon Company, August 31, 1982, PLRD-82-116.

Sale of Industrial Assets Owned by the Department of Defense, September 10, 1982, PLRD-82-114.

Disposal of Department of Defense Properties in Philadelphia, September 29, 1982, PLRD-82-124.

Followup on Actions Taken by GSA and Other Agencies to Assure Appropriate Use of Real Property Conveyed to Non-Federal Recipients, October 18, 1982, PLRD-83-6.

Report to the Chairman, Committee on the Budget, U.S. House of Representatives, Status Report on the Administration's Actions and Proposals For Budgetary Savings in Fiscal Years 1982 and 1983, PAD-83-9, January 3, 1983.

The Reliability of Real Property Inventory and Valuation Data (Ongoing, 945710).

The Process for Disposing of Real Property (Ongoing, 945711).

Controls to Assure that Federal Property Conveyed With Restrictions is Being Properly Used (Ongoing, 945714).

Alternatives to Fee Simple Ownership of DOD Land (Ongoing, 945718).

GAO Contact

Joseph M. Kelly (535-7550)

President's Proposal - OPERATION OF RECREATION RESOURCES

GAO Views

The President proposed $253 million in budget authority for construction and repair of the National Park System and increasing fees for recreational use. In general, we support the administration's proposals to (1) improve health and safety conditions and (2) raise entrance fees.

Operation of recreation resources--We have issued a number of reports citing numerous problems with the Federal Government's ability to manage concession operations as well as its own facilities to ensure that the Nation's recreation facilities meet health and safety requirements. The Federal Government and its concessionaires have a health and safety backlog in excess of $1 billion. For example, in October 1980, we reported that the Service needs $1.6 billion to rehabilitate, upgrade, and replace facilities in the 333 units of the National Park System to meet health and safety standards.

In response to these problems, the Secretary of the Interior proposed a 5-year program calling for a total of $525 million to restore and improve facilities in the National Park System. Our followup report in 1982 showed that the Congress, the Park Service and park concessionaires placed high priority on correcting these deficiencies. Since more work needs to be done, some possible alternatives for funding further improvements are (1) raising user charges, such as entrance and camping fees, (2) requiring concessionaires to make health and safety improvements on facilities they own or manage, and (3) using proceeds from the sale of nonessential land.

Recreational resources--We issued a report in August 1982 that found entrance fees at most National Park Service units have not been raised or initiated for over 10 years. We recommended that the Congress lift the 1979 moratorium on raising or initiating fees and that the Park Service set entrance fees in accordance with the legislated criteria.

Relevant GAO Reports

Better Management of National Park Concessions Can Improve Services Provided to the Public (CED-80-102, July 31, 1980)

Increasing Entrance Fees--National Park Service (CED-82-84, Aug. 4, 1982)

The National Park Service Has Improved Facilities At 12 Park Service Areas (GAO/RCED-83-65, Dec. 17, 1982)

GAO Contact

Roy Kirk, (202) 376-8212

President's Proposal -

INCREASE FEES FOR RECREATIONAL USE OF NATIONAL PARKS, FORESTS, AND RELATED FACILITIES

GAO Views

The administration proposes increasing fees for recreational use of national parks, forests, and related facilities, "so that those who use them will pay more for their upkeep and maintenance than the general taxpayer who does not use them." GAO agrees with this proposal in principle.

In assessing this or any other user charge proposal, the Congress should focus on the equity and efficiency issues involved. Generally, it is both equitable and efficient that the identifiable beneficiaries of Government activities finance the total costs of these activities through user charges. It is usually desirable that nonmarket costs (e.g., those created by congestion) be included in calculating total costs. The best type of charge to use (e.g., an excise tax vs. a toll) depends upon the costs of collection and the correspondence between the value of benefits conferred on users and the amounts they pay. There will often be a trade-off between attaining a close correspondence and keeping collection costs low.

Relevant GAO Report(s)

The Congress Should Consider Exploring Opportunities To Expand And Improve The Application of User Charges By Federal Agencies: PAD-80-25, March 28, 1980

Increasing Entrance Fees: National Park Service: GAO/CED-82-84, August 4, 1982

GAO Contact: Craig Simmons (275-3188)

President's Proposal - WOOL INCENTIVE AND MOHAIR SUPPORT PROGRAM

GAO Views

Commodity Credit Corporation funds are used to operate the Agricultural Stabilization and Conservation Service's wool incentive and mohair support program which is intended to encourage wool production and improve wool quality. The administration is requesting an increase of $33,839,000 to reimburse the Corporation because of significantly lower market prices received by producers.

We believe this increase is questionable because, as we stated in an August 2, 1982, report to the Congress, the wool incentive payment program has had only a limited effect in accomplishing its objectives. Although the program is intended to encourage wool production and improve wool quality, we found that:

--Since the inception of this program in 1954, payments to producers have totaled $1.1 billion; yet wool production declined from 283 million pounds in 1955 to 106 million pounds in 1980.

--Although the Department has not developed standards to measure wool quality and no data are available to determine whether wool quality has improved, studies and industry representatives indicate that it has not.

The reason the program has had only a limited effect is that factors other than income from wool affect sheep production decisions and thus wool production. On the average, producers receive about 75 percent of their sheep income from lamb sales; therefore, providing an incentive payment on wool is not an effective or efficient way to encourage wool production. Each pound of additional wool production attributable to the wool program in 1980 cost the Federal Government from $2.63 to $6.01. This is for wool that brought the producer 88 cents a pound. Moreover, the major reaons for establishing a program to encourage wool production are no longer as important as they were when the Wool Act was enacted. Wool is no longer classified as a strategic commodity, and its importance both to the U.S. textile industry and for defense mobilization requirements has declined.

We recommended that the Congress consider whether Federal financial assistance should (1) continue to be provided to encourage wool production and/or (2) be provided to generally assist the sheep industry. If the program is retained, we recommended that the Congress eliminate payments to noncommercial producers and payments for unshorn lambs because these payments are not accomplishing their intended objectives.

The Department of Agriculture agreed with most of our findings and stated that, in its opinion, the report reflects a fair appraisal of the program's strengths and weaknesses. The Department, however, disagreed that payments to noncommercial producers should be discontinued. It said that eliminating noncommercial producers from the program would discriminate against the small producer and that it believed the program should be available to all wool producers. As we pointed out, however, program payments have little effect on noncommercial producers' sheep production decisions and, in our opinion, are not necessary to encourage wool production. Therefore, we believe the recommendation is appropriate.

The Department agreed with the recommendation to eliminate the unshorn lamb payment provisions, but it concluded that there would be an increase in shorn wool payments which would offset most of the savings resulting from eliminating the unshorn lamb payments. According to industry representatives and producers we talked with, however, producers would not shear lambs to get a wool payment. Therefore, we believe significant savings would occur if this recommendation were implemented.

Relevant GAO Report

Congressional Decision Needed on Necessity of Federal Wool Program (GAO/CED-82-86, Aug. 2, 1982)

GAO Contact

Keith Fultz, (202) 447-6259

President's
Proposal -

MARKETING PROGRAMS

GAO Views

The Department administers marketing programs to inspect, grade, or class a wide variety of Agriculture commodities. Differences in the funding provisions of the authorizing acts result in some costs being financed with user charges, while the costs of similar services for other commodities are financed with appropriated funds.

The administration is proposing legislation and administrative changes to implement $8 million in user fees for cotton and tobacco market news services and other administrative costs associated with marketing agreements and orders. We agree with these proposed changes.

We have addressed the issue of needed user charge legislation in an April 16, 1981, report to the Congress. The Department's market news service provides those engaged in producing and marketing farm products with a wide range of information. Although this service provides special benefits, no fees were being charged. We recommended amending the existing User Charge Statute or new general user charge legislation to allow an agency to set fees to recover the cost of a service like the market news service. We continue to support the setting of fees to recover the cost of a service that primarily benefits identifiable users.

Relevant GAO Report

Department of Agriculture Should Have More Authority to Assess User Charges (GAO/CED-81-49, Apr. 16, 1981)

GAO Contact

Jim Wells, (202) 447-5045

President's
Proposal - HOUSING FOR THE ELDERLY AND THE HANDICAPPED

GAO Views

The Department of Housing and Urban Development (HUD) provides a direct loan program (sections 202 and 8) to finance rental housing production for the elderly and the handicapped. In the 1984 budget proposal, the administration proposes $476 million of new loan obligation authority to support construction of about 10,000 units. This level is somewhat less than the 16,000 units approved for 1982.

We reported in June 1981 that, although no reliable statistics were available, officials in the Departments of Education, Health and Human Services, HUD, and some national organizations serving people with handicaps all agree that accessible units were in short supply. Because accessible units are not now available, it appears that the housing payment certificate program the administration proposes as an alternative to the costly new construction programs will not be an adequate substitute for the handicapped assistance provided by sections 202 and 8. These programs provide for the production of rental housing designed especially for the needs of the handicapped.

The administration also proposes to sell the section 202 direct loans once the projects have been constructed. Since this sale concept is new, we believe that several issues should be addressed. For example, the administration's proposal does not state how the anticipated losses on the direct loan sales were estimated and whether HUD mortgage insurance will be included on the loans sold. HUD's budget could be affected if the level of losses is greater than anticipated. In addition, if HUD mortgage insurance is not provided, section 8 tenants could be affected should the project encounter financial difficulty.

Relevant GAO Report

Weaknesses In The Planning And Utilization Of Rental Housing For Persons In Wheelchairs (CED-81-45, June 19, 1981).

GAO Contact

James H. New, II (202) 426-1780

President's
Proposal -

INCREASE IN HIGHWAY TRUST FUND TAXES

GAO Views

The Surface Transportation Assistance Act of 1982 proposes increasing some highway excise taxes (e.g., those on gasoline and diesel fuel), and lowering or eliminating others. The net result is a projected increase in excise tax receipts through 1986. GAO agrees with the principle that those who benefit from the use of highways should pay for their construction and maintenance, and supports the proposed excise tax changes to the extent that they are consistent with this principle.

In assessing this or any other user charge proposal, the Congress should focus on the equity and efficiency issues involved. Generally, it is both equitable and efficient that the identifiable beneficiaries of Government activities finance the total costs of these activities through user charges. It is usually desirable that nonmarket costs (e.g., those created by congestion) be included in calculating total costs. The best type of charge to use (e.g., an excise tax vs. a toll) depends upon the costs of collection and the correspondence between the value of benefits conferred on users and the amounts they pay. There will often be a trade-off between attaining a close correspondence and keeping collection costs low.

Relevant GAO Report(s)

The Congress Should Consider Exploring Opportunities To Expand And Improve The Application of User Charges By Federal Agencies: PAD-80-25, March 28, 1980

Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Program: CED-81-42, March 5, 1981

Better Targetting of Federal Funds Needed to Eliminate Unsafe Bridges: CED-81-126, August 11, 1981

GAO Contact: Craig Simmons (275-3188)

President's Proposal -

INCREASE IN AIRPORT AND AIRWAY TRUST FUND TAXES

GAO Views

The Tax Equity and Fiscal Responsibility Act of 1982 reinstates statutory authority for the deposit of aviation excise taxes into the airport and airway trust fund, and also increases some of these taxes. GAO agrees with the earmarking of these receipts and their use in financing FAA services provided to the air transportation industry. In light of FAA's capital modernization program, the proposed increase in these excise taxes is probably justified.

In assessing this or any other user charge proposal, the Congress should focus on the equity and efficiency issues involved. Generally, it is both equitable and efficient that the identifiable beneficiaries of Government activities finance the total costs of these activities through user charges. It is usually desirable that nonmarket costs (e.g., those created by congestion) be included in calculating total costs. The best type of charge to use (e.g., an excise tax vs. a toll) depends upon the costs of collection and the correspondence between the value of benefits conferred on users and the amounts they pay. There will often be a trade-off between attaining a close correspondence and keeping collection costs low.

Relevant GAO Report(s)

The Congress Should Consider Exploring Opportunities To Expand And Improve The Application of User Charges By Federal Agencies: PAD-80-25, March 28, 1980

Runways at Small Airports Are Deteriorating Because of Deferred Maintenance: Action Needed by FAA and the Congress: GAO/CED-82-104, September 13, 1982

GAO Contact: Craig Simmons (275-3188)

President's
Proposal -

AIR CARRIER SUBSIDIES

GAO Views

In conjunction with airline deregulation, one existing air carrier subsidy program designed to promote general aviation is being replaced with a new program to provide essential air services to small communities. The administration expects the existing subsidy to be terminated by 1984. Proposed budget authority for air carrier subsidies is $51 million in 1984.

The new essential air service subsidy program has actually been in existence for 4 years. Our review of the new program has shown that the 88 small communities receiving subsidized air service are not making progress toward achieving self-sustaining air service, and carriers will abandon or substantially reduce service to most of the communities when the program ends in 1988. We believe that the Congress should consider changes to allow the Board greater flexibility to consider the merits of increasing or decreasing subsidies to selected communities in order to help develop an air service market or to discontinue subsidies to communities not supporting air service.

Relevant GAO Report

Report to be issued in the spring.

GAO contact

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President's Proposal -

INSTITUTING USER FEES FOR CERTAIN COAST GUARD SERVICES

GAO Views

The administration proposed that consumers of certain Coast Guard services pay a user fee to cover some of the associated costs (estimated revenues in 1984--$58 million). GAO agrees that individual or classes of users of Coast Guard services should pay the costs of those services. This excludes Coast Guard activities that serve a purely public, or national interest. GAO supports the administration's proposal to the extent that it is consistent with this position.

In assessing this or any other user charge proposal, the Congress should focus on the equity and efficiency issues involved. Generally, it is both equitable and efficient that the identifiable beneficiaries of Government activities finance the total costs of these activities through user charges. It is usually desirable that nonmarket costs (e.g., those created by congestion) be included in calculating total costs. The best type of charge to use (e.g., an excise tax vs. a toll) depends upon the costs of collection and the correspondence between the value of benefits conferred on users and the amounts they pay. There will often be a trade-off between attaining a close correspondence and keeping collection costs low.

Relevant GAO Report(s)

The Congress Should Consider Exploring Opportunities To Expand And Improve The Application of User Charges By Federal Agencies: PAD-80-25, March 28, 1980

The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities: CED-80-76, April 3, 1980

GAO Contact: Craig Simmons (275-3188)

President's
Proposal - COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

GAO Views

The administration's proposal to increase grantees' flexibility by permitting new housing construction as an eligible activity under the Community Development Block Grant (CDBG) program is consistent with the Department of Housing and Urban Development's (HUD's) other recent efforts to provide grantees more flexibility in how they plan, administer, and carry out their activities. We agree that it is desirable to maintain program flexibility. However, as we recently stated in a report and testified at hearings, HUD was doing an inadequate job of determining whether, or to what extent, cities were complying with the program's primary legislative objective of principally benefiting low- and moderate-income persons. Some of HUD's efforts to increase grantee flexibility, as contained in its proposed changes to the CDBG regulations governing large city and urban county grantees, have raised questions whether HUD would be able to determine that grantees were complying with the program's primary objective.

Further, many grantees may emphasize construction of single-family housing rather than multifamily housing. In December 1982, we reported that CDBG communities have generally emphasized homeownership assistance, while reporting that renters are in greater need of assistance. The communities indicated that twice as many renters needed assistance than did homeowners and that 31 percent more rental units needed rehabilitation than did owner units. But, in meeting these needs, CDBG funds were used to assist 28 percent more owner units than renter units. In addition, although CDBG program regulations generally prohibit communities from financing new construction activities, we found that a significant number of communities have financed construction activities. For example, about 10 percent funded construction for homeowners and about 7 percent funded multifamily rental housing construction.

We are also drafting a report on how seven States implemented their 1982 small cities CDBG program. The report will discuss how States designed their programs to address local needs, the activities the States funded compared with those funded by HUD in the previous year, how public participation requirements were met, how the grantees were selected, and local communities' views of the State program.

Relevant GAO Reports

HUD Needs To Better Determine Extent Of Community Block Grants' Lower Income Benefits (GAO/RCED-83-15, Nov. 3, 1982).

Block Grants For Housing: A Study Of Local Experiences And Attitudes (GAO/RCED-83-21 and 21A, Dec. 13, 1982).

GAO Contact

Steve Wozny (202) 426-1780

President's
Proposal - URBAN DEVELOPMENT ACTION GRANT PROGRAM

GAO Views

The administration's proposal sets the fiscal year 1984 appropriation level for the Urban Development Action Grant (UDAG) program at $440 million. This amount represents $196 million in new budget authority and $244 million in deferred 1983 resources. Small cities, however, may not be able to use their allocation ($110 million) given their historically low application and success rates in obtaining UDAG funds.

At present, about 10,000 small cities are potentially eligible for UDAG funds. However, for fiscal year 1978 through 1982, only 8 percent of these cities have applied for funding and only half of the applicants have obtained funding approval. The Congress may want to ask the Department whether the program is appropriate for small cities, and, if so, what actions it plans to take to increase small cities' participation.

We are currently drafting a report that addresses why some of the most distressed small cities have never applied for or have been unsuccessful in obtaining UDAG funds.

Relevant GAO Reports

Improvements Needed In Selecting And Processing Urban Development Action Grants (CED-79-64, Mar. 30, 1979).

Response To HUD Comments On GAO Testimony (PAD-79-85, Sept. 17, 1979).

Criteria For Participation In The Urban Development Action Grant Program Should Be Refined (CED-80-80, Mar. 20, 1980).

GAO Contact

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Department of Housing and Urban Development

President's
Proposal - RENTAL REHABILITATION GRANTS

GAO Views

The proposed rental rehabilitation block grant program could play a useful role in many communities with aging and deteriorated housing stocks, particularly if other forms of housing production assistance are largely eliminated as planned by the administration. The program has the potential of upgrading a badly deteriorating rental housing stock at much lower cost than mechanisms such as section 8. The proposed program should be carefully implemented, however, to ensure that lower income households are not displaced and that costs are carefully controlled. For example, these assurances could be achieved by (1) providing assistance for only the type of units with the greatest need for rehabilitation, (2) including geographic- and income-related targeting mechanisms, (3) limiting the extent of rehabilitation expenses, (4) requiring that only substandard or deteriorated units be rehabilitated, and (5) providing program evaluation and management information requirements to facilitate sound program management and congressional oversight.

Under the administration's proposal localities have the flexibility to determine the type of units to be rehabilitated. Past experience under the CDBG program, which is similar to the proposed program, indicates that while entitlement communities primarily directed their housing assistance to single-family housing, they reported that the overwhelming need is to rehabilitate and provide assistance to multifamily rental housing for lower income households. Explicit targeting criteria could ensure that grant funds are used to provide assistance for the type of units with the greatest need for rehabilitation.

The proposed program would be administered in conjunction with the administration's proposed housing payment certificate program, with 30,000 certificates set aside for use with the rental rehabilitation grant program. These housing certificates would be provided to eligible low-income renters to help them afford these rehabilitated units. These rehabilitated units, however, would not be affordable to many lower income families with or without housing certificates if sizable rehabilitation expenses resulted in substantial increases in rents. In the past, rehabilitation grants and loans have been conditioned on the continued use of housing for low- and moderate-income households. On the other hand, past experience with single-family rehabilitation under CDBG and section 312 has shown that in the absence of clear guidelines on targeting, many communities fail to assure that benefits go to low- and moderate-income households. Thus, consideration should be given to targeting the units in the rehabilitated building to low- and moderate-income tenants. Further, limiting the subsidy, by statute, to low- and moderate-income census tracts might be advisable.

Another issue is whether rehabilitation expenditures or the subsequent value of the unit after rehabilitation should be limited in some way. A limit on the extent of rehabilitation allowed could avoid sizable rehabilitation expenses which imply substantial increases in rents. Limiting the rehabilitation expense would also ensure that grant money did not support unnecessary or extravagant improvements but rather brought substandard and deteriorating units up to code. The administration estimates that the average cost to rehabilitate a rental unit is $10,000, with half provided by the program. Preliminary results of a current evaluation of 25 CDBG entitlement communities allows us to estimate that the average cost to rehabilitate multifamily rental housing (excluding substantial rehabilitation) is about $3,000 to $5,000 per unit. In past programs substantial rehabilitation has tended to maximize rehabilitation expenses regardless of the original condition of the building in order to raise the tax savings provided by accelerated depreciation. In the past, rents and subsidies under categorical programs such as section 8 were often as high or higher for rehabilitated properties than they were for new construction.

Adequate program evaluation and management information is needed to support sound program management and congressional oversight. At the national level, HUD and the Congress should be able to judge how well the program objectives are being met. States and local governments, too, need such information to manage their programs effectively. Regarding the new block grants created in 1981, we concluded, in a September 1982 report, that evaluation systems must be applied uniformly across the administering governments if comparable data are to be collected and analyzed. Our past work on the CDBG program, however, has identified several problems relating to the reliability of data used to report program beneficiaries, particularly for rental housing.

Relevant GAO Reports

Lessons Learned From Past Block Grants: Implications For Congressional Oversight (GAO/IPE-82-8, Sept. 23, 1982).

GAO's Views On S. 2171 (CED2-158, Apr. 13, 1982).

HUD Needs To Better Determine Extent Of Community Block Grants' Lower Income Benefits (GAO/RCED-83-15, Nov. 3, 1982).

Block Grants For Housing: A Study Of Local Experiences And Attitudes (GAO/RCED-83-21 and 21A, Dec. 13, 1982).

GAO Contact

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President's Proposal - NATIONAL FLOOD INSURANCE FUND

GAO Views

The National Flood Insurance Program has historically operated at a deficit and, consequently, required a substantial Federal subsidy. The President's 1984 budget proposes to phase out this subsidy by 1988 through a series of rate increases.

In a recent report we examined the Agency's ratesetting procedures and the alternatives and ramifications involved in eliminating the Federal subsidy. We found that raising rates to eliminate the Federal subsidy could work counter to the program's overall objective of reducing Federal expenditures on post-disaster assistance. Because insurance rates are averaged to cover a broad spectrum of risk, policyholders facing smaller-than-average risk may drop out of the program when faced with rate increases. If enough policyholders leave the program, the demand for other forms of post-disaster assistance, such as Small Business Administration disaster loans, could increase, potentially costing the Government more than it would realize from increased flood insurance revenues. Reduced participation in the flood insurance program could also increase the use of casualty loss deductions on tax returns, thus also increasing the Government's costs.

We recommended that the Agency monitor the impact of any rate increases on the program's overall objective.

Relevant GAO Report

National Flood Insurance Program--Major Changes Needed If It Is To Operate Without A Federal Subsidy (GAO/RCED-83-53, Jan. 3, 1983)

GAO Contact

Ron Wood, (202) 653-6161

President's Proposal -

SELECTING MEDICARE CONTRACTORS BY COMPETITIVE BIDDING

GAO Views

The President's fiscal year 1984 budget indicates that authority to procure Medicare claims processing contracts through competitive bidding will be sought. In 1979, we reported to the Congress that we believed there was insufficient information, especially about the effects on benefit payments and services, to recommend going to competitive Medicare claims processing contracts. In 1981, we reported that Medicare's experiments with competitive fixed-price contracting had not demonstrated the success of this approach. In two of the three experiments contractor performance and beneficiary and provider services deteriorated during and after contractor changeover, and program payments were not adequately controlled.

Relevant GAO Reports

More Can Be Done to Achieve Greater Efficiency in Contracting for Medicare Claims Processing, HRD-79-76, June 29, 1979

Testimony before the Subcommittee on Health, House Committee on Ways and Means, Electronic Data Systems Federal's Performance as a Medicare Contractor in Illinois, April 28, 1980

Experiments Have Not Demonstrated Success of Competitive Fixed-Price Contracting Under Medicare, HRD-82-17, December 1, 1981

Testimony before the Subcommittee on Health, Senate Committee on Finance, on the Use of Competitive Fixed-Price Contracting in Medicare, December 3, 1981

GAO Contact

Robert E. Iffert, Jr. (245-1572)

Department of Health and Human Services

President's Proposal - 1. PHASEOUT OF DIRECT FEDERAL SUBSIDIES FOR PROFESSIONAL STANDARDS REVIEW ORGANIZATION PROGRAM

2. TERMINATING MANDATORY HOSPITAL UTILIZATION REVIEW ACTIVITIES

GAO Views

These proposals are interrelated. The Medicaid and Medicare laws required that services paid for under the programs must be reviewed to ensure that only claims for medically necessary and appropriate services are paid. In areas where Professional Standards Review Organizations (PSROs) are operating, they are responsible for making medical necessity and appropriateness determinations for Medicare inpatient hospital services and can perform this function for Medicaid at each State's option. In areas without PSROs, hospitals are required to establish utilization review committees to make medical necessity and appropriateness reviews of services provided to Medicare beneficiaries and States are required to establish procedures for accomplishing this function for Medicaid. The Tax Equity and Fiscal Responsibility Act of 1982 replaced the PSRO program with the Utilization and Quality Control Peer Review Organization (commonly referred to as PRO) program. PROs would have similar responsibilities to those of PSROs for Medicare and would also be available to States to fulfill their utilization review functions. PROs would also be available to private health insurance programs for utilization review activities.

The President's proposals would eliminate both the PSRO program and the requirement that hospitals not covered by a PSRO establish utilization review committees. Also, the President's budget for fiscal year 1984 does not provide any funds for a PRO program. Thus, there would not be a required program of physician review of the medical necessity and appropriateness of inpatient hospital services under Medicare. Presumably, Medicare's claims paying agents for hospitals would have some responsibility for this function and States would be required to have some mechanism for it under Medicaid.

Budget documents state that under the Medicare's hospital reimbursement system established by the Tax Equity and Fiscal Responsibility Act and under the Administration's proposed prospective payment system, hospitals have financial incentives to reduce lengths of stay and the need for PSRO length-of-stay reviews is diminished. However, we believe these payment systems include provisions which could (1) allow for manipulating admissions and diagnostic coding to increase total reimbursement and (2) also result in adverse impacts on the quality of care provided to Medicare beneficiaries. Therefore, we believe it is

necessary to maintain a PSRO/PRO type function at least until it can be demonstrated that these potential problems do not actually arise under the revised and proposed hospital payment systems. In addition, we noted several instances in the December 1982 HHS report to the Congress on the proposed prospective payment system which pointed out the need for a PSRO/PRO type function. These areas include:

--The proposed system might encourage hospitals to release patients prematurely which might result in otherwise unnecessary readmissions and a second payment.

--The proposed system might encourage hospitals to transfer unnecessarily a patient to another provider or to reduce the provision of important ancillary services to minimize costs.

--There is a potential incentive in the proposed system for unnecessary admissions.

--There is an incentive under the proposed system for hospitals to report higher level diagnoses in order to obtain higher payments.

HHS' report on the proposed system states:

"* * * [HHS] will focus its medical review activities on quality related issues."

"* * * In implementing the total costs limits mandated [in 1982], the current medical review performed by PSROs and fiscal intermediaries was augmented by adding an admissions pattern monitoring system to determine whether provider admissions rates change under the new [1982] limits. Under prospective reimbursement, [HHS] would continue to be concerned with identifying underutilization of needed servies, inaccurate or aberrant diagonstic codes and aberrant admissions patterns by provider and physician."

"Admission pattern monitoring will have three parts. First, [HHS], using its own data on providers and beneficiaries and data collected and developed by existing medical review mechanisms on physicians, would profile the admission patterns of providers and practitioners. Then, using aberrancy screens, providers showing unusual changes in volume of admissions, case-mix, total

reimbursement, or discharge status of patients would be identified and referred to the appropriate medical review authority. Finally, the medical review authority would undertake further analysis to determine the cause of the aberrancy and whether an unacceptable practice was in fact occurring. If so, the review authority would take appropriate action to intervene. Such intervention could range from additional provider review to imposition of sanctions or preadmission review." (Emphasis added.)

Relevant GAO Reports

Improved Controls Needed over the Extent of Care Provided by Hospitals and Other Facilities to Medicare Patients, B-164031(4), July 30, 1971

HEW Progress and Problems in Establishing Professional Standards Review Organizations, HRD-78-92, September 21, 1978

Opportunities to Reduce Administrative Cost of Professional Standards Review Organizations, HRD-78-168, October 18, 1978

Problems in Evaluating the Cost Effectiveness of Professional Standards Review Organizations, HRD-79-52, July 19, 1979

Need to Better Use the Professional Standards Review Organization Post-Payment Monitoring Program, HRD-80-27, December 6, 1979

Savings Claimed for the Oklahoma Hospital Utilization Review System Were Overstated, HRD-80-42, January 11, 1980

Questions About the Cost Benefit Analysis of the Professional Standards Review Organization Program, HRD-80-93, June 12, 1980

Department of Health and Human Services Should Improve Monitoring of Professional Standards Review Organizations, HRD-81-20, December 29, 1980

Testimony before the Subcommittee on Health, Senate Committee on Finance, on Proposal to Phase Out the Professional Standards Review Program, March 23, 1981

Testimony before the Subcommittees on Oversight and Health, House Committee on Ways and Means, on Proposal to Phase Out the Professional Standards Review Program, March 24, 1981

Responses to Questions About Performance Evaluation Criteria for Professional Standards Review Organizations, HRD-82-124, September 24, 1982

GAO Contact

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Additional Item - VERIFICATION OF WELFARE RECIPIENTS' INCOME AND ASSETS

GAO Views

Legislative initiatives are needed that would strengthen the eligibility and verification processes and as a result reduce excessive program costs, fraud, and abuse. There are over 100 entitlement programs (insurance-based and needs-based) which will cost the Federal and State Governments about $350 billion in fiscal year 1983. Inadequate verification of information provided by applicants and recipients in entitlement programs results in estimated billions of dollars of overpayments and underpayments annually. In some programs the lack of adequate verification not only impacts on the program for which the eligibility determination is made, but also results in erroneous benefits in other programs. For example, persons eligible for AFDC benefits may be automatically eligible for Medicaid or Low-Income Home Energy Assistance.

In a January 1982 report, we pointed out that underreporting of income and assets by recipients of 58 federally supported programs--whether deliberate or otherwise--resulted in hundreds of millions of dollars in improper payments each year. Fiscal years 1978-79 estimates for five of six major programs we reviewed placed the amount of overpayments at $867 million annually--$639 million Federal and $228 million State funds. The estimated fiscal year 1982 overpayments, of Federal funds only, for the five programs was over $1 billion. We recommended that the Congress amend several laws to require that certain wage data be collected and eliminate the present restrictions on the use of certain data for verifying eligibility and determining benefit amounts in these programs.

Relevant GAO Report(s)

Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (GAO/HRD-82-9, January 14, 1982)

GAO Contact

Neil N. Miller, 523-9076

Additional Item - RECOVERY TECHNIQUES USED IN PUBLIC ASSISTANCE PROGRAMS

GAO Views

The Social Security Act permits or in some cases requires recipients or others responsible for them to reimburse the Federal and/or State government for public assistance that was provided. In such cases, the assistance is considered a loan. However, savings are not being fully realized and inequities are occurring because of inconsistent or non-existent Federal and State policies concerning these recoveries. Consequently, the opportunity for the Federal Government and States to save hundreds of millions of dollars annually and bring increased equity to the nation's major welfare programs is not being realized. Uniform recovery policies would reduce program costs without reducing or denying assistance to those who have little or no means of their own support.

Techniques have been implemented in some States to recover assistance through the use of liens or mortgages, estate recoveries, and restricting asset transfers. It is estimated that more than $200 million is being saved annually because of these initiatives.

Another technique offering potential savings involves requiring Child Support Enforcement agencies in States to collect child support from absent parents whose children receive public assistance other than AFDC, such as Medicaid or SSI.

The President's 1984 Budget proposal partially addresses collection of medical expenses from absent parents by requiring State Child Support Enforcement agencies to petition the court to include medical support as part of the child support order whenever health care coverage is available to the absent parent at a reasonable cost. However, the proposal could go further by requiring collections from absent parents who are capable of paying for medical expenses when health care insurance has not been provided. The proposal could also include the use of Child Support Enforcement in the SSI program where, according to SSA's Office of Child Support Enforcement, State Child Support Enforcement agencies could collect millions of dollars from absent parents not providing financial support to their children receiving SSI payments.

Relevant GAO Report(s)

Statement of Facts on Recovery Techniques Used in Public Assistance Programs provided to the Senate Budget Committee and House Ways and Means Committee in July 1982.

GAO Contact

Tony Lofaro, FTS-562-3527

President's
Proposal - GENERAL RETIREMENT AND DISABILITY INSURANCE

GAO Views

The National Commission on Social Security Reform recognized that the long-term financial needs of the trust funds would not be fully met by its recommendations and that .58 percent of taxable payroll is a shortfall that the Congress will be required to address in the future. However, the size of the shortfall may well be larger than .58 percent because, subsequent to the Commission rendering its report, the Secretary of HHS disclosed that the 1983 Social Security Trustees' Report will contain revised assumptions that reflect lower birth rates and a lack of real wage growth. As a result of the revised assumptions, the long-range deficit projected for the trust funds will be even greater than that estimated by the Social Security Reform Commission.

It is therefore important to consider the availability of future Social Security funding sources. The National Commission used the three funding sources available to it--increased taxes, decreased benefits, and the infusion of general revenues. Presumably these three financing sources would be available to the Congress when it decides to address the long-term financial needs of the trust funds in the future. However, any option which involves changes in benefits generally must allow for an adequate period before implementation, so that those who would be affected will have ample time to prepare and adjust their retirement planning. Also, to the extent that fewer workers will be supporting Social Security in the future (two workers for each beneficiary by 2030 under intermediate assumptions and 1.6 workers for each beneficiary under pessimistic), increasing employee taxes as a major revenue source in the longer term may become prohibitive. Finally, with regard to using general revenues, as additional general revenues are infused into Social Security, additional tax revenues could be required to meet other budgetary needs.

Relevant GAO Report(s)

None

GAO Contact

Andrew Kulanko, FTS-987-3138

President's Proposal - **ELIMINATION OF SHORT-TERM WORKER ADVANTAGE FOR SOCIAL SECURITY BENEFICIARIES WITH PENSIONS FROM NON-COVERED WORK**

GAO Views

The social security benefit formula ensures that low wage workers receive a proportionately higher return on their payroll tax contribution than workers with higher wages. This favorable rate of return is based on a social adequacy or welfare objective. The formula also provides this advantage to average or high wage earners who work for only short periods in employment covered by social security, although such an advantage may not be warranted for them. This advantage is referred to as the short-term worker advantage.

The budget proposes to eliminate the short-term worker advantage for persons with pensions from non-covered employment (such as government workers) by revising the formula for computing their social security benefits. Requiring a different benefit calculation for those with pensions from non-covered employment would place additional administrative requirements on SSA for identifying such individuals and their non-covered pension amounts. It could also result in those with a small social security benefit having that benefit reduced because of a very small non-covered pension.

The benefit advantage enjoyed by short-term workers could be curtailed for all workers who enjoy such an advantage by adjusting the benefit formula to more directly correlate benefits payable with the time spent in covered employment and the taxes paid.

In a report to the Congress on April 14, 1981, entitled, "Revising Social Security Benefit Formula Which Favors Short-Term Workers Could Save Billions," we showed how people who worked for only a short period under social security receive proportionately more for their social security tax dollar than lifetime workers. We offered two alternatives for revising the benefit formula to remove this advantage. Assuming any modification would become effective for workers first eligible in calendar year 1984 and later, over a 6-year period one alternative could save in excess of $4.1 billion, the other in excess of $3.5 billion.

Relevant GAO Report(s)

Revising Social Security Benefit Formula Which Favors Short-Term Workers Could Save Billions (HRD-81-53, April 14, 1981)

GAO Contact

Andrew Kulanko, FTS 987-3138

Office of Personnel Management

President's
Proposal - CIVIL SERVICE RETIREMENT SYSTEM REFORMS

GAO Views

GAO has issued numerous reports recommending reforms of the civil service retirement system in the areas of disability and early retirement, special benefits for law enforcement and firefighter personnel, funding and cost-of-living adjustment provisions, and contributions for prior service. Some of these recommendations have been adopted. During the past 3 years, the Congress has acted to (1) tighten eligibility for disability and early retirement, (2) update interest rates charged on monies owed the fund, (3) limit cost-of-living adjustments, and (4) eliminate the "look-back" provision for computing annuities which have resulted in savings of about $1.6 billion annually.

The Administration's proposal would withhold cost-of-living adjustments (COLA) for 1984 and increase employee contribution rates. These changes would save an estimated $2 billion in fiscal year 1984. In addition, the Administration proposes to make permanent the limitation on COLA adjustments for retirees under the age 62, reduce annuities for retirements earlier than age 65, and change the annuity formula to reduce the amounts of annuities. While these proposed changes will have little impact on the fiscal year 1984 budget, they will have substantial impact in future years. The Administration's rationale for these proposals is that retirement costs are skyrocketing and the system should be changed to bring it more in line with private sector practices.

The rationale for such sweeping changes is not supported. The accruing cost of the retirement system, expressed as a percentage of pay, has been declining the last 3 years because the Congress has cut benefits, as previously discussed. Also, the proposed increases in employee contributions and changes to the benefit formula run counter to the trends in the private sector. For example, the Administration proposes to increase employee contributions from 7 percent to 11 percent of pay in 1985 whereas over 90 percent of private sector plans are noncontributory and employees pay only 5.4 percent for social security benefits. Furthermore, under the provisions of the Employee Retirement Income Security Act (ERISA), private sector employers would be prohibited from applying any of these changes to employees' benefits earned to date.

The current Administration contends that the civil service retirement system has far more generous benefits and is much more costly than retirement programs in the private sector or in State and local Governments. However, during hearings before the House Subcommittee on Compensation and Employee Benefits, in April 1979, OPM officials testified that contrary to popular belief there are a number of retirement systems in the country that are far superior to the civil service system. The steelworkers, autoworkers,

aluminum workers, and railroad workers systems were cited as being superior. Nevertheless, the civil service system has certain benefits which are more generous than private sector plans and is a costly program. However, for a true comparison, its benefits should be compared with combined social security and private plan benefits.

The President's Commission on Pension Policy in its February 26, 1981, report recommended as a retirement income goal the replacement of preretirement disposable income from all sources. For the average civil service retiree, this would require a replacement rate of 65 percent of final salary. Under the current provisions of the civil service system, the average Federal retiree's net annuity replaces only 46 percent of final pay and the President's proposal would reduce this to 32 percent.

The Administration has targeted these proposed changes to members of the civil service retirement system only. Other than the limitation on COLA adjustments, Federal personnel in other retirement systems such as the military and Foreign Service retirement systems would not be affected.

Notwithstanding our concerns with the President's proposals, there are several areas of the system in need of reform. GAO has long been concerned with the equity and costs of the Government's policy of full, automatic cost-of-living increases for Federal retirees. We have urged the Congress to consider adopting a modified policy of less than full indexing of retirement benefits. We suggested that the adjustments be limited to either 75 percent of the full percentage increase in the Consumer Price Index or to the average pay increase granted to active Federal employees.

GAO has also recommended that the Congress require full funding of current accruing costs of the civil service retirement system. This would not increase Federal outlays; however, it would increase contributions from off-budget entities whose employees participate in the system and thereby increase Federal revenues in excess of $2 billion a year. GAO has also questioned the need for the special early retirement benefits for Federal law enforcement and firefighter personnel. Covered employees are not retiring much earlier than employees under the regular retirement provisions, but the costs of covered employee benefits are considerably higher.

Relevant GAO Report(s)

FPCD-76-80, July 27, 1976; FPCD-78-2, November 17, 1977; PAD-79-22, August 15, 1979; B-130150, July 1, 1980; B-199649, December 15, 1980; FPCD-78-49, December 29, 1978; FPCD-76-97, February 24, 1977.

GAO Contact

Thomas Eickmeyer 275-4062.

President's
Proposal -

AUTOMATIC COST-OF-LIVING ADJUSTMENT (COLA) CHANGES

GAO Views

The budget proposes that, beginning in 1988, if the social security trust fund's balance as of the beginning of the year is less than 20 percent of the amount needed to pay benefits that year, the automatic cost-of-living adjustment should be made on the lower of the Consumer Price Index (CPI) increase or the increase in wages. This provision is intended to serve as a stabilizer for the social security trust funds against the possibility of unexpectedly poor economic conditions over time. Currently, the COLA is indexed to consumer prices and benefit increases are provided automatically regardless of the trust fund's balance or economic conditions.

The COLA change as proposed provides some flexibility in the automatic adjustment mechanism but does not provide for the reduction, suspension, or exclusion of cost-of-living increases if funds are not available to make scheduled monthly benefit payments--or for whatever other reason a COLA restriction would be appropriate. Furthermore, implementing this proposal could cause administrative problems for Social Security. The proposal provides that, if the trust fund ratio is 32 percent or more at the beginning of a year, payment will be made during the following year to compensate beneficiaries who received adjustments in prior years on the basis of the lower wage increases. These supplemental payments would be made only to the extent that sufficient funds are available over those needed to maintain a fund balance of 32 percent. Although the administrative provisions to implement this proposal have not been fully worked out by the Social Security Administration, it is clear that the proposal will cause additional recordkeeping and administrative problems. For example, the supplemental COLA payment provisions would require social security to perform a major redesign of its already troubled automated payment system.

Should the automatic COLA modification proposed in the budget be favorably considered, the Congress may wish to make it available before 1988, especially in view of the trust funds' serious financial needs. Should the economy not perform as

anticipated under current assumptions, the mechanism to provide COLAs based on the lower of the increase in prices or wages may be needed earlier than the 1988 date recommended.

The major factors that have contributed to the trust funds' financial problems since 1977 have been the high automatic cost-of-living increases in recent years and decision-makers' inability to modify such raises. In view of the issues involved with automatic COLAs, the Congress may wish to give consideration to putting itself in the same position it was in before 1972, (when the automatic COLA was placed into law), when COLAs were given through the Executive and Legislative decisionmaking process, taking into consideration economic and other relevant factors.

Relevant GAO Report(s)

N/A

GAO Contact

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Department of Housing and Urban Development

President's
Proposal - SUBSIDIZED HOUSING

GAO Views

The administration's proposal to gradually replace existing housing subsidy programs with a voucher-like system of certificates is intended to restrain Federal housing assistance spending while reaching more families. Although the proposed Housing Payment Certificate program will reduce outlays--by reducing the per family subsidy amount--questions exist regarding the equity of the program and funding of the cost of administering certificates by HUD and public housing authorities.

The phasing out of construction programs and the gradual conversion of section 8 units will eventually result in certificates becoming the primary Federal subsidy device--a major shift in housing policy away from expanding the supply of housing toward improving income of eligible families. The gradual shift to certificates continues the trend of (1) relying more on local governments (in this case public housing authorities) to administer housing programs, (2) reducing the long-term Federal commitment to budget outlays, and (3) allowing the administration greater freedom to vary the total subsidy amount.

The proposed certificate program is similar to the administration's fiscal year 1983 proposal, which the Congress did not approve. The proposed budget provides for 120,000 certificates for fiscal year 1984, 80,000 of which represent extending the subsidy to new families. The remainder will be used to convert families from section 8 and from other expiring programs. The new subsidy formula is expected to result in a lower subsidy per family than available under section 8. To be eligible, families must occupy "standard quality housing" and have income less then 50 percent of area median income.

We believe that the following issues are important:

--The certificates may not "reach" those families in greatest need. Because the subsidy per family will be less than under the section 8 program it replaces, the poorest families will continue to go unserved. Such families are more likely to be living in substandard housing and thus will have to relocate, which is costly and not always possible, especially for large families. Another factor inhibiting very low-income participation is the lack of available standard units for the very poor, particularly in tight housing markets. We have previously reported on the existence of rental housing shortages (see CED-80-11) and HUD has acknowledged the shortages existence, as did the President's Commission on Housing's 1982 report.

--Program administration could be a burden. Public housing authorities (PHAs) will administer the certificate program and have responsibility for monitoring program results and control over program abuse. Many authorities are in severe financial condition and are ill-prepared to take on additional responsibilities without a corresponding increase in funding. The capacity of authorities to conduct frequent inspections of units for eligibility is particularly questionable as we previously reported (see CED-80-7).

Relevant GAO Reports

Housing Leased To Lower Income Persons: Better Federal Guidance And Management Could Improve Quality (CED-80-7, Oct. 30, 1979).

Rental Housing: A Growing National Problem Needing Immediate Attention (CED-80-11, Nov. 8, 1979).

October 1981 Recommendations Of The President's Commission On Housing: Issues For Congressional Consideration (CED-82-42, Feb. 25, 1982).

GAO Contact

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President's Proposal - PUBLIC HOUSING OPERATING SUBSIDIES

GAO Views

HUD provides operating subsidies to public housing authorities (PHAs) to assist them in financing their operations and maintenance costs and to provide for minimum operating reserves. Under a separate modernization program, funds are also provided for major nonroutine repairs and capital improvements. The administration proposes to revise the funding formula for determining the operating subsidy payments. Currently, operating subsidies are determined through the Performance Funding System which calculates subsidies based on what is required to effectively operate a well-managed housing authority. According to HUD, the system is based entirely on historical spending levels and contains no external standards for what it should cost to operate public housing. The new proposal would base operating subsidies on the amount needed for operating and maintaining modest, standard quality private rental housing for each locality--the Fair Market Rent. In addition, the administration proposes to gradually consolidate the modernization program into the operating subsidy program.

We agree that there is a need to control the rapid increase in operating, maintenance, and repair costs that have occurred over the past several years. We believe that some public housing authorities could substantially reduce their dependence on Federal operating subsidies by improving their operating economy and efficiency. For example, in an April 1980 report, we reported that the Chicago Housing Authority exercised weak management and control over its procurement activities. For example, purchasing policies were readily circumvented. Controls designed to ensure free and open competition for large purchases were avoided through order splitting and open purchase orders. Also, basic procurement management information was not readily available and even the total amount of purchases could only be estimated. The authority did not know where and how it was spending its purchasing dollars and therefore could not adequately plan its purchases. The authority, facing imminent insolvency, had asked HUD for additional funds to clear its accrued deficit. We reported that the Performance Funding System may have been circumvented and the incentive for management efficiency and economy weakened.

Whether the administration's new proposal will provide the incentive for PHAs to better manage and control costs is not known. Also, it is not clear as to the overall future impact the proposal will have on reducing the current level of operating subsidies and modernization funds. Housing authorities that have cut costs and have operated efficiently may not have much latitude in their ability to rapidly reduce operating expenditures. Housing authorities that have been poorly run in the past, however, may be

able to absorb funding reductions more easily since they would have much greater latitude to reduce costs through improved operating efficiency. If PHAs are not provided funds to maintain their housing units at an adequate level, a large part of the billions of dollars being provided for modernization may have been spent for temporary rather than long-term improvement.

Relevant GAO Report

The Chicago Housing Authority Needs To Improve Its Management And Controls Over Purchasing (CED-80-93, Apr. 28, 1980)

GAO Contact

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President's
Proposal - RURAL HOUSING BLOCK GRANTS

GAO Views

The administration proposes to replace the categorical direct lending and grant programs of the Farmers Home Administration (FmHA) rural housing program with a rural housing block grant to States to provide housing for low-income families. The block grant would be available to rural communities with populations of 10,000 or less, and to communities with populations of 10,000 to 20,000 outside of standard metropolitan statistical areas. Eighty percent of the block grant funds would be earmarked for families with incomes less than 50 percent of the State median income.

In moving toward the administration's proposal, several issues need to be more fully addressed.

First, to what extent will low-income families benefit from this program? Single-family dwellings represent the predominant form of housing in rural areas. Emphasis on this form of assistance has skewed the thrust of FmHA's program toward moderate-income families. Similarly, housing assistance provided by communities under the Community Development Block Grant program is primarily directed toward rehabilitating single-family housing. Based on these past experiences, rural areas would probably emphasize providing housing assistance for single-family housing under the proposed rural block grant program. While the proposed program explicitly targets assistance to low-income families, the proposed program may be capable of providing assistance to only a limited number of low-income families unless some other source of assistance is available.

While the rural block grant proposal would provide States the flexibility to engage in a variety of activities, the program will probably work better with rehabilitation activities than with new construction activities. Based on our review of the section 8 program, we can conclude that to increase the housing stock through construction of new units, capital grants or other one-time subsidies would have to be quite high or housing design would have to be greatly reduced from that of past programs while carefully controlling costs. Furthermore, private developers have indicated that a deep, long-term subsidy is needed as an incentive to encourage new construction. Thus, it is uncertain as to how extensively a program like this can encourage construction.

Finally, reducing FmHA direct lending would reduce dependence on the Federal Government as a major source of mortgage credit. To compensate for this reduced direct Federal role in credit markets, the administration proposes making Federal Housing Administration mortgage insurance more widely available in rural areas. In March 1980, we reported that meeting rural housing

demand beyond 1980 would be difficult because of shortages in rural mortgage credit, inadequate funds for housing assistance for low- and moderate-income families, and unavailability of affordable building sites. We are not aware of any major shifts concerning the availability of mortgage credit in rural areas since that report. In addition, even if the private credit markets are increasing service in rural areas, it is questionable that these markets would be affordable to a large portion of the borrowers FmHA now serves. FmHA statistics show that 40 percent of its borrowers for single-family housing during fiscal year 1980 had an average income under $10,000. It is unlikely that this low-income group can attract private mortgage capital.

Relevant GAO Reports

Ways Of Providing A Fairer Share Of Federal Housing Support To Rural Areas (CED-80-1, Mar. 28, 1980).

How To House More People At Lower Costs Under The Section 8 New Construction Program (CED-81-54 and 54A, Mar. 6, 1981).

The Community Development Block Grant Program Can Be More Effective In Revitalizing The Nation's Cities (CED-81-76, Apr. 30, 1981).

GAO's Views On S. 2171 (CED2-158, Apr. 13, 1982).

Block Grants For Housing: A Study Of Local Experiences And Attitudes (GAO/RCED-83-21 and 21A, Dec. 13, 1982).

GAO Contact

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President's
Proposal -

FOOD STAMP INCOME TESTS

GAO Views

Benefits under the Food Stamp Program are determined through a two-tier test of gross and net income. If a household's gross income does not exceed 130 percent of the nonfarm income poverty levels, its members could be eligible for food stamp benefits depending on the calculated net income after subtracting certain allowable deductions. These now include an $85 standard deduction for routine household expenses; 18 percent of earned income to compensate for taxes, work expenses, and other mandatory deductions from earnings; an excess medical care deduction for elderly or disabled recipients; and dependent care and excess shelter deductions which together or separately may not exceed $115 monthly. These five deductions try to take many individual household circumstances into consideration in the benefit determination process; however, cumulatively, they are complex and time-consuming and add to the number of program errors and overpayments and underpayments made.

Modify/Consolidate Deductions

The administration is proposing to modify and/or consolidate several of the existing deductions, with expected savings of $326 million for fiscal year 1984. Among these are

-- increasing the standard deduction to $140 monthly,

-- eliminating the excess shelter deduction,

-- establishing a permanent monthly dependent care deduction of $115, and

-- replacing the 18-percent earned income deduction with a flat $75 deduction for full-time workers (prorated for part-time workers).

While we have not analyzed all the specifics of the administration's proposal, consolidating and standardizing deductions has considerable merit because administrative complexities and costs could be reduced. The Omnibus Budget Reconciliation Act of 1982, Public Law 97-253, approved September 8, 1982 required States to assume the costs of overpayments which exceed specified payment error rates for fiscal years 1983 through 1985. In view of this potential State liability, it would seem appropriate to simplify program requirements to facilitate State administration and help reduce program errors. Fiscal year 1983 program administrative costs (Federal and State) will exceed $1 billion.

In 1975 we reported that a system of using standard deductions would simplify program operations and reduce processing time, administrative costs, and program errors. One possibility was to consider creating a standard deduction for shelter costs rather than trying to take into account the many varying circumstances that may exist for each individual household.

Automatic Eligibility

Another change proposed by the administration to reduce administrative time and effort would make automatically eligible for food stamp benefits all households in which all members were receiving, or were certified as eligible for, welfare benefits under the Aid to Families with Dependent Children (AFDC) Program.

We reported in 1975 that categorical food stamp eligibility for AFDC participants could lead to inequities in total assistance for households that received AFDC benefits versus those who did not. We have this same concern regarding the administration's automatic eligibility proposal. However, if adequate safeguards are established to eliminate potential inequities, our concerns could be resolved.

The Department of Agriculture has recently initiated several demonstration projects, authorized by the Agriculture and Food Act of 1981 (Public Law 97-98, approved December 22, 1981). Those projects will test the concept of automatic (categorical) food stamp eligibility for households with members that receive AFDC, Supplemental Security Income, or Medicaid benefits, and whose income is less than the applicable food stamp eligibility standard. An evaluation contractor is to issue a final report on these projects by the end of 1984.

Relevant GAO Reports

Observations on the Food Stamp Program (RED-75-342, Feb. 28, 1975)

Testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 24, 1982)

Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry (Mar. 29, 1982)

GAO Contact

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President's
Proposal - STATE LIABILITY FOR FOOD STAMP ERRORS

GAO Views

The administration has proposed a revision in the error rate sanction and incentives system which would hold each State liable for the amount of its food stamp benefit issuance errors that exceed 3 percent of the total benefits issued in that State. We have generally supported increasing States' responsibility for program errors and the Congress has made important changes in this regard.

In March 1982, we testified that the then existing food stamp sanctions for excessive error rates allowed much higher error rates than those in effect for the Aid to Families with Dependent Children (AFDC) Program. We pointed out that higher rates of administrative cost reimbursement authorized by law as an incentive for reducing error rates had little effect on food stamp errors or overissuances nationally and that the existing Food Stamp Program sanctions provided little hope for a quick reduction of the State error rates.

The Omnibus Budget Reconciliation Act of 1982 (Public Law 97-253, approved September 8, 1982) established more stringent standards for State administration by requiring States to assume the cost of food stamp overpayments exceeding 9 percent during fiscal year 1983, 7 percent during fiscal year 1984, and 5 percent during fiscal year 1985. However, each State's liability would be limited to the amount of federally reimbursed administrative costs (States receive a minimum Federal reimbursement of 50 percent of these costs). Thus, the Federal Government would not obtain full recovery from any State in which overpayments exceed the tolerance level by more than the Federal reimbursement for administrative expenses. The proposed change is in line with AFDC legislation which has established a 3-percent error rate as the maximum that the Government will accept without imposing State liability under the AFDC Program.

We have testified that increasing States' responsibilities for overpayments would provide a major financial incentive for better administration of the Food Stamp Program. However, we believe that legislative and/or administrative changes to facilitate program administration and move toward greater uniformity in eligibility criteria in income security programs would help States avoid or reduce their food stamp error rates. We have also reported that removing barriers to effective verification of eligibility should enable greater accuracy in benefit determinations. For example, we have recommended that States be allowed access to certain Internal Revenue Service-maintained information on unearned income that would assist States' verification of recipients' income and assets. In the final analysis, however,

achieving substantial error reductions will be highly dependent on States' attention to program integrity and Department of Agriculture action to effectively implement and aggressively promote initiatives to combat fraud, mismanagement, and other program deficiencies.

In discussing its various proposals in the budget for fiscal year 1984, the Administration noted that Food Stamp Program overpayments currently account for almost 10 percent of all benefits and cost the American taxpayer more than $1 billion annually. In a report issued in February 1983 on this issue, we pointed out that, without specific direction and emphasis from the Department of Agriculture, States collected only about $20 million, or 1 cent of each overissued dollar, during fiscal years 1980 and 1981. Also, perceived obstacles to adjudicating alleged fraud through either court prosecutions or administrative hearings have limited States' fraud pursuit efforts.

The Congress has provided financial incentives and improved methods to increase States' collections and fraud pursuit, and the Department has made and plans other improvements. However, additional legislative and/or administrative initiatives are needed to expand the use of offsets for program recipients regardless of the reason for the improper issuance, to require States to take steps to recover overissuances from households no longer in the program, and to take several actions to improve Federal and State efforts to identify erroneous benefit issuance cases and collect overissuances.

Relevant GAO Reports

Federal Domestic Food Assistance Programs--A Time for Assessment and Change (CED-78-113, June 13, 1978)

Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9, Jan. 14, 1982)

Need for Greater Efforts to Recover Costs of Food Stamps Obtained Through Errors or Fraud (GAO/RCED-83-40, Feb. 4, 1983)

Testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 24, 1982)

Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry (Mar. 29, 1982)

Comments on Proposed Legislation to the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry (May 3, 1982)

Comments on Proposed Legislation to the Ranking Minority Member, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (July 16, 1982)

GAO Contact

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President's
Proposal - FOOD STAMP WORKFARE PROGRAM

GAO Views

The administration is proposing to make the currently optional food stamp workfare program mandatory. Under this concept, eligible recipients would have to work sufficient hours each month, at the equivalent of the minimum Federal hourly wage rate, to "earn" their respective household's monthly allotment of food coupons. The proposal would restrict the hours to be worked to no more than 32 per week.

While we don't have data to comment on the desirability of making workfare mandatory, we have information on such projects. We have reported and testified on Food Stamp Program workfare several times since 1980. Our reviews of the first and second phases of workfare demonstration projects led to substantial improvements in the legislative design of workfare and pointed out numerous areas of administrative inefficiency. We said that Agriculture and workfare project officials should be aware of these problems and avoid such pitfalls when designing workfare programs because they detract from the operational effectiveness and benefits of a workfare system. An outside contractor's evaluation study of the first year's results showed that workfare is administratively feasible with moderate administrative costs per participant. Under certain assumptions, program benefits exceeded costs.

There have not been any extended tests of new procedures that resulted from our recommendations for changes in legislation exempting fewer households from the work requirement, shortening job-search periods, and increasing the penalties for not completing workfare requirements. However, based on our previous work in this area, these changes should result in some combination of increased hours of work performed, greater amounts of benefits withheld for not completing work requirements, or more deterrence of applications for benefits by those who are unwilling to work. We also pointed out that certain workfare functions could be administered in conjunction with work registration activities. Such changes in policies and practices, combined with efficient local administration, could have a positive effect on the cost effectiveness of workfare operations within the Food Stamp Program.

There also are opportunities for saving administrative costs by consolidating administrative functions within jurisdictions that either elect or are required to implement the work-for-benefit concept in the Food Stamp, Aid to Families With Dependent Children, or other programs. The Secretary of Agriculture has established guidelines which allow food stamp workfare to be operated in conjuction with similar workfare programs operated by political jurisdictions. Uniform procedures and administration by

one local agency, regardless of the program from which the work requirement originated, would probably result in the least administrative cost outlays.

Relevant GAO Reports

Preliminary Information on Foodstamp Workfare Pilot Projects (CED-80-129, Sept. 30, 1980)

Insights Gained In Workfare Demonstration Projects (CED-81-117, July 31, 1981)

Food Stamp Workfare--Cost Benefit Results Not Conclusive: Administrative Problems Continue (CED-82-44, Feb. 19, 1982)

Testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 19 and 30, 1981)

Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry (Apr. 2, 1981)

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President's Proposals -

MODIFYING THE DEFINITION OF HOUSEHOLD FOR FOOD STAMPS

GAO Views

For Food Stamp Program purposes, a household generally is an economic unit, living in one residence, which would be eligible to apply for food stamp benefits. Food stamp legislation states, however, that certain persons can be considered a separate household even though they live in the same house or apartment with other related or unrelated persons. For example, a group of four unrelated persons who live together and are eligible for benefits but state that they do not customarily jointly purchase food and prepare meals together for home consumption, can each be considered a separate household. The maximum total of such individual benefits ($300) would be more than the maximum benefits ($253) for a single, four-person household. This situation exists because economies of scale are built into the benefit tables.

The administration is proposing to further reduce the number of "exceptions" to the general concept that all perons who live under the same roof should be considered a single household. It estimates that savings of $70 million during 1984 would be generated by adopting its proposal.

Such a change has merit. Our work has shown that it is very difficult to verify separate household status for people living together and that treating persons residing together as a single household for food stamp purposes would greatly simplify the process and would enable staff to concentrate more on verifying other program eligibility requirements.

Inaccurate information received from households regarding household size and composition, and inaccurate use of such data by local food stamp agencies contributes to a substantial part of food stamp overpayments annually. Our work, based on eight States' quality control review results for the 6-month period ended March 31, 1981, showed that 16 percent of these States' total overpayments were attributable to problems in accurately determining household size or composition. Although these results are not statistically projectable for the program as a whole, these States did issue approximately half of all food stamp benefits during fiscal year 1981.

Streamlining the definition of a household for the Food Stamp Program would help eliminate program abuse, reduce administrative time and effort because of the smaller number of household

"cases," and reduce benefit costs by combining previously separate households into fewer but larger households. Perhaps a more important consequence would be that it could free up some food stamp office staff for better verification of such eligibility factors as household income and assets, which historically have generated the vast majority of program overpayments.

In addition, in May 1982, we commented on S. 2352, which proposed to tighten the definition of a household for Food Stamp Program purposes. We pointed out that because monthly food stamp benefit schedules assume economies of scale for food purchases made by larger households, it would always be advantageous for program applicants to claim separate household status if at all possible. Although a simplified definition of a household may not precisely fit the circumstances of every program applicant, it would greatly simplify the administration of this large and costly program.

Relevant GAO Reports

Testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (March 24, 1982)

Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry (March 29, 1982)

Comments on Proposed Legislation (S. 2352) to the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry (May 3, 1982)

GAO Contact

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President's
Proposal - SCHOOL MEALS ELIGIBILITY RESPONSIBILITY

GAO Views

The administration is proposing to shift responsibility for determining eligibility for free and reduced-price school meals from local schools or school districts to local food stamp offices. We believe this proposal has merit and should be expanded to include the Women and Infant Children (WIC) program. In a 1978 report discussing 13 major Federal programs that provided food or food-related assistance to many Americans, we compared income data in food stamp case files with income data submitted by the same families on applications for free school meals and found that some families had understated their incomes on school meal applications. Using the income data on the food stamp applications would have disqualified the students in these families from receiving free school meals. We recommended that the Secretary of Agriculture study the feasibility of turning over the responsibility for application, certification, verification, referral, and monitoring aspects of the childfeeding programs and WIC to local welfare offices which now also handle these aspects of the Food Stamp Program. We also recommended that the Congress, on the basis of the Department's study, require a single State/local agency to be responsible for these aspects of designated Federal food assistance programs, particularly the food stamp, child-feeding, and WIC programs, to help assure better program integrity, efficiency, and effectiveness.

Representatives of the Department's Office of Inspector General have testified that because (1) 80 percent of the families of children receiving free school meals also participate in the Food Stamp Program, and (2) the gross income limits for free school meals and for food stamp benefits are identical, shifting the verification process to the local food stamp office would appear to be a better way to verify a family's request for assistance under both programs.

Relevant GAO Reports

Analysis of Department of Agriculture Report on Fraud and Abuse in Child Nutrition Programs (CED-81-81, Mar. 9, 1981)

Federal Domestic Food Assistance Programs -- A Time for Assessment and Change (CED-78-113, June 13, 1978)

GAO Contacts

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President's
Proposal - NUTRITION ASSISTANCE GRANT

GAO Views

The administration has proposed consolidating summer feeding, school breakfast, and child care food programs into a general nutrition assistance grant. Our past work has shown that these programs provide overlapping benefits and have continuing problems.

We reported that some low-income families participated simultaneously in as many as six different Federal programs providing food assistance. This multiple participation was specifically sanctioned in the legislation authorizing most food programs. As a result, some needy households could receive more in food benefits than the average amounts American families of comparable size spend for food. Such multiple program combinations included food stamps, school lunch, school breakfast, the summer feeding program, and the child care feeding program. Estimates of the amounts of such overlaps and potential savings were not readily available in all cases but we determined that the overlap between food stamps and school lunch alone would run over a half billion dollars a year. Although we did not recommend that specific programs be terminated in order to eliminate the overlaps, we did recommend that the Department of Agriculture explore further this matter of overlaps and propose such changes in the authorizing legislation as may be necessary to eliminate the overlaps.

In our past reports on the summer feeding program, we reported that the program has had continually recurring problems. Although progress had been made to tighten controls over the program, major abuses--such as poor quality food, inadequate food storage facilities, and overstated sponsor reimbursement claims--continued. In the area of child care feeding, we reported that improved management was necessary to ensure that nutritious meals were served to children at healthful feeding sites and that incidents of fraud and abuse be obviated. Our report also pointed out that the program's financial accountability was unacceptable, State- and Federal-operated programs suffered from poor management, and the Service oversight of State-operated programs needed improvements. The Department's Office of Inspector General's recent report on a large child care food sponsor highlighted some significant weaknesses in both financial and management controls at all levels of management--at the day care home, the sponsor, the State agency, and the Service's regional offices.

During a review of the school breakfast program, we noted that

--disagreement exists on whether the program is needed in particular schools and on the role of the family versus the schools in providing breakfast,

--lack of information on the nutritional status of children makes it impracticable to determine whether a specific nutritional assistance program like the school breakfast program might be needed or not needed, and

--communities should have a voice in decisions to provide a breakfast program in their school district or not.

Relevant GAO Reports

The Summer Feeding Program for Children: Reforms Begun, Many More Urgently Needed (CED-78-90, Mar. 31, 1978)

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

Efforts to Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed (CED-80-33, May 6, 1980)

Child Care Food Program: Better Management Will Yield Better Nutrition and Fiscal Integrity (CED-80-91, June 6, 1980)

Major Factors Inhibit Expansion of the School Breakfast Program (CED-80-35, June 16, 1980)

Analysis of Department of Agriculture Report on Fraud, Waste, and Abuse in Child Nutrition Programs (CED-81-81, Mar. 9, 1981)

GAO Contact

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President's Proposal - SUPPLEMENTAL SECURITY INCOME

GAO Views

We agree with the Administration's proposal that would permit the Social Security Administration to recover SSI overpayments by offsetting such payments against money received from the Social Security Retirement, Survivors, and Disability Insurance programs (title II of the Social Security Act). However, the Administration's proposal does not go far enough. Congress should consider expanding the Administration's proposal to increase overpayment collections and to avoid inequities involving those not receiving title II but receiving other Federal benefits. GAO has recommended on several occasions that the Secretary of Health and Human Services should seek legislation to offset SSI overpayments against Social Security title II benefits as well as from other Federal benefit-paying programs. In our January 1979 report to the Congress, we pointed out that over 580,000 former SSI recipients received income from other Federal benefit-paying programs and were overpaid about $233 million in SSI benefits. Over 540,000 of the above received income from Social Security title II and were overpaid about $209 million in SSI benefits.

Furthermore, consideration should also be given to offsetting SSI overpayments against Federal income tax refunds.

The Administration also proposes changes which would more fully achieve the intent of legislation enacted in 1980 aimed at ensuring that an individual's entitlement under the OASDI and SSI programs will not result in windfall benefits.

In 1980, we reported that SSI recipients received an estimated $12.6 million in windfalls in fiscal year 1977 as a result of receiving retroactive Social Security benefits before SSI benefits were paid. We also reported that recipients received windfalls as a result of income from other sources such as veterans' compensation and pensions, and railroad retirement benefits. We estimated these windfalls may total about $5 million annually.

We support the Administration's proposal to prevent windfall benefits when SSI recipients receive OASDI. Congress should also consider enacting legislation preventing windfall benefits as a result of receiving income from other Federal benefit-paying programs.

Relevant GAO Report(s)

Social Security Should Improve Its Collection of Overpayments to Supplemental Security Income Recipients (HRD-79-21, January 16, 1979)

Need to Prevent Windfall Benefits to Supplemental Security Income Recipients (HRD-80-44, May 30, 1980)

Implementing GAO's Recommendations on the Social Security Administration's Programs Could Save Billions (HRD-81-37, December 31, 1980)

GAO Contact

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President's
Proposal - AID TO FAMILIES WITH DEPENDENT CHILDREN

The proposed budget includes a number of significant changes to the AFDC program to further reduce program costs by tightening eligibility requirements and by requiring recipients who are able to work to do so. The Administration considers these changes to be an extension of the reforms enacted by the Congress in the Omnibus Budget Reconciliation Act (OBRA) of 1981 and the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. These acts targeted AFDC assistance to those in greatest need and provided States the authority to establish a Community Work Experience Program (CWEP) and job search program. The purpose of CWEP is to provide public service jobs for recipients to work off grant amounts and the purpose of a job search program is to help recipients find jobs in the private sector. In States where these options were adopted, participation became a condition of AFDC eligibility.

The first of the Administration's proposals would provide that all "able bodied adult recipients" register for and participate in work as a means of reducing welfare dependency. To accomplish this, States would be required to carry out a CWEP and a job search program. The Secretary of HHS could waive these requirements and allow a State to substitute a work supplementation program. Under work supplementation, AFDC grants otherwise payable to recipients would be pooled and paid through employers as wages. According to the Administration, these reforms would replace the Work Incentive (WIN) program which is supposed to help AFDC recipients get jobs through training, work experience, and public service employment, but has not been proven successful.

In evaluating this proposal the Congress should require the Administration to clearly define "able bodied adult recipients." Also, because the proposed work programs are relatively new, the successful aspects of the WIN program which has been in existence for the past 15 years should be built into the new programs. The interaction of two other on-going programs should also be considered in the design of the work programs. These are the WIN Demonstration program authorized in 1981 allowing States to design training, work experience, and public service employment components tailored to local needs, and the Jobs Training Partnership Act authorized in 1982 allowing AFDC recipients to participate in training programs authorized by the act.

Congress should also look closely at the existing CWEP's in deciding whether to mandate them for all States. GAO recently examined HHS's evaluation of the CWEP demonstrations designed to identify effective workfare approaches. We concluded that evaluations of the fiscal year 1982 demonstrations have not provided evidence to support or refute the expectation that

CWEP's will move recipients to unsubsidized jobs, reduce welfare costs, or meet other program goals. A current GAO review will include an examination of States' success in placing all eligible people in CWEP and in surmounting obstacles such as providing day care and transportation for participants. The States' degree of success in these areas will have implications for meeting CWEP goals, including the reduction of AFDC costs.

The second work-related proposal for the AFDC program would no longer allow eligibility on the basis of a parent being absent from the home to "look for" or maintain employment. The Administration considers this proposal to be similar to a provision in TEFRA (1982) which prohibits AFDC benefits to families when the sole reason for assistance is the absence of a parent due to military service. The proposed provision, however, would include parents who are "looking for" work as well as those maintaining employment. The Congress may wish to weigh the estimated $5 million savings resulting from this proposal against the possibility of parents not leaving home to "look for" work if their families are no longer eligible for AFDC because of their absence.

The third proposal would assess sanctions against AFDC recipients who are able to work but do not participate in work-related activities, quit a job, reduce their work hours or refuse an employment offer without good cause. The Congress should insure that the proposed sanctions are clearly defined and that whatever sanctions are imposed do not unjustly impact on children or others of the AFDC assistance unit not required to work. In the absence of specified sanctions in the Administration's proposals, the Congress may want to consider the sanctions developed for nonparticipation in the WIN program that are contained in Federal Regulation (45 CFR 224.51).

The fourth proposal would allow States to require AFDC parents or other caretaker relatives with children 3 to 6 years old to register for work programs, provided child care is available. States are already permitted to require such AFDC parents or caretakers to participate in CWEP if child care is available. This proposal appears to conflict with the proposed requirement that all "able bodied adult recipients" register for and participate in work.

Finally, the Administration is proposing that an "employable" parent or other caretaker relative be excluded from the AFDC assistance unit when the youngest child reaches age 16. Presently, such a parent is generally included in the assistance unit until the youngest child reaches 18. The Congress should require the Administration to clearly define "employable" to enable it to fully evaluate this proposal. Also, if the proposal to require all "able bodied adult recipients"

to register for and participate in work is enacted, those "employables" would already be required to participate in a program to help them become self-sufficient. If they were removed from the assistance unit, they could no longer be required to participate in work.

The Congress should consider that the Administration is also proposing a mandatory community work experience program for Food Stamp recipients. If mandatory work requirements are enacted for AFDC and Food Stamp recipients, the Congress may wish to insure that the requirements for the two programs are the same or compatible because many people participate in both programs. OBRA of 1981 contained a provision, which may have to be amended, requiring compatibility in States that elected CWEP for AFDC and Food Stamps. Also, the Departments of Agriculture and HHS should be required to closely coordinate the work requirements in the two programs; otherwise, the same recipient could be required to participate in two work programs. In this regard, consideration should be given to having the work program administered by a single State agency for both the AFDC and Food Stamp programs.

The Congress may also want to consider requiring recipients of assistance benefits other than AFDC and Food Stamps, such as Low-Income Home Energy, to participate in work programs.

Relevant GAO Report(s)

Does AFDC Workfare Work? Information Is Not Yet Available From HHS's Demonstration Projects (GAO/IPE-83-3, January 24, 1983)

An Overview of the WIN Program: Its Objectives, Accomplishments, and Problems (GAO/HRD-82-55, June 21, 1982)

Food Stamps Workfare: Cost Benefit Results Not Conclusive, Administrative Problems Continue (CED-82-44, February 19, 1982)

Insights Gained In Workfare Demonstration Projects (CED-81-117, July 31, 1981)

GAO Contact

Neil N. Miller - 523-9076

President's Proposal - CHILD SUPPORT ENFORCEMENT PROGRAM

GAO Views

The Child Support Enforcement (CSE) Program was enacted in 1974 to reduce the cost of welfare and to foster parental responsibility. The law established a Federal-State partnership in which States are required to have a program which locates absent parents, establishes family responsibility, and sets forth and enforces support orders. The Federal government pays much of the administrative cost, audits program performance, and provides policy direction and technical assistance.

States receive a Federal matching grant of 70 percent of all administrative expenses and an incentive payment of 15 percent (to be reduced to 12 percent beginning in 1984) of collections for AFDC families. Collections are distributed between States and the Federal government according to the matching rate for the AFDC program. Since the incentive payments come entirely from the Federal share of collections and because financing for administrative expenses is esentially open ended, the Federal government has consistently received less in return than it has invested in the program. Conversely, States and localities have gained financially even if their support enforcement operations are marginal or ineffective.

The Administration is proposing to change the CSE financing structure to create a stimulus for improved State and local performance. According to the Administration, the proposal follows good business principles while allowing time for transition to a new mode of operation. The intent is to encourage achieving cost-savings and social goals of the program by capitalizing on the ability to increase collections and constrain escalating administrative costs.

According to the Administration, this proposed change would restructure program financing with a three-year phase-in to ease the transition. The program would be funded as follows:

1. States would fund their total child support enforcement administrative costs from AFDC collections received;

2. The Federal and State governments would share in the residual net collections, whether positive or negative, according to their respective financial participation in AFDC program costs; and

3. Performance awards would be paid by the Federal government to the States which operate exemplary child support enforcement programs. These awards would encourage States to improve their collections and to operate in a more cost-effective manner. All awards would be funded independent of the amount of the Federal share of net collections.

The Administration estimates that the proposed change would save $10 million in fiscal 1984 and $293 million through fiscal 1988.

Also, the Department proposes to mandate changes in State law to improve Child Support Enforcement effectiveness. This proposal will require States to adopt effective methods of increasing child support collections, such as wage attachment and offsets to State income tax refunds. The Administration anticipates saving $56 million in AFDC costs in 1984 through increased collections from absent parents.

Although we are unable to comment on the detailed aspects of the Administration's proposed financing structure at this time, we do agree that relating program funding to program performance is a step in the right direction. Our current work indicates inefficiencies in the program and based on the manner in which the program is currently funded, States have little incentive to increase performance. We believe that if this proposed program restructuring is put into place, the Federal Office of Child Support Enforcement and the States will need to work closely to improve the operation of the program. Also, the criteria for paying incentive performance awards to the States should be clearly established and designed to permit subsequent evaluation of whether the awards are, in fact, encouraging more cost-effective State operations.

As for the Administration's proposal to mandate changes in State law for such things as wage attachment and offsets to State income tax refunds we see merit in this proposal. This would give State and local program officials additional tools needed to increase collections.

Relevant GAO Report(s)

None

GAO Contact

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President's Proposal - CIVIL SERVICE CLASSIFICATION REFORMS

GAO Views

Although no budget reduction is currently proposed for anticipated savings from improvements in position classification in the Federal work force, the budget points out that savings of $700 million could be obtained if Federal positions were properly classified. We agree that misclassification is costly to the Government. However, because of the effects of grade and pay retention, job restructuring, and reassignment, there is little chance the Government will realize substantial immediate savings from reclassification.

Title VIII of the Civil Service Reform Act of 1978 was enacted to help insure proper position classification by allowing managers to correct classification errors with a minimum adverse effect on employees. It provides for 2 years of grade retention for employees whose positions are downgraded because of reclassification or reduction-in-force actions. The provisions do not apply to positions which had not been classified at the higher grade for at least a year, or to employees who (1) had a break in service of 1 workday or more, (2) were demoted for personal cause, (3) declined a reasonable offer to other positions of equal or higher grade, or (4) elected in writing to have the benefits of the provisions terminate.

At the expiration of the 2-year grade retention period, qualifying employees are placed in the proper grade. They are then paid at their former rate and, if it exceeds the maximum rate of the new grade, they receive one-half of any increases in basic pay of the new grade until the maximum rate of the new grade equals the rate of pay being received.

Placement of employees on grade and pay retention, although appropriate under the law, would offset any immediate savings. Other alternatives, such as job restructuring and reassignment, could also partially offset anticipated savings.

Relevant GAO Reports

FPCD-75-173, December 4, 1975; FPCD-78-41, April 26, 1978.

GAO Contact

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President's
Proposal -

FEDERAL PAY FREEZE

GAO Views

While the Administration's proposal to deny Federal civilian employees a pay raise for fiscal year 1984 would be the first time since 1964 that they did not receive an annual pay increase, it would certainly not be the first time that a President has used the annual pay-setting mechanism as a budget tool. In fact, employees have lost, or the Government has saved, about $12 billion through use of the alternative plan authority since 1975. This alternative plan authority, however, does not cover all Federal employees. For example, it does not extend to the Federal Wage System's (blue-collar) approximately 500,000 employees or Federal employees whose pay is covered by collective bargaining agreements (including about 500,000 Postal Service employees). The Congress has imposed caps on the Federal Wage System the last several years, but collective bargaining employees have generally not been affected.

Denying Federal civilian employees a pay increase for fiscal year 1984 will make it even less likely to ever get back to "pay comparability." In the last 6 years, private sector pay levels have increased about 58 percent, while Federal white-collar employees have received pay increases amounting to about 44 percent. An increase of around 20 percent could be required to restore full comparability next year. However, if the Congress accepts the President's civilian pay freeze, we believe it should cover all Federal civilian employees without exception.

Relevant GAO Report(s)

GAO/FPCD-82-49, July 2, 1982; FPCD-80-17, November 13, 1979.

GAO Contact

Gerald Miller 275-5743.

President's Proposal - FEDERAL EMPLOYEES HEALTH BENEFITS

GAO Views

According to the fiscal year 1984 budget, the Administration is proposing legislation to revise the Federal Employees Health Benefits Program. The proposal is intended to strengthen program competition, "encourage a wider range of benefit packages, and assist in moderating the excessive rate of increase in health insurance premiums." Major features of the proposal include:

--requiring catastrophic protection for all enrollees,
--changing the method for determining Government contributions to health plan premiums,
--providing incentives designed to encourage cost control by participating plans and enrollees, and
--removing current barriers to plan entry into the program.

It appears that the Administration plans to attain these objectives through the use of what is commonly referred to as a voucher system. As noted in our report, "Financial and Other Problems Facing the Federal Employees Health Benefits Program," GAO/HRD-83-21, February 28, 1983, the specifics of how a voucher system would operate can vary, however, the concept is that Federal employees and annuitants receive a specified, annually adjusted payment (i.e., voucher payment) from the Government for health insurance coverage. These employees and annuitants are then free to enroll in whatever plan they elect. It should be noted that each of the goals of the proposed legislation could be accomplished without the so called voucher system.

Benefit and Rate Negotiations

Bilateral negotiations between OPM and each plan are now used to reach agreement on the benefits to be offered and the premium to be charged. Under a voucher system, the Office of Personnel Management (OPM) would no longer negotiate benefits and premium rates with the individual plans. This would free up time for OPM staff, time which could be spent on other program priorities. On the other hand, OPM could conceivably reduce its level of staffing due to reduced responsibilities. The assumption is that competition would force plans to offer the benefits that Federal employees need and want and set premium rates at a level that is not excessive.

Level of Benefits

Plans would be allowed to offer whatever benefits they wanted. The Administration hopes that competition will force plans to offer a level of benefits that would be covered in total,

or almost totally, by the Government contribution, resulting in little or no out-of-pocket enrollee expenses for health insurance. The Government contribution, however, will absorb the cost only if many of the plans offer less than current benefits or many employees choose plans with less coverage then they now have. This is true because the Government now pays only about 60 percent, on average, of the premium rate; and the changes proposed for the Government contribution (see below) are not designed to increase its share. In other words, in order for the Administration's hopes to be achieved, in general less coverage would have to be offered or chosen.

It is likely that a greater variety of plans will make it even more difficult for enrollees to comprehend the differences in benefit plans.

Catastrophic Protection

Most--but not all--of the plans now offer catastrophic protection at varying levels. Under this protection, when an enrollee's share of covered major medical expenses reaches a specific dollar amount, the plan's payment rate increases to 100 percent. The proposal requires that all plans offer catastrophic protection. Depending on the level at which the catastrophic benefit comes into force, it could be an increase or reduction of benefits, depending upon the plan.

Government Contribution

Under existing law, the Government contribution to an enrollee's plan cannot exceed 75 percent of the premium rate. Under the proposed legislation, this cap would effectively be removed because the Government contribution would be fixed, regardless of the percent. If an employee chose a plan costing less than the Government contribution, the employee would receive the difference and, therefore, removing the cap is likely to be an improvement for those choosing low-cost plans.

Subject to the 75 percent cap discussed above, the Government's share for each enrollment is currently equal to 60 percent of the unweighted average of the high-option rates for six plans (the 2 Government-wide plans, the 2 employee organization plans with the largest enrollment, and the two comprehensive medical plans--HMOs--with the largest enrollment). The Administration proposal would base the contribution on the average Government contributions (probably weighted by enrollment) in 1983, indexed in future years to reflect an unspecified index of price increases. This proposal will result in a Government contribution for many employees that is lower than what it would have been because it uses an average of Government contributions--not premium rates--that is subject to the 75 percent cap. The cost of any increase in benefits a plan might offer would have to be totally absorbed by enrollees. Also, what the contribution is indexed to could significantly affect the contribution. For example, indexing the contribution to the rate

of inflation for 1982 would result in a lower amount than indexing it to the percentage increase in the medical care component of the consumer price index. Is is quite likely that, in the long run, the Government's share will decrease in proportion to total premiums.

The Administration believes that proposed changes to computing the Government contribution will moderate the rates of increase in health insurance premiums for the Government and enrollees. Although such moderation is likely to occur for the Government's cost, unless carriers initially offer less comprehensive benefits and the indexing fully covers cost increases from year to year, enrollees are likely to continue to experience significant rate increases as long as they choose to purchase plans with benefits comparable to what they now have. Especially hard hit will be those employees who require comprehensive coverage because of their physical conditions.

Because future Government contributions would be linked to some sort of index, the Government's costs from one year to the next would be reasonably predictable. This could avoid situations such as occurred in 1982 when the plans' proposed premium increases were so high that OPM was required to cut benefits to stay within the amount budgeted for the Government contribution.

Unanswered Questions

The Administration's proposal leaves a number of questions unanswered. For example, will the carriers offer plans with individual or group premium rates? If the plans are individually rated, the cost of purchasing health insurance will increase significantly for the Federal employee. Also, will the regional companies who currently comprise the Government-wide plans be permitted to participate. If so, the likely outcome is the withdrawal of the Government-wide plans which would force enrollees in high-cost areas like Washington, D.C. or New York City to participate in very expensive plans. Under the current program, a plan's Federal enrollees from low-cost areas are subsidizing those in high-cost areas.

In summary, it appears that the Administration's proposal has the potential to result in less benefits and increased costs to Federal employees while making the Government's costs more controllable. If this occurs, the Program will fall even further behind the health benefits now offered by the private sector.

Relevant GAO Report(s)

Financial and Other Problems Facing the Federal Employees Health Benefits Program, GAO/HRD-83-21, February 28, 1983.

GAO Contact

Stephen Backhus/Don Walthall (426-5246)

DISCLOSURE OF COSTS TO RUN FEDERAL CREDIT PROGRAMS

GAO Views:

Two aspects of the cost of credit programs can be improved: The interest subsidy and bad debts. Federal credit programs provide funds to selected borrowers on more favorable terms than would be available in the private sector. These favorable terms result in a subsidy to the borrower. A large part of the subsidy results from interest rates being charged to borrowers at less than the rates of funds borrowed by Treasury to finance operations. The Office of Management and Budget estimates that in fiscal year 1982 this subsidy amounted to about $11 billion. However, these estimates are highly aggregated and generally the subsidy costs associated with individual programs are not reported. Therefore, both budget totals and individual program cost are understated. We believe that better decisions are possible if all program costs are fully disclosed in budget documents.

Although the budget documents included some data on the costs of bad debts, we believe more effort is needed to improve its accuracy and completeness. Of concern is the lack of standard definitions for credit terms such as "defaults" "delinquencies," "reserve for bad debts," etc. Widely varying agency usages greatly complicate attempts to compare credit programs. Also in question is the reliability of the loss figures, which were reported in fiscal year 1981 to be $3.5 billion ($1.0 billion for direct loans and $2.5 billion for guaranteed loans).

Relevant GAO Reports: Review in process, report expected to be issued in December 1983.

GAO Contact: William Hill 275-4618

CREDIT ACTIVITIES OUTSIDE THE UNIFIED BUDGET

GAO Views:

Federal credit programs - both direct loans and loan guarantees - have since the early 1970s grown rapidly as a tool to achieve public policy objectives. For example, gross new direct loan obligations increased from $10.5 billion in fiscal year 1971 to $57.2 billion in fiscal year 1981--an increase of 445 percent. During the same period new gross commitments for loan guarantees and insured loans rose by about 99 percent--from $38.5 billion to $76.5 billion. Another measure of rapid growth is the extent to which loans made and guaranteed exceed repayments by borrowers. From fiscal year 1971 to fiscal year 1981, outstanding direct loans increased 248 percent from $53.2 billion to $185 billion. At the same time loan guarantees outstanding, rose from $140.1 billion to $309.1 billion, up 121 percent.

The growth, size, and diversity of Federal credit activities makes it critical for those faced with decisions on the allocation of resources, number of programs, and priority of target populations to have the informational tools necessary to make informed judgments. However, not all credit activities are included in the formal budget process. For instance, of $57.2 billion direct loan obligations in fiscal year 1981, $15.1 billion in loans were made by the Federal Financing Bank which is an off-budget agency that does not have its budget authority and outlay totals counted in the unified budget and does not come under scrutiny through the budget procedures. Likewise, the entire $76.5 billion in loan guarantee commitments during fiscal year 1981 were excluded from the unified budget. We believe these practices lead to poor visibility and an understatement of Federal credit activities and budget totals and result in the escape of some credit activities from the oversight and control through the budget process.

Some progress has been made to bring credit activities under better control. Since 1980 the Executive Branch has included, as a supplement to the regular budget, a credit budget. This special analysis of credit includes estimates of all direct loan obligations (on-budget and off-budget) and all loan guarantee commitments. Besides providing a comprehensive look at all credit activities there is an attempt to control credit by proposing appropriation language to limit the amount of obligations or commitments for credit that is provided in authorizing legislation. The Congress has used the new approach to viewing credit by establishing ceilings in budget resolutions and placing restrictions in some appropriation legislation. However, there are many programs exempted from formal control and procedures have been developed on an ad hoc basis.

In an earlier report to the Congress we recommended that the Federal Financing Bank and all other off-budget entities be returned to the budget for a more complete picture of Federal operations and a more unified budget. We also believe that comprehensive controls over all credit activities are needed including a statutory requirement that budget control procedures be extended to cover all credit activities with binding limitations placed on gross direct loan obligations and gross loan guarantee commitments.

Relevant GAO Reports: PAD-81-36, March 3, 1981, PAD-81-22, December 31, 1980, and PAD-77-70, August 3, 1977, CED-81-14, November 28, 1980

GAO Contact: Kenneth W. Hunter 275-9675

President's
Proposal - SUBMIT LEGISLATION TO TREAT THE SALE OF CERTIFICATES OF BENEFICIAL OWNERSHIP AS BORROWING

GAO Views:

The Federal Financing Bank, which is off-budget and whose spending is excluded from Federal budget totals, purchases assets from various agencies. The agencies guarantee to pay FFB in the event of default and continue to service the loans. Loan assets sold to FFB are subtracted from agency budget outlays and in fiscal year 1982 spending was reduced $12.6 billion. According to law, the category of loan assets also includes certificates of beneficial ownership issued by the Farmers Home Administration and the Rural Electrification and Telephone Revolving Fund. These are securities backed by loans and comprise almost all of the loan assets bought by FFB.

On prior occasions we have stated that funds derived from certificates of beneficial ownership sales really are borrowed amounts and should be treated as debt rather than asset sales. The President is now proposing legislation to have certificates of beneficial ownership sold by the Rural Housing Insurance Fund in Farmers Home Administration treated as agency debt beginning in 1984. In fiscal year 1982 sales by this fund amounted to $5.2 billion.

We believe this action is a good beginning to correct the understatement of agency accounts. However, we believe legislation is still needed to change the treatment of the additional $7.4 billion certificates of beneficial ownership issued by the Agriculture Credit Insurance Fund, the Rural Development Insurance Fund and the Rural Electrification Administration.

Relevant GAO Reports:

PAD-80-32, April 9, 1980, CED-81-14, November 28, 1980, CED-80-52, May 30, 1980 and RED-76-109, May 21, 1976

GAO Contact: Kenneth W. Hunter 275-9675

FEDERAL BUDGETING FOR CAPITAL EXPENDITURES

GAO Views.

During the past few years there has been much concern, both in the Congress and in the private sector, over the deteriorating condition of the Nation's infrastructure and the decline in investment in public facilities. This has led to a number of proposals that the Federal Government adopt "capital budgeting."

Business concerns and many State and local governments distinguish between outlays for current operations and outlays for capital investment. In contrast, the Federal Government operates under the unified budget concept adopted with the 1969 budget as a result of the 1967 report of the President's Commission on Budget Concepts. The unified Federal budget represents a comprehensive financial plan including all programs (with certain exceptions required by law) of the Federal Government and its agencies. As such, the Federal budget does not distinguish between expenditures for current operations and expenditures for public investments whose useful lives extend years into the future.

The President's budget for 1984 addresses, for the first time, the subject of budgeting for capital expenditures. The discussion attempts to justify the administration's position of not separately identifying capital investment outlays in the budget. The discussion correctly points out that private sector and State and local separate capital budgeting practices are not directly applicable to the Federal Government. The purposes of and legal constraints applicable to private sector and State and local government budgeting differ significantly from that of the Federal Government.

However, the budget discussion erroneously contends that capital budgeting requires the creation of two budgets--one for operating costs and one for capital investments--and the computation of depreciation to be charged to the operating budget. It also contends that the budget outlays and surplus or deficit totals would change and be less useful as a measure of Government demands on the economy.

We have reported that (1) there is deterioration in our Nation's public infrastructure, (2) there is no process for integrating Federal activities affecting the Nation's infrastructure, (3) there is a program-by-program or project-by-project approach to infrastructure decisions, and (4) there is a short-term approach to long-term problems.

Despite billions of dollars spent for investment in capital facilities, the Federal Government does not take a comprehensive look at capital programs across agency and program lines to see how they fit into a national strategy for maintaining the Nation's

nfrastructure. Both the Congress and the executive branch tend o set priorities on a program-by-program basis. This program and roject orientation makes infrastructure planning vulnerable to hort-term factors, thus impairing the stability and redictability needed for an efficient capital investment rogram.

Although a separate capital budget could produce some enefits, we believe that a dual budget would be complex to stablish and would weaken aggregate spending controls. However, ejecting a separate capital budget does not respond to the need or better information on capital investments for policy ecisions. We believe that identifying Federal capital investment utlays within the unified budget and distinguishing them from urrent expenditures would provide necessary information on apital investments without jeopardizing the functional and ggregate spending focus of the unified budget.

A number of legislative proposals have been introduced on apital budgeting for the Federal Government. Most of the bills all for the separate identification of public infrastructure nvestments within the unified budget rather than establishing a eparate capital budget.

Relevant GAO Reports:

Federal Capital Budgeting: A Collection of Haphazard Practices (PAD-81-19, February 26, 1981) and Pros and Cons of a Separate Capital Budget for the Federal Government (GAO/PAD-83-1, Not yet issued)

Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Program (CED-81-42, March 5, 1981)

Better Targeting of Federal Funds Needed to Eliminate Unsafe Bridges (CED-81-126, August 11, 1981)

Improving the Safety of our Nation's Dams--Progress and Issues (CED-79-30, March 8, 1979)

User Charge Revenues for Wastewater Treatment Plants--Insufficient to Cover Operation and Maintenance (CED-82-1, December 2, 1981)

Additional Federal Aid for Urban Water Distribution Systems Should Wait Until Needs Are Clearly Established (CED-81-17, November 24, 1980)

GAO Contact: Kenneth W. Hunter 275-9675