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# FEDERAL BUDGET

## Opportunities for Oversight and Improved Use of Taxpayer Funds

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Mr. Chairman, Mr. Waxman, members of the Committee

It is a pleasure to be here today to assist you in what Comptroller General Walker has described as one of your important obligations—to exercise prudence and due care in connection with taxpayer funds. No government should waste its taxpayers’ money, whether we are operating during a period of budget surpluses or deficits. Further, it is important for everyone to recognize that fraud, waste, abuse, and mismanagement are not victimless activities. Resources are not unlimited, and when they are diverted for inappropriate, illegal, inefficient, or ineffective purposes, both taxpayers and legitimate program beneficiaries are cheated. Both the Administration and the Congress have an obligation to safeguard benefits for those that deserve them and avoid abuse of taxpayer funds by preventing such diversions. Beyond preventing obvious abuse, government also has an obligation to modernize its priorities, practices, and processes so that it can meet the demands and needs of today’s changing world. More broadly, the federal government must reexamine the entire range of policies and programs—entitlements, discretionary, and tax incentives—in the context of the 21<sup>st</sup> century.

Periodic reexamination and revaluation of government activities has never been more important than it is today. Our nation faces long-term fiscal challenges. Increased pressure also comes from world events: both from the recognition that we cannot consider ourselves “safe” between two oceans--which has increased demands for spending on homeland security-- and from the U.S. role in an increasingly interdependent world. And government faces increased demands from the American public for modern organizations and workforces that are responsive, agile, accountable and responsible.

Efforts to assure prudent use of taxpayer funds, efforts to guard against fraud, waste, abuse and mismanagement, and efforts to improve economy, efficiency and effectiveness must be broad, encompassing those programs subject to annual appropriations, mandatory programs, and tax preferences/tax incentives.

Direct, or mandatory, spending programs are by definition assumed in the baseline and not automatically subject to annual congressional review as are appropriated discretionary programs. Nonetheless, a periodic reassessment of these programs, as well as tax incentives, is critical to achieving fiscal discipline in the budget as a whole. Moreover, such a review can help ascertain whether these programs are protected from the risk of fraud, waste and abuse and are designed to be as cost effective and efficient as possible.

As you know, the Budget Resolution directs GAO to prepare a report identifying “instances in which the committees of jurisdiction may make legislative changes to improve the economy, efficiency, and effectiveness of programs within their jurisdiction.” This report will be based on examples drawn from GAO’s recent work highlighting programs and operations where improvements could be made to address performance issues that may have budgetary consequences. My testimony draws in part on some of the items that will be included in that report.

As Mr. Walker did before the House Budget Committee last month, today I want to talk about program reviews, oversight, and stewardship of taxpayer funds in three tiers:

- First, it is important to deal with areas vulnerable to fraud, waste, abuse and mismanagement. Payments to ineligibles drain resources that could otherwise go to the intended beneficiaries of a program. Everyone should be concerned about the diversion of resources and subsequent undermining of program integrity.
- Second, and more broadly, policymakers and managers need to look at ways to improve the economy, efficiency and effectiveness of federal programs and specific tax expenditures. Even where we agree on the goals of programs, numerous opportunities exist to streamline, target and consolidate to improve their delivery. This means looking at program consolidation, at overlap and at fragmentation. For example, it means tackling excess federal real property—whether at home or abroad. It means improved targeting in both spending

programs and tax incentives-- in some cases, spreading limited funds over a wide population or beneficiary group may not be the best approach.

- Finally, a fundamental reassessment of government programs, policies, and activities can help weed out programs that are outdated, ineffective, unsustainable, or simply a lower priority than they used to be. In most federal mission areas—from low-income housing to food safety to higher education assistance—national goals are achieved through the use of a variety of tools and, increasingly, through the participation of many organizations, such as state and local governments and international organizations, that are beyond the direct control of the federal government. Government cannot accept as “givens” all of its existing major programs, policies, and operations. A fundamental review of what the federal government does, how it does it, and in some cases, who does the government’s business will be required, particularly given the demographic tidal wave that is starting to show on our fiscal horizon.

### **Addressing Vulnerabilities to Fraud, Waste, Abuse and Mismanagement**

Programs and functions central to national goals and objectives have been hampered by daunting financial and program management problems, exposing these activities to fraud, waste and abuse. These weaknesses have real consequences with large stakes that are important and visible to many Americans. Some of the problems involve the waste of scarce federal resources. Other problems compromise the ability of the federal government to deliver critically needed services, such as ensuring airline safety and efficiently collecting taxes. Still others may undermine government’s ability to safeguard critical assets from theft and misuse.

In recent years, GAO’s work across the many government programs and operations has highlighted threats to the integrity of programs which prompt potential for fraud, waste and abuse. As the next sections illustrate, much of our work for the Congress in fact is

dedicated to helping redesign programs and improve management to address these long standing problems, in areas ranging from uncollected taxes, both corporate and individual, to major entitlement programs.

In 1990, GAO began a program to report on government operations we identified as “high-risk.” This label has helped draw attention to chronic, systemic performance and management shortfalls threatening taxpayer dollars and the integrity of government operations. Over the years GAO has made many recommendations to improve these high-risk operations. We discovered that the label often inspired corrective action—indeed 13 areas have come off the list since its inception. For each of these areas, we focus on (1) why the area is high-risk; (2) the actions that have been taken and that are under way to address the problem since our last update report and the issues that are yet to be resolved; and (3) what remains to be done to address the risk.

In January of this year we provided an update for the 108<sup>th</sup> Congress, giving the status of high-risk areas included in our last report [January 2001] and identifying new high-risk areas warranting attention by the Congress and the administration.<sup>1</sup> GAO’s 2003 high-risk list is shown in Attachment I. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.

In addition to perseverance by the administration in implementing needed solutions, we have noted that continued congressional interest and oversight, such as that exemplified by this hearing today are of crucial importance. The administration has looked to our recommendations in shaping government-wide initiatives such as the President’s Management Agenda, which has at its base many of the areas we have previously designated as high-risk.

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<sup>1</sup> U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

Clearly progress has been made in addressing most of the areas on our current high-risk list, both through executive actions and congressional initiatives. However, many of these problems and risks are chronic and long standing in nature and their ultimate solution will require persistent and dedicated efforts on many fronts by many actors. Some will require changes in laws to simplify or change rules for eligibility, provide improved incentives or to give federal agencies additional tools to track and correct improper payments. Continued progress in improving agencies' financial systems, information technology resources and human capital will be vital in attacking and mitigating risks to federal program integrity. Some areas may indeed require additional investments in people and technology to provide effective information, oversight and enforcement to protect programs from abuse.

Ultimately, a transformation will be needed in the cultures and operations of many agencies to permit them to manage risks and foster the kind of sustained improvements in program operations called for. Continued persistence and perseverance in addressing the high-risk areas will ultimately yield significant benefits for the taxpayers over time. Finding lasting solutions offers the potential to achieve savings, improved service and strengthened public trust in government.

I will now address some specific areas and examples from both our high-risk work and other program reviews that illustrate both the problems facing us and the opportunities for congressional and executive actions to better safeguard taxpayer funds.<sup>2</sup>

### Improper Payments

Improper payments include inadvertent errors, such as duplicate payments and miscalculations; payments for unsupported or inadequate supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or federal employees. Recently, agencies' financial statements also have begun to identify and measure the wide range of

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<sup>2</sup> Attached to this testimony is a list of selected GAO reports related to the specific examples cited.

improper payments involved in many activities throughout government. Agency financial statements for both fiscal years 2002 and 2001 identified improper payment estimates of approximately \$20 billion. OMB recently testified that the amount of improper payments was closer to \$35 billion annually for major benefit programs. This range may be indicative of the fact that it is hard to get a handle on the precise total. Furthermore, as significant as these amounts are, they do not represent a true picture of the magnitude of the problem governmentwide because they do not consider other significant but smaller programs and other types of agency activities that could result in improper payments. In reviewing fiscal year 2002, financial statements of the 24 CFO Act agencies, we found references to improper payments in 17 agencies and 27 programs—and a variety of program activities. Unfortunately, not all of the agencies provided information on their estimate of the amount of such payments.

Many of these problems can most effectively be addressed by individual programs and the agencies that manage them. However, crosscutting approaches can also be essential to making progress. For example, enhanced sharing of data across programs and purposes can help to verify program eligibility and provide improved controls over payments. Access to IRS taxpayer information is available to many programs but not all. Such access could have helped the Department of Education prevent some of the \$100 million in excess payments under the Pell Grant awards in 2000 stemming from underreporting of income by recipients. Computer matching enabled the SSI program and Food Stamp and TANF programs in certain states to identify over 110,000 beneficiaries who are fugitive felons ineligible for assistance, enabling estimated cost savings of over \$96 million for SSI alone. However, most states administering TANF and food stamps, as well as HUD, were not conducting these kinds of matches.



## Collection of Unpaid Taxes

Ensuring that taxpayers meet their tax obligations under an increasingly complex tax code has long presented the Internal Revenue Service (IRS) with daunting challenges. Although the majority of taxpayers voluntarily and timely pay the taxes they owe, regrettably high levels of noncompliance by some taxpayers persist. Some noncompliance is intentional and may be due to outright fraud and the use of abusive tax shelters or schemes. Some noncompliance stems from unintentional errors and taxpayers' misunderstanding of their obligations. Regardless of the cause, we have designated the collection of unpaid taxes—including detecting noncompliance and collecting taxes due but not paid—as a high-risk area because of the potential revenue losses and the threat to voluntary compliance.

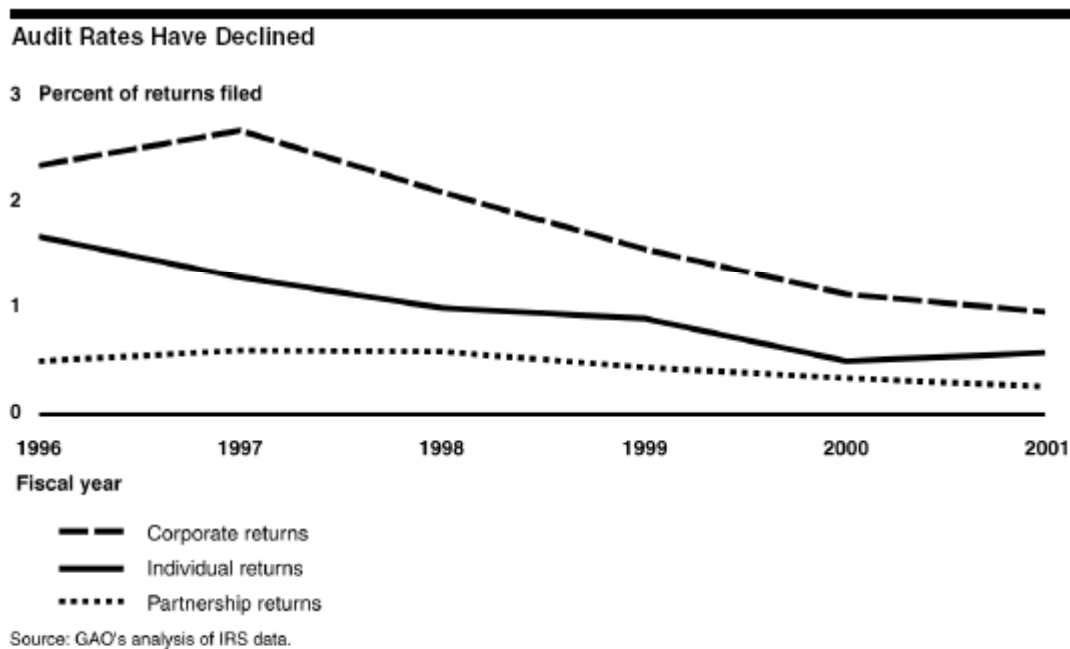
Collecting taxes due includes both compliance programs, like audits, that identify those who owe more than they self-report and collection programs that seek payment of taxes assessed but not timely paid. However, IRS compliance and collections programs have seen larger workloads, less staffing, and fewer cases closed per employee. For the last several years, Congress and others have been concerned that the declines in IRS's enforcement programs are eroding taxpayers' confidence in the fairness of our tax system putting at risk their willingness to voluntarily comply with the tax laws.

The number of tax returns increases every year. Between 1993 and 2002, the number of individual returns filed went from 114.7 million to approximately 130 million—a 13 percent increase over those 10 years. IRS projects the number of total individual returns filed will be 132.3 million in 2003 and continue to increase at an annual rate of 1.5 percent until 2009. Such a rate of increase would lead to 145.3 million total individual returns filed in 2009. Returns from businesses and other entities have also increased substantially.

While the number of tax returns has increased, key compliance program rates have declined. In testimonies and reports, GAO has highlighted large and pervasive declines

in IRS's compliance programs. These programs, not all of which have seen declines, include computerized checks for nonfiling and underreported income as well as audits of both individual taxpayers and business entities. Between 1996 and 2001, key programs generally experienced growing workloads, decreased staffing, and decreases in the number of cases closed per employee. Figure 1 shows the decline in audit rates for different types of taxpayers.

Figure 1: Change in Percent of Returns Audited, 1996 - 2001



IRS collections programs are also increasingly stressed. As we reported in May 2002, between fiscal years 1996 and 2001 trends in the collection of delinquent taxes showed almost universal declines in collection program performance, in terms of coverage of workload, cases closed, direct staff time used, productivity, and dollar of unpaid taxes

collected.<sup>3</sup> Although the number of delinquent cases assigned to collectors went down during this period, the number of collections cases closed declined more rapidly, creating an increasing gap. During that 6-year period, the gap between the new collection workload and collection cases closed grew at an average annual rate of about 31 percent.

#### Uncollected Taxes

By the end of fiscal year 2002, IRS had deferred collection action on about one out of three collection cases and had an inventory of \$112 billion of known unpaid taxes with some collection potential.

A key to reversing these trends and ensuring compliance with the tax laws is continuing to modernize IRS's management and systems. Such change is required across IRS. IRS needs to acquire and analyze data on noncompliance by continuing to implement the National Research Program as planned. IRS needs to reengineer its compliance and collection programs. Reengineering depends, in turn, on successfully modernizing business information systems by implementing recommended management controls. IRS needs to implement its planned centralized cost accounting system in order to strengthen controls over unpaid tax assessments. Because of their magnitude, these efforts are a major management challenge. IRS has tried to increase enforcement staffing. However, the hiring of additional staff has been delayed by factors such as unbudgeted cost increases.

#### Recoup Delinquent Taxes from Those Benefiting from Federal Programs

Many taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes, are receiving billions of dollars in federal payments annually. In addition to SSA benefit payments, these delinquent taxpayers may be paid

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<sup>3</sup> U.S. General Accounting Office, *Tax Administration: Impact of Compliance and Collection Program Declines on Taxpayers*, GAO-02-674 (Washington, D.C.: May 22, 2002).

federal civilian retirement payments and federal civilian salaries, payments on federal contracts, and Small Business Administration loans.

IRS and federal payment records indicate that nearly one million taxpayers who were receiving some type of federal payments owed about \$26 billion in delinquent taxes as of February 2002. To help the IRS collect these delinquent tax debts, provisions in the Taxpayer Relief Act of 1997 gave IRS authority to continuously levy<sup>4</sup> up to 15 percent of certain federal payments made to delinquent taxpayers.<sup>5</sup> Payments subject to IRS' continuous levy program include Social Security, federal salary and retirement payments, and federal vendor payments. According to IRS, the program resulted in collecting over \$60 million in fiscal year 2002 by directly levying federal payments. However, not all agencies have been included in the continuous levy program.<sup>6</sup> When we reviewed three of these we found, that as of June 30, 2000, about 70,400 individuals and businesses that received about \$1.9 billion in federal payments collectively from three agencies owed over \$1 billion in federal taxes. IRS has either tested or commenced with levies of vendors or employees for the Department of Defense and the U.S. Postal Service. IRS has not begun to levy payments made to Centers for Medicare and Medicaid Services' vendors. In another report we found that IRS blocks many eligible delinquent accounts from being included in the Federal Payment Levy Program, missing an opportunity to gather information on which debtors are receiving federal payments.<sup>7</sup> IRS officials imposed these blocks because of concerns that the potential volume of levies—about 1.4 million taxpayer accounts—would disrupt ongoing collection activities. However we estimate that about 112,000 would actually qualify for levy. These taxpayers were collectively receiving about \$6.7 billion in federal payments and owed about \$1.5 billion in delinquent taxes. In January 2003, IRS unblocked and began matching delinquent

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<sup>4</sup> Levy is the legal process by which IRS orders a third party to turn over property in its possession that belongs to the delinquent taxpayer named in a notice of levy. A continuous levy remains in effect from the date such levy is first made until the tax debt is fully paid or IRS releases the levy.

<sup>5</sup> Specifically, the 1997 legislation allows continuous levy of "specified payments," including non-means tested federal payments, as well as certain previously exempt payments.

<sup>6</sup> U.S. General Accounting Office, *Tax Administration: Millions of Dollars Could be Collected if IRS Levied More Federal Payments*, GAO-01-711 (Washington, D.C.: July 20, 2001).

<sup>7</sup> U.S. General Accounting Office, *Tax Administration: Federal Payment Levy Program Measures, Performance, and Equity Can Be Improved*, GAO-03-356 (Washington, D.C.: March 6, 2003).

taxpayer accounts identified as receiving a federal salary or annuity payment. IRS officials will not unblock the remaining delinquent accounts until sometime in 2005.

In addition, OMB circular A-129, revised, directs agencies to determine whether applicants for federal credit programs are delinquent on any federal debt—including tax debt—and to suspend processing of credit applications until the applicant pays the debt or enters into a payment plan. Unfortunately, these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes. In order to fully realize this benefit, the Congress could enact legislation codifying the provisions of OMB Circular A-129, as revised, that relate to this matter. A key aspect of this legislation would be to ensure that IRS's efforts to modernize its business systems are successful in enabling it to generate timely and accurate information on the taxpayer's status to assist other agencies in making determinations about eligibility for federal benefits and payments.

### The Medicare Program

The sheer size and complexity of the Medicare program makes it highly vulnerable to fraud, waste and abuse. In fiscal year 2002, Medicare paid about \$257 billion for a wide variety of inpatient and outpatient health care services for over 40 million elderly and disabled Americans. To help administer claims the Centers for Medicare & Medicaid Services (CMS) contracts with 38 health insurance companies to process about 900 million claims submitted each year by over 1 million hospitals, physicians, and other health care providers. Although CMS has made strides, much remains to be done.

Today I will note a few specific areas in which we have recommended actions:

- *Reducing improper payments:* Since 1996, annual audits by the Department of Health and Human Services' Office of the Inspector General have found that Medicare contractors have improperly paid claims worth billions of dollars—\$13.3 billion in fiscal year 2002 alone. CMS has been working to better hold

individual contractors accountable for claims payment performance and help them target remedial actions to address problematic billing practices.

- *Monitoring managed care plans:* In 2001 auditors found that 59 of 80 health plans had misreported key financial data or had accounting records too unreliable to support their data, but CMS did not have a plan in place to resolve these issues.
- *Improving financial management processes:* Despite a “clean” opinion on its financial statements, CMS financial systems and processes do not routinely generate information that is timely or reliable and do not ensure confidentiality of sensitive information.
- *Collecting debt:* At the end of fiscal year 1999, over \$7 billion of debt had accumulated on contractors’ books as accounts receivable that were neither collected nor written off. While Medicare contractors have referred eligible delinquent debt to the Treasury for collection, CMS continues to face challenges in ensuring that contractors consistently make these referrals and is working to address this.
- *Enhancing program oversight:* Program safeguard activities, such as the Medicare Integrity Program, have historically produced savings—in the past CMS has estimated a return of over \$10 for every dollar spent in this area. While funding for the Medicare Integrity Program has increased, in 2002 it remained below comparable levels in the previous decade, adjusted for inflation. Moreover, freeing the Medicare program to directly choose contractors used to administer program payments on a competitive basis would enable the program to benefit from the advantages conferred by competition.
- *Reducing excessive payments for services and products:* These hurt not only the taxpayers but also the program’s beneficiaries who are generally liable for co-

payments equal to 20 percent of Medicare’s approved fee. Excessive payments have been found for both medical products and outpatient drugs.

- Medical products—Medicare’s payment approaches lack the flexibility to keep pace with market changes. Payments for medical equipment and supplies are through fee schedules that remain tied to suppliers’ historical charges to the program. Evidence from two competitive bidding projects suggests that competition might provide a tool that facilitates setting more appropriate payment rates that result in program savings.
- Outpatient drugs—Medicare pays list prices set by drug manufacturers, not prices providers actually pay. In September 2001, we reported that in 2000 Medicare paid over \$1 billion more than other purchasers for outpatient drugs that the program covers. CMS has not acted upon our recommendations in this area.<sup>8</sup>

Medicare Excessive Payments: Outpatient Drugs

- In some cases, Medicare’s payments were so high that the beneficiaries’ co-payments alone exceeded the purchase price available to the provider.
- In 2001,
  - Medicare paid \$3.34 per unit for Ipratropium bromide although it is widely available for \$0.77 per unit;
  - Medicare paid \$588 for leuprolide acetate although it was widely available at a cost of \$510.

The Medicaid Program

Medicaid, which pays for both acute health care and long-term care services for over 44 million low-income Americans, has been subject to waste and exploitation. In fiscal year

2001, federal and state Medicaid expenditures totaled \$228 billion. The federal share was about 57 percent, representing 7 percent of all federal outlays. Medicaid is the third largest social program in the federal budget (after Social Security and Medicare) and the second largest budget item for most states (after education).

CMS, in the Department of Health and Human Services (HHS) is responsible for administering the program at the federal level, while the states administer their respective program's day-to-day operations. The challenges inherent in overseeing a program of Medicaid's size, growth, and diversity, combined with the open-ended nature of the program's federal funding, puts the program at high risk. Inadequate fiscal oversight has led to increased and unnecessary federal spending. GAO has made recommendations in a number of areas, such as:

- *Curb state financing schemes:* Such schemes inappropriately increase the federal share of Medicaid expenditures. For example, some states have created the illusion that they made large Medicaid payments to providers while in reality they only made temporary electronic funds transfers that the providers were required to return to them. In some cases, states have used federal payments for purposes other than Medicaid. Although Congress and CMS have repeatedly acted to curtail abusive financing schemes, states have developed new variations. Each has the same result: some of the state's share of program expenditures is shifted to the federal government. Curbing abusive state practices is of increasing importance today since states are under budgetary pressures. Experience shows that some states are likely to look for other creative means to supplant state financing, making a compelling case for the Congress and CMS to sustain vigilance over federal Medicaid payments.

Curbing states' exploitative practices can yield substantial savings. CMS' 2001 regulation to close one significant loophole that was being increasingly used by

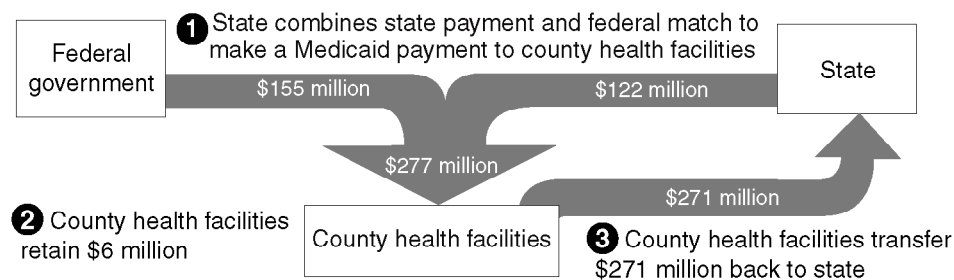
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<sup>8</sup> *Medicare: Payments for Covered Outpatient Drugs Exceed Providers' Cost*, GAO-01-1118 (Washington, D.C.: Sept. 21, 2001).



states to generate excessive federal Medicaid payments, referred to as the upper payment limit, is estimated to save the federal government \$55 billion over 10 years, and a related 2002 CMS regulation is estimated to yield an additional \$9 billion over 5 years. To reduce these and other exploitative schemes and to better ensure that federal funds were used to reimburse providers only for Medicaid-covered services actually provided to eligible beneficiaries, we recommended in 1994 that the Congress enact legislation to prohibit making Medicaid payments to a government-owned facility in excess of the facility's costs. To date, no action has been taken.

The figure below shows one state's arrangement to increase federal Medicaid payments inappropriately.



Source: GAO analysis.

- *Improve federal and state agency controls over payments:* CMS does not have a sound method for states to identify areas at high risk for improper Medicaid payments. Also, in our June 2001 review, we noted that no state requested the full amount of federal funds available for antifraud efforts due to a reluctance to put up state matching funds.

## HUD Single-Family Mortgage Insurance and Rental Assistance Programs

HUD manages about \$550 billion in insurance and \$19 billion per year in rental assistance. The department relies on a complex network of thousands of third parties to manage their risk. We have made recommendations in a number of areas:

- *Reducing rental subsidy overpayments:* HUD estimates that rental subsidy overpayments in fiscal year 2000 were \$2 billion—over 10 percent of total program expenditures. A significant portion of this overpayment is attributable to tenants' underreporting of income. We have recommended steps to improve data sharing between HUD and the Department of Health and Human Services to help identify unreported income before rental subsidies are provided.<sup>9</sup> HUD needs to ensure that its rental housing assistance programs operate effectively and efficiently, specifically that assistance payments are accurate, recipients are eligible, assisted housing meets quality standards, and contractors perform as expected.
- *Reduce risk of losses in the single-family housing program:* HUD also needs to reduce the risk of losses in its single-family housing program due to fraud, loan defaults, and poor management of foreclosed properties. Ineligible buyers sometimes fraudulently obtain loans, or loans are made on properties actually worth less than the loan amount, increasing the risk of default and losses. In addition, foreclosed properties are not always secured and maintained in a timely fashion and their condition can deteriorate, resulting in lower sales prices and limiting FHA's ability to recover its costs. HUD's IG has reported that fraud in the origination of mortgages of single-family properties continues to be the most pervasive problem uncovered by its investigations. We have reported on weaknesses in HUD's oversight of mortgage lenders and have made recommendations aimed at strengthening HUD's processes for approving and

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<sup>9</sup>U.S. General Accounting Office, *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity*, GAO/HEHS-00-19 (Washington, D.C., Sept. 13, 2000).

monitoring lenders and holding them accountable for poor performance.<sup>10</sup> We have also recommended that HUD adopt a foreclosure process more like that used by other entities to better ensure that properties do not deteriorate and that it recoups more of its losses when the houses are sold.<sup>11</sup> HUD needs to improve the management and oversight of its single-family housing programs to reduce its risk of financial losses.

#### Fraud in FHA Program

- A joint investigation between HUD's Inspector General and the Federal Bureau of Investigation uncovered a 20-person property-flipping scheme in Chicago, Illinois, that resulted in 21 indictments and convictions and 12 jail sentences.
- The use of fraudulent documentation to qualify borrowers for FHA-insured mortgages had led to criminal indictments and convictions in several other communities.

- *Improve acquisition management and monitoring of contractor performance:* Contractors are responsible for managing and disposing of HUD's inventory of single-family and multifamily properties—properties that had a combined value of about \$3 billion as of September 30, 2001. Our review of HUD's files and disbursements indicates that its oversight processes have not identified instances in which contractors were not performing as expected. Weaknesses in HUD's acquisition management limit its ability to readily prevent, identify, and address contractor performance problems. Without a systematic approach to oversight and adequate on-site monitoring, the department's ability to identify and correct contractor performance problems and hold contractors accountable is reduced.

<sup>10</sup>U.S. General Accounting Office, *Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk*, GAO/RCED-00-112 (Washington, D.C.: April 28, 2000).

<sup>11</sup>U.S. General Accounting Office, *Single-Family Housing: Opportunities to Improve Federal Foreclosure and Property Sales Processes*, GAO-02-305 (Washington, D.C.: April 17, 2002).

The resulting vulnerability limits HUD's ability to assure that it is receiving the services for which it pays.

### **Improving Economy, Efficiency, Effectiveness**

Important as safeguarding funds from fraud, waste, abuse and mismanagement is, I believe that for long-lasting improvements in government performance the federal government needs to move to the next step: to widespread opportunities to improve the economy, efficiency and effectiveness of existing federal goals and program commitments. The basic goals of many federal programs—both mandatory and discretionary—enjoy widespread support. That support only makes it more important for us to pay attention to the substantial opportunities to improve their cost effectiveness and the delivery of services and activities. No activity should be exempt from some key questions about its design and management.

#### Key Questions for Program Oversight

- Is the program targeted appropriately?
- Does the program duplicate or even work at cross purposes with related programs and tools?
- Is the program financially sustainable and are there opportunities for instituting appropriate cost sharing and recovery from nonfederal parties including private entities that benefit from federal activities?
- Can the program be made more efficient through reengineering or streamlining processes or restructuring organizational roles and responsibilities?
- Are there clear goals, measures and data with which to track progress, benefits and costs?

GAO's work illustrates numerous examples where programs can and should be changed to improve their impact and efficiency. Today I want to touch on some of these areas and

highlight some significant opportunities for program changes that promise to improve their cost effectiveness. I recognize that many of these will prompt debate—but that debate is both necessary and healthy.

### Targeting

Our work has shown that scarce federal funds could have a greater impact on program goals by improving their targeting to places or people most in need of assistance. Poorly targeted funding can result in providing assistance to recipients who have the resources and interest to undertake the subsidized activity on their own without federal financing. Moreover, lax eligibility rules and controls can permit scarce funds to be diverted to clients with marginal needs for program funds.

- *Grant programs:* Many federal grant programs with formula distributions to state and local governments are not well targeted to places with high needs but low fiscal capacity. As a result, recipients in wealthier areas may enjoy higher levels of federal funds than harder pressed areas. Better targeting of grants offers a strategy to reduce federal outlays by concentrating reductions in wealthier communities with comparatively fewer needs and greater capacity to finance services from their own resources. For such mandatory programs as Medicaid, Foster Care and Adoption Assistance, reimbursement formulas can be changed to better reflect relative need, geographic differences in the cost of services and state bases.
- *Flood insurance losses:* Repetitive flood losses are one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. Approximately 45,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion and have received flood insurance claims payments of \$1,000 or more for each loss. These repetitive losses account for about 38 percent of all program claims historically (currently about \$200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any

one time, from 1 to 2 percent. The cost of these multiple-loss properties over the years to the program has been \$3.8 billion. One option that would increase savings would be for FEMA to consider eliminating flood insurance for certain repeatedly flooded properties.

- *Medicare Incentive Payment Program:* The Medicare Incentive Payment program was established in 1987 to provide a bonus payment for physicians to provide primary care in underserved areas. However, specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply. Shortages of specialists, if any, have not been determined. Moreover, since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. HHS has acknowledged that structural changes to this program are necessary to better target incentive payments to rural areas with the highest degree of shortage. For example, if the program's intent is to improve access to primary care services in underserved rural areas, the bonus payments should be targeted and limited to physicians providing primary care services to underserved populations in rural areas with the greatest need.
- *Federal Employees' Compensation Act:* The formula for determining workers' compensation benefits for disabled federal employees replaced more than 100 percent of their estimated take-home pay for 30 percent of those included in our analyses, and over 90 percent for another 40 percent of beneficiaries. The high replacement rates for this tax-free benefit stem from the use of gross pay in the formula rather than the use of a base that subtracts federal and state taxes, as some state programs do. Such benefit levels may potentially discourage employees from returning to work. Savings could be achieved if the formula were revised to subtract taxes from gross pay.

## Consolidation

GAO's work over the years has shown that numerous program areas are characterized by significant program overlap and duplication. In program area after program area, we have found that unfocused and uncoordinated programs cutting across federal agency boundaries waste scarce resources, confuse and frustrate taxpayers and beneficiaries and limit program effectiveness.

- *Food safety:* The federal system to ensure the safety and quality of the nation's food is inefficient and outdated. The Food Safety and Inspection Service within USDA is responsible for the safety of meat, poultry and eggs and some egg products, while the Food and Drug Administration (FDA) under HHS is responsible for the safety of most other foods. USDA, FDA and ten other federal agencies administer over 35 different laws for food safety. The current system suffers from overlapping and duplicative inspections, poor coordination and inefficient allocation of resources. The Congress may wish to consider consolidating federal food safety agencies under a single risk-based food safety inspection agency with a uniform set of food safety laws.
- *Grants for homeland security:* GAO identified at least 16 different grant programs that can be used by the nation's first responders to address homeland security needs. These grants are currently provided through two different directorates within the Department of Homeland Security, the Department of Justice, and the Department of Health and Human Services and serve state governments, cities and localities, counties, and others. Multiple fragmented grant programs create a confusing and administratively burdensome process for state and local officials and complicate their efforts to better coordinate preparedness and response to potential terrorist attacks across the wide range of specialized agencies and programs. In addressing the fragmentation prompted by the current homeland security grant system, Congress should consider consolidating separate categorical grants into a broader purpose grant with

national performance goals defining results and perhaps standards expected for the state and local partnership.

- *Rural housing assistance:* USDA and HUD both provide assistance for rural housing, targeting some of the same kinds of households in the same markets. The programs of both agencies could be merged, using the same network of lenders. A consolidation of these programs building off the best practices of both programs would improve the efficiency with which the federal government delivers rural housing programs.
- *Department of Veterans Affairs (VA) food & laundry services:* VA provides inpatient food services and laundry processing for thousands of inpatients a day in hospitals, nursing homes, and domiciliaries. As of November 2000, VA had consolidated 28 of its food production locations into 10, begun using less expensive Veterans Canteen Service workers in 9 locations and contracted out in 2 locations. For laundry services, VA had consolidated 116 of its laundries into 67 locations and used competitive sourcing to contract with the private sector in other locations. VA has the potential to further reduce its inpatient food service and laundry costs. For example, VA could consolidate food production locations within a 90-minute driving distance of each other and laundry locations within a 4-hour driving distance of each other.
- *USDA: Common Administrative Functions, County Offices:*
  - *Common administrative functions--* In the mid 1990s, USDA began a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service by the Farm Service Agency, the Natural Resources & Conservation Service, and the agencies in the Rural Development mission. However, despite the agencies' collocation of county offices, little has changed in how the three agencies serve their customers. USDA has made substantial progress in deploying



personal computers and a telecommunications network to link its service centers. USDA could do more to combine agencies' support functions, such as legal and legislative affairs and public information into a single office.

- *County office consolidation--* USDA's field office structure dates back to the 1930s. In 1933 the U.S. had more than 6 million farmers; today the number of farms in the U.S. is less than 2 million, and a small fraction of these produce more than 70 percent of the nation's agricultural output. As the client base for USDA programs changes and technology offers opportunities for program delivery efficiencies, USDA needs to consider alternative program delivery approaches. Although the USDA has closed over 1000 county offices, an agency report in September 2001 said, "Further actions are necessary to ensure that the USDA farm service structure is appropriately sized, configured and located..."

### Cost Recovery

The allocation of costs that once made sense when programs were created needs to be periodically reexamined to keep up with the evolution of markets. In some cases, private markets and program beneficiaries can play greater roles in financing and delivery of program services.

- *User charges and fees:* Greater opportunities exist to charge users of federal programs across a number of areas to better reflect the full costs of services provided to particular users or beneficiaries. For example, the fees paid by utilities to pay for the costs of storage for high-level radioactive wastes have not changed since 1983, making the fund insufficient to cover increased costs due to inflation. Registration fees charged to aircraft owners by the Federal Aviation

Administration have not changed since 1968, resulting in over \$6 million in lost revenue for the agency. Federal food inspection agencies do not recover the costs of inspections for meat, poultry, domestic foods and processing facilities; Agriculture Department inspection agencies recovered only \$403 million of the \$1.3 billion they spent in 2002 for these purposes.

- *Child support enforcement:* The Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Temporary Assistance for Needy Families (TANF) and non-TANF families. From fiscal year 1984 through 1998, non-TANF caseloads and costs rose about 500 percent and 1200 percent, respectively. While states have the authority to fully recover the costs of their services, states have charged only minimal application and service fees for non-TANF clients, doing little to recover the federal government's 66 percent share of program costs. In fiscal year 1998, for example, state fee practices returned about \$49 million of the estimated \$2.1 billion spent to provide non-TANF services. To defray some of the costs of child support programs, Congress could require that mandatory application fees should be dropped and replaced with a minimum percentage service fee on successful collections for non-TANF families.
- *Fannie Mae and Freddie Mac:* These enterprises are privately-owned corporations chartered to enhance the availability of mortgage credit across the nation. HUD is charged with mission oversight responsibilities for the enterprises. Other federal organizations responsible for regulating government-sponsored enterprises are financed by assessments on the regulated entities. However, HUD's mission oversight expenditures are funded with taxpayer dollars through HUD's appropriations. Requiring Fannie Mae and Freddie Mac to reimburse HUD for mission oversight expenditures would not only result in budgetary savings but could also enable HUD to strengthen its oversight activities by for example dedicating new resources to verify housing goal data.

- *Water subsidies:* Federal water programs to promote efficient use of finite water resources for the nation’s agricultural and rural water systems have been used to provide higher subsidies than Congress may have intended. Some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. However, due to the vague definition of the term “farm,” the flow of federally subsidized water to land holdings above the law’s 960-acre limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the law. In addition, Interior Department studies have shown that some farmers received the water subsidy for using irrigated water and USDA subsidies for crop production. Congress could consider collecting the full costs of subsidized federal water for large farms and/or restructuring the subsidies for crops produced with federally subsidized water.

#### Governmentwide economy and efficiency: the case of federal real property

Beyond program management, there are governmentwide areas where major savings could come from improving economy, efficiency and effectiveness. Today I would like to highlight one GAO thinks is so important that we added it to the high-risk list—the management of federal real property.

Excess and underused property and deteriorating facilities present a real challenge—but also an opportunity to reap great rewards in terms of improved structure and savings for the federal government’s operations. The U.S. government’s fiscal year 2002 financial statements show an acquisition cost of more than \$335 billion for the federal government’s real property. This includes military bases, office buildings, embassies, prisons, courthouses, border stations, labs, and park facilities. Available governmentwide data suggest that the federal government owns roughly one-fourth of the total acreage of the nation—about 636 million acres.

Underutilized or excess property is costly to maintain. DoD alone estimates that it spends about \$3 to \$4 billion per year maintaining unneeded facilities. Excess DoE facilities cost more than \$70 million per year, primarily for security and maintenance. There are opportunity costs –these buildings and land could be put to more cost-beneficial uses, exchanged for needed property, or sold to generate revenue for the government. Table 1 below highlights excess and underutilized property challenges faced by some of the major real property-holding agencies.

Table 1: Excess Property Challenges at Some of the Major Real Property-Holding Agencies

Agency	Excess and underutilized property challenge
DOD	Even with four rounds of base realignment and closures that reduced its holdings by 21 percent, DOD recognized that it still had some excess and obsolete facilities. Accordingly, Congress gave DOD the authority for another round of base realignment and closure in the fiscal year 2002 defense authorization act, scheduled for fiscal year 2005.
VA	VA recognizes that it has excess capacity and has an effort underway known as the Capital Asset Realignment for Enhanced Services (CARES) that is intended to address this issue. VA recently completed its initial CARES study involving consolidation of services among medical facilities in its Great Lakes Network (including Chicago) as well as expansion of services in other locations. VA identified 31 buildings that are no longer needed to meet veterans' health care needs in this network, including 30 that are currently vacant.
GSA	GSA recognizes that it has many buildings that are not financially self-sustaining and/or for which there is not a substantial, long-term federal purpose. GSA is developing a strategy to address this problem. The L. Mendel Rivers Federal Building in Charleston, S.C. is a prime example of a highly visible, vacant federal building held by GSA.
DOE	After shifting away from weapons production, DOE had 1,200 excess facilities totaling 16 million square feet, and the performance of its disposal program had not been fully satisfactory, according to DOE's Inspector General. Facility disposal activities have not been prioritized to balance mission requirements, reduce risks, and minimize life-cycle costs. In some cases, disposal plans were in conflict with new facility requirements.
USPS	The issue of excess and underutilized property will need to be part of USPS's efforts to operate more efficiently. Facility consolidations and closures are likely to be needed to align USPS's portfolio more closely with its changing business model.
State	Although State has taken steps to improve its disposal efforts and substantially reduce its inventory of unneeded properties, it reported that 92 properties were potentially available for sale as of September 30, 2001, with an estimated value of more than \$180 million. State has begun the disposal process for some of these properties. State will also need to dispose of additional facilities over the next several years as it replaces more than 180 vulnerable embassies and consulates for security reasons. Security also has become a primary factor in considering the retention and sale of excess property.

If the federal government is to more effectively respond to the challenges associated with strategically managing its multi-billion dollar real property portfolio, a major departure from the traditional way of doing business is needed. Better managing these assets in the current environment calls for a significant paradigm shift to find solutions. Solutions should not only correct the long-standing problems we have identified but also be responsive to and supportive of agencies' changing missions, security concerns, and technological needs in the 21<sup>st</sup> century. Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive.

Because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address the problems. Thus, as discussed in our high-risk report, there is a need for a comprehensive and integrated transformation strategy for federal real property. This strategy could address challenges associated with having adequate capacity (people and resources) to resolve the problems. The development of a transformation strategy would demonstrate a strong commitment and top leadership support to address the risk. An independent commission or governmentwide task force may be needed to develop the strategy. We believe that OMB is uniquely positioned to be the catalyst for identifying and bringing together the stakeholders that would develop the transformation strategy, drawing on resources and expertise from the General Services Administration, the Federal Real Property Council, and other real property-holding agencies. For example, OMB could assess agency real property activities as part of the executive branch management scorecard effort. Congress will need to play a key role in implementing the transformation strategy's roadmap for realigning and rationalizing the government's real property assets so that the portfolio is more directly tied to agencies' missions. Without measurable progress and a comprehensive strategy to guide improvements, real property will most likely remain on the high-risk list.

## **Reassessing What Government Does**

I have talked about the need to protect taxpayer dollars from fraud, waste, abuse and mismanagement and about the need to take actions improving the economy, efficiency and effectiveness of government programs, policies, and activities. However, to meet the challenges of today and the future, we must move beyond this to a more fundamental reassessment of what government does and how it does it.

In part this requires looking at current federal programs—both spending and tax incentives—in terms of their goals and results. Why does the program/activity exist? Is the activity achieving its intended objective? If not, can it be fixed? If so, how? If not, what other approaches might succeed in achieving the goal/objective? More fundamentally, even if a program/activity is achieving its stated mission—or can be “fixed” so that it does so—where does it fit in competition for federal resources? Is its priority today higher or lower than before given the nation’s evolving challenges and fiscal constraints?

It also requires asking whether an existing program, policy, or activity “fits” the world we face today and in the future. It is important not to fall into the trap of accepting all existing activities as “givens” and subjecting new proposals to greater scrutiny than existing ones undergo. Think about how much the world has changed in the past few decades and how much it will change in future years.

One example of a disconnect between program design and today’s world is the area of federal disability programs—a disconnect great enough to warrant designation as a “high-risk” area this year. Already growing, disability programs are poised to surge as baby-boomers age, yet the programs remain mired in outdated economic, workforce, and medical concepts and are not well positioned to provide meaningful and timely support to disabled Americans. Disability criteria have not been updated to reflect the current state of science, medicine, technology and labor market conditions. Using outdated information, agencies—primarily SSA and VA--risk overcompensating some individuals

while under-compensating or denying compensation entirely to others. Although federal disability programs present serious management challenges and can be vulnerable to fraud or abuse, the overarching and longer-term challenge is to design a disability system for the modern world.

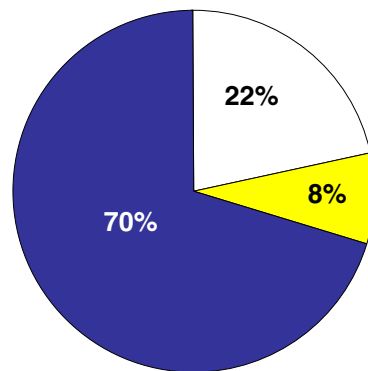
We should be striving to maintain a government that is effective and relevant to a changing society—a government that is as free as possible of outmoded commitments and operations that can inappropriately encumber the future. The difference between “wants,” “needs,” and overall “affordability” and long-term “sustainability” is an important consideration when setting overall priorities and allocating limited resources.

Finally, any reassessment of federal missions and strategies should include the entire set of tools the federal government can use to address national objectives. These tools include discretionary and mandatory spending, loans and loan guarantees, tax provisions, and regulations. Spending is most visible and it is all too easy when we look to define federal support for an activity to look at the spending side of the budget. Federal support, however, may come in the form of direct loans or loan guarantees. It may come in the design of regulations. It may come in the form of exclusions or credits in the tax code. We contrast discretionary spending—which is controlled annually through the appropriations process—with mandatory or direct spending. Entitlements and mandatories are not uncontrollable, but because they continue unless changed, they may seem less controllable and may be subject to less frequent attention. While mandatory spending programs may too often be taken as “givens,” think about the lack of public attention given tax preferences. These may be even less visible. Yet none of these tools should be ignored if we are to get a true picture of federal activity in an area. So, for example, if we are evaluating federal support for health care we need to look not only at spending, but also at tax preferences. If we are evaluating federal support for higher education, we need to look not only at spending but also at tax preferences such as the Lifetime Learning and HOPE tax credits. The same thing is true for health care. The figure below shows federal activity in health care and Medicare budget functions in FY



2003: \$48 billion in discretionary budget authority, \$419 billion in mandatory outlays, \$177 million in loan guarantees, and \$129 billion in tax expenditures.

### Relative Reliance on Policy Tools in the Health Care Budget Functions (FY2003)



□ Tax Expenditures    ■ Discretionary budget authority    ■ Mandatory outlays

Note: Loan guarantees account for about \$177 million or 0.03% of the approximately \$597 billion in total federal health care resources.  
Source: GAO analysis of data from the Office of Management and Budget.

## Approaches and Mechanisms to Facilitate Reexamination of Programs and Operations

As the examples in this statement illustrate, a broad array of opportunities exist for improving the programs and operations of the federal government. Oversight and reassessment of programs and priorities is called for to address many of the long standing performance challenges in government programs and reposition the federal government for the 21<sup>st</sup> Century. The oversight challenge takes place on many levels:

- The management and effectiveness of individual programs;
- Progress on cross-cutting governmentwide management challenges;
- Looking across agency and program boundaries at the full range of federal activities and tools used to advance any given goal—and perhaps choosing among them.

This oversight agenda will be helped by the reforms instituted over the past decade. The Congress and several administrations have put in place a structure which is increasing the

focus on and accountability for government performance. Federal agencies have been working to carry out the Government Performance and Results Act (GPRA), which requires the development of periodic strategic and annual performance plans and reports. GPRA requires linkages of performance plans to budgets, recognizing that one of the ways in which the full acceptance and potential of performance management can be promoted is if this information becomes relevant for the allocation of resources. The current administration has made linking resources to results one of the top five priorities in the President's Management Agenda. In this regard, OMB's Program Assessment Rating Tool (PART) represents an effort to use performance information more explicitly in the federal budget formulation process by summarizing performance and evaluation information. As you know, we are looking at the first year's experience with PART for one of your subcommittees and its counterpart in the Senate. Credible outcome-based performance information is absolutely critical to foster the kind of national debate that is needed about government in the 21<sup>st</sup> Century.

While PART focuses on the performance of individual programs, many of the key performance issues affecting the public cut across individual programs and governmental tools, as illustrated by the examples discussed in my statement. The importance of seeing the overall picture cannot be overestimated. A single outcome, such as improving access to higher education or health care, are in fact provided through numerous spending, loan, loan guarantee and now tax incentive programs. Moreover, as the examples above illustrate, the failure to develop a consistent and coordinated program profile can frustrate and limit the outcomes we can achieve.

Congress and the administration need a vehicle to compare the performance results across similar programs addressing common outcomes. We have previously reported that the Government Performance and Results Act (Results Act) could provide a tool to reexamine roles and structure at the governmentwide level. The Results Act requires the President to include in his annual budget submission a federal government performance plan. The Congress intended that this plan provide a "single cohesive picture of the annual performance goals for the fiscal year." The governmentwide performance plan could be a unique tool to help the Congress and the executive branch address critical

federal performance and management issues. It also could provide a framework for any restructuring efforts. Unfortunately, this provision has not been fully implemented.

Beyond an annual performance plan, a strategic plan for the federal government might be an even more useful tool to provide broad goals and facilitate integration of programs, functions, and activities, by providing a longer planning horizon. In the strategic planning process, it is critical to achieve mission clarity in the context of the environment in which we operate. With the profound changes in the world, a reexamination of the roles and missions of the federal government is certainly needed. From a clearly defined mission, goals can be defined and organizations aligned to carrying out the mission and goals. Integration and synergy can be achieved between components of the government and with external partners to provide more focused efforts on goal achievement. If fully developed, a governmentwide strategic plan can potentially provide a cohesive perspective on the long-term goals for a wide array of federal activities.

In addition, a strategic plan can provide a much needed framework for considering any organizational changes and restructuring of federal agencies and programs. Essentially, organizations and resources (e.g., human, financial, and technological) are the ways and means of achieving the goals articulated by the strategic plan. Organizational structures should ideally be aligned to be consistent with the goals and objectives of the strategic plan. Clear linkages should exist between the missions and functions of an organization and the goals and objectives it is trying to achieve. The development of a strategic plan can also facilitate the building of consensus by key stakeholders, including most notably the Congress, for any restructuring proposals.

As the Comptroller General testified last fall, fifty years of past efforts to link resources with results has shown that any successful effort must involve the Congress as a partner. In fact, the administration acknowledged that performance and accountability are shared responsibilities that must involve the Congress. It will only be through the continued attention of the Congress, the administration and federal agencies that progress can be sustained and more importantly, accelerated. The Congress has, in effect, served as the institutional champion for many previous performance management initiatives, such as

GPRA and the CFO Act, by providing a consistent focus for oversight and reinforcement of important policies.

More generally, effective congressional oversight can help improve federal performance by examining the program structures agencies use to deliver products and services to ensure the best, most cost-effective mix of strategies is in place to meet agency and national goals. This means looking beyond the current structure of PART to the policy, management, and policy implications of crosscutting programs.

We have suggested in the past that the Congress might consider the need for mechanisms that allow it to more systematically focus its oversight on problems with the most serious and systemic weaknesses and risks. At present, the Congress has no direct mechanism to provide a congressional perspective on governmentwide performance issues. The Congress has no established mechanism to articulate performance goals for the broad missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted on the most pressing cross-cutting performance and management issues. Congress might consider whether a more structured oversight mechanism is needed to permit a coordinated congressional perspective on governmentwide performance matters.

One possible approach would involve developing a congressional performance resolution identifying the key oversight and performance goals that the Congress wishes to set for its own committees and for the government as a whole. Such a resolution could be linked to the current congressional budget resolution. Initially, this might involve collecting the “views and estimates” of authorization and appropriations committees on priority performance issues for programs under their jurisdiction and working with such cross-cutting committees as such as this one. There are, of course, other possible approaches to the objective of enhancing congressional oversight. The issue I am raising is that Congress should assess whether its current structures and processes are adequate to take full advantage of the benefits arising from the reform agenda under way in the executive branch. Ultimately, what is important is not the specific approach or process, but rather

achieving the result of helping the Congress better promote improvements in government operations through broad and comprehensive oversight and deliberation.

Reexamination of the role and activities of government for the 21<sup>st</sup> Century requires more than performance information on individual programs or governmentwide management issues. As the Comptroller General has said on many occasions, any discussion about the role of the federal government, about the design and performance of federal activities, and about the near-term federal fiscal outlook takes place in the context of two dominating facts: a demographic tidal wave is on the horizon, and it combined with rising health care costs threatens to overwhelm the nation's fiscal future. The numbers do not add up. The fiscal gap is too great for any realistic expectation that the country can grow its way out of the problem.

Metrics and mechanisms need to be developed to facilitate consideration of the long-term implications of existing and proposed policies or programs. These range from explicit liabilities such as environmental cleanup requirements and federal pensions to the more implicit obligations presented by life-cycle costs of capital acquisition or disaster assistance. We have suggested that more systematic reporting on the nature and extent of these exposures would be beneficial.<sup>12</sup>

### **Concluding Remarks**

Tackling areas at risk for fraud, waste, abuse and mismanagement will require determination, persistence and sustained attention by both agency managers and Congressional committees. Large and complex federal agencies must effectively use a mixture of critical resources and improved processes to improve their economy, efficiency, and effectiveness; Congressional oversight will be key.

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<sup>12</sup> U.S. General Accounting Office, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, GAO-03-213 (Washington, D.C.: January 24, 2003).

In view of the broad trends and long-term fiscal challenges facing the nation, there is a need to fundamentally review, reassess, and reprioritize the proper role of the federal government, how the government should do business in the future, and—in some instances—who should do the government’s business in the 21<sup>st</sup> century. It is also increasingly important that federal programs use properly designed and aligned tools to manage effectively across boundaries, work with individual citizens, other levels of government, and other sectors. Evaluating the role of government and the programs it delivers is key in considering how best to address the nation’s most pressing priorities. Periodic reviews of programs in the budget, on the mandatory and discretionary sides of the budget as well as tax preferences, can prompt a healthy reassessment of our priorities and of the changes in program design, resources and management needed to get the results we collectively decide we want from government.

Needless to say, we at GAO are pleased to help Congress in this very important work.

Attachment I:  
GAO's 2003 High-Risk List

2003 High-Risk Areas	Year Designated High Risk
<b>Addressing Challenges In Broad-based Transformations</b>	
• Strategic Human Capital Management*	2001
• U.S. Postal Service Transformation Efforts and Long-Term Outlook*	2001
• Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures	1997
• Implementing and Transforming the New Department of Homeland Security	2003
• Modernizing Federal Disability Programs*	2003
• Federal Real Property*	2003
<b>Ensuring Major Technology Investments Improve Services</b>	
• FAA Air Traffic Control Modernization	1995
• IRS Business Systems Modernization	1995
• DOD Systems Modernization	1995
<b>Providing Basic Financial Accountability</b>	
• DOD Financial Management	1995
• Forest Service Financial Management	1999
• FAA Financial Management	1999
• IRS Financial Management	1995
<b>Reducing Inordinate Program Management Risks</b>	
• Medicare Program*	1990
• Medicaid Program*	2003
• Earned Income Credit Noncompliance	1995
• Collection of Unpaid Taxes	1990
• DOD Support Infrastructure Management	1997
• DOD Inventory Management	1990
• HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
• Student Financial Aid Programs	1990
<b>Managing Large Procurement Operations More Efficiently</b>	
• DOD Weapon Systems Acquisition	1990
• DOD Contract Management	1992
• Department of Energy Contract Management	1990
• NASA Contract Management	1990

\*Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

Source: GAO

Attachment II:

Selected Reports Regarding Specific Examples Cited in Testimony

**Erroneous payments, Misuse of benefits, Child and Adult Care Food Program (CACFP), National School Lunch Program:**

*Food Assistance: WIC Faces Challenges in Providing Nutrition Services.* GAO-02-142. Washington, D.C.: December 7, 2001.

*Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits.* GAO/RCED-00-61. Washington, D.C.: March 7, 2000.

*Food Assistance: Efforts to Control Fraud and Abuse in the Child and Adult Care Food Program Should Be Strengthened.* GAO/RCED-00-12. Washington, D.C.: November 29, 1999.

*Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations.* GAO/RCED-99-91. Washington, D.C.: May 11, 1999.

**HUD Single-Family Mortgage Insurance and Rental Assistance Programs:**

U.S. General Accounting Office, *Financial Management: Strategies to Address Improper Payments at HUD, Education and Other Federal Agencies*, GAO-03-167T (Washington, D.C.: Oct 3, 2002).

U.S. General Accounting Office, *Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

U.S. General Accounting Office, *Major Management Challenges and Program Risks, Department of Housing and Urban Development*, GAO-01-248 (Washington, D.C.: January 2001).

U.S. General Accounting Office, *HUD Management: HUD's High-Risk Program Areas and Management Challenges*, GAO-02-869T (Washington, D.C.: July 24, 2002).

U.S. General Accounting Office, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, GAO-02-749 (Washington, D.C.: Aug 9, 2002).



## **Grant Programs:**

*Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States.* GAO/HEHS-99-69. Washington, D.C.: February 26, 1999.

*Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending.* GAO/HEHS-99-29R. Washington, D.C.: February 19, 1999.

*Welfare Reform: Early Fiscal Effect of the TANF Block Grant.* GAO/AIMD-98-137. Washington, D.C.: August 22, 1998.

*Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding.* GAO/RCED-98-174. Washington, D.C.: June 19, 1998.

*School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts.* GAO/HEHS-98-92. Washington, D.C.: June 16, 1998.

*School Finance: State and Federal Efforts to Target Poor Students.* GAO/HEHS-98-36. Washington, D.C.: January 28, 1998.

*School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts.* GAO/HEHS-97-31. Washington, D.C.: February 5, 1997.

*Federal Grants: Design Improvements Could Help Federal Resources Go Further.* GAO/AIMD-97-7. Washington, D.C.: December 18, 1996.

*Public Health: A Health Status Indicator for Targeting Federal Aid to States.* GAO/HEHS-97-13. Washington, D.C.: November 13, 1996.

*School Finance: Options for Improving Measures of Effort and Equity in Title I.* GAO/HEHS-96-142. Washington, D.C.: August 30, 1996.

*Highway Funding: Alternatives for Distributing Federal Funds.* GAO/RCED-96-6. Washington, D.C.: November 28, 1995.

*Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity.* GAO/HEHS-96-26. Washington, D.C.: November 13, 1995.

*Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action.* GAO/HEHS-96-4. Washington, D.C.: November 2, 1995.

**Flood Insurance Losses:**

*Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program.* GAO/T-RCED-00-23. Washington, D.C.: October 27, 1999.

*Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program.* GAO/T-RCED-99-280. Washington, D.C.: August 25, 1999.

*Flood Insurance: Financial Resources May Not Be Sufficient to Meet Future Expected Losses.* GAO/RCED-94-80. Washington, D.C.: March 21, 1994.

**Medicare Incentive Payment Programs:**

*Physician Shortage Areas: Medicare Incentive Payments Not an Effective Approach to Improve Access.* GAO/HEHS-99-36. Washington, D.C.: February 26, 1999.

*Health Care Shortage Areas: Designations Not a Useful Tool for Directing Resources to the Underserved.* GAO/HEHS-95-200. Washington, D.C.: September 8, 1995.

**Social Security Pension Offset Provision:**

*Social Security Administration: Revision to the Government Pension Offset Exemption Should Be Considered.* GAO-02-950. Washington, D.C.: August 15, 2002.

*Social Security: Congress Should Consider Revising the Government Pension Offset “Loophole”.* GAO-03-498T. Washington, D.C.: February 27, 2002.

**Food Safety:**

*Food Safety: CDC Is Working to Address Limitations in Several of Its Foodborne Surveillance Systems.* GAO-01-973. Washington, D.C.: September 7, 2001.

*Food Safety: Federal Oversight of Shellfish Safety Needs Improvement.* GAO-01-702. Washington, D.C.: July 9, 2001.

*Food Safety: Overview of Federal and State Expenditures.* GAO-01-177. Washington, D.C.: February 20, 2001.

*Food Safety: Federal Oversight of Seafood Does Not Sufficiently Protect Consumers.* GAO-01-204. Washington, D.C.: January 31, 2001.

*Food Safety: Actions Needed by USDA and FDA to Ensure That Companies Promptly Carry Out Recalls.* GAO/RCED-00-195. Washington, D.C.: August 17, 2000.

*Food Safety: Improvements Needed in Overseeing the Safety of Dietary Supplements and “Functional Foods”.* GAO/RCED-00-156. Washington, D.C.: July 11, 2000.

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