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Testimony

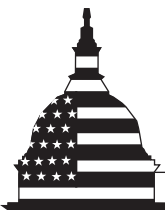
Before the House Committee on Oversight  
and Government Reform

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# Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue

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**G A O**

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Mr. Chairman, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to discuss our first annual report to Congress responding to a new statutory requirement that GAO identify federal programs, agencies, offices, and initiatives—either within departments or governmentwide—that have duplicative goals or activities.<sup>1</sup> This work will inform government policymakers as they address the rapidly building fiscal pressures facing our national government. Our annual simulations of the federal government’s fiscal outlook show continually increasing levels of debt that are unsustainable over time, absent changes in the federal government’s current fiscal policies.<sup>2</sup> Since the end of the recent recession, the gross domestic product has grown slowly and unemployment has remained at a high level. While the economy is still recovering and in need of careful attention, widespread agreement exists on the need to look not only at the near term but also at steps that begin to change the long-term fiscal path as soon as possible without slowing the recovery. With the passage of time, the window to address the fiscal challenge narrows and the magnitude of the required changes grows.

My testimony today is based on our March 1, 2011, report and addresses two key issues: (1) federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, the actions needed to address such conditions, and the potential financial and other benefits of doing so; and (2) other opportunities for potential cost savings or enhanced revenues.<sup>3</sup> The issues raised in the report were drawn from our prior and ongoing work. We conducted our work from February 2010 through February 2011 in accordance with generally accepted government auditing standards or with GAO’s quality assurance framework, as appropriate. For issues being reported on for the first time, we sought

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<sup>1</sup>Pub. L. No. 111-139, § 21, 124 Stat. 29 (2010), 31 U.S.C. § 712 Note.

<sup>2</sup>GAO, *The Federal Government’s Long-Term Fiscal Outlook: Fall 2010 Update*, GAO-11-201SP (Washington, D.C.: Nov. 15, 2010). Additional information on the federal fiscal outlook, federal debt, and the outlook for the state and local government sector is available at: [www.gao.gov/special.pubs/longterm/](http://www.gao.gov/special.pubs/longterm/).

<sup>3</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011). An interactive, Web-based version of the report is available at: <http://www.gao.gov/ereport/gao-11-318SP>

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comments from the agencies involved and incorporated those comments as appropriate.

We identified 81 areas for consideration—34 areas of potential duplication, overlap, or fragmentation as well as 47 additional cost-saving and revenue-enhancing areas. The 81 areas span a range of federal government missions such as agriculture, defense, economic development, energy, general government, health, homeland security, international affairs, and social services. Within and across these missions, our report touches on hundreds of federal programs, affecting virtually all major federal departments and agencies. By reducing or eliminating unnecessary duplication, overlap, or fragmentation and by addressing the other cost-saving and revenue-enhancing opportunities contained in the report, the federal government could yield tens of billions of tax dollars annually and help agencies provide more efficient and effective services. However, these actions will require some difficult decisions, and sustained attention by the administration and the Congress.

In some cases, there is sufficient information to estimate potential savings or other benefits if actions are taken to address individual issues. In other cases, estimates of cost savings or other benefits would depend upon what congressional and executive branch decisions were made, including how certain of our recommendations are implemented. Nevertheless, considering the amount of program dollars involved in the issues we have identified, even limited adjustments could result in significant savings. Additionally, information on program performance, the level of funding in agency budgets devoted to overlapping or fragmented programs, and the implementation costs that might be associated with program consolidations or terminations, are factors that could impact actions to be taken as well as potential savings.

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## Overlap and Fragmentation Can Indicate Unnecessary Duplication

We identified 34 areas where agencies, offices, or initiatives may have similar or overlapping objectives or may provide similar services to the same populations; or where government missions are fragmented across multiple agencies or programs (see table 1). Overlap and fragmentation among government programs or activities can be harbingers of unnecessary duplication. The areas identified below are not intended to represent the full universe of duplication, overlap, or fragmentation within the federal government. Our future work will examine other areas of government for potential duplication, overlap, and fragmentation.

**Table 1: Duplication, Overlap, or Fragmentation Areas Identified**

<b>Missions</b>	<b>Areas identified</b>	<b>Federal agencies and programs where duplication, overlap, or fragmentation may occur</b>
<b>Agriculture</b>	1. Fragmented <b>food safety</b> system has caused inconsistent oversight, ineffective coordination, and inefficient use of resources	The Department of Agriculture’s (USDA) Food Safety and Inspection Service and the Food and Drug Administration are the primary food safety agencies, but 15 agencies are involved in some way
<b>Defense</b>	2. Realigning <b>DOD’s military medical command</b> structures and consolidating common functions could increase efficiency and result in projected savings ranging from \$281 million to \$460 million annually	Department of Defense (DOD), including the Office of the Assistant Secretary for Health Affairs, the Army, the Navy, and the Air Force
	3. Opportunities exist for consolidation and increased efficiencies to maximize response to <b>warfighter urgent needs</b>	At least 31 entities within DOD
	4. Opportunities exist to avoid unnecessary redundancies and improve the coordination of <b>counter-improvised explosive device</b> efforts	The services and other components within DOD
	5. Opportunities exist to avoid unnecessary redundancies and maximize the efficient use of <b>intelligence, surveillance, and reconnaissance</b> capabilities	Multiple intelligence organizations within DOD
	6. A departmentwide acquisition strategy could reduce DOD’s risk of costly duplication in purchasing <b>tactical wheeled vehicles</b>	DOD, including Army and Marine Corps
	7. Improved joint oversight of DOD’s <b>prepositioning programs</b> for equipment and supplies may reduce unnecessary duplication	DOD including Air Force, Army, and Marine Corps
	8. <b>DOD business systems</b> modernization: opportunities exist for optimizing business operations and systems	About 2,300 investments across DOD
	<b>Economic development</b>	9. The efficiency and effectiveness of fragmented <b>economic development programs</b> are unclear
	10. The federal approach to <b>surface transportation</b> is fragmented, lacks clear goals, and is not accountable for results	Five agencies within the Department of Transportation (DOT); over 100 programs involved
	11. Fragmented federal efforts to meet <b>water needs</b> in the <b>U.S.-Mexico border region</b> have resulted in an administrative burden, redundant activities, and an overall inefficient use of resources	USDA, Commerce’s Economic Development Administration, Environmental Protection Agency (EPA), Department of Health and Human Services’ (HHS) Indian Health Service, Department of the Interior’s (Interior) Bureau of Reclamation, HUD, and the U.S. Army Corps of Engineers

Missions	Areas identified	Federal agencies and programs where duplication, overlap, or fragmentation may occur
Energy	12. Resolving conflicting requirements could more effectively achieve <b>federal fleet energy goals</b>	A number of agencies, including the Department of Energy (Energy) and the General Services Administration (GSA) play a role overseeing the governmentwide requirements
	13. Addressing duplicative federal efforts directed at increasing <b>domestic ethanol production</b> could reduce revenue losses by up to \$5.7 billion annually	EPA and the Department of the Treasury
General government	14. <b>Enterprise architectures</b> : key mechanisms for identifying potential overlap and duplication	Governmentwide
	15. Consolidating <b>federal data centers</b> provides opportunity to improve government efficiency and achieve significant cost savings	Twenty-four federal agencies
	16. Collecting improved data on <b>interagency contracting</b> to minimize duplication could help the government leverage its vast buying power	Governmentwide
	17. Periodic reviews could help identify ineffective <b>tax expenditures</b> and redundancies in related tax and spending programs, potentially reducing revenue losses by billions of dollars	Governmentwide
Health	18. Opportunities exist for <b>DOD</b> and <b>VA</b> to jointly modernize their <b>electronic health record systems</b>	DOD and the Department of Veterans Affairs (VA)
	19. <b>VA</b> and <b>DOD</b> need to control <b>drug</b> costs and increase <b>joint contracting</b> whenever it is cost-effective	DOD and VA
	20. HHS needs an overall strategy to better integrate nationwide <b>public health information systems</b>	Multiple agencies, led by HHS
Homeland security/Law enforcement	21. Strategic oversight mechanisms could help integrate fragmented interagency efforts to defend against <b>biological threats</b>	USDA, DOD, Department of Homeland Security (DHS), HHS, Interior, and others; more than two dozen presidentially appointed individuals with responsibility for biodefense
	22. DHS oversight could help eliminate potential duplicating efforts of interagency forums in <b>securing the northern border</b>	DHS and other federal law enforcement partners
	23. The Department of Justice plans actions to reduce overlap in <b>explosives investigations</b> , but monitoring is needed to ensure successful implementation	Department of Justice's Federal Bureau of Investigation and Bureau of Alcohol, Tobacco, Firearms and Explosives

<b>Missions</b>	<b>Areas identified</b>	<b>Federal agencies and programs where duplication, overlap, or fragmentation may occur</b>
	24. <b>TSA's security assessments</b> on commercial trucking companies overlap with those of another agency, but efforts are under way to address the overlap	DHS's Transportation Security Administration (TSA) and DOT
	25. DHS could streamline mechanisms for <b>sharing security-related information</b> with <b>public transit agencies</b> to help address overlapping information	Three information-sharing mechanisms funded by DHS and TSA
	26. <b>FEMA</b> needs to improve its oversight of <b>grants</b> and establish a framework for assessing capabilities to identify gaps and prioritize investments	DHS's Federal Emergency Management Agency (FEMA); 17 programs involved
<b>International affairs</b>	27. Lack of information sharing could create the potential for duplication of efforts between U.S. agencies involved in <b>development efforts in Afghanistan</b>	Principally DOD and the U.S. Agency for International Development
	28. Despite restructuring, overlapping roles and functions still exist at State's <b>Arms Control</b> and <b>Nonproliferation Bureaus</b>	Two bureaus within the Department of State (State)
<b>Social services</b>	29. Actions needed to reduce administrative overlap among <b>domestic food assistance</b> programs	USDA, DHS, and HHS; 18 programs involved
	30. Better coordination of federal <b>homelessness</b> programs may minimize fragmentation and overlap	Seven federal agencies, including Department of Education (Education), HHS, and HUD; over 20 programs involved
	31. Further steps needed to improve cost-effectiveness and enhance services for <b>transportation-disadvantaged</b> persons	USDA, DOT, Education, Interior, HHS, HUD, Department of Labor (Labor), and VA; 80 programs involved
<b>Training, employment, and education</b>	32. Multiple <b>employment</b> and <b>training</b> programs: providing information on colocating services and consolidating administrative structures could promote efficiencies	Education, HHS, and Labor, among others; 44 programs involved
	33. <b>Teacher quality</b> : proliferation of programs complicates federal efforts to invest dollars effectively	Ten agencies including DOD, Education, Energy, National Aeronautics and Space Administration, and the National Science Foundation; 82 programs involved
	34. Fragmentation of <b>financial literacy</b> efforts makes coordination essential	More than 20 different agencies; about 56 programs involved

Source: GAO-11-318SP.

As table 1 shows, many of the issues we identified are focused on activities that are contained within single departments or agencies. In those cases, agency officials can generally achieve cost savings or other benefits by implementing existing GAO recommendations or by undertaking new actions suggested in our March 1 report. However, a number of issues we

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have identified span multiple organizations and therefore may require higher-level attention by the executive branch or enhanced congressional oversight or legislative action. For example:

- *Teacher quality programs:* In fiscal year 2009, the federal government spent over \$4 billion specifically to improve the quality of our nation's 3 million teachers through numerous programs across the government. We identified 82 distinct programs designed to help improve teacher quality, either as a primary purpose or as an allowable activity, administered across 10 federal agencies. The proliferation of programs has resulted in fragmentation that can frustrate agency efforts to administer programs in a comprehensive manner, limit the ability to determine which programs are most cost effective, and ultimately increase program costs.

In 2009, we recommended that the Secretary of Education work with other agencies as appropriate to develop a coordinated approach for routinely and systematically sharing information that can assist federal programs, states, and local providers in achieving efficient service delivery. The Department of Education has established working groups to help develop more effective collaboration across Education offices, and has reached out to other agencies to develop a framework for sharing information on some teacher quality activities, but it has noted that coordination efforts do not always prove useful and cannot fully eliminate barriers to program alignment, such as programs with differing definitions for similar populations of grantees, which create an impediment to coordination.

Congress could help eliminate some barriers through legislation, particularly through the pending reauthorization of the Elementary and Secondary Education Act of 1965 and other key education bills. Specifically, to minimize any wasteful fragmentation and overlap among teacher quality programs, Congress may choose either to eliminate programs that are too small to evaluate cost effectively or to combine programs serving similar target groups into a larger program. Education has already proposed combining 38 programs into 11 programs in its reauthorization proposal, which could allow the agency to dedicate a higher portion of its administrative resources to monitoring programs for results and providing technical assistance.

- *Military health system:* The responsibilities and authorities for the Department of Defense's (DOD) military health system are distributed among several organizations within DOD with no central command authority or single entity accountable for minimizing costs and achieving efficiencies. Under the military health system's current command structure,

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the Office of the Assistant Secretary of Defense for Health Affairs, the Army, the Navy, and the Air Force each has its own headquarters and associated support functions. Annual military health system costs have more than doubled from \$19 billion in fiscal year 2001 to \$49 billion in 2010 and are expected to increase to over \$62 billion by 2015.

DOD has made varying levels of progress in implementing limited actions to consolidate certain common administrative, management, and clinical functions. However, to reduce duplication in its command structure and eliminate redundant processes that add to growing defense health care costs, DOD could take action to further assess alternatives for restructuring the governance structure of the military health system. A May 2006 report by the Center for Naval Analyses showed that if DOD and the services had chosen to implement one of the three larger-scale alternative concepts studied by DOD, the department could have achieved significant savings. Our adjustment of those projected savings into 2010 dollars indicates those savings could range from \$281 million to \$460 million annually depending on the alternative chosen and numbers of military, civilian, and contractor positions eliminated. DOD officials said that they generally agreed with the facts and findings in our analysis.

- *Federal data centers:* According to the Office of Management and Budget (OMB), the number of federal data centers grew from 432 in 1998 to more than 2,000 in 2010. These data centers often house similar types of equipment and provide similar processing and storage capabilities, raising concerns about the provision of redundant capabilities, the underutilization of resources, and the significant consumption of energy. While the total annual federal spending associated with data centers has not yet been determined, the Federal Chief Information Officer has found that operating data centers is a significant cost to the federal government, including hardware, software, real estate, and cooling costs. For example, according to the Environmental Protection Agency, the electricity cost to operate federal servers and data centers across the government is about \$450 million annually.

In February 2010, OMB launched the Federal Data Center Consolidation Initiative to guide federal agencies in developing and implementing data center consolidation plans. As part of this initiative, OMB directed federal agencies to prepare an inventory of their data center assets and a plan for consolidating these assets by August 30, 2010, and to begin implementing them in fiscal year 2011. Moving forward, it will be important for individual agencies to move quickly to correct any missing items in their data center consolidation plans, establish sound baselines so that progress



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and efficiencies can be measured, begin their consolidation efforts, track their progress, and report to OMB on their progress over time. Sustained monitoring by Congress could help ensure progress is realized.

- *DOD and VA electronic health record systems:* Although DOD and the Department of Veterans Affairs (VA) have many common health care business needs, the departments have separate efforts to modernize their electronic health record systems. Specifically, DOD has obligated approximately \$2 billion over the 13-year life of its Armed Forces Health Longitudinal Technology Application and requested \$302 million in fiscal 2011 year funds for a new system. For its part, VA reported spending almost \$600 million from 2001 to 2007 on eight projects as part of its Veterans Health Information Systems and Technology Architecture modernization. In April 2008, VA estimated an \$11 billion total cost to complete the modernization by 2018.

Efforts by the departments to jointly identify and develop common information technology solutions to address their mutual health care needs could result in system development and operation cost savings while supporting higher-quality health care for service members and veterans. We identified several actions that DOD and VA could take to overcome barriers they face in modernizing their electronic health record systems, including revising the departments' joint strategic plans and defining and implementing a process for identifying and selecting joint information technology investments. Officials from both DOD and VA agreed with these recommendations.

- *Domestic ethanol production:* Congress supported domestic ethanol production through a \$5.4 billion tax credit program in 2010 and through a renewable fuel standard that applies to transportation fuels used in the United States. The ethanol tax credit and the renewable fuel standard can be duplicative in stimulating domestic production and use of ethanol, and can result in substantial loss of revenue to the Treasury. The ethanol tax credit was recently extended at 45 cents per gallon through December 31, 2011. The tax credit will cost \$5.7 billion in forgone revenues in 2011. Because the fuel standard allows increasing annual amounts of conventional biofuels through 2015, which ensures a market for a conventional corn starch ethanol industry that is already mature, Congress may wish to consider whether revisions to the ethanol tax credit are needed, such as reducing, modifying, or phasing out the tax credit.
- *Interagency and agencywide contracts:* Agencies have created numerous interagency and agencywide contracts using existing statutes, the Federal Acquisition Regulation, and agency-specific policies. With the proliferation

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of these contracts, however, there is a risk of unintended duplication and inefficiency. Interagency and agencywide contracting was responsible for at least \$54 billion of the approximately \$540 billion that was obligated governmentwide for goods and services in fiscal year 2009. However, the federal government does not have a clear, comprehensive view of whether these contracts are being utilized in an efficient and effective manner. In addition, agencies may be unaware of existing contract options that could meet their needs and may be awarding new contracts when use of an existing contract would suffice.

Government contracting officials and representatives of vendors have expressed concerns about potential duplication among the interagency and agencywide contracts across government. Some vendors stated they offer similar products and services on multiple contracts and that the effort required to be on multiple contracts results in extra costs to the vendor, which they pass to the government through increased prices. Some vendors stated that the additional cost of being on multiple contracts ranged from \$10,000 to \$1,000,000 per contract due to increased bid and proposal and administrative costs.

Requiring business case analyses for new multiagency and agencywide contracts and ensuring agencies have access to up-to-date and accurate data on the available contracts will promote the efficient use of interagency and agencywide contracting and, by reducing the costs associated with duplicate contracts, help the government better leverage its purchasing power when buying commercial goods and services. OMB reported in August 2010 that it planned to issue overarching guidance that would address the need for agencies to prepare business cases describing the need for a new multiagency or agencywide contract, the value added by its creation, and the agency's suitability to serve as an executive agent. Additionally, improvements are still needed regarding the accuracy of the federal contracts database in order to determine whether the contracts are being used in an efficient and effective manner. Continued congressional oversight of this issue is warranted.

- *Domestic food assistance:* The federal government spent more than \$62.5 billion on 18 domestic food and nutrition assistance programs in fiscal year 2008. Programs' spending ranged from \$4 million for the smallest program to more than \$37 billion for the largest. The Department of Agriculture's (USDA) Food and Nutrition Service oversees most of these programs—including the five largest. These programs help ensure that millions of low-income individuals have consistent, dependable access to enough food for an active, healthy life. However, we have found that some

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of these programs provide comparable benefits to similar or overlapping populations which can lead to inefficient use of federal funds, duplication of effort, and confusion among those seeking services. For example, individuals eligible for groceries through the Commodity Supplemental Food Program are also generally eligible for groceries through the Emergency Food Assistance Program and for targeted benefits that are redeemed in authorized stores through the largest program, the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program). In addition, most of the 18 programs have specific and often complex legal requirements and administrative procedures that often require applicants who seek assistance from multiple programs to submit separate applications for each program and provide similar information which can create unnecessary work for both providers and applicants and may result in the use of more administrative resources than needed. Additionally, little is known about the effectiveness of 11 of the 18 programs because they have not been well studied.

In April 2010, we recommended that USDA identify and develop methods for addressing potential inefficiencies and reducing unnecessary overlap among its smaller food assistance programs while ensuring that those who are eligible receive the assistance they need. To date, USDA has not taken action on this recommendation. One of the possible methods for reducing program inefficiencies would entail USDA broadening its efforts to simplify, streamline, or better align eligibility procedures and criteria across programs to the extent that it is permitted by law. Such efforts could result in sizable administrative cost savings since they are a large part of program costs. In addition, options such as consolidating or eliminating overlapping programs have the potential to reduce administrative costs but may not reduce spending on benefits unless fewer individuals are served as a result

- *Employment and training programs:* In fiscal year 2009, 47 federal employment and training programs spent about \$18 billion to provide services, such as job search and job counseling, to program participants. Most of these programs are administered by the Departments of Labor, Education, and Health and Human Services (HHS). We found that 44 of the 47 programs overlap with at least one other program in that they provide at least one similar service to a similar population. Our review of three programs among the largest—Temporary Assistance for Needy Families (TANF), Employment Service, and Workforce Investment Act (WIA) Adult programs—found that they provide some of the same services to the same population through separate administrative structures. Although the extent to which individuals receive the same services from these programs is unknown due to limited data, these programs maintain parallel

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administrative structures to provide some of the same services such as job search assistance to low-income individuals.

At the state level, the TANF program (which also provides a wide range of other services) is typically administered by the state human services or welfare agency, while the Employment Service and WIA Adult programs are typically administered by the state workforce agency and provided through one-stop centers. Agency officials acknowledged that greater efficiencies could be achieved in delivering services through these programs but said factors such as the number of clients that any one-stop center can serve and one-stop centers' proximity to clients, particularly in rural areas, could warrant having multiple entities provide the same services. Colocating services and consolidating administrative structures may increase efficiencies and reduce costs, but implementation can be challenging.

Some states have colocated TANF employment and training services in one-stop centers where Employment Service and WIA Adult services are provided. Three states—Florida, Texas, and Utah—have gone a step further by consolidating the agencies that administer these programs, and state officials said this reduced costs and improved services, but they could not provide a dollar figure for cost savings. States and localities may face challenges to colocating services, such as limited office space. In addition, consolidating administrative structures may be time consuming and any cost savings may not be immediately realized.

To facilitate further progress by states and localities in increasing administrative efficiencies in employment and training programs, we recommended in 2011 that the Secretaries of Labor and HHS work together to develop and disseminate information that could inform such efforts. As part of this effort, Labor and HHS should examine the incentives for states and localities to undertake such initiatives, and, as warranted, identify options for increasing such incentives. Labor and HHS agreed they should develop and disseminate this information. HHS noted that it lacks legal authority to mandate increased TANF-WIA coordination or create incentives for such efforts. Sustained oversight by Congress could help ensure progress is realized.

## Opportunities Exist for Other Cost Savings or Revenue Enhancements

Given today’s fiscal environment, our work summarizes 47 additional areas—beyond those directly related to duplication, overlap, or fragmentation—describing other opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections for the Treasury. These cost-saving and revenue-enhancing opportunities also span a wide range of federal government agencies and mission areas (see table 2).

**Table 2: Federal Agencies and Programs Where Cost-Saving or Revenue-Enhancement Opportunities May Exist**

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Agriculture	35. Reducing some <b>farm program payments</b> could result in savings from \$800 million over 10 years to up to \$5 billion annually	Department of Agriculture
Defense	36. DOD should assess costs and benefits of <b>overseas military presence</b> options before committing to costly personnel realignments and construction plans, thereby possibly saving billions of dollars	DOD
	37. Total compensation approach is needed to manage significant growth in <b>military personnel costs</b>	DOD
	38. Employing best management practices could help DOD save money on its <b>weapon systems acquisition programs</b>	DOD
	39. More efficient management could limit future costs of <b>DOD’s spare parts</b> inventory	DOD, including the military services and Defense Logistics Agency
	40. More comprehensive and complete cost data can help DOD improve the cost-effectiveness of <b>sustaining weapon systems</b>	DOD
	41. Improved <b>corrosion prevention</b> and control practices could help DOD avoid billions in unnecessary costs over time	DOD’s Office of Corrosion Policy and Oversight
Economic development	42. Revising the <b>essential air service</b> program could improve efficiency and save over \$20 million annually	Department of Transportation
	43. Improved design and management of the <b>universal service fund</b> as it expands to support broadband could help avoid cost increases for consumers	Federal Communications Commission; four programs involved
	44. The <b>Corps of Engineers</b> should provide Congress with project-level information on <b>unobligated balances</b>	U.S. Army Corps of Engineers

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Energy	45. Improved management of federal <b>oil and gas resources</b> could result in approximately \$1.75 billion over 10 years	Department of the Interior's Bureau of Land Management, Bureau of Ocean Energy Management, Regulation and Enforcement, and Office of Natural Resources Revenue
General government	46. Efforts to address <b>governmentwide improper payments</b> could result in significant cost savings	About 20 federal agencies; over 70 programs involved
	47. Promoting <b>competition</b> for the over \$500 billion in <b>federal contracts</b> can potentially save billions of dollars over time	Governmentwide
	48. Applying <b>strategic sourcing</b> best practices throughout the federal procurement system could save billions of dollars annually	Governmentwide
	49. Adherence to new guidance on <b>award fee contracts</b> could improve agencies' use of award fees and produce savings	Several agencies, including DOD and the National Aeronautics and Space Administration
	50. Agencies could realize cost savings of at least \$3 billion by continued disposal of <b>unneeded federal real property</b>	Governmentwide, including DOD, General Services Administration (GSA), and Department of Veterans Affairs
	51. Improved cost analyses used for making <b>federal facility ownership and leasing</b> decisions could save tens of millions of dollars	Primarily GSA, the central leasing agent for most agencies
	52. The Office of Management and Budget's <b>IT Dashboard</b> reportedly has already resulted in \$3 billion in savings and can further help identify opportunities to invest more efficiently in information technology	Governmentwide
	53. Increasing <b>electronic filing of individual income tax returns</b> could reduce IRS's processing costs and increase revenues by hundreds of millions of dollars	Department of the Treasury's (Treasury) Internal Revenue Service (IRS)
	54. Using <b>return on investment</b> information to better target IRS enforcement could reduce the tax gap; for example, a 1 percent reduction would increase tax revenues by \$3 billion	IRS
	55. Better management of <b>tax debt collection</b> may resolve cases faster with lower IRS costs and increase debt collected	IRS
	56. Broadening IRS's authority to correct <b>simple tax return errors</b> could facilitate correct tax payments and help IRS avoid costly, burdensome audits	IRS
	57. Enhancing <b>mortgage interest information</b> reporting could improve tax compliance	IRS

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
	58. More information on the types and uses of canceled debt could help IRS limit revenue losses on <b>forgiven mortgage debt</b>	IRS
	59. Better information and outreach could help increase revenues by tens or hundreds of millions of dollars annually by addressing overstated <b>real estate tax deductions</b>	IRS
	60. Revisions to content and use of <b>Form 1098-T</b> could help IRS enforce higher education requirements and increase revenues	IRS
	61. Many options could improve the tax compliance of <b>sole proprietors</b> and begin to reduce their \$68 billion portion of the tax gap	IRS
	62. IRS could find additional <b>businesses not filing tax returns</b> by using third-party data, which show such businesses have billions of dollars in sales	IRS
	63. Congress and IRS can help <b>S corporations</b> and their shareholders be more tax compliant, potentially increasing tax revenues by hundreds of millions of dollars each year	IRS
	64. IRS needs an agencywide approach for addressing tax evasion among the at least 1 million <b>networks of businesses</b> and related entities	IRS
	65. Opportunities exist to improve the targeting of the \$6 billion <b>research tax credit</b> and reduce forgone revenue	Treasury and IRS
	66. Converting the <b>new markets tax credit</b> to a grant program may increase program efficiency and significantly reduce the \$3.8 billion 5-year revenue cost of the program	Treasury
	67. Limiting the tax-exempt status of certain <b>governmental bonds</b> could yield revenue	Treasury
	68. Adjusting <b>civil tax penalties</b> for inflation potentially could increase revenues by tens of millions of dollars per year, not counting any revenues that may result from maintaining the penalties' deterrent effect	IRS
	69. IRS may be able to systematically identify <b>nonresident aliens</b> reporting unallowed tax deductions or credits	IRS
	70. Tracking <b>undisbursed balances in expired grant accounts</b> could facilitate the reallocation of scarce resources or the return of funding to the Treasury	Governmentwide

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Health	71. Preventing billions in <b>Medicaid improper payments</b> requires sustained attention and action by CMS	Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS)
	72. Federal oversight over <b>Medicaid supplemental payments</b> needs improvement, which could lead to substantial cost savings	CMS
	73. Better targeting of <b>Medicare's</b> claims review could reduce <b>improper payments</b>	CMS
	74. Potential savings in <b>Medicare's payments for health care</b>	CMS
Homeland security/Law enforcement	75. <b>DHS's management of acquisitions</b> could be strengthened to reduce cost overruns and schedule and performance shortfalls	Department of Homeland Security (DHS)
	76. Improvements in <b>managing research and development</b> could help reduce inefficiencies and costs for homeland security	DHS
	77. Validation of <b>TSA's behavior-based screening</b> program is needed to justify funding or expansion	Transportation Security Administration (TSA)
	78. More efficient <b>baggage screening systems</b> could result in about \$470 million in reduced TSA personnel costs over the next 5 years	TSA
	79. Clarifying availability of certain <b>customs fee collections</b> could produce a one-time savings of \$640 million	DHS's Customs and Border Protection (CBP)
Income security	80. <b>Social Security</b> needs data on pensions from noncovered earnings to better enforce <b>offsets</b> and ensure benefit fairness, resulting in estimated \$2.4-\$2.9 billion savings over 10 years	Social Security Administration
International affairs	81. Congress could pursue several options to improve collection of <b>antidumping and countervailing duties</b>	CBP

Source: GAO-11-318SP.

Examples of opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections include:

- *DOD spare parts:* We have identified weaknesses in DOD's inventory management practices, including problems in accurately forecasting demand for spare parts. Most recently, we reviewed the Defense Logistics Agency inventory levels and reported in 2010 that the Agency, over a



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period of 3 fiscal years, averaged \$1 billion of inventory annually that has been identified as excess. Since our work has consistently shown that the greatest opportunities to minimize investment in unneeded inventory are at the initial stages of the inventory management process when acquisition decisions are being made, DOD could limit future costs by focusing its efforts on better managing on-order inventory, with a view toward reducing on-order inventory levels that are not needed for current needs or projected demand.

Recently, Congress required DOD to submit a comprehensive plan for improving the inventory management systems of the military departments and the Defense Logistics Agency, with the objective of reducing the acquisition and storage of inventory that is excess to requirements. In November 2010, DOD submitted its plan to Congress and stated in its plan that it has already reduced unneeded inventory and that further reductions are possible. For example, DOD reported that \$10.3 billion (11 percent) of its secondary inventory has been designated as excess and categorized for potential reuse or disposal. While DOD's plan is an important step in improving inventory management practices, successful implementation will be challenging and will require sustained oversight by DOD as well as collaboration among the services and the Defense Logistics Agency. Continued congressional attention is warranted.

- *Corrosion:* DOD estimates that corrosion costs the department over \$23 billion each year. Corrosion—which can take such varied forms as rusting; pitting; calcium or other mineral buildup; degradation from exposure to ultraviolet light; and mold, mildew, and other organic decay—if left unchecked, can degrade the readiness and safety of equipment and facilities and can result in substantial, sometimes avoidable costs. The Defense Science Board Task Force estimated in a 2004 report that 30 percent of corrosion costs could be avoided through proper investment in prevention and mitigation of corrosion during design, manufacture, and sustainment. According to DOD, increased corrosion prevention and control efforts are needed to adequately address the wide-ranging and expensive effects of corrosion on equipment and infrastructure. However, DOD did not fund about one-third of acceptable corrosion projects for fiscal years 2005 through 2010.

If the projects accepted by DOD's Office of Corrosion Policy and Oversight from fiscal years 2005 through 2010 had been fully funded, DOD potentially could have avoided \$3.6 billion in corrosion-related costs—assuming those projects achieved the same level of cost-effectiveness as was estimated for all accepted projects in those years. If the Corrosion

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Office wishes to convince DOD and congressional decision makers that more fully funding its corrosion prevention programs could provide such a significant return on investment, the Corrosion Office needs to complete the validation of return on investment estimates in order to demonstrate the costs and benefits of its corrosion prevention and control projects.

- *Noncompetitive contracts:* Federal agencies generally are required to award contracts competitively, but a substantial amount of federal money is being obligated on noncompetitive contracts annually. Federal agencies obligated approximately \$170 billion on noncompetitive contracts in fiscal year 2009 alone. While there has been some fluctuation over the years, the percentage of obligations under noncompetitive contracts recently has been in the range of 31 percent to over 35 percent. Although some agency decisions to forego competition may be justified, we found that when federal agencies decide to open their contracts to competition, they frequently realize savings. For example, the Department of State (State) awarded a noncompetitive contract for installation and maintenance of technical security equipment at U.S. embassies in 2003. In response to our recommendation, State subsequently competed this requirement, and in 2007 it awarded contracts to four small businesses for a total savings of over \$218 million. In another case, we found in 2006 that the Army had awarded noncompetitive contracts for security guards, but later spent 25 percent less for the same services when the contracts were competed.

In July 2009, OMB called for agencies to reduce obligations under new contract actions that are awarded using high-risk contracting authorities by 10 percent in fiscal year 2010. These high-risk contracts include those that are awarded noncompetitively and those that are structured as competitive but for which only one offer is received. While sufficient data are not yet available to determine whether OMB's goal was met, we are currently reviewing the agencies' savings plans to identify steps taken toward that goal, and will continue to monitor the progress agencies make toward achieving this and any subsequent goals set by OMB.

- *Undisbursed grant balances:* Past audits of federal agencies by GAO and Inspectors General, as well as agencies' annual performance reports, have suggested grant management challenges, including failure to conduct grant closeouts and undisbursed balances, are a long-standing problem. In August 2008, we reported that during calendar year 2006, about \$1 billion in undisbursed funding remained in expired grant accounts in HHS's Payment Management System—the largest civilian grant payment system, which multiple agencies use. In August 2008, we recommended that OMB instruct all executive departments and independent agencies to track undisbursed balances in expired grant accounts and report on the

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resolution of this funding in their annual performance plan and Performance and Accountability Reports. As of January 13, 2011, OMB had not issued governmentwide guidance regarding undisbursed balances in expired grant accounts.

- *Social Security offsets*: Social Security covers about 96 percent of all U.S. workers; the vast majority of the remaining 4 percent are public employees who work for federal, state, and local government. Although these workers do not pay Social Security taxes on their noncovered government earnings, they may still be eligible for Social Security benefits through their spouses' or their own earnings from other jobs that Social Security does cover. Two Social Security provisions—the Government Pension Offset, which generally applies to spouse and survivor benefits, and the Windfall Elimination Provision, which applies to retired worker benefits—attempt to take noncovered employment into account when calculating the Social Security benefits. However, these provisions have been difficult to administer because the Social Security Administration (SSA) does not have the pension data it needs to perform these calculations accurately.

In April 1998, we recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension information on IRS Form 1099R, so that SSA would be able to identify people receiving a pension from noncovered employment, especially in state and local governments. However, IRS did not believe it could make the recommended change without new legislative authority.

Extending mandatory Social Security coverage for all state and local workers has been proposed among other options for addressing Social Security's long-term financial deficit. While this would eventually make the Government Pension Offset and Windfall Elimination Provision offsets obsolete, they would still be needed for many years to come for existing employees and beneficiaries, and we continue to believe that it is important to apply these laws consistently and equitably. Hence, we have suggested that Congress consider giving IRS the authority to collect the information that SSA needs on government pension income to administer the Government Pension Offset and Windfall Elimination Provision requirements accurately and fairly. The President's 2011 budget proposal contains a provision that would address the need for more complete and accurate information on noncovered state and local pensions, and it estimates savings of \$2.9 billion over 10 years. The Congressional Budget Office's 2009 Budget Options, Volume 2, has a similar provision and estimates savings of \$2.4 billion over 10 years.

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- *Customs fee collections:* The U.S. Customs and Border Protection (CBP) collects user fees to recover certain costs incurred for processing, among other things, air and sea passengers, and various private and commercial land, sea, air, and rail carriers and shipments. These fees are deposited into the Customs User Fee Account. We discovered that CBP has a \$639.4 million unobligated balance in its Customs User Fee Account as a result of excess collections from a temporary fee increase and elimination of North American Free Trade Agreement country exemptions from January 1, 1994, to September 30, 1997.

Clarifying the availability of unobligated balances in CBP's Customs User Fee Account could enable Congress to revise the agency's future appropriations, thereby producing a one-time savings of up to \$640 million. We first identified these unobligated balances in 2008. CBP officials stated at that time that although they formerly believed they needed additional authorization to spend these balances, it later appeared that the funds may be used as authorized by law. However, when we discussed these unobligated balances again in 2009 and 2010, CBP officials said they requested assistance from OMB to clarify the availability of these funds but OMB has not responded to their request.

We believe this is an issue that Congress may wish to address since these unobligated balances have remained in CBP's Customs User Fee account for more than 10 years. Congress could clarify the purposes for which the \$640 million in unobligated balances is available and take action as appropriate.

- *Addressing the gap between taxes owed and paid:* The net tax gap, which is the difference between the amount of taxes owed and the amount paid voluntarily and timely less late payments and IRS collection results, was last estimated by IRS to be \$290 billion for tax year 2001. Experts believe it may be larger. Our work has identified a number of areas where IRS or Congress could take action to better collect owed revenue, including:
  - *Business nonfilers:* Historically, the IRS has identified several million businesses each year that may have failed to file tax returns—more than it can thoroughly investigate. IRS has had difficulty determining if these businesses are still active and thus required to file a tax return. As a result, IRS has pursued many inactive businesses, which has not been a productive use of its resources. Recently, IRS has begun to use some third-party data such as information required about certain payments as indicators of business activity.

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However IRS has not used private sector data that it could obtain to verify taxpayer statements about whether a business is active and a tax return should have been filed. A number of private companies maintain business activity data, such as data on a business's gross sales and number of employees. Our analysis of Dun and Bradstreet data showed they could be used to identify business activity that IRS was not aware of. For two states, we analyzed 2007 data on the businesses that IRS initially identified as potential nonfilers but later determined were not liable to file returns. Of these, we found 7,688 businesses where IRS data indicated little or no business activity, but Dun and Bradstreet data showed business activity as measured by sales totaling \$4.1 billion. In addition to other improvements in its business nonfiler program, we recommended that IRS study the feasibility and cost-effectiveness of using non-IRS, private data to verify taxpayer statements. IRS agreed with the recommendation.

- *Electronic filing:* The percentage of tax returns filed electronically has increased from 52 percent in 2005 to 71 percent in 2010. However, in 2010, IRS still processed 40 million tax returns filed on paper. Electronic filing benefits taxpayers by reducing processing errors and expediting their refunds. Increasing electronic filing would also reduce IRS's return processing costs and increase revenue by facilitating enforcement. As noted in a December 2010 GAO report<sup>4</sup>, IRS estimated savings of \$3.10 per return for returns filed electronically versus paper in fiscal year 2009.

Our prior work has shown that IRS has three opportunities to increase electronic filing of individual income tax returns: (1) requiring tax software identification numbers would help inform research into how the pricing and attributes of different software products affect taxpayers' willingness to use software and file electronically, allowing IRS to better promote electronic filing; (2) working with taxpayers and their representatives to reduce the number of rejected electronic returns could reduce the number of frustrated taxpayers who opt to print and mail in their rejected electronic returns, leaving IRS to identify and correct any errors and process the paper returns, thereby losing the benefits of electronic filing; and (3) requiring software vendors to encode relevant information in a bar code that would be embedded on all paper returns printed from tax software and mailed

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<sup>4</sup> GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

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would enable IRS to obtain electronic information, such as a taxpayer's Social Security number and address, from the return. While not as beneficial as electronic filing, bar coding would still provide efficiencies over data transcription and enable more information to be available electronically.

Having more or all tax return information available electronically could help IRS target audits on noncompliant taxpayers, avoid burdening compliant taxpayers with unnecessary audits, make more productive use of IRS's audit resources, and—according to IRS officials—increase annual tax revenue by \$175 million.

- *Adjusting civil tax penalties:* The Internal Revenue Code has over 150 civil penalties that potentially deter taxpayer noncompliance. A number of civil tax penalties have fixed dollar amounts—either a specific dollar amount, or a minimum or maximum amount—that are not indexed for inflation. Over time, the lack of indexing can decrease the real value of IRS assessments and collections significantly. We found in August 2007 that adjusting civil tax penalty fixed-dollar amounts for inflation from 2000 to 2005 would have increased IRS collections by an estimated \$38 million to \$61 million per year based on a limited number of penalties we reviewed.

We reported that Congress may want to consider requiring IRS to periodically adjust for inflation, and round appropriately, the fixed-dollar amounts of the civil penalties to account for the decrease in real value over time and so that penalties for the same infraction are consistent over time. Although Congress has increased the amount of some fixed penalties since our report, only two penalties are to be adjusted for inflation on a periodic basis. Consequently, we continue to believe Congress should consider requiring IRS to periodically adjust all fixed penalties for inflation.

- *Unneeded real property:* Many federal agencies hold real property they do not need, including property that is excess or underutilized. Excess and underutilized properties present significant potential risks to federal agencies because they are costly to maintain. For example, in fiscal year 2009, agencies reported underutilized buildings accounted for over \$1.6 billion in annual operating costs. In a June 2010 Presidential Memorandum to federal agencies, the administration established a new target of saving \$3 billion through disposals and other methods by the end of fiscal year 2012; the President reiterated this goal in his 2012 budget. However, federal agencies continue to face obstacles to disposing of unneeded property, such

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as requirements to offer the property to other federal agencies, then to state and local governments and certain non profits at no cost. If these entities cannot use the property, agencies may also need to comply with costly historic preservation or environmental cleanup requirements before disposing of the property. Finally, community stakeholders may oppose agencies' plans for property disposal. OMB could assist agencies in meeting their property disposal target by implementing our April 2007 recommendation of developing an action plan to address key problems associated with disposing of unneeded real property, including reducing the effect of competing stakeholder interests on real property decisions.

In conclusion Mr. Chairman, Ranking Member Cummings, and Members of the Committee, given the challenges noted above, careful, thoughtful actions will be needed to address many of the issues discussed in our March 1 report, particularly those involving potential duplication, overlap, and fragmentation among federal programs and activities. These are difficult issues to address because they may require agencies and Congress to re-examine within and across various mission areas the fundamental structure, operation, funding, and performance of a number of long-standing federal programs or activities with entrenched constituencies. Some of these areas are also included in our 2011 High-Risk Series update on which we testified before your committee in February 2011.<sup>5</sup> Further, in January 2011, the President signed the GPRA Modernization Act of 2010,<sup>6</sup> updating the almost two-decades-old Government Performance and Results Act (GPRA).<sup>7</sup> Implementing provisions of the new act—such as its emphasis on establishing outcome-oriented goals covering a limited number of crosscutting policy areas—could play an important role in clarifying desired outcomes, addressing program performance spanning multiple organizations, and facilitating future actions to reduce unnecessary duplication, overlap, and fragmentation. Continued oversight by OMB and Congress will be critical to ensuring that unnecessary duplication, overlap, and fragmentation are addressed.

As the nation rises to meet the current fiscal challenges, GAO will continue to assist Congress and federal agencies in identifying actions needed to reduce duplication, overlap, and fragmentation; achieve cost

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<sup>5</sup>GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: Feb. 16, 2011); and *GAO's 2011 High-Risk Series: An Update*, [GAO-11-394T](#) (Washington, D.C.: Feb.17, 2011).

<sup>6</sup>Pub. L. No. 111-352, 124 Stat. 3866 (2011).

<sup>7</sup>Pub. L. No. 103-62, 107 Stat. 285 (1993).

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savings; and enhance revenues. In our future annual reports, we will look at additional federal programs and activities to identify further instances of duplication, overlap, and fragmentation as well as other opportunities to reduce the cost of government operations and increase revenues to the government. We plan to expand our work to more comprehensively examine areas where a mix of federal approaches is used, such as tax expenditures and direct spending. Likewise, we will continue to monitor developments in the areas we have already identified. Issues of duplication, overlap, and fragmentation will also be addressed in our routine audit work during the year as appropriate and summarized in our annual reports.

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Thank you, Mr. Chairman, Ranking Member Cummings, and Members of the Committee. This concludes my prepared statement. I would be pleased to answer any questions you may have.

For further information on this testimony or our March 1 report, please contact Patricia Dalton, Chief Operating Officer, who may be reached at (202) 512-5600, or [DaltonP@gao.gov](mailto:DaltonP@gao.gov); and Janet St. Laurent, Managing Director, Defense Capabilities and Management, who may be reached at (202) 512-4300, or [StLaurentJ@gao.gov](mailto:StLaurentJ@gao.gov). Specific questions about individual issues may be directed to the area contact listed at the end of each area summary in the report. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.



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