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CUTTING OUT WASTE, FRAUD, MISMANAGEMENT, OVERLAP, AND DUPLICATION: EXPLORING IDEAS FOR IMPROVING FEDERAL ORGANIZATION, MANAGEMENT AND SPENDING

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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CUTTING OUT WASTE, FRAUD, MISMANAGEMENT, OVERLAP, AND DUPLICATION: EXPLORING IDEAS FOR IMPROVING FEDERAL ORGANIZATION, MANAGEMENT AND SPENDING

WEDNESDAY, JULY 16, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, Ose, Lewis, Jo Ann Davis of Virginia, Putnam, Blackburn, Waxman, Kucinich, Tierney, Ruppersberger and Norton.

Staff present: Peter Sirh, staff director; Melissa Wojciak, deputy staff director; Keith Ausbrook, chief counsel; John Hunter and David Young, counsels; Robert Borden, counsel/parliamentarian; David Marin, director of communications; Scott Kopple, deputy director of communications; Teresa Austin, chief clerk; Joshua E. Gillespie, deputy clerk; Phil Barnett, minority chief counsel; Michelle Ash and Althea Gregory, minority counsels; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Cecelia Morton, minority office manager.

Mrs. DAVIS OF VIRGINIA [presiding]. The committee will come to order. I apologize for the delay. The chairman has been delayed in another meeting. I am going to go ahead and start the hearing and I will read his opening statement.

The fiscal year 2004 budget resolution requires each congressional committee to identify waste, fraud and mismanagement in mandatory spending programs within its jurisdiction and report their findings to the Committee on the Budget.

Unlike discretionary programs, where each Federal agency must justify its spending each year for the Appropriations Committee, mandatory spending proceeds on autopilot unless the Congress takes an active role in overseeing these programs and intervening where appropriate. The purpose of this hearing is to examine the mandatory programs for which this committee is responsible and identify where these programs are vulnerable to waste, fraud and mismanagement.

The Budget Committee, pursuant to the budget resolution, has directed this committee to find savings of $827 million in fiscal year 2004, $4.5 billion over the next 5 years, and $9.9 billion over

the next 10 years. We have been directed to find these savings in waste, fraud and mismanagement, not through changes in policy. This will prove to be a challenging task. This is the third highest total that any committee in the House has been asked to find.

Nearly all of the mandatory spending under this committee's direct jurisdiction consists of payments to Federal retirees—pensions, disability and health benefits—which are administered by the Office of Personnel Management.

We have asked the Inspector General of OPM, the Honorable Patrick McFarland, to testify today about the ongoing effort to combat waste, fraud and mismanagement in these programs and to recommend legislative changes that might further his efforts.

The Federal Employees Health Benefits Program, the retirement programs, and the Federal Employees Group Life Insurance Program represent OPM's three largest programs that are within the mandatory spending jurisdiction of this committee.

In the administration of the Health Benefits Program, the Inspector General has identified potential savings by ending improper payments by the government to carriers for claims made by health care providers and suppliers. According to the Inspector General, these improper payments include false claims for services not rendered, falsified billing codes that result in higher rates of reimbursement, illegal or unnecessary procedures for patients, and defective pricing.

Savings in the retirement programs can be achieved by preventing erroneous payments of benefits after an annuitant's death and by reducing computation errors.

Chairman Davis also looks forward to hearing about the OPM Inspector General's initiative to utilize computer technology to develop effective data warehouse and data mining techniques to more effectively recover funds diverted through waste, fraud and mismanagement. Implementation of these applications should lead to a more comprehensive claims auditing process, which should in turn result in increased discovery and recovery of fraudulent overpayments.

I believe, however, that we will have to look beyond erroneous payments to Federal retirees in order to meet the savings target set in the budget. This committee has a unique legislative jurisdiction that allows us to look at the overall management and efficiency of government operations and activities, as well as efforts to reorganize government agencies.

We are the only committee in the House that has the jurisdiction to address management and reorganization issues on a governmentwide basis. When the budget resolution was considered in the House, Chairman Davis received assurance from Chairman Nussle of the Budget Committee that we would receive full credit for addressing these issues that are within our governmentwide legislative jurisdiction. Without objection, I will submit that colloquy for the record.

[The information referred to follows:]

We also need to accelerate the phase-in of marginal tax rate reductions. When you lower marginal income tax rates, you increase the incentive to save and work and invest, and when you increase the incentives, you get more savings and work and investment. If we delay this any further, we just postpone the beneficial effects.

In our budget, we accommodate the President's entire tax relief package. Then we do something more. We do not specify exactly what that would have to be, but, Mr. Chairman, it would be large enough to accommodate a 50 percent reduction in capital gains rates, and that would also significantly encourage economic growth. That kind of capital formation is a precondition for strong economic growth.

On the spending side, as I said earlier, ours is the only budget that makes some real cuts in spending. On the discretionary side, we do not cut defense spending. We use the same number that the President has proposed and the same number that the committee has proposed. We recognize this obligation. We recognize that we are at war. We do not cut homeland security funding. On the mandatory spending side, we do not touch Social Security at all, we make no changes, and we do not actually cut anything in mandatory spending, although we do restrain the rate of growth. What we actually do cut is in nondefense, nonhomeland security discretionary spending.

Why is it important to get this spending under control? Because, Mr. Chairman, total government spending is the real measure of the burden that the government imposes on our economy. More than deficits, more than the debt, it is the total amount of money that the government sucks out of the private sector, whether it does it by borrowing or whether it does it by confiscating people's money, that is the measure of the misallocation of capital. We all know there are a lot of vital programs that have to be funded, but on the margin we know that this spending occurs through a political process where Members are spending money to try to get reelected. It is not the allocation of capital that individual consumers and businesses would allocate for stronger economic growth.

The other problem with too much spending is the enormous waste. We have heard a discussion about that earlier, but the government cannot even account for over $17 billion in spending in 2001. The Federal Government acknowledges $20 billion in overpayments. The list of ridiculous misspent money, missing money, overpayments is a very long and a very embarrassing list, frankly. We are never going to wring that waste out of government until we impose some spending discipline.

The fact is government Federal spending, discretionary spending, total spending has been growing at several times the rate of inflation, and now is the time to rein that in. If we cannot rein that in now, Mr. Chairman, when can we rein that in?

The net budgetary effects of our budget is greater tax relief, modest spending discipline, and as a result we run smaller deficits for shorter periods of time, and we get back to a balance faster than any other budget proposal.

I heard the Blue Dogs come down on this floor and talk about how much they want to balance this budget, how quickly they want to do that, why they want to do that. I am glad to hear that. I look forward to their voting for our budget because it gets to a balance faster than any others.

The other point I would make is that there can be no doubt that our combination of lower taxes and less spending would lead to stronger economic growth.

Mr. Chairman, I reserve the balance of my time.

Mr. NUSSLE. Mr. Chairman, I yield 2 minutes to the distinguished gentleman from Virginia (Mr. TOM DAVIS), chairman of the Committee on Government Reform.

Mr. TOM DAVIS of Virginia. Mr. Chairman, let me start by commending the gentleman from Iowa. It is always a tough duty to try to carry a budget through the House.

I have a couple of questions. Can the chairman of the Committee on the Budget confirm that the reconciliation instructions clarify how the Committee on Government Reform will be credited with savings resulting from legislation that it submits to the Committee on the Budget?

Mr. NUSSLE. If the gentleman will yield, the gentleman is correct.

Mr. TOM DAVIS of Virginia. Does this language ensure that the Committee on Government Reform will receive full credit for any savings it reports that are consistent with its reconciliation instructions?

Mr. NUSSLE. The gentleman is correct.

Mr. TOM DAVIS of Virginia. Can the gentleman confirm that the Committee on Government Reform may write legislation that also achieves significant savings in discretionary programs?

Mr. NUSSLE. That is correct.

Mr. TOM DAVIS of Virginia. And can the chairman also confirm that it is possible to meet the savings targets within the budget resolution without making any changes to Federal retirement annuities paid to participants in the Civil Service Retirement System, FERS, the Federal Employees Retirement System, and the Federal Employees Health Benefits Program?

Mr. NUSSLE. I believe that is correct.

Mr. TOM DAVIS of Virginia. I thank the chairman for that clarification.

Mr. SPRATT. Mr. Chairman, I yield 2 minutes to the gentleman from Maryland (Mr. CARDIN).

Mr. CARDIN. Mr. Chairman, my constituents find it very difficult to understand why at these times that we have economic uncertainty, that we are at war, we have large deficits and we are considering a reckless new tax cut. This amendment is even worse than the underlying bill. I oppose the underlying budget, and I oppose this amendment.

Mr. Chairman, budgets speak to choice. What is important? I am frustrated with this new proposition that every budget priority should take a back seat to tax cuts. What is more important, funding for homeland security or tax cuts? Fiscal responsibility or tax cuts? Protecting Social Security or tax cuts? Prescription drugs for our seniors or tax cuts? Adequate funding for veterans' health and disability benefits or tax cuts? Keeping children nutrition programs or tax cuts? Adequate funding for education or tax cuts?

At a time that we are facing large deficits, it seems to me that we could find a lot better use for $1.3 trillion for tax cuts that primarily benefit the wealthy.

This plan digs a deeper hole in our Federal budget. We should treat the Federal budget with no less consideration than we would treat our own family home budget. This budget digs a deep hole in our Federal budget. It cuts vital programs that help the people in our society we have pledged to assist, our veterans, our children, our parents. It puts more pressure on our States and cities who are already under the fiscal gun, and it shows exactly the wrong kind of budget priorities.

Our budget should speak to our priorities. We must do better. We should approve the budget resolution offered by the gentleman from South Carolina (Mr. SPRATT) that is more fiscally responsible, provides for a modest tax cut targeted to stimulate immediate growth in our economy, and provides adequate resources for prescription drugs for our seniors, education for our children, and homeland defense for all Americans.

I urge my colleagues to vote against the Toomey amendment and the underlying budget resolution and support the Spratt amendment.

Mr. TOOMEY. Mr. Chairman, I yield 3 minutes to the gentlewoman from North Carolina (Mrs. MYRICK).

Mrs. MYRICK. Mr. Chairman, I rise today to lend my strong support to the Republican Study Committee budget. As chairman of the RSC, I am very proud of this budget that we have produced, and I want to thank the gentleman from Pennsylvania (Mr. TOOMEY) for all his hard work on this. It reins in the astronomical spending increases we have had over the past few years and brings us back to balance in just 4 years. No other budget achieves balance as quickly as this one does.

When I came to Washington as part of the revolutionary class of 1995, we were determined and extremely serious to balance the budget and get us back on track, which we did. We were successful in doing that for the first few years, but lately we have presided over

Mrs. DAVIS OF VIRGINIA. We have invited the General Accounting Office to testify about both the savings that might be achievable in the committee's mandatory spending and on the broader issues where this committee may be able to play an important role. I have asked GAO to draw from its ongoing work in its High-Risk Series and from the work on its annual Budgetary Implications report to address these areas.

In the case of payments to ineligible individuals that waste taxpayer dollars and undermine benefit programs, I am hopeful that today's testimony will help us continue our efforts to promote governmentwide solutions that address improper payments in government benefit programs.

GAO will also highlight for us programs where streamlining and consolidation can save the taxpayer money, while continuing to provide the same Federal services. GAO Managing Director Paul Posner will enlighten the committee on these subjects.

We will also question the witnesses about potential solutions. For example, can we reduce posthumous payments to annuitants by requiring prompt reporting of deaths, or will providing more resources for the OPM Inspector General yield substantial reductions in improper payments?

Rooting out waste, fraud and mismanagement is neither a Republican nor a Democratic issue. I hope that we will work together to identify and address areas that can reduce spending while maintaining the benefits that our Federal employees and retirees have earned. I welcome today's witnesses, and I thank them for their willingness to testify on such short notice.

[The prepared statement of Chairman Tom Davis follows:]

Statement by Chairman Tom Davis
Government Reform Committee
Oversight Hearing on: "Cutting Out Waste, Fraud, Mismanagement, Overlap, and Duplication: Exploring Ideas for Improving Federal Reorganization, Management and Spending"
July 16, 2003

The Fiscal Year 2004 Budget Resolution requires each Congressional Committee to identify waste, fraud, and mismanagement in mandatory spending programs in their jurisdictions – and report their findings to the Budget Committee. Unlike discretionary programs – where each Federal agency must justify its spending each year before the Appropriations Committee – mandatory spending proceeds on auto-pilot unless the Congress takes an active role in overseeing these programs and intervening where appropriate.

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We have asked the Inspector General of the OPM, the Honorable Patrick McFarland, to testify today about the ongoing effort to combat waste, fraud, and mismanagement in these programs and to recommend legislative changes that might further his efforts.

The Federal Employees Health Benefits Program, the Retirement Programs, and the Federal Employees Group Life Insurance Program represent OPM's three largest programs that are within the mandatory spending jurisdiction of this Committee.

In the administration of the Health Benefits Program, the Inspector General has identified potential savings by ending improper payments by the government to carriers for claims made by health care providers and suppliers. According to the Inspector General, these improper payments include false claims for services not rendered, falsified billing codes that result in higher rates of reimbursement, illegal or unnecessary procedures for patients, and defective pricing. Savings in the Retirement Programs could be achieved by preventing erroneous payments of benefits after an annuitant's death and by reducing computation errors.

I also look forward to hearing about the OPM Inspector General's initiative to utilize computer technology to develop effective data warehouse and data mining techniques to more effectively recover funds diverted through waste, fraud, and mismanagement. Implementation of these applications should lead to a more comprehensive claims auditing process, which should, in turn, result in increased discovery and recovery of fraudulent overpayments.

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###

Mrs. DAVIS OF VIRGINIA. I now recognize the distinguished ranking member, Mr. Waxman, for his opening statement.

Mr. WAXMAN. Thank you very much, Madam Chair, for this opportunity to make an opening statement and for holding this hearing on waste, fraud and abuse in the mandatory spending programs in the jurisdiction of the Committee on Government Reform.

Unfortunately, this hearing may be barking up the wrong tree. I support eliminating fraud in programs like the FEHBP and the pensions of Federal retirees, but the amount of funds that can be saved in these mandatory programs is relatively small. The only way to save large amounts from these programs is to cut people's health and retirement benefits, which I hope is something we will all resist.

But there is real waste, fraud and abuse in the Federal Government, particularly in the discretionary spending of agencies that rely heavily on private contractors. The Inspector General of the Department of Defense says that the Department of Defense, which contracts out more work than any other agency, cannot account for $1 trillion of the taxpayers' money. Let me just repeat that statement, because it is astounding. It cannot account for $1 trillion of taxpayers' money.

The DOD appropriation for fiscal year 2002 represents 18 percent of the U.S. total budget and 48 percent of discretionary funds. Simply linking the Department's appropriations to the requirement that it receive a clean audit could literally save billions.

Federal contracting is increasing at a dramatic rate. In the 6-year period from fiscal year 1997 to 2001, contracting increased from $213 billion to $335 billion, an increase of over 15 percent. This administration's focus on outsourcing Federal jobs is driving these numbers even higher.

The Federal Government's increasing reliance on private contractors coincides with the increasing use of abuse-prone contracting vehicles and diminishing government oversight. These contract vehicles are a confusing alphabet soup of acronyms—ID/IQ, GWACS, and multiple award contracts—but they often spell lucrative sole-source awards for large corporations in the Defense Department, whose contracting budget is more than double the next nine largest Federal agencies combined. Let me repeat that. The contracting budget for DOD is more than double the next nine largest Federal agencies combined.

Billions are awarded in noncompetitive contracting, most often to companies that are favored campaign contributors, like Halliburton and Lockheed Martin. To illustrate the problem, in 1999 the DOD IG audited 124 randomly chosen multiple-award contracts. The IG found that nearly half were sole-sourced. Of those that were soul-sourced, only eight had a valid justification.

In 2001, the Inspector General's office updated its work and found that 72 percent were awarded on a sole-source or directed-source basis. Injecting competition, ensuring that multiple contractors were eligible to bid on specific task orders, could cut costs to the taxpayers by up to one-third. So if we simply allowed competition, some kind of market forces, in the awarding of these contracts, we could save billions of dollars rather than choose special companies for special contracts on a sole-source basis.

In essence, companies like Bechtel and Halliburton are getting sweetheart deals while we review retirement benefits of little old ladies and that is just not right. In addition, contract oversight is abysmal. In 43 out of the 67 cases of so-called performance-based contracts reviewed by the DOD IG, contract offices failed to provide adequate oversight of payments.

This would be a recipe for waste, fraud and abuse even if we had a robust acquisition work force and adequate procurement oversight, but we don't. The Federal Government's acquisition work force has declined 22 percent in the decade between 1991 and 2001.

External oversight is also disappearing. For example, the Department of Defense's Deputy Inspector General testified before this committee in 2000, "in recent years our oversight of Defense acquisitions has been severely constrained by resource shortfalls and conflicting priorities."

He added, "[a]udit coverage has been inadequate in nearly all defense management sectors that we and the General Accounting Office have identified as high-risk areas."

Madam Chairman, if we are serious about curbing waste, fraud and abuse in the Federal Government, we have to stick to the old adage, "follow the money." Under this administration, we are pouring billions into the pockets of large corporations in the name of privatizing government. That is where we should be focusing our resources on reducing government waste, fraud and abuse.

I yield back the balance of my time.

Mrs. DAVIS OF VIRGINIA. Thank you, Henry.

[The prepared statement of Hon. Henry A. Waxman follows:]

Statement of Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on
"Cutting Out Waste, Fraud, Mismanagement, Overlap and Duplication: Exploring Ideas for Improving Organization, Management and Spending"

July 16, 2003

Mr. Chairman, thank you for holding this hearing on waste, fraud, and abuse in the mandatory spending programs in the jurisdiction of the Committee on Government Reform.

Unfortunately, this hearing may be barking up the wrong tree. I support eliminating fraud in programs like FEHBP and the pensions of federal retirees. But the amount of funds that can be saved in these mandatory programs is relatively small. The only way to save large amounts from these programs is to cut people's health and retirement benefits, which I hope is something we will all resist.

But there is real waste, fraud, and abuse in the federal government, particularly in the discretionary spending of agencies that rely heavily on private contractors. The Inspector General of the Department of Defense (IG) says that the Department of Defense, which contracts out more work than any other agency, cannot account for $1 trillion of the

taxpayers' money. The DOD appropriation for FY2002 represented 18% of the total U.S. budget and 48% of discretionary funds. Simply linking the Department's appropriations to the requirement that it receive a clean audit could save literally billions.

Federal contracting is increasing at a dramatic rate. In the five-year period from FY 97 to FY 01, contracting increased from $213 billion to $335 billion, an increase of over 50%. This Administration's focus on outsourcing federal jobs is driving these numbers even higher.

The federal government's increasing reliance on private contractors coincides with the increasing use of abuse-prone contracting vehicles and diminishing government oversight. These contract vehicles are a confusing alphabet soup of acronyms – ID/IQ, GWACs (pronounced G-WHACKS), and multiple-award contracts – but they often spell lucrative sole-source awards for large corporations. In the Defense Department, whose contracting budget is more than double the next nine largest federal agencies combined, billions are awarded in noncompetitive contracting, most often to companies that are favored campaign contributors like Halliburton and Lockheed Martin.

To illustrate the problem, the DOD IG audited 124 randomly chosen multiple-award contracts. The IG found that nearly half were sole-sourced. Of those that were sole-sourced, only eight had a valid justification. In 2001, the Inspector General's office updated its work and found that 72% were awarded on a sole-source or directed-source basis. Injecting competition and ensuring that multiple contractors were eligible to bid on specific task orders could cut costs to the taxpayer by up to one third.

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This would be a recipe for waste, fraud, and abuse even if we had a robust acquisition workforce and adequate procurement oversight. We don't. The federal government's acquisition workforce has declined 22% in the decade between 1991 and 2001.

External oversight is also disappearing. For example, the Defense Department's Deputy Inspector General testified before this Committee in 2000, "in recent years our oversight of Defense acquisition has been severely constrained by resource shortfalls and conflicting priorities." He added, "[a]udit coverage has been inadequate in nearly all defense management sectors that we and the General Accounting Office have identified as high risk areas."

Mr. Chairman, if we're serious about curbing waste, fraud, and abuse in the federal government, we have to stick to the old adage: "Follow the money." Under this Administration, we are pouring billions into the pockets of large corporations in the name of privatizing government. That's where we should be focusing our resources in reducing government waste, fraud, and abuse.

Mrs. DAVIS OF VIRGINIA. I know I can speak for Chairman Davis and myself that we absolutely have no intention of doing anything to eliminate the benefits for anything for our Federal workers. I think that was in the first part of your opening statement. And, as you know, we are concentrating today on our mandatory spending. And maybe Chairman Davis will be happy to do—you can talk to him about doing a hearing on discretionary spending at another time.

But, Mr. Ruppersberger, do you have a statement?

Mr. RUPPERSBERGER. Thank you, Madam Chairman, for calling the hearing. The purpose of this hearing, as we know, is to produce a report that will outline areas where the committee believes we can save some Federal taxpayer dollars.

Today we are going to look at ways of saving Federal taxpayer dollars, while today we are going to look mainly at mandatory spending, and I hope that the discussion can go further and look into waste, fraud and abuse. And I also hope that we can discuss innovative programs and ways to save dollars, such as a program called Gain Sharing.

I was a former Baltimore County executive. I understand how and why government needs to reshape its thinking, its ways of spending dollars, and how to reform its workers to get everyone involved in order to make government more efficient and more cost-effective.

Now, we have to look at ways to increase the efficiency in government. As county executive, we implemented this gain-sharing program, which is an employee program, a group program, based on frontline workers coming together and finding ways to improve efficiency. If efficiency goes—and productivity goes up, costs goes down, some of the employees receive remuneration. But, more importantly, the frontline workers involved in the process, they become shareholders. They look together at ways to make things better. Of course, whenever there is change, people and employees, especially, especially in a big Federal Government like this where there is a lot of distrust of administration, are concerned when you hear reforming government.

Reforming government doesn't always mean you have to downsize. Prior to implementing the gain-sharing program in Baltimore County, we ensured our county employees that if there was going to be any outsourcing, they would have the opportunity to compete; and second, they would be given the tools and the resources, which a lot of times is not done in big bureaucracies, to compete against a private company's proposal.

And with that goal in place, and to save taxpayers dollars—our employees went to work and, you know, our employees always beat out the private companies. They were innovative. They were energetic, and they became a part of the team. Management and employee relationships improved. But everyone has to remember that in order for government to save dollars, everyone needs to be involved from top to bottom, including frontline workers. Everyone

needs a goal, and most importantly, they need the tools and the equipment to reach these goals.

I look forward to hearing your testimony.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Ruppersberger.

[The prepared statement of Hon. C.A. Dutch Ruppersberger follows:]

Statement of Congressman C.A. Dutch Ruppersberger
Hearing Government Reform
July 16, 2003
"Cutting out Waste, Fraud, Mismanagement, Overlap and Duplication"

Mr. Chairman, thank you for calling this hearing on the committee's obligation to meet the FY'04 budget resolution directives. The purpose of this hearing is to produce a report that will outline areas where the committee believes we can save some federal tax payer dollars.

Today we are going to look at ways of saving federal tax payer dollars. While today we are going to look mainly at mandatory spending, I hope that the discussion can go further and look into waste, fraud, abuse, and I hope that we can discuss innovative ways to save dollars, such as Gainsharing.

As the former Baltimore County Executive I do understand how and why government needs to reshape its thinking, its ways of spending dollars, and how to reform its workers to get everyone involved in order to make government more efficient and more cost effective.

I know there are many people in this room who have strong concerns and reservations about reform and ways to change, but I want to again tell you it can work.

As County Executive we implemented a Gainsharing program. When we did this many of our labor groups opposed the idea, because they saw it as outsourcing. I assured them that they would have a chance to compete and that they would have the tools to compete against a private company's proposal.

With the goal in place of saving county taxpayer dollars our employees went to work, and do you know what, the county government employees always beat out the private companies. They were innovative, they were energetic, and they became part of the team. But everyone has to remember that in order for government to save dollars, everyone needs to be involved. Everyone needs a goal and most importantly they need the tools and equipment to reach those goals.

I look forward to the testimony and I look forward to hearing from the witnesses.

Mrs. DAVIS OF VIRGINIA. Are there any other Members who have an opening statement?

Members may have 5 legislative days to submit opening statements for the record.

[The prepared statement of Hon. Adam H. Putnam follows:]

Statement
Rep. Adam H. Putnam

House Government Reform Committee

Full Committee Hearing
"Cutting Out Waste, Fraud, Mismanagement, Overlap and Duplication: Exploring Ideas for Improving Federal Reorganization, Management and Spending"

July 16, 2003

Mr. Chairman, I appreciate the Committee holding this hearing today to examine ways of eliminating waste, fraud and abuse in the federal government, and I commend you for your leadership in this area. I also want to thank the members of the witness panel for appearing today.

As Chairman of the Subcommittee on Technology, Information Policy, Intergovernmental Relations and the Census, I have held 12 hearings in the past four months, focusing primarily on the President's Management Agenda and E-Gov initiative. In the course of these hearings, we have seen countless examples of redundant and wasteful expenditures; from redundant geospatial information expenditures that the OMB estimates at upwards of $2 ***billion***, to the Defense Financial and Accounting Service (DFAS) walking away from a business project after spending 4 to 7 years and $126 million, only to find the project didn't perform to spec and costs were going through the roof.

And this is only the tip of the iceberg.

Congress – primarily through this Committee – must continue to examine ways to make government work better, faster, and cheaper. The President's Management Agenda is attempting to streamline the federal bureaucracy and could provide substantial savings through the consolidation of duplicative systems. The greatest challenge to effecting these changes is not money, nor is it technology; we must change the existing culture in

our federal departments and agencies, which currently cannot (or will not) share information with their fellow government employees.

We must look at every government program for savings. In working with the Census Bureau, we are looking at ways in which to reengineer the 2010 Census, which could have cost savings of approximately $1 billion to the American taxpayer as compared to repeating the methodology of the 2000 Census.

I look forward to hearing from our witnesses and discussing the opportunities to effectively recover waste, fraud, and abuse in the federal government. You can be sure that the Technology Subcommittee and its members will continue our efforts to streamline the bureaucracy and realize substantial savings to the taxpayer.

Thank you.

Mrs. DAVIS OF VIRGINIA. Our witnesses today are, and I appreciate the patience from all four of you, the Honorable Patrick E. McFarland, Inspector General, Office of Personnel Management. Accompanying Mr. McFarland are Dennis K. Black, Deputy Assistant Inspector General for Audits; and Norbert E. Vint, Assistant Inspector General for Investigations; Paul L. Posner, Managing Director for Federal Budget and Intergovernmental Relation Issues, Strategic Issues, from the General Accounting Office.

It is the policy of this committee that all witnesses be sworn in before they testify, so if you would please rise and raise your right hands.

[Witnesses sworn.]

Mrs. DAVIS OF VIRGINIA. Please be seated. And we are now joined by the Chair. We will go ahead and start.

I would like to thank our witnesses for taking the time from their busy schedules to appear before us today. I would like to recognize—first we will start with you, Mr. McFarland.

STATEMENT OF PATRICK E. McFARLAND, INSPECTOR GENERAL, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY DENNIS K. BLACK, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITS, OFFICE OF PERSONNEL MANAGEMENT; AND NORBERT VINT, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, OFFICE OF PERSONNEL MANAGEMENT

Mr. MCFARLAND. Chairman Davis and members of the committee, thank you for giving me the opportunity to testify on our successes in fighting waste, fraud and abuse in mandatory programs of the U.S. Office of Personnel Management, and our strategy to increase our effectiveness in the future.

As you noted in your invitation for my testimony, your committee's mandatory spending jurisdiction includes payments for civil service employees' annuities for health benefits, retirement and life insurance. Accordingly, my testimony will highlight our recent efforts and future plans to achieve cost savings and initiate new ways to attack waste, fraud and abuse, particularly with regard to the Federal Employees Health Benefits Program [FEHBP].

We recognize that oversight of the retirement and insurance trust funds administered by OPM is, and will remain, our most significant challenge. These trust funds are among the largest held by the U.S. Government. Their assets totaled $619 billion in fiscal year 2002. Their revenue was $79 billion, and their annual program and operating expenses were $104 billion. The amounts of their balances are material to the integrity of the government's financial position. I continue to allocate the vast majority of my office's efforts and resources to trust fund oversight and to apply new technology and strategies to recover fund losses.

Audits and criminal investigations of the OPM-administered trust fund programs and commitments by program management to recover funds have resulted in significant financial recovery to the trust funds. In fiscal year 2002, these recoveries and commitments totaled approximately $116 million. This equates to approximately $12 of positive financial impact for each direct OIG program dollar spent. In addition, my office's audits and criminal investigations

provide a significant deterrent against future instances of waste, fraud and abuse.

Our success is best illustrated by a recent, high-profile settlement of a case negotiated by the Department of Justice, which was dependent on the work of our auditors and criminal investigators amounting to almost $64 million. In this case against PacifiCare Health Systems, the government alleged health plans owned by PacifiCare overcharged the FEHBP by charging premiums substantially higher than it charged to employee groups in the private sector similar in size to the FEHBP, contrary to OPM rating instructions.

Starting in early 1999, our auditors' and criminal investigators' involvement in this case intensified after a former plan employee brought a qui tam suit, and we performed five additional audits of PacifiCare. The process required a relentless focus on detail, involving analysis of highly complex information provided by PacifiCare over an extended period of time.

The Government and PacifiCare settled the case last year for $87 million, with approximately $64 million being returned to the FEHBP. This was the largest settlement amount ever paid by a carrier in the FEHBP.

We have made significant recoveries through our responsibility under the FEHBP to audit the carriers for the purpose of identifying funds improperly paid to them under their contracts with OPM. In dealing at the insurance carrier level, I would classify these improper payments primarily as waste of government funds rather than as fraud or abuse. Such improper payments occur from poor coordination of benefits with Medicare, duplicate payments, and paying amounts larger than the covered benefit permits.

OPM is justifiably proud of operating the FEHBP programs with relatively small amounts of waste. While we estimated improper payments amounting to about $160 million in fiscal year 2002, not an insignificant figure, this constitutes less than 1 percent of FEHBP premiums paid.

Another serious area of waste as well as fraud and abuse within the FEHBP is in the rate-setting process for community-rated health benefit carriers. This occurs when the FEHBP does not receive the same discount that a carrier gives to other large groups similar in size to the FEHBP.

We have developed a new approach referred to as a rate reconciliation audit, which differs in that these audits are performed prior to the settlement of the final rates with OPM. These rate reconciliation audits have resulted in significant dollar savings to the FEHBP. Since inception in 1986, we have completed a total of 119 rate reconciliation audits that identified over $64 million in overcharges to the FEHBP. I am pleased to say that in the last couple of years the noncompliance rate has dropped from 70 percent to approximately 40 percent of the carriers.

The largest amount of FEHBP fraud and abuse occurs at the health care provider or supplier level. Adding to our difficulty in estimating the extent of provider fraud is the indirect nature of OPM's contractual relationship with health care providers. They are not government contractors or subcontractors, and only have such relationships with the carriers. Therefore, my criminal inves-

tigators respond to allegations of provider fraud or abuse or irregularities detected through our audits or through criminal investigative sources. I do not have authority to audit health care providers generally. However, OPM is seeking contractual changes to provide audit authority for the very largest providers, such as pharmacy benefit managers, to better detect what I believe is significant and substantial waste, fraud and abuse in the FEHBP.

While my office focuses primarily on waste, fraud and abuse in the FEHBP, we also guard against it in the retirement programs, including both the Civil Service Retirement System, and the Federal Employees Retirement System. The retirement program has an erroneous payment rate of less than one-half of 1 percent of payments made, or about $100 million in fiscal year 2002. Most of the erroneous payments are the result of computation errors identified and corrected by the agency itself. However, there is other waste, fraud and abuse within the retirement program, notably the failure of next of kin to notify OPM of any annuitant or survivor's death, resulting in improper continuation of retirement program payments.

OPM has tried to eliminate the erroneous payments by routinely performing computer matches using OPM's annuity rolls and the Social Security Administration death records.

We assist the agency by proactively reviewing retirement program annuity records for any type of irregularity, such as reaching an excessive age. If we discover an irregularity, we conduct independent queries with other data bases to determine if annuitants are deceased. We will continue as necessary and as our resources permit to verify annuitant status, including onsite visits.

My office has embarked on an initiative to greatly improve the efficiency and effectiveness of our audits relating to the FEHBP, combining the use of affordable computer technology with our expertise in health benefit analysis. The goal is to develop a data warehouse, employ programwide review strategies and ultimately implement sophisticated data mining techniques to thoroughly analyze FEHBP health benefit payments. We envision that this data warehouse/data mining project will significantly increase our ability to highlight trends of potential health care fraud in the FEHBP. The project will also provide our criminal investigative staff with the ability to react quickly to investigative leads.

Using the data warehouse concept, we are able to analyze claims on a global rather than on a plan-by-plan basis. These user-friendly, computer-assisted audit techniques have standardized the audit process, while allowing our auditors the necessary flexibility to adjust the applications to the specific requirements of their assignment. By empowering our auditors to complete more routine computer analyses, our computer specialists in turn are free to concentrate on more complex issues.

This completes my opening statement, and we are certainly pleased to respond to any and all questions.

Chairman TOM DAVIS [presiding]. Thank you very much.

[The prepared statement of Mr. McFarland follows:]

TESTIMONY OF
HONORABLE PATRICK E. McFARLAND, INSPECTOR GENERAL
UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM

ON

EFFORTS TO FIGHT WASTE, FRAUD AND ABUSE
IN MANDATORY PROGRAMS OF THE
U.S. OFFICE OF PERSONNEL MANAGEMENT

JULY 16, 2003

Mr. Chairman, Ranking Member and Members of the Committee. Thank you for giving me the opportunity to testify on our successes in fighting waste, fraud and abuse in mandatory programs of the U.S. Office of Personnel Management (OPM) and our strategy to increase our effectiveness in the future. At a time in which there are so many competing demands on the federal budget, we join every taxpayer in concerns over whether funds available for mandatory federal programs are being utilized in the most efficient and effective manner. We are all concerned in identifying existing problem areas and the actions being taken to eliminate or reduce them. As you noted in your invitation for my testimony, Mr. Chairman, your

Committee's mandatory spending jurisdiction includes payments for civil service employees' annuities for health benefits, retirement and life insurance. You recognized my Office's responsibility to identify and eliminate problems in those three areas. Accordingly, my testimony will highlight our recent efforts and future plans to achieve cost savings and initiate new ways to detect waste, fraud and abuse, particularly with regard to the Federal Employees Health Benefits Program (FEHBP). You expressed interest in our use of new computer technology in the development of effective data warehouse and data mining techniques to more effectively recover misspent funds by carriers in the FEHBP, and I will be pleased to highlight these initiatives during this testimony.

We recognize that oversight of the retirement and insurance trust funds administered by OPM is, and will remain, our most significant challenge. These trust funds are among the largest held by the United States Government. Their assets totaled $619.2 billion in fiscal year 2002, their revenue was $79.2 billion, and their annual program and operating expenses were $104.0 billion. The amounts of their balances are material to the integrity of the government's financial position. I continue to allocate the vast majority of my Office's efforts and resources to trust fund oversight and to apply new technologies and strategies to recover fund losses.

Outlays from the OPM retirement trust fund are made in the form of payments to millions of annuity recipients. The health insurance trust fund provides payments to approximately 240 health insurance plans nationwide. In turn, the health insurance carriers pay millions of claims for services filed by their enrollees and health care providers. We are obligated to federal employees and annuitants to protect the integrity of their earned benefits. We accomplish this through our audit and criminal investigative work, thereby reducing losses due to waste, fraud and abuse and recovering misspent funds whenever possible.

Audits and criminal investigations of the OPM administered trust fund programs and commitments by program management to recover funds have resulted in significant financial recoveries to the trust funds. In fiscal year 2002, these recoveries and commitments totaled approximately $116.0 million. This equates to approximately $12 of positive financial impact for each direct OIG program dollar spent. In addition, my Office's audits and criminal investigations provide a significant deterrent against future instances of waste, fraud and abuse.

Our successes are best illustrated by two recent, high profile settlements negotiated by the Department of Justice (DOJ), which were dependent on the work of our auditors and criminal investigators, who

provided the data and expertise necessary to justify recoveries for the trust fund amounting to almost $70 million.

In the PacifiCare Health Systems case, the Government alleged health plans owned by PacifiCare and its predecessors, primarily FHP International Corporation, overcharged the FEHBP between years 1990 and 1997 through charging premiums substantially higher than it charged to employee groups in the private sector similar in size to the FEHBP, contrary to OPM's rating instructions. The nucleus of the case centered around five audits conducted in 1997 by my Office of the FHP plans. The joint efforts of my auditors and criminal investigators confirmed the violation, and, because of our concern over the plans' rating practices, we forwarded the audit reports to the DOJ for review.

In late 1998, a former FHP employee filed a false claims complaint with the DOJ against PacifiCare under the qui tam provisions of the False Claims Act. This Act allows a private party, known as a relator, to file an action on behalf of the United States and receive a portion of the proceeds if successful. The employee alleged that PacifiCare and FHP, in violation of federal regulations, had knowingly overcharged the FEHBP by not giving it discounts received by similarly sized commercial groups served by PacifiCare and FHP. Five other audits of PacifiCare and FHP health plans,

conducted before and after the referred audits, were subsequently folded into the case.

Starting in early 1999, our auditors' and criminal investigators' involvement in this case intensified. In particular, they spent a considerable amount of time working with DOJ attorneys in analyzing and responding to PacifiCare's defense of the audit findings and allegations contained in the qui tam complaint. The process required a relentless focus on detail, involving analysis of highly complex information provided by PacifiCare over an extended period of time.

The government and PacifiCare settled the case last year for $87.3 million, with approximately $63.9 million being returned to the FEHBP. This was the largest settlement amount ever paid by a carrier in the FEHBP.

The second case involved what was then the nation's largest hospital chain, Columbia/HCA Healthcare Corporation, now known as HCA. Former employees of HCA filed a qui tam suit against HCA. After a five-year investigation we conducted with the DOJ and other federal and state law enforcement agencies, the government joined the suit and alleged HCA, Inc. conspired to defraud hundreds of millions of dollars from Medicare, TriCare, the FEHBP and other government health insurance programs.

My Office focused on allegations relevant to the FEHBP and

discovered that HCA billed for outpatient laboratory tests that were not medically necessary or not ordered by physicians. They also falsified diagnostic codes through upcoding. Upcoding is, a term describing when treatment codes are changed to reflect some type of high-end service not performed to gain greater reimbursement from insurance companies. The government's recovery from HCA and related cases was approximately $1.7 billion. The FEHBP portion of the settlement was $5.8 million in restitution and an additional $2.5 million in interest. Although it was a small portion of the government's total recovery, it represented FEHBP's largest recent recovery from a single health care provider.

Of course our interest goes beyond monetary concerns. While providers take such actions as filing false claims to increase their billing, their fraud sometimes goes beyond just financial consequences. Following are three examples of investigations conducted by my Office's criminal investigators that involve threats to the physical and emotional health and safety of FEHBP enrollees and their families:

- In the first case, an FEHBP patient went to a provider for treatment of cold symptoms. As part of a "to bill for services not rendered" scheme, the provider indicated to the carrier that he was treating the patient for lumps in her breasts. As part of our investigation, we

interviewed the patient and went over the billing submitted by the provider. When we told her that the provider had indicated that he was treating her for lumps in her breast, she stood up and became extremely emotional, and with the help of her husband was able to continue the interview. She explained that the reason for her stress and emotional state of mind was that she had had a double mastectomy 16 years earlier. The physician was found guilty in April 2003 on forty-nine counts of health care fraud, conspiracy to commit health care fraud, aiding and abetting, and mail fraud.

- Secondly, an FEHBP patient underwent an angiogram and angioplasty by a cardiologist. In an angiogram, a flexible catheter or tube is inserted into an artery, usually in the groin area, and guided through the arterial system to the heart and into the coronary arteries to determine the degree of arterial blockage. Angioplasty involves using a balloon-tipped catheter to gently compress material blocking the coronary artery to allow for improved blood flow through the artery. Through our on-going investigation it appears that these procedures were performed unnecessarily. The cardiologist is also under investigation by state law enforcement authorities and the state Medicaid Fraud Control Unit. The investigation involves negligent

homicide in which three Medicaid patients died as the result of the same procedures that were performed on the FEHBP patient.

- Thirdly, we are investigating allegations recently referred by an FEHBP carrier that a federal employee had fraudulently obtained excessive amounts of anabolic steroids and drugs used to treat AIDS patients costing the FEHBP over $300,000. Preliminary information indicates that the federal employee obtained over five hundred prescriptions during the last several years, which is as much as fifty times the Food and Drug Administration's approved dosage. It appears that some of the prescriptions may have been forged using a physician's name.

Measures to Further Limit Improper Payments to Carriers

We have made significant recoveries through our responsibility under the FEHBP to audit the carriers for the purpose of identifying funds improperly paid to them under their contracts with OPM. In dealing at the insurance carrier level, I would classify these improper payments primarily as waste of government funds rather than as fraud or abuse. At this level, OPM is justifiably proud of operating programs with relatively small amounts of waste. While improper payments amounting to about $160 million in fiscal year 2002 are not an insignificant figure, it amounts to less

than one percent of FEHBP premiums paid.

Examples of improper payments made to carriers include:

- Coordination of Benefits (COB) – Carriers are not properly coordinating claim payments with Medicare as required by their contract with OPM. As a result, the FEHBP is paying as the primary insurer when Medicare is, in fact, the primary insurer.
- Duplicate Payments – Carriers are improperly charging the FEHBP for duplicate payments, such as paying a provider twice for the same services. These payments are unnecessary and unallowable charges according to the contract.
- Amount Paid is Greater than the Covered Benefit Charge – Carriers have paid more than the amount indicated in the carrier's contract with the provider.

Another area where we continue to experience waste, as well as fraud and abuse within the FEHBP is in the rate-setting process for community-rated health benefits carriers, exemplified by the PacifiCare case I discussed earlier. Defective pricing occurs when the FEHBP is not offered the same discount that a carrier offers to other large groups similar in size to the FEHBP. Historically, defective pricing has been an ongoing audit and

investigative issue within the FEHBP. Several of these cases have been referred by my Office to the DOJ.

To address defective pricing issues, my Office has and will continue to increase the number of audits performed on community-rated contracts. The success of such an increased audit presence is demonstrated by an initiative we implemented in 1996. At that time, we initiated a new audit approach for FEHBP's community-rated carriers to supplement the standard community-rated audits we performed. The standard audits are performed on a post-award basis, usually several years after the completion of the contract year. The new approach, referred to as rate reconciliation audits (RRA), differs in that these audits are performed prior to the settlement of the final rates. OPM requires each community-rated plan to submit its proposed rates by May 31 of each year, seven months before the rates take effect. Because of these early submissions, each plan must estimate its community rates. The rate reconciliation then allows plans to adjust their estimated community rates to the rates that are actually in effect for the current contract year.

In addition, the RRAs have resulted in significant dollar savings to the FEHBP. Since inception in 1996, we have completed a total of 119 RRAs that identified over $64.6 million in overcharges to the FEHBP. During the

first couple of years after the RRA process was implemented, we found that 60 to 70 percent of the carriers we audited under this process were not in compliance with OPM regulations. I am pleased to say that after five years of these annual audits, the noncompliance rate has dropped to approximately 40 percent of the carriers.

The largest amount of FEHBP fraud and abuse occurs at the health care provider or supplier level. As I noted in my discussion of the HCA case earlier, my criminal investigators work with other law enforcement agencies and the carriers to identify and pursue prosecution for payments fraudulently submitted to and paid by the carriers to dishonest health care providers and suppliers. By its very nature, this fraud and abuse is hidden and therefore, difficult to detect. Adding to our difficulty in estimating the extent of provider fraud is the indirect nature of OPM's contractual relationship with health care providers. They are not government contractors or subcontractors and only have such relationships with the carriers. Therefore, my criminal investigators respond to allegations of provider fraud or abuse or irregularities detected through our audits. I do not have authority to audit health care providers generally.

OPM is seeking contractual changes to provide audit authority for the very largest providers, such as pharmacy benefit managers to better detect

what I believe is significant and substantial waste, fraud, and abuse in the FEHBP.

Waste, Fraud and Abuse in the Retirement Programs

While my Office focuses primarily on waste, fraud and abuse in the FEHBP, we also guard against it in the Retirement Programs (RP), including both the Civil Service Retirement System and the Federal Employee Retirement System. The RP has an erroneous payment rate of less than one-half of one percent of payments made or about $100 million in fiscal year 2002. Most of the erroneous payments are the result of computation errors identified and corrected by the agency itself. However, there is other waste, fraud and abuse within the RP, notably the failure of next of kin to notify OPM of an annuitant/survivor's death, resulting in improper continuation of RP payments. This failure may often be due to unfamiliarity with the RP requirements. Unfortunately, it is frequently the result of deliberate fraud.

OPM has tried to eliminate the erroneous payments by routinely performing computer matches using OPM's annuity rolls and the Social Security Administration's death records. We assist the agency by proactively reviewing RP annuity records for any type of irregularity, such as reaching an excessive age. If we discover an irregularity, we conduct independent queries using other data bases to determine if annuitants are

deceased. We will continue, as necessary and as our resources permit, to actually verify that annuitants are still alive by visiting them at their residences.

As an additional measure in reviewing the RP rolls, as we hire new criminal investigators, we will be placing them in areas of the country where large clusters of current and former federal employees reside, such as California and Florida. This targets our additional resources for fraud referrals against the FEHBP and the RP where the criminal activity is most likely to originate.

The Federal Employees Government Life Insurance (FEGLI) is the third mandatory program which my office has a responsibility to audit and investigate for waste, fraud and abuse. However, our regular audits of the program and the financial statement audits by outside auditors demonstrate that there is not a significant amount of waste, fraud and abuse in the FEGLI. While there undoubtedly is some, I would estimate it to be less than one-tenth of one percent of FEGLI payments each year or less than $2 million a year.

Utilization of New Tools for Future Progress

In meeting the growing challenges to the health and retirement trust funds resulting from changes in medical care that have led to changes in the type of waste, fraud and abuse perpetrated against the FEHBP and the need to increase recoveries, we are making significant changes in our audit and investigative focus to keep up with these patterns. Fraud against the FEHBP by providers and suppliers such as submitting false claims for services not rendered, billing for medically unnecessary procedures and falsifying billing codes that lead to a higher rate of reimbursement have been inherent in the FEHBP since the inception of the program. Despite their long-standing nature, we fight waste, fraud and abuse every day, using new and innovative techniques as they become available and assigning resources to new problem areas as soon as they are discovered.

One of these changes has been the fact that prescription drug costs are now by far the most important factor in rising premiums in the FEHBP. Pharmacy Benefit Managers (PBMs) act as middlemen to acquire prescription drugs for health plans. In 2000, they accounted for about 26% of the benefits costs in the FEHBP or more than $4.66 billion. OPM calculates that approximately $6 billion in FEHBP dollars will go through PBMs in 2003.

My auditors and criminal investigators have been actively involved for the past four years assisting the Justice Department in gathering evidence in support of a qui tam suit against Medco Health Solutions, Inc., one of the largest PBMs in the nation. On June 23 of this year, the United States Attorney for the Eastern District of Pennsylvania intervened in this suit. The relators are corporate whistleblowers who allege that Medco engaged in the following conduct:

- Canceling, deleting and destroying patients' mail order prescriptions on days of heavy prescription volume so that Medco could avoid penalties for its delays in filling and mailing prescriptions;
- Making false statements to the Blue Cross Blue Shield Association about compliance with contract requirements that prescriptions be mailed within 5 days of receipt;
- Mailing prescriptions to patients with less than the number of pills ordered and paid for, and charging both patients and health plans as if they had dispensed the full amount;
- Changing prescriptions based upon misleading or false information provided to treating physicians;
- Inducing physicians to authorize switching of prescriptions from lower to higher cost medications while representing that the switch

was for the purpose of reducing prescription costs for the health program;

- Favoring drugs manufactured by Merck, a substantial owner of Medco, over other manufacturer's drugs in switching programs, even when the Merck drugs were more expensive;
- Failing to comply with state laws requiring appropriate drug utilization review by a pharmacist and consultation with the treating physician where there is a potential for harmful interaction among drugs prescribed for a patient;
- Fabricating records of calls by pharmacists to physicians;
- Failing to call physicians for clarification, as required by governing law, when the prescription received by the pharmacist is ambiguous.

The United States however has not yet filed its own complaint in the case and may not adopt all of the relators' allegations. We will continue to work with the DOJ throughout the litigation process in what we expect will lead to significant recoveries for the FEHBP.

We should not lose sight of the fact that the alleged conduct in this case raises issues beyond financial recovery to the FEHBP. If the charges are substantiated, Merck's conduct could have endangered the health and safety of FEHBP subscribers through such actions as changing prescriptions

or quantities of medication without authorization.

We will also continue to work closely with the DOJ to pursue waste, fraud and abuse by others in the PBM industry. We currently do not have statistics to quantify the magnitude of problems that may exist in the prescription drug program since our involvement in this area has just begun. But given the large amount of funds expended on prescription drugs and the increases expected, we will be focusing a significant portion of our resources on this area in the future and should have a better idea of the magnitude of fraud involving PBMs.

Another example of action we are taking to reduce waste, fraud and abuse in the FEHBP at both the carrier level and the health care provider and supplier level is a new initiative to improve our benefit payment claims review capacity. The initiative combines the use of affordable computer technology with expert knowledge in the field of health benefit analysis. The goal is to develop a data warehouse, employ program-wide review strategies, and ultimately implement sophisticated data mining techniques to thoroughly analyze FEHBP health benefit claims payments.

We have developed an implementing strategy that has had an immediate impact on our claims analysis capabilities, while offering future opportunities for our auditors to use their expertise to discover other types of

improper claims payments. We envision that this data warehouse/data mining project will significantly increase our ability to highlight trends of potential health care fraud in the FEHBP. The project will also provide our criminal investigative staff with the ability to react quickly to investigative leads. For example, our criminal investigators will be able to determine the potential program risks associated with an identified provider or subscriber fraud allegation, and take appropriate action in a matter of hours versus days or weeks.

Our current data warehouse plan centers around health benefit claims data from the FEHBP contract with the Blue Cross Blue Shield Association (BCBS Association). In 2002, the BCBS Association paid $10.8 billion in FEHBP health benefit payments including $3 billion for prescription drug benefits. Our ultimate goal is to include claims data from all carriers who determine premium rates using the same methodology as FEHBP-participating Blue Cross and Blue Shield plans.

We have recently implemented a series of computer claims analysis applications that our auditors are using as part of our routine BCBS Association FEHBP audits. The first application is designed to assist the audit staff in selecting a claims sample in order to verify various controls that have been established within the carrier's claims processing system.

Additional applications have been designed to assist the audit staff in identifying the following types of routine claim payment errors:

- Coordination of Benefits,
- Duplicate Payments,
- Amount Paid is Greater than the Covered Benefit Charge, and
- Debarred Providers.

The key to our ongoing success is to provide the audit and criminal investigative staff—our experts—with powerful, yet easy-to-use, computer-assisted auditing tools to combat waste, fraud, and abuse in the FEHBP with increasing effectiveness and efficiency. This initiative mixes affordable computer technology with our human capital expertise to maintain and enhance our audit and criminal investigative capabilities in response to a rapidly changing technical environment.

Prior to the development of these applications, the auditors were required to work through a single computer specialist. While we were quite successful with this approach, it limited the number of audits that could be completed annually. Now, by applying these technical advancements in computer hardware and software with the skills of our staff (computer specialists, information systems audit staff and FEHBP program auditors), we have realized two important auditing goals: First, we have made our

claims analysis process more comprehensive; secondly, we have significantly increased the number of health care audits we are able to complete each year.

These user-friendly, computer-assisted audit techniques have standardized the audit process, while allowing our auditors the necessary flexibility to adjust the applications to the specific requirements of their assignments. By empowering our auditors to complete more routine computer analyses, our computer specialists, in turn, are free to concentrate on more complex issues. In addition, these specialists have time to work on the development of our Office data warehouse and, ultimately, our data mining applications. These computer applications can be run from remote locations throughout the country through a secure, virtual private network.

Another important new strategy in identifying potential program waste is to complete our claims analysis on a global rather than plan-by-plan basis. This approach offers us the opportunity to address significant issues one time only instead of multiple times per year and to recover overcharges to the program when appropriate. We are in the process of completing our first such global review. This first review targeted our on-going problems with improperly coordinated claims with Medicare. While we have not finalized this review, we anticipate questioning over $22.5 million in

improperly coordinated claims. In addition, we have targeted other claims payment issues, such as duplicate payments, for global reviews.

One of the key components of this strategy is to work with OPM and the appropriate carriers to identify and resolve the root causes of these claim payment issues. The goal is to work cooperatively to resolve issues once and for all. With routine updates to the data warehouse, we will be able to monitor our joint efforts in resolving these global issues.

Finally, we plan to apply data mining techniques to our data warehouse to automate the process of discovering suspect trends and unusual payment patterns. Our first step has been to form a data mining team. This team, made up of a senior FEHBP program auditor and a senior computer specialist, will have the unique challenge of employing data mining software to discover relationships and hidden patterns in claims data. Using their combined technical skills, the team will use these relationships and patterns to identify potential health benefit payment errors and possible fraudulent payments. The data mining team is also supported by additional auditors with claims audit experience, as well as our OIG information systems audit unit.

We are also combating fraud and abuse committed by health care providers and suppliers through our enhanced administrative sanctions and

civil monetary penalty program. Since May 1993, our Office has debarred or suspended over 24,000 health care providers who have committed serious violations that disqualify them from participating in the FEHBP.

New regulations effective in February 2003 expand the range of actionable violations and have substantially improved the operational efficiency of our sanctions activities. We anticipate that additional regulations will become effective later this year to enable OPM to impose, through administrative action, civil monetary penalties and financial assessments on health care providers who have knowingly committed claims-related violations resulting in incorrect payments of FEHBP funds. These financial sanctions will permit OPM to recover damages and costs resulting from provider misconduct and will carry a deterrent effect to such violations among providers participating in the FEHBP.

The problems surrounding the losses to the Government from waste, fraud and abuse grow in importance as our resources are placed under increased demands. I pledge to continue to work with you and OPM management to further implement the oversight strategies I outlined today and find additional ways to increase our effectiveness and ultimately monetary returns to my agency's vital trust funds.

Chairman TOM DAVIS. Mr. Posner.

STATEMENT OF PAUL L. POSNER, MANAGING DIRECTOR FOR FEDERAL BUDGET AND INTERGOVERNMENTAL ISSUES, STRATEGIC ISSUES, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY RALPH BLOCK, TAX GROUP, GENERAL ACCOUNTING OFFICE

Mr. POSNER. Thank you, Mr. Chairman. It is a pleasure to be here today with the committee. My role at the hearing, and my statement, move beyond the specific OPM programs that are in the committee's jurisdiction to discuss opportunities for savings and oversight through the committee's broader role in overseeing the broad range of Federal programs, management operations and tools.

As you know, the Budget Resolution mandates savings targets for the committee and, in addition, it mandated that GAO do a report that can be useful for the committee to be released in 2 weeks, highlighting options based on all of our work over the past several years for congressional requestors. We culled through that to find options that potentially yield savings and we worked with CBO to screen the options.

For perspective, savings obviously is important in itself in a time of deficit, but it is always difficult to reach these savings targets as our deficit reduction efforts of the 1990's have shown. If there is a silver living, it is the opportunity to use savings targets to address longstanding performance problems in government programs and services.

I consider GAO's options, many of which are included in my statement, as well as those in our forthcoming report, to constitute "weak claims;" programs, operations, tools, and activities that really don't stand up to audit and evaluation that have significant problems in fraud, waste, abuse, efficiency, effectiveness, and ultimately relevance to today's and tomorrow's world. And that is what I want to highlight.

I am going to talk about three basic areas that are in the statement. One addresses risks that drain resources and undermine program integrity. Two addresses significant opportunities for us to improve economy and efficiency. And three is reassessing priorities and effectiveness.

Again, one of the things I want to try to highlight in my oral statement is that while many of the examples are program-specific, effective action to address each of these areas requires the kind of governmentwide, cross-agency, cross-cutting initiatives that this committee could lead and prompt. And so those are the kinds of things I am going to try to address.

In the high-risk area, as you know, GAO has been doing a high-risk list and identifying areas particularly vulnerable since 1990. Our examples and targets range from Medicare and Medicaid to unpaid taxes, Federal real property and a variety of other weaknesses in financial and contract management.

The size of improper payments is unknown. We issued a report last year just, based on the financial statements, saying there is about $20 billion. OMB thinks it is about $35 billion. We think that is a work in progress. Addressing improper payments calls for per-

sistence, leadership, design changes, providing better incentives, and risk-sharing on the part of agency staff and third parties, and a variety of tools and even investments.

I want to illustrate by talking about tax compliance. The IRS no longer keeps systematic data on what we used to call the tax gap, but we do know that there are significant problems in certain sectors of the economy with Tax Code compliance. IRS has been challenged to reach these areas by not only a rising workload but declining staff resources and greater complexity in the Tax Code itself. Audit rates for corporations and individuals have been declining significantly over the past 10 years. The ability of the IRS to collect taxes that is ultimately assessed, the so-called accounts receivable, has declined, so that they now have a substantial inventory of over $100 billion of collectible taxes that people owe and have not paid.

The solution to this involves partly staffing and partly reengineering and modernization of IRS's systems. What I want to highlight is how important other agencies are to IRS achieving this mission. For example, 1 million people who owe $26 billion in tax debt receive Federal salaries, grants, contracts, and loan payments. IRS has recently attempted to recoup some of this by levying some of those payments, but these efforts are far from complete. IRS has blocks on too many actions that agencies could take. There are no levies, for example, applied to Medicare and Medicaid payments. Concerned about the workload, IRS is not fully implementing this levy program the way that we think that they should.

Federal loan payments is another area where progress can be made. Although OMB Circular A–129 requires loan agencies to check whether recipients have tax debt, in fact, work we have done shows that significant numbers of loan recipients have accounts receivable with IRS that are not routinely checked by agencies. So this is definitely a work in progress.

Another multiagency issue involving the tax system is, how we can use IRS as a lever to control improper payments in other agencies. We have already done this through the Treasury Offset Program so that when there is an outstanding nontax debt from a payment from a Federal program, we can go after the refund owed to that person.

Another key is data-sharing to permit more agencies and State and local administrators of Federal programs to gain access not only to tax data but new-hire data kept by the child support program to control improper payments at the front end rather than chasing people once they get in debt. Let's control this at the front end by having quality information so agencies and staff can tell, up front, what the underlying incomes and assets of people are who are claiming their program.

In one study the Inspector General of the Education Department reported that over $100 million in Pell Grant overpayments could have been avoided if the Education Department had access to this tool and many other agencies need this tool as well. SSA, for example, needs to know, but does not have, data routinely on State and local government pension recipients and whether they are entitled to Social Security payments or not.

Non-tax debt is another area where agencies are not doing enough in a coordinated way to apply wage garnishing, which they are authorized to do through the Treasury.

So these are areas where greater enforcement requires greater coordination, greater leadership on the part of central agencies and in the Congress.

Another area is improving economy and efficiency and I have outlined some issues in the written statement. We have many examples of longstanding problems with the targeting of Federal programs; with the fragmentation that seems rife across many areas that we really care about, but have multiple players across multiple agencies; with the fact that we are not recovering costs like we should from users of Federal programs, from corporations that are inspected by Federal agencies; and often with outdated organizational models as we go forward into the 21st century.

In the area of targeting, for example, just as poor controls can convert scarce money from needy recipients, so can poorly targeted programs. Our Federal grant system gives over $300 billion of scarce funds through really poorly-designed formulas. As a result, States and local governments with less relative need and greater fiscal capacity get more money than places that need it more.

The current formulas we use are not well-designed. The Medicaid formula, for example, goes back to the 1940's, uses per capita income and has not been updated to reflect better measures of poverty and fiscal capacity. As a result, some States get too much while other States get too little compared to their capacity.

Community development block grants are another example. While we use housing and poverty as a factor, the formula does not reflect the relevant wealth and fiscal capacity of the jurisdiction to provide services on its own. So, as a result, Greenwich, CT, in the study we did several years ago, get over five times the amount of per person-in-poverty under CDBG than Camden, NJ. Broadly, a review of the grant system is really in order.

In other words, we look at procurement reform as a system, and we think of multiple opportunities to address savings opportunities. The grant system is an equally rich target because there are fundamental flaws in the design of these programs, not only in the targeting area, but in widespread substitution of Federal for State and local dollars that could be controlled if we took a more systematic look at what we are trying to do and how we are doing it.

Targeting is important for benefit programs as well. For example, the Federal Employees Compensation Act—the workers compensation for Federal employees injured on the job—said 30 percent of the recipients receive 100 percent of their previous replacement income and another 40 percent receive over 90 percent, well in excess of standard replacement rates for compensation in disability programs. This is based on a flaw in the formula that we have identified that needs to subtract taxes from gross wages as the basis for making payments.

Fragmentation is another area that we can talk about. Food safety is an area we have highlighted with multiple players: the Agriculture Department, the Federal Food and Drug Administration and others, which we can talk about more in Q and A. Moreover, substantial reorganization opportunities exist. For example, the lo-

cation of Veterans Health hospitals, Coast Guard facilities and USDA's county services all need to be fundamentally reexamined as these agencies go forward in a modern technological environment with an infrastructure that is largely inherited.

Finally, one other opportunity I want to mention is a governmentwide opportunity that I know your committee has addressed: real property reform. We have teed this up as a high-risk issue for the first time. Excess costs and opportunity costs are carried by Federal agencies with thousands of acres and facilities that are unused, that are either condemned or simply unusable. Deferred maintenance is a substantial problem in the National Park Service and other areas.

We are not using sound capital planning to identify which places and facilities should be sold and how to best acquire state-of-the-art facilities for Federal workers and agencies. We know legislation has been proposed to provide better incentives to agencies, and to improve the state of what is known in agencies about their inventory. Many agencies don't even keep an inventory of their assets like they should.

This is an area where we think greater leadership on the part of OMB, through the scorecard approach or possibly a commission, could best help us ferret out what properties are truly excess and unneeded and how can we best motivate agencies to start turning these things over.

Ultimately, what we need to do is to reexamine the base of programs. We spend a lot of time debating new programs and we don't spend nearly the time we should on new programs on the base going forward. This is not an easy thing to do but we have legacies of programs that have been carried for years that need to be reexamined.

I have mentioned disability in my statement. The disability criteria, notwithstanding advances in medicine and workplaces, have not been updated. VA still uses a schedule going back to 1945 to compute the share of replacement that people receive for different service-connected disabilities.

So these are areas where we need to have a fundamental reexamination and that can best be done on a governmentwide basis by a committee like this that cuts across agencies. Disability, for example, cuts across agencies and committees. So what we want to try and suggest is, the need to think about tools and approaches that are more governmentwide in nature, like the governmentwide performance plan under GPRA that has never really been implemented, that could become a vehicle to tee up all of the different players, tools and agencies that attempt to achieve common outcomes, and see how your committee and OMB and others can work together to really highlight those areas that are most promising and those areas that are in need of fundamental change.

That concludes my statement.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Mr. Posner follows:]

United States General Accounting Office

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Testimony
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U.S. House of Representatives

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FEDERAL BUDGET

Opportunities for Oversight and Improved Use of Taxpayer Funds

Statement of Paul L. Posner
Managing Director for Federal Budget and
Intergovernmental Relations Issues, Strategic Issues

GAO-03-1029T

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 21st 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 108th 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.[1] 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.

[1] 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.[2]

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

[2] 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.

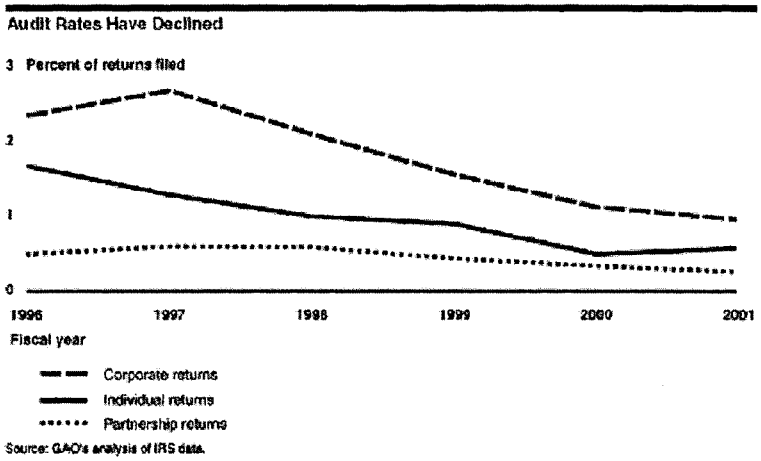
Collecting taxes due includes both compliance programs, like audits, that identify those who owe more than they self-report and collection programs that seek payment of taxes assessed but not timely paid. However, IRS compliance and collections programs have seen larger workloads, less staffing, and 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.[3] 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 it 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

[3] 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[4] up to 15 percent of certain federal payments made to delinquent taxpayers.[5] 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.[6] 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.[7] 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

[4] 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.
[5] Specifically, the 1997 legislation allows continuous levy of "specified payments," including non-means tested federal payments, as well as certain previously exempt payments.
[6] 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).
[7] 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 polices 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—$12.3 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.[8]

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:

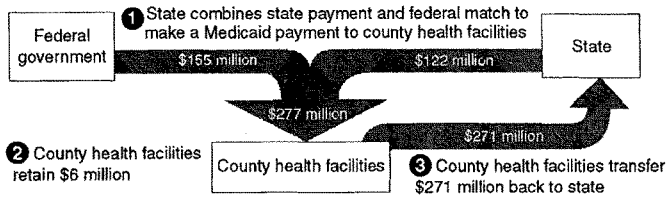
- *Curb state financing schemes*: Such schemes inappropriately increase the federal share of Medicaid expenditures. For example, some states have created the illusion that they made large Medicaid payments to providers while in reality they only made temporary electronic funds transfers that the providers 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

[8] *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.[9] 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

[9]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.[10] 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.[11] 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.

[10]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).
[11]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 21st 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

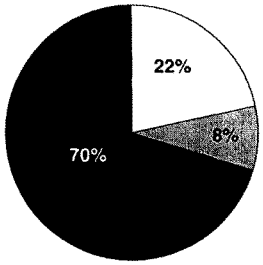
while under-compensating or denying compensation entirely to others. Although federal disability programs present serious management challenges and can be vulnerable to fraud or abuse, the overarching and longer-term challenge is to design a disability system for the modern world.

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 21st 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 21st 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 21st 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.[12]

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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[12] 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 21st 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
Addressing Challenges in Broad-Scale Transformations	
• 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
Ensuring Major Technology Investments Improve Services	
• FAA Air Traffic Control Modernization	1995
• IRS Business Systems Modernization	1995
• DOD Systems Modernization	1995
Providing Basic Financial Accountability	
• DOD Financial Management	1995
• Forest Service Financial Management	1999
• FAA Financial Management	1999
• IRS Financial Management	1995
Reducing Fraud, Waste, and Mismanagement Risk	
• 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
Managing Federal Government Operations More Efficiently	
• 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.

Meat and Poultry: Improved Oversight and Training Will Strengthen New Food Safety System. GAO/RCED-00-16. Washington, D.C.: December 8, 1999.

Food Safety: Agencies Should Further Test Plans for Responding to Deliberate Contamination. GAO/RCED-00-3. Washington, D.C.: October 27, 1999.

Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System. GAO/T-RCED-99-256. Washington, D.C.: August 4, 1999.

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness. GAO/RCED-98-224. Washington, D.C.: August 6, 1998.

Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable. GAO/RCED-98-103. Washington, D.C.: April 30, 1998.

Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food. GAO/RCED-94-192. Washington, D.C.: September 26, 1994.

Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply. GAO/RCED-92-152. Washington, D.C.: June 26, 1992.

Grants for Homeland Security:

Federal Assistance: Grant System Continues to Be Highly Fragmented. GAO-03-718T. Washington, D.C.: April 29, 2003.

Multiple Employment and Training Programs: Funding and Performance Measures for Major Programs. GAO-03-589. Washington, D.C.: April 18, 2003.

Managing for Results: Continuing Challenges to Effective GPRA Implementation. GAO/T-GGD-00-178. Washington, D.C.: July 20, 2000.

Workforce Investment Act: States and Localities Increasingly Coordinate Services for TANF Clients, but Better Information Needed on Effective Approaches. GAO-02-696. Washington, D.C.: July 3, 2002.

Fundamental Changes are Needed in Federal Assistance to State and Local Governments. GAO/GGD-75-75. Washington, D.C.: August 19, 1975.

Rural Housing Assistance:

Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement. GAO/RCED-96-11. Washington, D.C.: November 16, 1995.

Public Power:

Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance. GAO/T-AIMD-00-96. Washington, D.C.: February 17, 2000.

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry. GAO/T-RCED/AIMD-99-229. Washington, D.C.: June 24, 1999.

Federal Power: PMA Rate Impacts, by Service Area. GAO/RCED-99-55. Washington, D.C.: January 28, 1999.

Federal Power: Regional Effects of Changes in PMAs' Rates. GAO/RCED-99-15. Washington, D.C.: November 16, 1998.

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring. GAO/AIMD-98-164. Washington, D.C.: June 30, 1998.

Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry. GAO/RCED-98-43. Washington, D.C.: March 6, 1998.

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses. GAO/AIMD-97-110 and 110A. Washington, D.C.: September 19, 1997.

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Federal Power: Outages Reduce the Reliability of Hydroelectric Power Plants in the Southeast. GAO/T-RCED-96-180. Washington, D.C.: July 25, 1996.

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program. GAO/T-RCED-96-142. Washington, D.C.: May 2, 1996.

Federal Electric Power: Operating and Financial Status of DOE's Power Marketing Administrations. GAO/RCED/AIMD-96-9FS. Washington, D.C.: October 13, 1995.

Child Support Enforcement:

Child Support Enforcement: Clear Guidance Would Help Ensure Proper Access to Information and Use of Wage Withholding by Private Firms. GAO-02-349, March 26, 2002.

Child Support Enforcement: Effects of Declining Welfare Caseloads Are Beginning to Emerge. GAO/HEHS-99-105. Washington, D.C.: June 30, 1999.

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare. GAO/HEHS-98-168. Washington, D.C.: August 3, 1998.

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices. GAO/HEHS-97-4. Washington, D.C.: December 16, 1996.

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results. GAO/HEHS/GGD-97-14. Washington, D.C.: October 25, 1996.

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments. GAO/HEHS-97-11. Washington, D.C.: October 23, 1996.

Child Support Enforcement: States and Localities Move to Privatized Services. GAO/HEHS-96-43FS. Washington, D.C.: November 20, 1995.

Child Support Enforcement: Opportunity to Reduce Federal and State Costs. GAO/T-HEHS-95-181. Washington, D.C.: June 13, 1995.

Chairman TOM DAVIS. Let me start. Mr. Posner, you have raised some issues on tax collections and going back and forth with this. Were we to put more resources into collecting back taxes at IRS, that could have a significant impact, couldn't it?

Mr. POSNER. Potentially it could. What has often happened is that, when we have done these various revenue initiatives, either for collections or examiners, the mandatory costs IRS faces for additional energy, postage, employee benefits, and salary increases are not covered. And so often, just to keep the lights on, what has happened is they have used the funds that we have provided for the additional agents to keep the lights on because they have these large mandatory costs they carry.

But when we are able to finally get some new hires on the other end, we do get some results, there is no question about it. They have experienced an attrition of staff over time that could be reversed with some real benefit.

Chairman TOM DAVIS. Here is the concern: Each year you have people that are eligible to pay taxes, and after a certain number of years, it goes off and becomes uncollectible. What if you went after that on a contingency basis outside? Is there money to be gained in that situation if it costs so much to do it inside, or is that——

Mr. POSNER. Well, I don't know. I brought with me Ralph Block. Ralph is with our tax group.

Mr. BLOCK. I know that is a pilot that IRS has been trying. I think that the main problem with IRS is its own staff has undergone so much attrition that I think they are just not able to get to the kind of mainline business.

So your point is very well taken, that if you don't work cases, they get so old that they do become uncollectible. It is absolutely an important point.

Chairman TOM DAVIS. It looks to me as though this is some low-hanging fruit for us if we would go after it, and if we can do it in-house so much the better. But if there are obstacles that we need to know about there—in the meantime this fruit shrivels up, and it is gone, and you can't harvest it.

Mr. BLOCK. The sooner you go after a delinquent taxpayer, the better your chances are of collecting the money. But right now there is over $112 billion in delinquent taxes. Some of it could be collected, but we are only doing one out of every three cases that is associated with that. So obviously, if they had more staff and more computer capability, they could definitely get at these delinquent taxpayers a lot faster.

Chairman TOM DAVIS. And would it be easier to do that in-house where we have this set up?

Mr. BLOCK. Well, right now IRS is starting a program where they are going to have some private debt collectors try to go after some of these taxpayers, but there is a lot that IRS can do in-house based on the knowledge and skills that the revenue officers have to collect these taxes.

Chairman TOM DAVIS. And additional officers would help in that regard?

Mr. BLOCK. Definitely.

Chairman TOM DAVIS. How about rewriting rules and giving them more flexibility? That is a tough political issue, isn't it?

Mr. BLOCK. Yes.

Chairman TOM DAVIS. And I understand there are rules that say you can't call after certain hours.

Mr. BLOCK. Well, you have to balance any enforcement activity with the burden you might place on a taxpayer. I think we have testified in the past on the IRS Reform Act of 1998, which placed some additional restrictions on IRS. We didn't think that those restrictions were harmful enough to prevent IRS from going out and doing the job.

Chairman TOM DAVIS. OK. I might want to get some more on this because obviously this is a key issue. To the extent that we are not collecting revenue, and everybody is conscious of the big bad tax collector coming after people, we have to sell bonds, many of them held by foreigners, and pay the interest on that.

If you have any additional thoughts on that, we would be happy to hear them.

Mr. POSNER. I would just add that I think it is not just staff but data-sharing, as I said. To the extent which IRS, for example, can get State data on small business licenses and other assets owned by taxpayers they are going to be more effective.

Chairman TOM DAVIS. Can we do that statutorily from here?

Mr. POSNER. I think you could. I think there are some things that IRS can do. We would have to look into what more they need from you.

Chairman TOM DAVIS. OK. Mr. McFarland, you noted that the IG's office recovers approximately $12 for every $1 that we spend. Is that fair?

Mr. MCFARLAND. Yes, sir, that is correct.

Chairman TOM DAVIS. Now, at what point, if we add more people there, does it come down? Or is it still going to be 12 to 1 if we keep adding people? Do you think we would get more value back?

Mr. MCFARLAND. No. I think clearly the more people we add, to a certain point, obviously, we would absolutely collect more.

Chairman TOM DAVIS. OK. I think that is good. Thank you very much.

First questioner over here. Mr. Ruppersberger.

Mr. RUPPERSBERGER. Reading your testimony, Mr. Posner, the issue of reassessing what government does, I think you were right on as far as where we need to look. We need to look at our program, what we might call program review, and decide why are we doing this. Can we afford to do this? Is this in the best interest of our government, our employees and our citizens?

Then, you referred to the issue, as an example, of the disability criteria. As we know, we have a lot of veterans and it takes a long time to even see a doctor right now. Are we using antiquated programs, things that we have always been involved with and we are afraid to make the change? That is a statement that I think that you were right on target as far as program review.

The issue of the fraud and the mismanagement. How would you relate those issues to your program review? What would you see that we could do, just as an example in the disability area, as it relates to fraud, mismanagement and also service to clients, and,

say, as an example, the veterans that are an issue that we are dealing with right now?

Mr. POSNER. I think there is a relationship. In disability we actually took the SSI program off of our high-risk list, because they have actually done some proactive things to encourage people to go back to work and reduced improper payments.

Mr. RUPPERSBERGER. What were they, though? Why aren't they being done in other areas?

Mr. POSNER. They got access to this new-hire data base that the Office of Child Support Enforcement, one of three agencies that has access to that, which has real-time data on who is employed and who is not, so they can identify ineligibles right there on a real-time basis. They provided greater incentives for people to go to work, for example, by letting them keep eligibility for Medicare, with a legislative change.

So part of this, how you get people back to work is providing the incentives, and part of it is, again, reassessing the definition of who is able to work. And one of the things we found about the administrative procedures in some of these agencies is they assess disability status based on the current condition, not how the condition could change if the person got appropriate medical treatment and intervention. And so if they thought about it that way, we think the rolls could be reduced. There would be more people who are going to have more incentives to go to work and be encouraged to go to work. But that requires a different mindset on the part of the disability administrators.

Mr. RUPPERSBERGER. Almost a change in culture.

Mr. POSNER. A change in culture.

Mr. RUPPERSBERGER. How would you recommend that we implement that in that specific area?

Mr. POSNER. Well, that is the kind of thing that warrant congressional oversight. I am not sure how legislation could actually affect that, but I think that we have already seen some positive examples from the Ticket to Work Act and the Foster Care Independence Act, for example, that have really enabled SSI to get off our high-risk list.

So I think that further legislation would help to give agencies guidance on what they should consider to be disability in the first place. These are fundamental statutory issues.

Mr. RUPPERSBERGER. Now, there was an issue about how we have a tremendous amount of money that is out there. I think the chairman referred to it as low-hanging fruit that we might be able to grab. But in order to do that, what I am hearing is, we have to reinvest in staff and computer technology.

Mr. POSNER. That is absolutely right. Some of the savings that we get requires up-front investment. That is true across the board, whether it is Medicare overpayments, and we know that, just as with the OPM, if Medicare gets more money for contractor oversight, they realize $10 in savings for every $1 they spend on those salaries.

Mr. RUPPERSBERGER. Do you feel that the technology is out there to move forward to receive the gains that we are looking for? If we can put in more money, can we get more resources in the area of technology? Do you feel the software, the programs are in place to

do it, or can't we afford it? Are they not implemented, or have we not trained people to use it?

Mr. POSNER. I am not the best person to answer that. Our technology experts are probably better suited. I will tell you that our work has found that the primary barriers to doing this data-sharing are not technology, they are legislative. It is the fact that IRS data is not readily available to many agencies, that the new-hires data base that the Office of Child Support Enforcement keeps is only available to three agencies, that State and local governments and universities that administer student aid and low-income housing do not have access to any of this data. Those are the barriers more than technology.

Mr. RUPPERSBERGER. Do we have any idea on the costs to implement this? I mean, is the cost just so large that we can't take a step forward?

Mr. POSNER. I think the costs are not so much—I mean, the costs are partially an investment in people, as we said. There is a concern about privacy that we have to be very cautious about, how we do this, how we share this data. For example, IRS has section 6103, which is a very strong statute that guarantees the privacy of taxpayer data. So when we provide that data to administrators at the Federal or State and local level, we have to have assurances that they have proper security in place.

So that is a cost. That is probably the most significant cost that people are concerned about.

Mr. RUPPERSBERGER. OK. Thank you.

Chairman TOM DAVIS. Thank you very much.

Mrs. Davis.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

Before I ask Mr. McFarland a question, I just was curious, how many employees do we have in IRS right now?

Mr. POSNER. About 100,000. I think that is down from—I used to be involved in leading our work on IRS about 15 years ago, so I have a before/after comparison. In the late 1980's it was 120,000. And if I might add in response to the chairman's question, in the late 1980's when I looked at accounts receivable, the collectible amount was $25 billion and now it is $112 billion, a fourfold increase.

Mrs. DAVIS OF VIRGINIA. Thank you.

Mr. McFarland, could there be changes made to the False Claims Act that would result in better recoveries for the government? Is there something legislatively that we could do there?

Mr. MCFARLAND. I don't think that there is anything specific that we can do right now with false claims. It seems to me that false claims, when handled aggressively, is rather successful.

Mrs. DAVIS OF VIRGINIA. When you handled them aggressively. Are you still handling them aggressively?

Mr. MCFARLAND. Yes. I am saying when the False Claims Act is utilized as aggressively as possible, by as many agencies as possible, then I think there is an abundance of success and monetary reward from that.

Mrs. DAVIS OF VIRGINIA. In your testimony, you said that health care providers, including pharmacy benefit managers, are the source of the greatest amount of abuse in the health benefits pro-

gram, but that such abuse is difficult to detect. And complicating your efforts is the fact that you don't have the authority to audit them. If IG were given that authority, would it significantly help you in recovery?

Mr. MCFARLAND. Yes, it absolutely would, especially in the case of the larger providers, such as the pharmacies as opposed to just individual doctors. But by the same token, the more we can do, then obviously the more resources we need. At what point you cut that off, I don't know; where you say you know you have reached a point of no return because of the additional cost of bringing people on board. I would say clearly that the more people that we have to move in that direction would definitely be advantageous and very successful for the most part. But there would be a point where you would have to decide how many more.

Mrs. DAVIS OF VIRGINIA. So what I think I'm hearing from both of you is that you can collect more and you can stop the false claims and the waste, but it's going to cost us up front to do it, and that might be a gamble.

Mr. MCFARLAND. Yes, it will. And I think in our particular situation, we have used as best as possible the technology that's available for our computer work. We've trained auditors to be information systems people; they have the expertise there. We are ready and able as the technology evolves to move forward, but there is an absolute upfront cost.

Mr. POSNER. If I could just add to that. It's really applying an investment criteria rate of return analysis to these things. One of the complications is, at least in the old budget process, you could save money on the mandatory side, but you had to spend money on the discretionary side to do it. And those are two different walls that, you know, generally you don't cross. So we've had to develop very complicated arrangements, and IRS and disability determinations, and Medicare contracting hires to try to permit Congress to cross those walls and get credit for increasing discretionary spending when we know the savings from this will vastly outweigh that in the long term.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Mr. Tierney.

Mr. TIERNEY. Thank you. Mr. Chairman, I have to tell you, I came to this hearing today expecting to be bored stiff. And I have to tell you, it may be dry, but it is certainly interesting. And I would think, Mr. Chairman, that somewhere in here there is a great bipartisan project. We shouldn't have to tussle over programs and policies; we should be able to come together on this. And I would ask the chairman at the next business meeting of this committee that we consider bringing forth the proposition of having a working group established of just a couple of Members on each side and the chairman perhaps and the chairman's designee and our friends from GAO to identify what needs to be done in terms of oversight, rules and regulation, legislation in the areas where we could make some substantial savings, identify also what the return of the investment would be so that we could make a case for how we might go about it, and then recommend back to this committee so that we might have some bipartisan legislation or whatever it

takes to move that forward. I see some substantial savings here, and I know that the people are getting the feel that the system just isn't fair. And one of the reasons people feel that is that we're probably not always doing all that we can do to make sure that these types of things are done. It's not a Republican issue or a Democratic issue; it's just straight up business.

Mr. Posner, I am looking at your recommendation on the OMB Circular A–129. There are recommendations there I would suspect that could be made ensuring that the IRS modernizes its business systems. I think that is one area that obviously should be done. You made recommendations with respect to that in the past. They've not been followed or they haven't been effective or what's happened there?

Mr. POSNER. Well, this IRS modernization is a long-term project that's been under way in various incarnations for maybe 20 years. They seem to be getting closer to achieving it. What we had in mind on that particular point was that the OMB circular says that agencies have to check to see if a loan recipient that they're considering is delinquent in their tax debt, but we go in and do studies and find they are not doing it. And whether it's the Small Business Administration—several years ago we did a study. And so we feel that some kind of legislative impetus might be required to get agencies to do that.

Mr. TIERNEY. So that would be a great example.

Mr. POSNER. Exactly.

Mr. TIERNEY. I look again at the outpatient drug—Medicare paying list prices. I can't think of anything more absurd. You know, with all the debate that we have about the overpayment of pharmaceutical companies or whatever, they're paying $1 billion more than other purchasers. You have the buying power that they have. Might that not be some area where we could get together and come up with some recommendations on how to stop that absurdity?

Mr. POSNER. We've had recommendations on that, yes.

Mr. TIERNEY. First of all, what were some of the recommendations? And what happened to them?

Mr. POSNER. Well, one of them was to get—to have Medicare be able to charge what the going rate is on some of these things instead of retail to permit Medicare to realize the savings that other insurers were realizing. And there have been some demonstrations that Congress has done that. It's something that is still, I guess you could say, a work in progress. There are some areas where some of this may be going forward but basically Medicare does have a long way to go.

As to the resistance, I just don't think I could speak to that. That's not my area. But I do know it's been an uphill struggle.

Mr. TIERNEY. Can you identify for me where some of those demonstrations have taken place and the nature of them?

Mr. POSNER. I can do that for the record.

Mr. TIERNEY. Would you do that for me, please?

Mr. POSNER. Absolutely.

[The information referred to follows:]

Insert

In order to spend Medicare dollars more prudently, the Balanced Budget Act of 1997 (BBA) included authority for the Secretary of the Department of Health and Human Services to establish up to five demonstration projects using competitive bidding to set fees for Medicare part B items and services (except physician services) over a 3-year period.[1] Using BBA authority, the Health Care Financing Administration—now called the Centers for Medicare & Medicaid Services (CMS)—implemented a single competitive bidding demonstration for DMEPOS in two locations—Polk County, Florida, and San Antonio, Texas. In these locations, competitive bidding was conducted for categories of products, such as hospital beds and manual wheelchairs. Suppliers submitted bids and, based on evaluations of price and quality, multiple suppliers were selected as winners in each product category. Overall, the agency estimated that the demonstration achieved gross reductions in Medicare payments and beneficiary cost-sharing amounts of 17 percent to 21 percent in Polk County and 22 percent in the San Antonio location. These estimates, which did not subtract the costs of developing and implementing the demonstration, assumed that product use remained constant at pre-demonstration levels. The demonstration—and CMS's authority to conduct a demonstration of competitive bidding—ended on December 31, 2002.

One category of covered outpatient drugs was included in the demonstration—drugs used in nebulizers. A nebulizer is equipment that is used to administer drug inhalation therapy for ailments such as asthma or emphysema. Nebulizer inhalation drugs are a significant cost to Medicare and its beneficiaries. Nationally, nebulizer drugs accounted for more than $1 billion in Medicare payments and beneficiary cost sharing in 2002. In the demonstration, these nebulizer inhalation drugs were only included in the San Antonio location. Thirty-three suppliers competitively bid, and 11 were selected as demonstration suppliers of nebulizer inhalation drugs. Estimated gross reductions in Medicare payments and beneficiary cost-sharing amounts for nebulizer inhalation drugs in the San Antonio location were about 25 percent.

[1] Medicare part B covers medical equipment and supplies as well as physician and outpatient hospital services, diagnostic tests, mental health services, outpatient physical and occupational therapy, ambulance services, and some home health services for qualified beneficiaries.

Mr. TIERNEY. And I would very much like to see what those have been and what the progress has been on them and see whether or not we can bring them up to spec a little bit and move forward on that basis.

Mr. POSNER. Right.

Mr. TIERNEY. I'm also interested to see here an acknowledgment that States are scamming the system on Medicaid, apparently to a significant degree. I would think that this might also be something that a working group could get together with your office on and come up with either some rules and regulations or some government oversight prospects or some legislation that would eliminate that or hopefully diminish that. I look at the examples here, and they are just crazy.

Mr. POSNER. You know, this is an area, if I could say, that is, again, one of those—all these areas that are large are in some ways long-term propositions. And we have been at this since the early 1990's and it seems like they keep one step ahead of us. When we shunt off one way that they can gain more reimbursement, they find another way. Right now, the way is to funnel payments through local government health entities. And we do think that legislation could help there. No question. And we would be glad to work with you on these things.

Mr. TIERNEY. I can go on and on. I think you have put forth an excellent brief here, and that will be a good guide for us.

Mr. Chairman, I will yield back my time, just asking if you would be amenable to considering that type of a prospect at our next business meeting, probably just two and two and your leadership?

Chairman TOM DAVIS. I will talk to you. I think that's appropriate to get some of our members who are interested in this to try to work on it and use our staff available. That's a good suggestion. Thank you very much.

The gentlelady from Tennessee.

Mrs. BLACKBURN. Thank you, Mr. Chairman. And thank you to all of you. I'm one of those that enjoys reading every single word that you have to say about government efficiency. And we have had a wonderful hearing this week in Tennessee. I see Mr. Williams there. He did a wonderful job as we talked about Medicaid erroneous payments and the TennCare program in Tennessee and some of the problems that exist there with waste, fraud, and abuse. And just reading through your statements and looking at some of the things that are before us, I wanted to see if possibly you all were amenable to looking at some outcome-based scrutiny or a project similar to what the Mercedes Institute is doing, where you would actually go in and place some statistical calculations on the expenditures and the outcomes and see where the greatest efficiencies are being achieved?

And I will offer this question to the panel, and whomever would like to respond, I certainly would be interested in hearing your response, because I believe that it is time that we have a discussion on what the priorities of government ought to be. I think it is time that we have a discussion on where our emphasis should be and what 21st century government ought to look like and how it ought to perform and the business model that should be followed. And

this should be systemwide. I think many of the problems that we have with process and procedure are systemic. We find them in every single department. We hear them time and again from individuals that come before us. I'm simply asking a question as to what your thoughts would be on some kind of outcome-based scrutiny. And, to whomever. Thank you, sir.

Mr. POSNER. I can just start the discussion, because I think it's a very important area that you are talking about now. As you know, the Government Performance and Results Act for 10 years has been pushing us in this direction. We are getting a better infrastructure of data. Where agencies were 10 years ago, GAO would go in and often have to create our own data sets to answer some very simple questions about what the program was accomplishing because the data simply wasn't there. We are seeing much better data now being kept, agencies holding themselves accountable and performance plans for at least outputs. Outcomes are a little more difficult sometimes, because often with what we do at the Federal level, we don't have direct influence on those when we are working through States and local governments and things like that. So we have to develop more sophisticated measures to gauge our impact.

I think what we have to start doing is not only improve the measures and the data, like Mercedes has been doing and like the agencies are doing, but really reach the second stage, which is integrating what we are getting into the decisionmaking process. Not only in the budget process, but in the personnel assessment process, in the way the agencies manage their States, you know, the relationships with the States, implementing things that EPA has called performance-based partnerships, where a State and the agency would agree on a set of goals, outcome goals. And if there's a shortfall and you can't explain it, there would be some funding consequence.

That's the way you not only, as you say, create outcome-based measures, but also create outcome-based government that uses those measures as a basis for making decisions and implementing programs. And I think it is a very important area that you are addressing here, and one that—we are on the right track, but we have a long way to go.

Mrs. BLACKBURN. OK.

Mr. MCFARLAND. I might suggest that the President's Council on Integrity and Efficiency, which, as you know, is the flagship for the IG's. It's an advisory group. Part of the charter for the PCIE is that we do governmentwide projects in addition to our own specific agencies. So possibly that would be a forum whereby such a study or a concept could be looked at.

Mrs. BLACKBURN. OK. I appreciate those thoughts and comments. I'm one of those that feels that, possibly, if we did, if we placed a greater emphasis on a project such as outcome-based scrutiny, if we spent a little bit more time with the data that has been input and doing some statistical calculations as to where we are arriving at some efficiencies and what is beginning to yield some benefits, that it may go a long way in helping to achieve what would be the goals of the President's Management Agenda or of GPRA. Sometimes it takes an action to fast-start a process. And for those

of us who feel like GPRA is far enough down the road that it should be beginning to yield some results, not just yielding information that can be integrated into other information that we have, that we should be beginning to see some results. And I think that the taxpayers of this country are growing weary of not having some quantifiables to which we can point.

And I see my time has expired, and I thank you all very much. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Mr. McFarland, what changes could we make in the False Claims Act that could, in your opinion, result in better recoveries for the government?

Mr. MCFARLAND. As I mentioned before, Mr. Davis, I don't think that there are any particular changes that are necessary in the False Claims Act. I think the aggressive pursuit of that in the different agencies would be very beneficial. I know we certainly deal with that all the time in our office. And we find that it's a successful tool for our purposes. But I don't know of any additional suggestions to enhance that. I think it's sufficient the way it is.

Chairman TOM DAVIS. OK. So no statutory changes? The law is there, it's just that we need to do a better job of enforcing it?

Mr. MCFARLAND. Exactly, sir.

Chairman TOM DAVIS. In your testimony, you indicated that health care providers, including pharmacy benefit managers, are the source of the greatest amount of abuse in the health benefits program, but that such abuse is very difficult to detect. Complicating the IG's efforts to investigate claims of abuse against health care providers is the fact that you don't have the authority to audit them.

Mr. MCFARLAND. That's correct.

Chairman TOM DAVIS. If the IG were given such authority, could that significantly affect the recovery of fraudulent claims in that area?

Mr. MCFARLAND. Yes, no question that it would.

Chairman TOM DAVIS. OK. Mr. Posner, data sharing could help programs ensure that only legitimate beneficiaries receive Federal benefits. Are there any legislative changes that come there? Is this basically an executive branch——

Mr. POSNER. No. I think there are legislative changes that, as I said, there are a number of agencies that by law are not allowed to have taxpayer data or the Office of Child and Support Enforcement New Hires Registry, which is a relatively new data source from the Child Support Enforcement changes under TANF. And that, in particular, is a prized data set that Federal agency benefit administrators would like to be able to access. That will require law changes as well; access, for example, by the Department of Education to the IRS data will require changes in laws. And as well the opportunity for more leadership at the central level.

Chairman TOM DAVIS. One of your recommendations for eliminating disbursement of Federal payments to individuals and businesses owing delinquent taxes is for Congress to enact the provisions of OMB Circular A–129, which precludes agencies from allowing individuals or businesses to participate in Federal credit pro-

grams if they owe money to the Federal Government; that makes sense.

If we were to enact this measure, any estimate of what this could save the Federal Government?

Mr. POSNER. Not right at this point. I don't know if we could generate that. I know that we did a sample back several years ago identifying 1,700 recipients from SBA's loan programs that were tax delinquent that nonetheless got their loans. But, no, we don't have that information at this point.

Chairman TOM DAVIS. OK. Any other ideas where Congress can play the more vital role in identifying opportunities for reducing the overlap and duplication?

Mr. POSNER. Well——

Chairman TOM DAVIS. You talked about Congressional Performance Resolutions.

Mr. POSNER. Yes. The Congressional Performance Resolutions are the notion we have come up with which really builds on the governmentwide performance plan where we think most of the key issues are governmentwide or multi-agency in nature and no one is addressing them. PART doesn't address them, PART is program-specific. The GPRA is agency-specific. So the perspective of this committee needs to be institutionalized in this process. One notion we had, just like in 1974 when the President was the one who proposed the budget and Congress just abrogated it, we developed a budget process to consider the whole. And we're talking about that for Congress on performance. Particularly with the PART process, as the OMB continues to look at these programs, they are looking at the programs and making their own judgments. They're selecting the programs based on their criteria, and we are doing a study for Mr. Platts's subcommittee on this very program.

But Congress needs to get in the act of identifying its oversight and performance priorities and concerns, possibly on an annual basis. We saw a little bit of this process play out in Arizona when they went to a biennial budget. One of the things they did is they developed a leadership-driven process to identify the major performance concerns they wanted to address in a given year of a legislative session. And all the committees who had jurisdiction were required to work on those priorities. And that was based on performance data from the agencies and reports from auditors. This is one of those things that I think we need to talk more about and work on, but it seemed to us that one of the things missing from the performance management approach was this cross-cutting perspective.

Chairman TOM DAVIS. If you could do two or three things where we could quickly try to get some money in, what would you prioritize?

Mr. POSNER. Oh, boy.

Chairman TOM DAVIS. Tax revenue?

Mr. POSNER. I think the tax side would be one that would really be quite productive in terms of that investment that we were talking about. I think data sharing, putting more information in the hands of more program administrators with proper controls for privacy, would be another, including the loan area. Those are two, certainly, that come to mind. And also I think the bigger dollars and

the more important activities are really the slower ones to rule out. Reorganization, consolidation, those are things obviously you are not going to get the quick hit on, but those are areas where—the Federal Employee Compensation Program is another one—where a formula change was scored by CBO when we did this last year as saving funds fairly quickly.

Chairman TOM DAVIS. OK. Mr. McFarland, do you have an answer to that question? Three quick things you'd try to get?

Mr. MCFARLAND. Well, I believe that data sharing, for us, has been very successful. I think a primary example of this is the coordination of benefits that we're doing with our office and the health field. We have been able to identify on a global basis recently $20 million that we did in 6 months; otherwise, if we'd have gone our normal way over the years, it would have been closer to 3 years before we accomplished that. So I think that in itself is very important. Along with that, of course, is extreme protection of that information.

Chairman TOM DAVIS. OK. Those are my questions. Any other questions, Mr. Ruppersberger?

Mr. RUPPERSBERGER. No.

Chairman TOM DAVIS. Well, if not, let me just say to this panel, thank you very much for taking time from your busy schedules to appear today. You have given us a lot of food for thought. We are under a mandate from the Budget Committee and the leadership to look at savings and this has been very, very helpful in terms of identifying some of them so we thank you very much. Thank you. The committee stands adjourned.

[Whereupon, at 11:24 a.m., the committee was adjourned.]

[Additional information submitted for the hearing record follows:]

(Mr. PALLONE addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. CULBERSON) is recognized for 5 minutes.

(Mr. CULBERSON addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York (Mr. HINCHEY) is recognized for 5 minutes.

(Mr. HINCHEY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

AUTHORIZING COMMITTEE TARGETS FOR THE ELIMINATION OF WASTE, FRAUD, AND ABUSE IN GOVERNMENT PROGRAMS SUBMITTED BY THE CHAIRMAN OF THE COMMITTEE ON THE BUDGET

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Iowa (Mr. NUSSLE) is recognized for 5 minutes.

Mr. NUSSLE. Mr. Speaker, I submit for printing in the CONGRESSIONAL RECORD targets for the elimination of waste, fraud and abuse in Government programs under the authority of Section 301 of H. Con. Res. 95, the Concurrent Resolution on the Budget for Fiscal Year 2004 (H. Rept. 108–71).

Section 301 of the budget resolution requires House and Senate authorizing committees to submit findings to the Committees on the Budget that provide for the elimination of waste, fraud and abuse in programs under their jurisdiction. The level of savings to be achieved by each committee was left unspecified in the budget resolution; the Chairmen of the Committees on the Budget were directed to submit those levels of savings for publication in the RECORD subsequent to adoption of the budget resolution.

The following savings targets, which are consistent with the level of savings expected from Senate authorizing committees, represent the minimum expectations for cost reductions derived from the improvement of economy, efficiency, and effectiveness of programs within the jurisdiction of each House committee. The publication of these targets does not represent a level of programmatic reductions ("cuts") mandated by the Committees on the Budget, but rather a recommendation that the committees of jurisdiction find efficiencies equal to 1 percent of the net cost of the programs within their jurisdiction through the elimination of waste, fraud, and abuse.

TARGETS FOR THE ELIMINATION OF WASTE, FRAUD AND ABUSE UNDER SECTION 301 OF THE BUDGET RESOLUTION BY HOUSE AUTHORIZING COMMITTEE

[By fiscal year, in billions of dollars]

	2004	2004–08	2004–13	Total mandatory spending in budget resolution
Agriculture:				
BA	−0.495	−2.572	−5.254	525.250
Outlays	−0.455	−2.396	−4.945	494.464
Armed Services:				
BA	−0.779	−4.202	−9.179	918.038
Outlays	−0.777	−4.195	−9.165	916.462
Education and the Workforce:				
BA	−0.205	−1.144	−2.513	251.767
Outlays	−0.197	−1.103	−2.431	243.590
Energy and Commerce:				
BA	−1.802	−10.583	−26.512	2,649.002
Outlays	−1.815	−10.594	−26.523	2,650.184
Financial Services:				
BA	−0.072	−0.380	−0.751	75.044
Outlays	−0.018	−0.061	−0.095	2.817
Government Reform:				
BA	−0.827	−4.436	−9.998	999.817
Outlays	0.832	−4.423	−9.859	985.880
House Administration:				
BA	−0.002	−0.010	−0.020	2.112
Outlays	−0.004	−0.012	−0.024	2.334
International Relations:				
BA	−0.100	−0.599	−1.299	128.833
Outlays	−0.119	−0.563	−1.181	118.132
Judiciary:				
BA	−0.072	−0.318	−0.652	65.225
Outlays	−0.065	−0.319	−0.644	64.444
Resources:				
BA	−0.033	−0.158	−0.314	32.724
Outlays	−0.030	−0.149	−0.297	30.646
Science:				
BA	—	—	—	0.341
Outlays	−0.001	−0.003	−0.003	0.513
Small Business:				
BA	—	—	—	0.006
Outlays	—	—	—	n.a.
Transportation and Infrastructure:				
BA	−0.491	−2.689	−5.484	649.539
Outlays	−0.143	−0.763	−1.578	157.850
Veterans' Affairs:				
BA	−0.342	−1.833	−3.864	386.551
Outlays	−0.340	−1.825	−3.850	384.941
Ways and Means:				
BA	−5.495	−30.411	−71.329	7,616.989
Outlays	−5.517	−30.467	−71.428	7,625.699
Total:				
BA	−10.715	−59.396	−137.159	14,292.298
Outlays	−10.293	−56.873	−137.023	13,677.880

Note.—Section 301(c) of H. Con. Res. 95 does not include the House Select Committee on Intelligence.
"—" means less than $500,000.

I look forward to working with House committees in the future development of legislative initiatives to ensure the delivery of Government programs in the most cost-effective manner.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Illinois (Mr. LIPINSKI) is recognized for 5 minutes.

(Mr. LIPINSKI addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Oregon (Mr. DEFAZIO) is recognized for 5 minutes.

(Mr. DEFAZIO addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. SHERMAN) is recognized for 5 minutes.

(Mr. SHERMAN addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from the District of Columbia (Ms. NORTON) is recognized for 5 minutes.

(Ms. NORTON addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from Ohio (Ms. KAPTUR) is recognized for 5 minutes.

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May 20, 2003

The Honorable Tom Davis
Chairman
Committee on Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Davis:

Controlling Government spending is still the key to fiscal responsibility and a balanced budget. This requires a unified effort by congressional committees, with the support of the congressional Leadership. The most visible opportunities for addressing Government spending lie in the waste, fraud, and abuse that continue to pervade Government programs.

The Conference Report accompanying the budget resolution for fiscal year 2004 (Report 108-71) requires House and Senate authorizing committees to identify means of eliminating waste, fraud, and abuse in mandatory spending programs (programs not subject to annual appropriations) in their jurisdictions. The committees are to submit, to their respective Budget Committees, findings as to the changes in law needed to eliminate specified amounts of waste, fraud, and abuse. This letter describes the procedures we would like you to follow in this effort.

- **Target Levels:** In accordance with the fiscal year 2004 budget resolution, the Budget Committee Chairman is required to specify for each committee an amount of savings that it should strive to identify by eliminating of waste, fraud, and abuse. This amount, and the target for every other authorizing committee, is based on 1 percent of the total level of mandatory spending under each committee's jurisdiction for fiscal year 2004. These amounts in no way imply that waste, fraud, and abuse are evenly distributed across all Federal programs. It is expected that the authorizing committee will draw the savings from only those programs and areas in which waste, fraud, and abuse are most egregious and amendable to changes in public policy.

  As assumed in the current budget resolution, total mandatory budget authority under your committee's jurisdiction is 999.817 billion over 10 years. Based on that figure, your 1-percent amount would translate to -.827 billion in fiscal year 2004, -4.496 billion over 2004-08, and -9.998 billion over 2004-13.

- **Process for Developing and Reporting Findings:**

  - *Hearings* - Each committee should conduct one or more hearings as part of this effort. Should a committee fail to meet this requirement, the Budget Committee will have the discretion to hold one or more hearings in its place.

  - *Form of Findings* - Findings for each instance of waste, fraud, or abuse should include: 1) identification of the problem; 2) the approximate amount of cost to the Federal budget due to the problem; and 3) the changes in law needed to correct the problem.

  - *Communications* - As always, public awareness and understanding of this effort will be critically important. The Budget Committee communications staff will help coordinate a variety of activities – including television and radio appearances, articles in magazines and other publications, coalition outreach, town hall meetings, electronic media such as web sites, and so on – to supplement your own public information efforts. You are welcome to contact the Budget Committee staff for more information concerning this part of the process.

  - *Process for Reporting Findings* - Committees should be required to report their findings in a manner similar to that of their Views and Estimates on the Federal budget. That is, the findings should be marked up in the same fashion as Views and Estimates. Committee minorities also would be allowed to include dissenting views on the findings of waste, fraud, and abuse. The report is to be submitted no later than 2 September 2003, as called for in the budget conference report. Therefore, committee should plan to mark up before the summer recess, which is scheduled to begin on 28 July.

We all know there is waste, fraud, and abuse in Government programs – and the public knows it too. If we truly believe in controlling Government spending, surely our first step ought to be going after the kind of wasteful spending that should never happen in the first place.

The Budget Committee stands ready to assist you as you carry out this important project. The attached document lists each of the Budget Committee's analysts. If we can be of any assistance, please contact the Budget Committee at 6-7270.

Also attached is a timetable for reporting the findings.

Sincerely,

Jim Nussle
Budget Committee Chairman

Enclosures: 2

Tentative Timeline and Key Dates

May 13	Announce Plan to Committee Chairmen at Chairmen Meeting
May 19-23	Announce Plan to Entire Conference at Conference Meeting
	File Target Levels in Congressional Record
	Conduct Public Information Event (invite all Chairmen to participate)
May 26-July 25	Committees Conduct Hearings and Begin Developing Reports
	Members and Staff Implement Corresponding Communication Activities
	Committees Complete Hearings and Take Formal Action on Report
August	Committees Complete Reports
September 2	Reports are Formally Submitted to the Budget Committee
September 3	Leadership, Budget Committee Chairman, and Other Committee Chairmen Hold Press Conference on Findings
	Findings Are Submitted to Office of Management and Budget
	Findings Are Displayed on the Budget Committee Website
September-End of Year	Findings Are Openly Discussed in Hearings and Other Public Events

BUDGET COMMITTEE ANALYSTS

All analysts can be reached by calling 6-7270

Mike Lofgren ..... National Defense

Bret Coulson ..... International Affairs, Transportation

Roger Mahan ..... Housing and Welfare

Chuck Berwick ..... Agriculture and Environment

Ed Puccerella ..... Science, General Government

Peter Warren ..... Education and Labor

Jason McKitrick ..... Medicare

Jim Cantwell ..... Medicaid and Other Health Programs

Otto Mucklo ..... Justice

Note: If you cannot identify an analyst corresponding to your needs, please contact Patrick L. Knudsen, Policy Director.

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(202) 226-7200

1 July 2003

The Honorable Tom Davis
Chairman
Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Davis:

With the September 2nd deadline for submission of waste, fraud, and abuse reports just two months away, the response by authorizing committees has been highly encouraging. A few examples:

- The recently passed Medicare bill includes provisions aimed at reducing unjustified overpayments for prescription drugs and durable medical equipment.
- The Ways and Means Subcommittee on Human Resources has begun investigating fraud and abuse in unemployment insurance.
- The Energy and Commerce Committee has sent a questionnaire to the States to make sure their handling of Medicaid payments is proper.
- Following revelations of fugitive felons collecting veterans' benefits, and no-show part-time VA doctors, the Veterans Affairs Committee has continued investigating these and other abuses with the General Accounting Office and the VA Inspector General.
- The administration's Office of Management and Budget has also joined the effort, directing Government agencies to reduce and recover erroneous overpayments.

These are only a few examples. Other committees are taking important steps as well.

To help support the progress being made, this letter is intended simply as a reminder about the remaining steps in the effort.

- A number of committees have already had success with hearings on this subject. It is hoped that they will continue these or other investigations in July, and that the other committees will follow suit as well.

- By no later than early August, committees will want to begin preparing reports of their findings. As noted in our previous letter, findings for each instance of waste, fraud, or abuse should include: 1) identification of the problem; 2) the approximate amount of cost to the Federal budget due to the problem; and 3) the changes in law needed to correct the problem.

  Committees seeking a further description of the recommended form for their findings may contact the appropriate budget analyst at the Budget Committee, at 6-7270. (Several committees already have done so.)

- According to the schedule, reports are to be submitted to the Budget Committee by no later than 2 September.

Again, the response so far has been encouraging; and we look forward to working with you to complete the process. If you have any additional questions, please feel free to contact Rich Meade, the Budget Committee Chief of Staff, at 6-7270.

Sincerely,

Jim Nussle
Chairman

COMMITTEE ON THE BUDGET

Majority Caucus
U.S. House of Representatives
Jim Nussle, *Chairman*

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House Budget Committee
FACT SHEET

Contact: Sean Spicer -- 202-226-9844
July 15, 2003

FACT SHEET

Today, the Office of Management and Budget released its Mid-Session Review, which is an assessment of current budget and economic conditions, and the policies being enacted by the President and Congress.

Key facts:

Budget projections (in $ billions)	FY03	FY04	FY05	FY06	FY07	FY08	FY04-08
Mid Session Review	- 455	- 475	- 304	- 238	- 213	- 226	- $1,456
Feb. budget submission	-304	-307	-208	-201	-178	-190	-$1,084

- ***These Are Spending-Driven Deficits*** – Out-of-control government spending is the issue. The government only borrows money to cover excess spending. Further, all spending is paid for either through taxes or borrowing (deficits) – and both can burden the economy.

- ***Deficits Do Matter*** - Under normal circumstances, balancing the budget is still the most reliable way of measuring whether today's government spending is under control:
  - That's why we wrote and passed a budget plan that gets us back to balance, and why we're working to control spending.
  - The President and Members of Congress knew the spending choices we've made in the past 2½ years would put the budget in deficit for a time. Balance is a top priority, but not our only priority: Protecting Americans at home and abroad, and ensuring that they can support themselves and their families supercedes all other priorities.

- ***The Deficits Must Be Seen in Perspective*** - The current deficit may be the largest in nominaldollar terms, but as a share of the economy (as a percentage of GDP) it is not. At 4.2% of GDP, it is well below the 1983 peak of 6%. This is not a justification for deficits; it is simply a way of keeping the current problem in perspective.

- ***We Can't Spend Our Way Out of Deficit*** – Some have claimed to be gravely concerned about the deficits, while at the same time demanding more spending and refusing to even discuss means of controlling spending. We can't have it both ways.

- ***Without the Tax Relief, the Economy Would Have Been Worse*** – Private forecasters, CBO, and the JCT all have estimated that the tax relief provides significant benefits to the economy in this year and in coming years, including higher real GDP, increased jobs, and lower unemployment.
  - Without the tax cuts of 2001, 2002, and 2003, the recession would have been

deeper, the unemployment rate higher, and the job losses greater.

- With the tax cuts, private forecasters are now expecting a return to higher GDP growth, increased jobs, and lower unemployment over the next year and a half; without the tax cuts, jobs losses would continue and the unemployment rate would be expected to rise further, peaking at near 7.8%.

- ***The Tax Cuts Did Not Cause the Deficits*** - The current and projected budget deficits resulted mainly from the economic slowdown and recession that began in mid-2000, and extraordinary spending demands of the past 2½ years – especially for fighting an international war against terrorism and strengthening homeland security. Add the urgent and necessary spending demands resulting from this triple-hit to the already steep rate of growth of government spending, combine it with the revenue loss from the economic recession (which alone erased 100% of the projected FY 2002 surplus), and we have deficits.