

Managing Cost in the Federal Government

April 2004

The Federal Government is results oriented. Departments and agencies determine if we are accomplishing the desired result, at an acceptable cost, and if not or if we do not know, we figure out what to do about it. Following are areas and examples where the Federal Government is managing its costs to improve the results we achieve and the cost at which we achieve them.

Managing with Timely and Accurate Financial Information

A prerequisite for producing results at an acceptable cost is providing managers timely and accurate financial information. In the past, Federal managers did not have access to accurate financial information when they needed it. Today, departments and agencies are providing managers with significantly more timely and accurate financial information to make better cost decisions:

- Verifiable Financial Data - The number of agencies with verifiable financial data has increased. 20 of 24 major agencies have verifiable financial data (unqualified financial statement audit opinions), up from 10 agencies six years ago and 18 agencies three years ago.
- More Accurate Data - Problems in financial operations that could result in material errors in financial reports have declined 80 percent from six years ago and 60 percent from two years ago.
- Timely Financial Statements - Agencies produce financial statements, on average, less than three months after the end of the fiscal year currently. This is two months faster than three years ago.
- Quarterly Financial Statements - In fiscal year 2003, for the first time ever, agencies prepared financial statements at the end of each calendar quarter.

<u>More Timely and Accurate Financial Information</u>			
	<u>FY1997</u>	<u>FY2000</u>	<u>FY2003</u>
Unqualified Audit opinions	10 of 24	18 of 24	20 of 24
FMFIA material weaknesses	538	267*	101
* FY 2001 data			
		<u>FY2000</u>	<u>FY2003</u>
Avg. time to submit audited financial statements (days)		145	80

This focus on quality and timely financial information and the resulting process enhancements that underlie these improvements enable agencies to incorporate accurate financial data into their decision-making.

Improving Program Performance and the Cost of Achieving It

Without a systematic way to assess the performance of programs across government, it is difficult to distinguish what works from what does not. Departments and agencies are systematically asking

what it costs to produce a desired result, and whether the cost is acceptable and/or the most fiscally responsible way to achieve that result.

- Program Assessments - Departments have assessed the effectiveness of 40 percent of the Federal Government's programs in a consistent manner so as to allow comparisons, using what is called the Program Assessment Rating Tool (PART). The remaining programs will be assessed over the next three years.

Of 401 programs rated:

- 10 percent are rated "Effective"
- 25 percent are rated "Moderately Effective"
- 20 percent are rated "Adequate"
- 5 percent are rated "Ineffective"
- 40 percent are rated "Results Not Demonstrated"

To first demonstrate and then improve results, agencies are working to adopt clear measures of performance for those programs and/or implement recommendations to improve program performance. Programs that are unable to demonstrate results, in particular, are establishing outcome-oriented goals and ways to measure their performance.

- Goal-Oriented Efficiency Measures - Departments have determined specific and goal-oriented efficiency measures – goals to reduce the cost of achieving a particular result – for about 30 percent of the 400 programs that have been rated, and are using them to manage toward more acceptable cost levels. As examples:
 - Because it determined that its guaranteed loan liquidation program was not cost-effective, the Small Business Administration (SBA) centralized this function in one office from 69 district offices. Concurrently, SBA has increased reliance on financial partners in liquidating defaulted loans. As a result, SBA staffing requirements have decreased from 170 to 40 employees and work is being completed more thoroughly and quickly. The changes are estimated to reduce SBA liquidation costs from \$44 million to approximately \$15 million per year – a two-thirds reduction in cost – and have freed district employees to focus on the delivery of targeted programs and services rather than liquidation functions.
 - Broadcasting Board of Governors is setting goals to reach out to a larger audience with less money by increasing its reach to Arab-speaking countries from 3.9 million listeners per week to an estimated 10.5 million listeners and reducing cost-per-listener from \$1.22 in 2002 to just \$0.88 in 2003.
 - Administration on Aging (which provides services to the elderly) is setting goals to increase the number of people served per each million dollars in funding by 6 percent in 2004 and 8 percent in 2005.
 - Office of Child Support Enforcement (OCSE) aids States in obtaining child support and assuring that such assistance is available to all children for whom it is requested. To ensure it is collecting money effectively, OCSE monitors how

much the State and Federal governments collect per dollar spent. In FY 2005, OCSE's goal is to increase the amount collected \$4.18 to \$4.42 for each dollar spent.

- Section 504 Certified Development Loan Company program provides long-term, fixed-rate financing to entrepreneurs for fixed assets, such as land, buildings, and large equipment. The program, which guarantees approximately 6000 loans each year, is reducing its loan origination costs by \$138 per loan; from \$2,904 in 2003 to \$2,766 in 2005.
 - Small Business Development Center Program provides business counseling and management assistance to more than 650,000 current and prospective small business owners. It is reducing the cost per client served from \$154 to \$148.
- Competitive Sourcing - Departments are using competitive sourcing to determine the most efficient and effective way to perform commercial activities, i.e., the most responsible way to do the commercial work currently performed by 25 percent of the Federal civilian workforce.
 - At the Offutt Air Force Base (AFB), a public-private competition of base-operating support activities resulted in a 58 percent reduction in manpower costs at an annual savings of approximately \$46 million. Repair turnaround time for jet engine overhaul has been cut from 68 days to 28 days and operational costs for this activity have been cut in half.
 - Department of Energy (DOE) has conducted a competition for work done by its financial services workers with the private sector. DOE determined that it was more cost-effective to restructure the in-house financial services organization, which would eliminate 63 financial services positions (both Federal and contractor) and create projected savings of \$31 million over five years.
 - Office of Personnel Management (OPM) subjected its testing service to competition and determined that its own employees could do the job more effectively and efficiently than the private sector, saving taxpayers over \$9 million over five years.
 - Small Business Administration decided through public-private competition to convert clerical services supporting its disaster loan program from in-house to contractor performance; such action is expected to reduce costs by \$1.2 million over a five-year period.
 - National Institutes of Health (NIH) held two separate competitions, in which in-house sources demonstrated their value by focusing on re-engineering and increased efficiency, in part by consolidating like activities to gain economies of scale. NIH estimates that these most-efficient organizations will generate annual savings of more than \$40 million.

A more complete summary of the Government's competitive sourcing activities will be presented to Congress in late May.

- Strong Workforce - The Administration and Congress are working together to determine the most effective and fiscally responsible way to recruit, motivate, and retain quality people.
 - The Federal Government of the 21st Century employs one of the most diverse workforces in the world, including border patrol agents and chemists, grants specialists and education professionals, attorneys and park rangers, cartographers and biomedical researchers, air traffic controllers and criminal investigators, archivists and firefighters. Such a diverse workforce deserves a targeted approach to setting and adjusting pay rates; an across-the-board pay increase will not achieve the desired result because it may be too small an increase where we do have workforce needs and too large an increase where we do not. The Administration is working with Congress to allocate pay increases in a targeted, needs- and opportunity-driven manner.

Eliminating Waste

Historically, too few programs assess the accuracy of their payments or do enough to eliminate the improper payments. With the enactment of the Improper Payments Information Act (IPIA) of 2002 and the subsequent issuance of Administration guidance, agencies are reviewing every Federal program to determine if it is at risk of making improper payments and developing plans to eliminate such payments. These plans include target dates and deadlines that must be met for completing each of the six steps set out in the guidance: inventorying programs; assessing risk of improper payments; statistical analysis of improper payment rates; crafting corrective action plans; setting targets and dates for reducing improper payment rates; and reporting improper payment rates.

To date, agencies have identified about \$35 billion in improper payments out of the approximate \$1 trillion in government spending that has been reviewed. Agencies are now identifying the level of improper payments in the remaining \$1.4 trillion of Federal spending.

As examples of specific actions being taken to eliminate improper payments or create government savings:

- The Food Stamps program allows low-income families to buy food with Electronic Benefits Transfer (EBT) cards. The food stamp error rate has consistently decreased over the last several years through the strengthening of internal controls, simplification of eligibility criteria, and promotion of best practices across States. The 2002 error rate was 8.26 percent, which represents the lowest rate in program history. The overpayment rate was just 6.16 percent, with the balance representing underpayments. In addition, computer technology improvements have enabled the Food and Nutrition Service to systematically identify and prevent fraudulent use of benefits by retailers.
- The Federal Government provides rental subsidies to low income individuals to ensure their housing needs are met. To reduce the more than \$2 billion in net improper rental subsidy payments, the Administration proposed and the Congress enacted a proposal to give the Department of Housing and Urban Development

access to the National Directory of New Hires for the purpose of verifying the incomes of program beneficiaries to correctly determine their rental subsidies. This authority is expected to save \$6 billion over 10 years.

- The Social Security Administration (SSA) processes Continuing Disability Reviews (CDRs) to ensure that only those individuals who have disabilities continue to receive proper benefits. Upon conducting such a review, SSA may learn that an individual's condition has improved and that the individual can work. If a person can work, SSA stops Supplemental Security Income (SSI) payments and/or Disability Insurance (DI) payments, thereby reducing federal outlays. Further savings are also generated because the person may no longer be eligible for Medicaid and/or Medicare. In both 2004 and 2005, SSA is expected to process more than 1.5 million periodic CDRs. These reviews, which are likely to cost over \$500 million per year, are expected to generate almost \$6 billion in estimated savings for a return on investment of \$10 in lifetime benefit savings for each \$1 of administrative expenditures.
- As evidence of the Administration's commitment to reducing fraud, waste and abuse in the Medicare program, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act on December 8, 2003. The Act included a number of provisions that targeted wasteful or inappropriate payments, which will save Medicare \$22 billion over 2004-2013. The Act also establishes new mechanisms that will base Medicare payments for drugs and medical supplies on market prices rather than antiquated and inflated list prices. Additionally, the legislation will help Medicare recover money paid for services and supplies that should have been paid by another party.
- A provision of the Medicare Act, Medicare Payments for Home Health Services, reduces the overall home health Medicare payments from 2004-2006, which is projected to save \$3.1 billion over 10 years. GAO has estimated that Medicare home health payments are, on average, 35 percent higher than the costs for the care provided, and that the average Medicare home health payment to freestanding facilities exceeds the cost of care by an average of 17.8 percent (in 2002). Thus, to address Medicare overpayments to home health agencies, the Act reduced the home health market rate increase for 2004-2006. The actions directed by the Act will be implemented through the annual home health payment rule, and the 2004 payment rule is scheduled for review in the spring of 2004.

Maximizing the Value of our People and Property

Federal agencies have not always invested appropriately in the workforce they need to achieve their goals. The Federal Government owns hundreds of billions of dollars worth of real property, but has not maximized its use. Departments and agencies are beginning to oversee and invest in their primary assets, their workforce and real property, so as to maximize their value and help achieve results.

- The Civilian Workforce: Agencies are assessing their current workforces, identifying mission critical occupations and competencies, and developing ways to close skill gaps. They are linking the performance expectations of their leaders and managers to the agency's goals and are cascading those performance expectations throughout their organizations. The President and Congress are working to determine the pay policy that best allows agencies to target specific personnel needs and opportunities, and gives agencies better tools with which to address skill gaps and recruit, retain, and reward the quality people they need to accomplish their missions. In addition, the Federal Government is focusing greater attention on providing employees better training opportunities, particularly in the areas of general management, procurement and contract management, and information technology project management.

- Real Property: While management practices vary widely among agencies, as a whole, the Federal Government has never done a good enough job of managing its real property assets, the value of which totals hundreds of billions of dollars. In addition, the government also owns or manages one in every four acres of land in the United States. In early February, the President signed an executive order that directed all agencies to:
 - Establish a Senior Real Property Officer at each agency to be held accountable for the effective management of its real property assets.
 - Determine what it owns, what it needs, and how and what it costs to manage Federal agency real property.
 - Develop and monitor real property performance measures.
 - Dispose of properties that are not needed.
 - Develop an accurate descriptive database of all Federal property.
 - Pursue new legislative authorities to provide landholding agencies with real property tools and financial incentives to better manage the government's portfolio of property assets.