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

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STATEMENT OF

ELMER B. STAATS, COMPTROLLER GENERAL

OF THE UNITED STATES

BEFORE THE

BUDGET COMMITTEE TASK FORCE H00802

ON LEGISLATIVE SAVINGS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

[OPPORTUNITIES TO ACHIEVE

SAVINGS THROUGH

LEGISLATIVE ACTION]

Testimony

005951

Mr. Chairman and Members of the Task Force:

I am pleased to appear before you today to testify on opportunities to achieve savings through legislative action. As you know, the Budget and Accounting Act requires GAO to make recommendations to the Congress "looking to greater economy and efficiency in public expenditures" and report such recommendations at the beginning of each congressional session or in special reports at any time.

We view our appearance here today as a unique opportunity to encourage action on our past recommendations which we continue to support. I am pleased that the Congress has been generally responsive to our suggestions for legislation. We are well aware, however, that congressional and committee priorities can defer consideration of some of our recommendations and we recognize that some of our recommendations are controversial. Moreover, our reports are only one of a number of sources of information and opinions on Federal programs that the Congress considers in the legislative process.

This general receptivity to our recommendations is evidenced by the section in each of our annual reports showing the numerous legislative recommendations that the Congress has acted on. Another indication of congressional support is evidenced by the fact that, of the $2.5 billion in collections and other measurable savings attributable to our work in fiscal year 1978, $580 million involved legislative actions by the Congress. These amounts were $5.7 billion and $1.2 billion, respectively, in fiscal year 1977.

Congressional interest and support of our work plays an

important role in another way. Of the $2.5 billion savings referred to above, $1.9 billion resulted from actions taken by the agencies. You know, of course, that we cannot compel the agencies to accept our recommendations. Action on our recommendations rests on the persuasiveness of our arguments. Agency management must be convinced that our analyses are sound and that it is in their interest to take the actions we recommend. There is no doubt in our minds that the agencies' awareness of the Congress' attention to our reports stimulates interest in and attention to our recommendations. Attachment I to my statement contains detailed information, by agency, on the measurable savings and collections attributable to our work in fiscal years 1978 and 1977.

In preparing for our appearance here today, we reexamined the adequacy of our present procedures for communicating our findings and recommendations to the Congress and its committees. The three principal ways of accomplishing this are (1) submission of the individual reports to the cognizant committees, (2) listing of all open legislative recommendations in our annual report and separate transmittal of this same information to the appropriate committees, and (3) preparation of an annual summary of the major conclusions and recommendations contained in all of our reports. This last document includes our recommendations to agency officials as well as those to the Congress. In addition, many of these same matters are also conveyed in our congressional testimony and in the day-to-day contacts between the committees and our staff.

Is there a need to do more? We believe so. On the one hand, we are studying various ways of arraying the results of our work to improve its visibility and accessibility to individual committees. We feel a need for more selective distribution of the information we have developed; a need to tailor the information provided each committee to its particular needs. This particularly struck me when I looked at our 1978 summary of conclusions and recommendations. It contains almost 600 pages, and although it was appropriately indexed and organized, I am concerned that its very length may work against its usefulness to individual committees.

Next, I suspect that the economies many agencies could realize by acting on our recommendations are not always properly considered in the budgetary process. I do know that the Office of Management and Budget views our reports as a source of ideas on how to reduce agency requests. And I also know that the Congress often makes budgetary adjustments based on our findings. However, I sense a need for a more systematic approach. I also sense that the responsibility properly belongs with the General Accounting Office to take the lead in developing such an approach. We will be studying all of these matters in the coming months.

I have covered a lot of ground and still haven't gotten to the business at hand. Let me correct that. My first step upon receiving your invitation to testify today was to ask each of our operating divisions to provide me with information on its significant open legislative recommendations from the universe of those contained in our 1978 annual report and in

reports issued since October 1, 1978. I noted that "significance" in this sense related to the potential savings involved. The divisions responded with numerous recommendations which they believed met these criteria. It was no easy task to identify those 15 recommendations to be discussed here today, but it was done. The first nine recommendations deal with potential near-term reductions in the costs of programs and activities. The other six offer opportunities to reduce the budget in other ways, including increasing revenues.

Let me now briefly characterize each of these recommendations which are described in greater detail in the attachments. The material in the attachments provide information on recent legislative initiatives that we are aware of as well as our view of any special sensitivities, political or otherwise affecting each recommendation.

—There is a need to considerably tighten the payment of compensation benefits to injured Federal employees. (Attachment II.)

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

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

—Competitive procurement of Medicaid supplies and laboratory services offers large savings opportunities. (Attachment V.)

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

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

—Minor and necessary changes in the calculation of certain social security benefits would result in large savings. (Attachment VIII.)

—Consolidation and rationalization of Federal food assistance programs is needed. (Attachment IX.)

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

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

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

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

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

—Statutory performance standards are needed for the Medicaid Management Information System. (Attachment XV.)

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

I would like to briefly summarize four of the attachments to give you a flavor for the kinds of opportunities for savings through legislative action.

In July 1978, we reported (attachment III) that non-Federal pay rates vary among geographic areas, types of industries, size of establishments and occupations and that Federal pay-setting processes do not always consider such variances when setting Federal pay. This causes the Government to pay some employees either more or less than market rates and has resulted in criticism and lack of confidence in Federal compensation systems. Our report contained a number of legislative recommendations to resolve these shortcomings and to provide needed credibility to the Federal pay-setting processes.

Last month the administration forwarded proposed legislation which would incorporate many of our recommendations. Subsequently, the administration's proposal was introduced as H.R. 4477 and S. 1340. The administration estimates that, if enacted, the proposed changes could save as much as $3 billion a year.

By law, veterans who serve more than 180 days of active duty and are discharged under honorable conditions are eligible for various benefits.

Over 444,000 persons entering the services during fiscal year 1974 through 1977 were separated before completing their initial enlistments. Almost half of them are eligible for lifetime veterans benefits costing about $2.7 billion. Because of the potential for substantial savings, we recommended in a February 1979 report (Attachment VII) that the Congress limit eligibility for veterans' benefits to those who complete their initial enlistments, except for those separated due to a service-connected disability.

The 1974 amendments to the Federal Employees' Compensation Act allow continuation of employees' pay after an injury and give employees a free choice of a physician in injury cases. Last month we reported (Attachment II) that these provisions and increased employee awareness of the program have sharply increased claims for on-the-job injuries involving time lost from work.

Employing agencies need more authority to deal with continuation-of-pay claims. The Labor Department's administration of the program has been plagued by processing delays, a lack of coordination with employing agencies, and inadequate claims reviews. Program administration by employing agencies is not uniform.

We recommended that Congress require a 3-day waiting period before payment of continuation of pay and provide employing agencies with the authority to require these employees to submit to a second medical examination. Legislation has been introduced and annual savings have been estimated at $20 million.

In April 1978 we reported (attachment XIII) for the third time in the past 5 years, that proposals have been made by the Department of Energy and its predecessor agencies to change the basis for charging customers for uranium enrichment services from one of cost recovery to one of fair value pricing. The fair value pricing basis would more closely approximate what a private enricher would charge under normal business pricing practices. Thus, factors for such pricing elements as return on investment, taxes, and insurance would be included in establishing charges for uranium enrichment services.

We have supported this change in the basis for charging uranium enrichment customers on a number of occasions. In our April 1978 report, we recommended adoption of this fair value pricing concept and noted that additional revenues from 1979 through 1983 resulting from the change would be about $1.5 billion. Almost half of this would be from foreign customers and the estimated increase in the cost of electricity to the consumer would be small—less than 1 percent through 1983—according to the Department of Energy.

We are not aware of any current legislative initiative in this area.

This concludes my statement. We will be pleased to answer any questions the Chairman or members of the Committee may have.

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

(000 omitted)

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

COLLECTIONS AND OTHER MEASURABLE SAVINGS ATTRIBUTABLE TO THE WORK OF THE GENERAL ACCOUNTING OFFICE FISCAL YEAR 1977

(000 omitted)

	Collections	Other measurable savings		Total
		Congressional action involved	Agency action involved	
DEPARTMENTS				
Agriculture	–	$145,000	$27,773	$172,773
Air Force	$10,433	127,400	38,894	176,727
Army	392	117,176	43,222	160,790
Commerce	–	–	5,618	5,618
Defense	500	456,315	111,088	567,903
Health, Education, and Welfare	–	–	58,331	58,331
Housing and Urban Development	174	–	2,582	2,756
Interior	–	–	117	117
Labor	–	–	15,000	15,000
Navy (and Marine Corps)	28	35,300	298,460	333,788
Transportation	7	–	8,950	8,957
Treasury	13	–	142,000	142,013
Alaska Power Administration	–	–	1,187	1,187
Bonneville Power Administration	–	–	4,174	4,174
Corps of Engineers (Civil Functions)	–	–	140	140
Defense Logistics Agency	–	–	177,625	177,625
District of Columbia Government	133	–	394	527
Environmental Protection Agency	–	–	12,090	12,090
General Services Administration	–	–	65	65
Government Printing Office	–	–	450	450
National Aeronautics and Space Administration	–	–	14,073	14,073
National Endowment for the Humanities	–	–	30	30
National Security Agency	–	–	1,250	1,250
National Science Foundation	38	–	–	38
Office of Telecommunications Policy	–	3,900	2,960	6,860
Panama Canal Organization	–	–	566	566
Postal Service	–	–	478	478
Veterans Administration	–	400	51	451
Government-wide	–	276,000	3,508,000	3,784,000
	11,718	1,161,491	4,475,568	5,648,777
General Claims Work	8,037	–	–	8,037
Total	$19,755	$1,161,491	$4,475,568	$5,656,814

THERE IS A NEED TO CONSIDERABLY TIGHTEN THE PAYMENT OF COMPENSATION BENEFITS TO INJURED FEDERAL EMPLOYEES

GAO REPORTS

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

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Labor and Human Resources

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATIONS

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

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

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

DISCUSSION OF THE PROBLEM

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

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

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

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

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

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

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

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

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

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

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

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Governmental Affairs

House Committee on Post Office and Civil Service

STATEMENT OF THE RECOMMENDATIONS

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

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

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

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

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

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

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

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

DISCUSSION OF THE PROBLEMS

Establishing more realistic Federal white-collar salary schedules

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

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

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

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

Including pay and benefits in white-collar comparability determinations

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

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

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

LEGISLATIVE INITIATIVE/POLITICAL SENSITIVITIES

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

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

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Labor and Human Resources

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATIONS

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

DISCUSSION OF THE PROBLEM

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

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

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

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

After GAO's testimony, the Senate Subcommittee on Housing and Urban Affairs, rejected, by an 8 to 6 vote, an amendment to exempt certain housing programs from the Davis-Bacon Act. However, the Senate Armed Services Committee voted 11 to 5 to exempt $1.4 billion in fiscal year 1980 military construction from Davis-Bacon coverage. Also, on June 6, 1979, the House voted 244 to 155 to reject an amendment to the Housing and Community Development Amendments of 1979 which would have exempted certain Federal housing projects from coverage under the Davis-Bacon Act. GAO anticipates further action in both the House and Senate.

Two recent congressional committee reports were critical of the Davis-Bacon Act. In a July 1977 report, the Joint Economic Committee stated that Davis-Bacon wage requirements discourage nonunion contractors from bidding on Federal

construction work, thus harming minority and young workers who are more likely to work in the nonunionized sector of the construction industry. In a 1979 report on Indian housing, the Senate Select Committee on Indian Affairs recommended that the Department of Labor establish Davis-Bacon wage rates that are specific to each Indian area and that Labor, in conjunction with the Department of Housing and Urban Development, seriously consider exempting from Davis-Bacon requirements HUD-assisted Indian homes that are detached single family units.

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

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

COMPETITIVE PROCUREMENT OF MEDICAID SUPPLIES AND LABORATORY SERVICES OFFERS LARGE SAVINGS OPPORTUNITIES

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Interstate and Foreign Commerce

STATEMENT OF THE RECOMMENDATION

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

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

DISCUSSION OF THE PROBLEM

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

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Senate Bill 507, currently under consideration by the Senate Finance Committee, includes a provision authorizing experiments in competitive procurement of laboratory services under Medicaid. A similar provision was passed by both Houses last year but the bills containing the provision never went to a conference committee before adjournment of the 95th Congress.

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

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

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

Senate Committee on Human Resources

Senate Committee on Veterans' Affairs

House Committee on Armed Services

House Committee on Government Operations

House Committee on Interstate and Foreign Commerce

House Committee on Veterans' Affairs

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress enact legislation which would:

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

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

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

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

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

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

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

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

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

DISCUSSION OF THE PROBLEM

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

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

In view of the increasing concern in the Nation regarding the spiralling costs of health care, enacting legislation which (1) establishes a firm Federal policy to promote Federal interagency sharing and (2) removes restrictions on the types of services which can be shared, would be both beneficial and timely. Enacting such legislation would also complement the national health priorities established by the National Health Planning and Resources Development Act of 1974 and provide the impetus

and direction needed by Federal agencies to make interagency sharing more a rule than an exception.

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Congressional interest on this matter has generally been limited to the annual budget appropriation hearings for DOD, HEW, and VA. The strongest interest to date by a legislative committee occurred last fall when the Senate Veterans' Affairs Committee requested a briefing on GAO's report. Several other legislative committees have, however, expressed interest in the concept of interagency sharing.

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

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

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

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Armed Services

Senate Committee on Veterans' Affairs

House Committee on Armed Services

House Committee on Veterans' Affairs

STATEMENT OF THE RECOMMENDATION

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

DISCUSSION OF THE PROBLEM

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

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

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

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

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

GAO REPORTS

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

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Ways and Means

STATEMENT OF THE RECOMMENDATION

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

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

Both reports include suggested legislative language.

DISCUSSION OF THE PROBLEM

Accounting method for Social Security benefit payments

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

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

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

Method of calculating Social Security benefit payments

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

Section 232 of the Social Security Welfare Reform Amendments of 1979, introduced in both the House and Senate as H.R. 4321 and S. 1290, respectively, amends the currently used prospective quarterly accounting method in favor of a retrospective monthly accounting period. Although this method of accounting would be an improvement over that currently used, GAO believes that computing

benefits on this basis alone would not fully reduce erroneous payments. However, by allowing a 1-month lag between the month used for eligibility determinations and benefit calculations and the month payments are made to recipients, reductions in erroneous payments and in Social Security administrative burden should be realized. The 1-month lag is intended to provide Social Security with sufficient time to

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

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

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

CONSOLIDATION AND RATIONALIZATION OF FEDERAL FOOD ASSISTANCE PROGRAMS IS NEEDED

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Agriculture, Nutrition, and Forestry

House Committee on Agriculture

House Committee on Education and Labor

STATEMENT OF THE RECOMMENDATION

GAO recommended that the Congress:

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

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

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

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

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

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

DISCUSSION OF THE PROBLEM

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

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

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

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

Typical overlaps involved the following combinations:

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

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

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

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

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

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

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

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

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

The minority staff of the House Agriculture Committee is developing various legislative alternatives regarding overlaps in food assistance programs but no proposed legislation had been completed as of June 22, 1979. Also, the Department of Agriculture has proposed that the special milk program be eliminated in schools where there are other Federal child nutrition programs.

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

GAO REPORT

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

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Governmental Affairs

House Committee on Government Operations

House Commitee on Post Office and Civil Service

STATEMENT OF RECOMMENDATIONS

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

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

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

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

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

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

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

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

DISCUSSION OF THE PROBLEM

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

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

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

LEGISLATIVE INITIATIVES

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

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

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Environment and Public Works

House Committee on Public Works and Transportation

STATEMENT OF THE RECOMMENDATION

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

DISCUSSION OF THE PROBLEM

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

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

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

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

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

POLITICAL SENSITIVITIES

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

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

IMPROVED MANAGEMENT WOULD AVOID SIGNIFICANT SHORTFALLS IN FOREIGN MILITARY SALES REVENUES

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Appropriations

Senate Committee on Armed Services

House Committee on Appropriations

House Committee on Armed Services

STATEMENT OF THE RECOMMENDATION

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

DISCUSSION OF THE PROBLEM

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

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

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

FEDERAL CHARGES FOR URANIUM ENRICHMENT SERVICES ARE TOO LOW

GAO REPORTS

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

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

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Energy and Natural Resources

House Committee on Science and Technology

STATEMENT OF THE RECOMMENDATION

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

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

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

DISCUSSION OF THE PROBLEM

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

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

AUTHORIZING THE WITHHOLDING OF TAX REFUNDS COULD REDUCE FEDERAL DEBT LOSSES

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Joint Economic Committee

Joint Committee on Internal Revenue Taxation

Senate Committee on Appropriations

Senate Finance Committee

House Committee on Appropriations

House Committee on Government Operations

STATEMENT OF THE RECOMMENDATION

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

DISCUSSION OF THE PROBLEM

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

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

LEGISLATIVE INITIATIVES/POLITICAL SENSITIVITIES

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

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

This Senate resolution had 14 cosponsors on June 19, 1979. Also, the Senate Appropriations Committee staff planned to include funding for IRS to conduct the recommended test in IRS's 1980 budget.

The Commissioner of Internal Revenue has stated that the results of GAO's review do not support the desirability and practicability of this proposed offset program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws. These reservations are discussed on pages 12-17 of the report.

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

STATUTORY PERFORMANCE STANDARDS ARE NEEDED FOR THE MEDICAID MANAGEMENT INFORMATION SYSTEM

GAO REPORT

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee on Finance

House Committee on Interstate and Foreign Commerce

STATEMENT OF THE RECOMMENDATION

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

DISCUSSION OF THE PROBLEM

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

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

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

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

LEGISLATIVE INITIATIVES

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

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

GAO REPORTS

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

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

COGNIZANT LEGISLATIVE COMMITTEES

Senate Committee On Environment and Public Works

House Committee on Public Works and Transportation

STATEMENT OF THE RECOMMENDATIONS

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

DISCUSSION OF THE PROBLEM

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

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

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

LEGISLATIVE INITIATIVES

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