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FEDERAL BUDGET

Opportunities for Oversight and Improved Use of Taxpayer Funds

Statement of David M. Walker,
Comptroller General of the United States

We revised this document on 7/15/03 to correct the spacing and a typographical error in a number on page 7 (under The Medicare Program--Reducing Improper Payments). The amount of improperly paid claims was $13.3 billion in fiscal year 2002.

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Accountability * Integrity * Reliability

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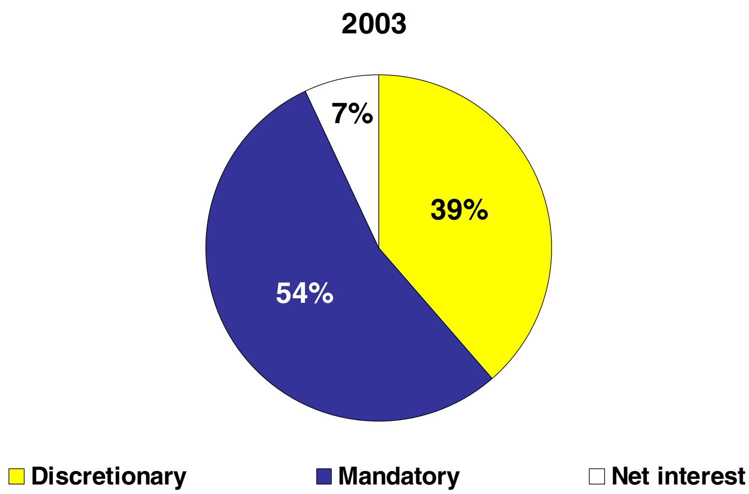
Mr. Chairman, Mr. Spratt, members of the Committee

It is a pleasure to be here today as you deal with 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 waste, fraud, 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.

As everyone on this committee knows well, only about 39% of the federal budget—and even less if you look only at programmatic spending--is discretionary. The rest is direct or mandatory spending.[1]

Composition of Federal Spending



Note: Includes $41 billion in discretionary spending and about $1 billion in mandatory spending for the Iraq war supplemental. Includes $11 billion in mandatory spending for the 2003 tax cut package.
Source: GAO analysis of data from the Congressional Budget Office.

In addition, we can't forget about tax incentives. I make this point to reinforce the fact that 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 cannot focus solely on discretionary appropriations but must also encompass mandatory programs and tax policy, including 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.

[1] While Social Security and Medicare are the largest direct spending or mandatory programs, this category also includes such others as farm price supports, insurance programs, food stamps, TANF block grants to the states, federal civilian and military pension and health.

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." My testimony draws in part on some of the items that will be included in that report.

Today I want to talk about program reviews, oversight, and stewardship of taxpayer funds on several levels:

- 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 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.[2] 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.

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

[2] U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

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.[3]

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 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, agency financial statements of the 24 CFO Act agencies, we found references to improper payments in 17 agencies and 27 programs. Unfortunately, not all of them provided information on the amount of such payments. In the federal government, improper payments occur in a variety of program activities, including those related to contractors and contract management, such as defense; healthcare programs, such as Medicare and Medicaid; financial assistance benefits, such as Food Stamps and housing subsidies; and tax refunds.

[3] Attached to this testimony is a list of selected GAO reports related to the specific examples cited.

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. We have recommended actions in a number of specific areas, including:

- *Reducing Improper Payments*-- Since 1996, annual audits by the Department of Health and Human Services' Office of the Inspector General have found that Medicare contractors have improperly paid claims worth billions of dollars—$13.3 billion in fiscal year 2002 alone. CMS has been working to better hold individual contractors accountable for claims payment performance and help them target remedial actions to address problematic billing practices. Program safeguard activities have historically produced savings—in the past CMS has estimated a return of over $10 for every dollar spent in this area

- *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.

- *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

  - Home health care or skilled nursing facility care: Medicare pays as much as 35 percent more than providers' costs for home health care and 19 percent more for skilled nursing facility care. Unfortunately, CMS has not adopted our recommendation that would minimize excessive payments to some home health agencies.[4]
  - 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

[4] U.S. General Accounting Office, *Medicare Home Health: Prospective Payment System Will Need Refinement as Data Become Available,* GAO-HEHS-00-9 (Washington, D.C.: April 7, 2000); and *Medicare Home Health: Prospective Payment System Could Reverse Recent Declines in Spending*, GAO-HEHS-00-176 (Washington, D.C.: Sept. 8, 2000).

outpatient drugs that the program covers. CMS has not acted upon our recommendations in this area.[5]

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, o Medicare paid \$3.34 per unit for Ipratropium bromide although it is widely available for \$0.77 per unit; o 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).

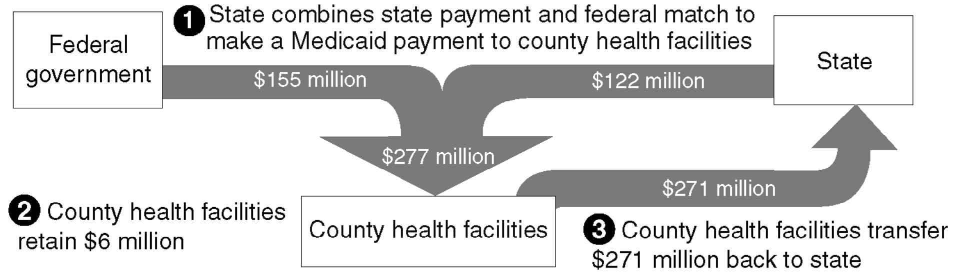
CMS, in the Department of Health and Human Services (HHS) is responsible for administering the program at the federal level, while the states administer their respective program's day-to-day operations. The challenges inherent in overseeing a program of Medicaid's size, growth, and diversity, combined 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:

[5] *Medicare: Payments for Covered Outpatient Drugs Exceed Providers' Cost,* GAO-01-1118 (Washington, D.C.: Sept. 21, 2001).

- *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 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.

- *Address inappropriate provider claims.*
    - The improper payments that states have identified suggest that—with augmented and consistent effort—states have the potential to save Medicaid millions of dollars. An estimate of savings from cost recoveries for the state of Washington alone, for example, was over $9 million in Medicaid funds during fiscal year 2002 through its hospital and physician audits.
    - Our review of certain Medicaid services provided to children through their schools also demonstrates the importance of heightened scrutiny over Medicaid expenditures. In one state alone, there were $324 million in disallowed claims involving school-based services for a 3 ½ year period ending in fiscal year 2001. Some claims were for service not covered by Medicaid or for services provided to non-Medicaid-eligible children.

- *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.

Improper Payments at DOD

Ensuring prompt, proper, and accurate payments continues to be a challenge for the Department of Defense (DOD). DOD managers do not have the important information needed for effective financial management, leading DOD to overpay contractors by billions of dollars over the past eight years. In our past reports, we have noted that (1) contractors were refunding hundreds of millions of dollars to DOD each year for a total of about $6.7 billion between fiscal year 1994 and 2001; (2) DOD made overpayments due to duplicate invoices and paid invoices without properly and accurately recovering progress payments; (3) contract administration actions had resulted in significant contractor debt or overpayment; (4) DOD and contractors were not aggressively pursuing the timely resolution of overpayments or underpayments when they were identified; and (5) DOD did not have statistical information on the results of contract reconciliation. In May 2002, we reported that DOD has various short-term corrective actions underway that appear to be having positive results. However, cost increases, performance issues, or schedule delays have beset two of DOD's key long-term initiatives: the Defense Procurement Payment System, which is intended to be DOD's standard contract payment system, and the Standard Procurement System, which is intended to be DOD's single, standard system to support contracting functions and interface with financial management functions. GAO has recommended that DoD take a number of steps including developing controls over contractor debt and overpayments

Earned Income Credit (EIC) Noncompliance

For tax year 2001, about $31 billion was paid to about 19 million EIC claimants. Although researchers have reported that the EIC has generally been a successful incentive-based antipoverty program, IRS has reported high levels of EIC overpayments going back to 1985. IRS's most recent study, released in 2002, estimated that between $8.5 and $9.9 billion should not have been paid out to EIC claimants for tax year 1999.

Administering the EIC is not an easy task—IRS has to balance its efforts to help ensure that all qualified persons claim the credit with its efforts to protect the integrity of the tax system and guard against fraud and other forms of noncompliance associated with the credit. Further, the complexity of the EIC may contribute to noncompliance. The EIC is among the more complex provisions of the tax code, which can contribute to unintentional errors by taxpayers. In addition, unlike other income transfer programs, the EIC relies more on self-reported qualifications of individuals than on program staff reviewing documents and other evidence before judging claimants to be qualified for assistance.

Early in 2002, the Assistant Secretary of the Treasury and the IRS commissioner established a joint task force to seek new approaches to reduce EIC noncompliance. The task force sought to develop an approach to validate EIC claimants' eligibility before refunds are made, while minimizing claimants' burden and any impact on the EIC's relatively high participation rate. Through this initiative, administration of the EIC program would become more like that of a social service program for which proof of eligibility is required prior to receipt of any benefit.

According to IRS, three areas—qualifying child eligibility, improper filing status, and income misreporting (i.e., underreporting)—account for nearly 70 percent of all EIC refund errors. Although the task force initiative is designed to address each of these sources of EIC noncompliance, many of the details about its implementation are still to be settled. A significant change to the initiative was announced just this past Friday, June 13, when IRS said that its pilot effort to precertify the eligibility of qualifying children for the EIC would not include requesting claimants to show their relationship to the qualifying child. Because planning and implementation for the EIC initiative will proceed simultaneously, its success will depend on careful planning and close management attention.

Congress has already focused oversight attention on the EIC initiative and continued oversight can help ensure that the initiative balances efforts to reduce EIC overpayments with continued efforts to maintain or increase the portion of the EIC eligible population that receives the credit. Further, Congress can consider making the several definitions of children in the tax code more uniform. The differing definitions contribute to the complexity taxpayers face and complexity is widely believed to contribute to errors taxpayers make in claiming the EIC. As early as 1993 we had suggested that Congress consider changes that would have made the definitions for children more similar for several tax purposes. More recently, IRS's Taxpayer Advocate, the Joint Committee on Taxation, and the Department of the Treasury have made proposals as well.

EIC Problems

- IRS estimated in 2002 that of the $31.3 billion in earned income credits claimed by taxpayers in tax year 1999, about $8.5 billion to $9.9 billion, should not have been paid .
- This level of noncompliance has remained relatively unchanged even after a 5-year effort to reduce it.

Collection of Unpaid Taxes

Collecting taxes due the government has always been a challenge for IRS, but in recent years the challenge has grown. In testimonies and reports we have highlighted large and pervasive declines in IRS' compliance and collections programs. For example, between 1996 and 2001 the programs generally experienced larger workloads, less staffing, and fewer number of 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. Because of the potential revenue losses and the threat to voluntary compliance, the collection of unpaid taxes is a high risk area.

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.

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.

Student Financial Assistance

The Department of Education's student financial assistance programs disburse about $65 billion annually. Education also manages a $267 billion loan portfolio. Millions of dollars in loans and grants have been disbursed to ineligible students because of internal control weaknesses. While the default rate on student loans has come down substantially, the dollars in default remain high.

Education has made progress on improving its financial management; however it needs to implement corrective actions to ensure that relevant, reliable accounting information is available. Over the years, Education has spent millions to integrate and modernize its many financial aid systems in an effort to provide more information and better service to customers—students, parents, institutions, and lenders. However Education did not have an enterprise architecture[6] and it lacked the ability to track students across programs. Education also faces challenges in maintaining program integrity, specifically ensuring that information reported on student aid applications is correct and that adequate internal controls exist to prevent erroneous and improper payments of grants and loans. To improve the integrity of the financial aid programs, Education should (1) continue to coordinate with the Internal Revenue Service to verify income information reported on student aid applications, (2) provide clear policy and guidance on the effect of using tax provisions on student aid awards, and (3) implement controls to limit improper disbursements of grants and loans.

Fraud in Student Aid Programs

- The owner, registrar, director of education, and other employees at The Training Center, a computer and travel school in Michigan, were indicted for falsifying documents to illegally obtain student financial aid. The indictment included an $875,000 forfeiture to recover the funds these individuals illegally received.

- An investigation at Beacon Career Institute in Florida (BCI) in Florida revealed a major Pell Grant case that defrauded Education of over $720,000. The former BCI administrator and other BCI officials created false documents to justify the disbursement of these grants. They were ordered to pay restitution totaling $1,778,472 and sentenced to prison.

- A former instructor at Piedmont College of Hair Design in South Carolina pled guilty and was ordered to pay restitution of $27,000 for Pell Grant fraud. Her actions caused over $300,000 in Pell Grants to be given to ineligible students.

- One individual in Los Angeles, who was convicted of student aid fraud, conducted weekly seminars for parents and students, charging $300 for the programs at which he advised and assisted them in preparing student aid applications that deliberately misstated their income or dependency status. The potential loss to the government from his actions was about $800,000.

[6] Enterprise architecture is an institutional blueprint that defines in both business and technology terms the organizations current and target operating environments and provides a transition roadmap.

For example, in 2001, $21.8 billion remained in default. Education's Office of Federal Student Aid (FSA) draft fiscal year 2002 performance plan specified the goals it had for default management; however, it included only limited information about the strategies to achieve those goals. Without giving additional details on its strategies for default recovery and prevention, it is not clear how FSA will determine whether it has achieved its default management goals. Finally, while Education has set up voluntary flexible agreements with four of its guaranty agencies, it is in the process of assessing whether they have been successful in lowering default and delinquency rates.

Food Assistance Programs

Each day 1 in every 6 Americans receives nutrition assistance through 1 or more of the 15 programs administered by the U.S. Department of Agriculture (USDA) In FY 2002 Congress appropriated about $38.8 billion—nearly half of USDA's budget-- to provide children and low-income adults with access to food, a healthful diet, and nutrition education through programs such as Food Stamps, school-breakfast and school-lunch programs.) USDA continues to face serious challenges in ensuring that eligible individuals receive the proper benefits from the food assistance programs administered by its Food and Nutrition Service.

In FY 2001 The Food Stamp program alone provided 17.3 million individuals with more than $15.5 billion in aid. About 149,000 authorized retail outfits accept food stamps. A program this large and this decentralized is vulnerable to problems and we have made recommendations in a number of areas, including:

- *Erroneous payments*: USDA estimated that for FY 2001 erroneous payments totaled about $1.4 billion —about $1 billion in overpayments and just under $400 million in underpayments. This is an error rate of about 9 percent.
    - To deal with the complexity of the Food Stamp Program and the high error rate, the Farm Security and Rural Investment Act of 2002 contained a number of administrative and simplification reforms, such as allowing states to use greater flexibility in considering the income of recipients for

eligibility purposes and to extend simplified reporting procedures for all program recipients.

- *Misuse of benefits*: individuals sometimes illegally sell their benefits for cash—a practice known as trafficking. In its most recent report on trafficking [March 2000] USDA estimated that about 3.5 cents of every dollar of food stamp benefits issued each year from 1996 through 1998 was trafficked by stores—about $660 million.

    - Storeowners generally do not pay the financial penalties assessed for trafficking. For example, we reported in May 1999 that USDA and the courts collected only $11.5 million, or about 13 percent, of the $78 million in total penalties assessed against storeowners for violating food stamp regulations from 1993 through 1998.[7] Better use of information technology has the potential to help USDA minimize fraud, waste, and abuse in the Food Stamp Program. The Food and Nutrition Service has taken some actions to implement our recommendations, such as assisting states in the use of EBT data to identify traffickers and has other actions under way.

Other nutrition programs also suffer from fraud and abuse.

- For example in FY 2001 the Child and Adult Care Food Program (CACFP) provided subsidized meals for a daily average of 2.6 million participants in the care of about 215,000 day care providers and received $1.8 billion in FY 2002. . In response to our November 1999 recommendation[8] and reports by the USDA OIG, legislation was enacted in June 2000 to strengthen CACFP management

[7]U.S. General Accounting Office, *Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violation*s, GAO/RCED-99-91. (Washington, D.C.: May 11, 1999).

[8]U.S. General Accounting Office, *Food Assistance: Efforts to Control Fraud and Abuse in the Child and Adult Care Food Program Should Be Strengthene*d, GAO/RCED-00-12. (Washington, D.C.: Nov. 29, 1999).

controls and to reduce its vulnerability to fraud and abuse. As a result, the Food and Nutrition Service has intensified its management evaluations at the state and local levels and has trained its regional and state agency staff on revised management procedures.

Child & Adult Care Food Program

- To identify potentially fraudulent or abusive claims, reimbursement claims are reviewed, but the reviews are not foolproof. For example, one state we visited used several methods to evaluate the soundness of claims, but a state reviewer found that the reviews did not catch a $5,000 overpayment to a day care home sponsor. In this case, the claim for reimbursement had jumped in one month to $7,000, from an average monthly claim of $2,000.

- FNS has not effectively directed states' efforts to control fraud and abuse. In fiscal years 1997 and 1998, only 23 of FNS' 47 management evaluations directly evaluated the states' implementation of required controls over reimbursements to sponsors and providers. Almost half of these reviews found serious problems, including the failure of some states to conduct any administrative reviews of sponsors or providers.

National School Lunch Program provided nutritionally balanced, low-cost or free lunches for over 27 million children each school day in more than 98,000 public and nonprofit private schools and residential child care institutions. Past reports have disclosed that the number of children certified as eligible to receive free lunches in this program was 18 percent greater than the estimated number of children eligible for this benefit. Furthermore, in its strategic plan for fiscal years 2000 through 2005, USDA specifically identified the challenge it faces in ensuring that only eligible participants are provided benefits in the National School Lunch Program. USDA has taken some initial steps to develop a cost-effective strategy to address this integrity issue, such as pilot testing potential policy changes to improve the certification process.

Credit Card Abuse

We and a number of Inspectors General have identified improper and fraudulent use of purchase cards as well as control weaknesses in numerous agencies such as the Departments of Agriculture, Defense, Education, Housing and Urban Development, Interior, and the Federal Aviation Administration. Identified problems include weaknesses in the review and approval processes, lack of training for cardholders and approving officials, and ineffective monitoring. These weaknesses created a lax control environment that allowed cardholders to make fraudulent, improper, abusive, and questionable purchases. Similarly, we have found that a weak control environment contributed to significant abuse and potential fraud in the use of travel cards in the Department of Defense.

For instance, in March 2003, we reported that weaknesses in FAA's purchase card controls resulted in instances of improper, wasteful, and questionable purchases, as well as missing and stolen assets. These weaknesses contributed to $5.4 million of improper purchases. This included 997 transactions totaling $5.1 million associated with purchases that were split into two or more segments to circumvent single purchase limits. In addition, over half of the asset purchases—such as computers and other equipment—that we examined had not been recorded in FAA's property system, increasing the risk of loss or theft. As a result, FAA could not locate or document the location of over a third of the items. These missing items totaled almost $300,000. In separate internal reviews, one FAA location identified over 800 items, totaling almost $2 million, that were lost or stolen in fiscal years 2001 through 2002. Given systemic weaknesses in FAA's property controls, the actual amount of missing or stolen equipment FAA-wide could be much higher. We made a total of 27 recommendations to strengthen FAA's internal controls and compliance in its purchase card program, decrease wasteful purchases, and improve the accountability of assets in order to reduce vulnerability to improper and wasteful purchases. These included requiring centralized receiving of accountable assets and sensitive property items, improving physical security over the storage of computer-related equipment, and following up on missing property items.

Purchase Card Abuses

- At Education, a purchase cardholder made several fraudulent purchases from two Internet sites for pornographic services. The name of one of the sites—Slave Labor Productions.com—should have caused suspicion when it appeared on the employees' monthly statement.

- At HUD, we found improper purchases totaling about $1 million where HUD employees either split, or appeared to have split, purchases into multiple transactions to circumvent cardholder limits.

- At the two Navy units we reviewed, we identified over $11,000 of fraudulent purchases including clothing from Nordstrom, as well as improper, questionable, and abusive purchases, such as rentals of luxury cars and purchases of designer and high-cost leather goods such as leather purses costing up to $195 each.

Poor oversight and management of travel card programs led to high delinquency rates costing millions in lost rebates and increased ATM fees. For example, as of March 31, 2002, we found that over 8,000 Navy cardholders had $6 million in delinquent debt. During the period of our reviews, over 400 Air Force, 250 Navy, and 200 Army personnel committed potential bank fraud by writing three or more nonsufficient (NSF) fund checks to the Bank of America. Also, many cardholders used their cards for inappropriate purchases, such as cruises and event tickets. Our review of Air Force travel cards, for example, found documented evidence of disciplinary actions in less than half of the cases reviewed where cardholders wrote NSF checks, or their accounts were charged off or placed in salary offset. We made several recommendations to DOD and the Air Force, including providing sufficient training to agency program coordinators to promote proper oversight of the travel card program, including effective monitoring for inappropriate transactions; reviewing the security clearances of cardholders with financial problems; and strengthening procedures for canceling cards of employees leaving the service. DOD and the Air Force concurred and said that they had actions under way to address many of them.

Examples of Abusive Air Force Travel Card Activity

Category	Examples of vendors	Number of transactions	Approximate dollar amount
Cruises	Carnival, Celebrity, Norwegian, and Princess	70	$ 31,000
Gambling	Global Cash Access	79	14,000
Sports, concerts, and other events	Dallas Cowboys, Backstreet Boys, and other Ticketmaster purchases	223	31,000
Gentlemen's clubs	Cheetah's Lounge, Déjà vu Showgirls	187	32,000

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.

[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).

- *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 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.

[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.: Apr. 17, 2002).

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

HUD Contractor Performance Oversight
In one case, HUD paid $227,500 to have 15,000 square feet of concrete replaced; however, we determined that only about one-third of the work HUD paid for was actually performed.[12]

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

[12]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).

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.

- *Social Security Government Pension Offset Provision:* The Social Security Administration (SSA) administers the Government Pension Offset (GPO) provision requiring benefits to be reduced for persons whose social security entitlement is based on another person's social security coverage (usually a spouse's). The GPO prevents workers from receiving a full Social Security spousal benefit in addition to a pension from government employment not covered by Social Security. However, the law provides an exemption from the GPO if an individual's last day of state/local employment is in a position that is covered by both Social Security and the state/local government's pension system. In a recent study, we found instances where individuals performed work in Social Security covered positions for short periods to qualify for the GPO last-day exemption. The practices we identified in Texas and Georgia alone could increase long-term benefit payments from the Social Security Trust Fund by $450 million.[13] In our report and testimony on this topic we presented a matter for congressional consideration that the last-day GPO exemption be revised to provide for a longer minimum time period, and the House has passed necessary legislation that is pending in the Senate.

[13]We calculated this figure by multiplying the number of last-day cases reported in Texas and Georgia (4,819) by SSA data on the average annual offset amount ($4,800) and the average retirees life expectancy upon receipt of spousal benefits (19.4 years). This estimate may over/under estimate costs due to the use of averages, the exclusion of inflation/cost-of-living/net present value adjustments, lost investment earnings by the Trust Funds, and other factors that may affect the receipt of spousal benefits.

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 nations 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 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 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.

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.

- *Public Power:* The federal government began to market electricity following the construction of dams and major water projects primarily from the 1930's to the 1960's. However, the restructured and increasingly competitive electricity industry suggests that a reassessment of the roles and missions of federal subsidies is needed. Although the Power Marketing Administrations (PMAs) are generally required to recover all costs, in fact in some cases rates do not recover full costs incurred by the federal government in producing, transmitting and marketing federal power. The Congress has the option of requiring the PMAs to sell their power at market rates to better ensure the full recovery of these costs.

- *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.

Beyond program design: operational economy, efficiency and effectiveness

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. In 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—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?

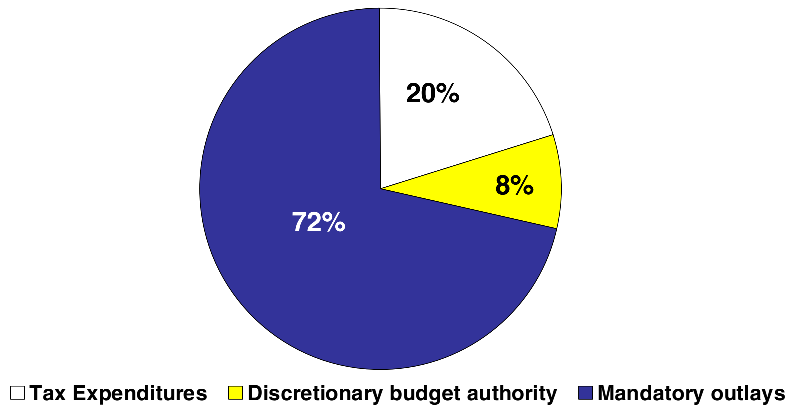
It also requires asking whether an existing program, policy, or activity "fits" the world we face today and in the future. It is important not to fall into the trap of accepting all existing activities as "givens" and subjecting new proposals to greater scrutiny than existing ones undergo. Think about 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. If we are evaluating federal support for higher education, we need to look not only at spending but also at tax preferences. The same thing is true for health care. The figure below shows federal activity in health care and Medicare budget functions in FY 2000: $37 billion in discretionary BA, $319 billion in entitlement outlays, $5 million in loan guarantees, and $91 billion in tax expenditures.

Relative Reliance on Policy Tools in the Health Care Budget Functions (FY2000)



Note: Loan Guarantees account for about $5 million, or about .001 percent, of the approximately $447 billion in total federal health care resources.
Source: *Budget of the United states Government, FY 2002,* Office of Management and Budget.

Government must operate in the context of broader trends shaping the United States and its place in the world. These include:

- National and global response to terrorism and other threats to personal and national security
- Increasing interdependence of enterprises, economies, civil society, and national governments—a/k/a globalization.
- The shift to market-oriented, knowledge-based economies;
- An aging and more diverse U.S. population;
- Advances in science & technology and the opportunities & challenges created by these changes
- Challenges and opportunities to maintain & improve the quality of life for the nation, communities, families & individuals; and
- The increasingly diverse nature of governance structures and tools.

In addition to the above trends, growing fiscal challenges at the federal, state, and local levels are of great concern. Furthermore, rising health care costs and other health care related challenges (e.g., access, quality) are of growing concern crossing all sectors of the economy and all geopolitical boundaries.

Government leaders are responsible and accountable for making needed changes to position the federal government to take advantage of emerging opportunities and to meet future challenges. Focusing on accountable, results-oriented management can help the federal government operate effectively within a broad network that includes other governmental organizations, nongovernmental organizations, and the private sector.

Concluding Remarks

There is a Chinese curse that goes “May you live in interesting times.” We clearly do. I would prefer to see this not as a curse—but as a challenge and an opportunity.

Tackling areas at risk for fraud, waste, abuse & 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.

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 needed 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-based 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 Inordinate Program Management Risks	
• 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 Large Procurement 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.

Credit Card Abuse:

Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse. GAO-03-292. Washington, D.C.: December 20, 2002.

Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse. GAO-02-676T. Washington, D.C.: May 1, 2002.

FAA Purchase Cards: Weak Controls Resulted in Instances of Improper and Wasteful Purchases and Missing Assets. GAO-03-405. Washington, D.C.: March 21, 2003.

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).

DoD Improper Payments:

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).

U.S. General Accounting Office, *Department of Defense: Status of Achieving Key Outcomes and Addressing Major Management Challenges,* GAO-01-783 (Washington, D.C.: June 25, 2001).

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.

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