

# **Opportunities and Challenges for Achieving Greater Efficiencies, Cost Savings, and Revenues in Federal Programs**

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**Presentation to the  
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# Introduction

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- GAO’s work can inform the Commission’s important efforts to achieve fiscal sustainability over the long run.
  - GAO assessments reinforce the long-term need for such an effort:
    - 2010-2015 Strategic Plan: “For more than a decade, each of GAO’s long-term fiscal simulations has shown the federal government to be on an unsustainable deficit and debt path” (GAO-10-559SP).
    - 21st Century Challenges: “The federal government’s financial condition and long-term fiscal outlook present enormous challenges to the nation’s ability to respond to emerging forces reshaping American society, the United States’ place in the world, and the future role of the federal government.” (GAO-05-325SP).
  - In addition, the Pay-As-You-Go Act of 2010 mandated GAO to identify and report annually on duplicative goals and activities across the federal government.
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# GAO's Body of Work Addressing Opportunities to Create Efficiencies and Achieve Savings Across the Federal Government

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- GAO's body of work has identified numerous opportunities for savings across the federal government, including:
  - Opportunities to address fragmentation, overlap, and/or duplication, and
  - Other major cost saving opportunities.
- Savings opportunities should be considered across the range of federal activities including spending, credit, regulatory, and tax.
- GAO has also identified several challenges the government will face in pursuing these opportunities.
- GAO has developed an approach and is currently conducting work to meet the mandate to examine duplication in the federal government.
- Our briefing today will address each of these areas.

# **GAO's Body of Work Addressing Opportunities to Create Efficiencies and Achieve Savings Across the Federal Government**

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- Over the past 25 years, GAO has completed over 200 reports that highlight the potential for fragmentation, overlap, and/or duplication among federal government programs. Many of these reports also identify the potential for improving government efficiency and reducing waste.
- GAO recognizes that a certain amount of redundancy in some areas is understandable and can be beneficial if it occurs by design as part of a management strategy to foster competition, provide better service delivery to customer groups, or provide emergency back-up.
- Fragmentation and overlap are often the result of an adaptive federal government. As new needs have been identified, the common governmentwide response has been a proliferation of new roles and responsibilities among federal entities.
- Fragmentation and overlap may also result from lack of regular review, e.g. GAO has reported that tax expenditures (such as credits and deductions to encourage social & economic activities) get less scrutiny than discretionary programs.

## Examples of GAO Reports Suggesting Potential for Fragmentation, Overlap, and/or Duplication

- Federal oversight of **food safety** is becoming more fragmented, with 15 agencies administering 30 food-related laws. This has caused inconsistent oversight, ineffective coordination, and inefficient use of resources (GAO-09-271).
- Federal **food assistance** is provided through 18 programs, which emerged piecemeal over the past several decades and show signs of program overlap. Such overlap can create unnecessary work and lead to inefficient use of resources (GAO-10-346).
- We previously found that over 20 federal agencies and almost 200 federal programs provide a wide range of **assistance to individuals with disabilities**. These programs have been developed on an individual basis over many years and measure success individually rather than through a unified set of national goals and indicators to assess how people with disabilities are faring (GAO-08-872T).

## Examples of GAO Reports Suggesting Potential for Fragmentation, Overlap, and/or Duplication

- **Federal postsecondary financial aid** includes multiple grants, loans, and work-study programs run by the Department of Education, in addition to various tax credits such as the Lifetime Learning Credit (GAO-07-262T, GAO-05-684).
- DOD's **unmanned aircraft systems acquisitions** continue to incur cost and schedule growth. Areas of commonality among these systems create opportunities to leverage resources and gain efficiencies (GAO-09-520).
- Past efforts to improve integration of **intelligence, surveillance, and reconnaissance capabilities** have been hampered by the diverse missions and different institutional cultures of the multiple agencies involved (GAO-08-374).
- DOD has one of the largest and most complex health systems in the nation. We found that an option selected for a planned consolidation of key common services across the **military health system** needed to be more fully assessed to address expected benefits, costs, and risks (GAO-08-122).

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## Examples of GAO Reports Suggesting Potential for Fragmentation, Overlap, and/or Duplication

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- The Department of Defense's base closure process created **joint bases** in an effort to reduce installation support costs, but these costs are expected to increase above the original support costs due to changing standards and additional administrative costs (GAO-09-336).
- The Department of Homeland Security conducts **security assessments and inspections** within transportation security modes. However, these assessments and inspections overlap with assessments and inspections conducted by other agencies, such as the Department of Transportation, and the Department of Homeland Security has not effectively coordinated its assessment efforts with other agencies (GAO-09-243, GAO-09-85, GAO-09-57).

# Other Potential Major Cost Saving and Revenue Options

- **Defense Acquisitions and Contracting:** DOD has planned investments in major defense acquisition programs totaling over \$1.6 trillion as of December 2009. This includes planned expenditures of \$343 billion between fiscal years 2011 and 2015. In addition, DOD spent over \$350 billion in fiscal year 2009 alone to acquire goods and services through contracts with private-sector firms.
- Opportunities to improve DOD weapon system acquisition practices (GAO-09-271):
  - improve practices for deciding which programs should—and, more importantly, should not—be pursued given existing and expected funding,
  - ensure that programs that are started can be executed by matching requirements with resources and locking in those requirements, and
  - make it clear that programs will be executed based on knowledge-based decisions and hold program managers responsible.
- Opportunities to improve overall contracting practices:
  - increase emphasis on competition (GAO-10-833), and
  - use award and incentive fees appropriately (GAO-09-630).
- Recent legislation and changes in DOD policies have addressed many of these issues, but real improvement will be realized only if these changes are successfully implemented.



# Other Potential Major Cost Saving and Revenue Options

- **Homeland Security Acquisitions and Grant Programs:** In the past 5 fiscal years, the Department of Homeland Security's (DHS) acquisition spending increased by 66 percent—from \$8.5 billion in fiscal year 2004 to \$14.2 billion in fiscal year 2009—and its portfolio of complex acquisitions continues to expand. In addition, DHS manages more than 80 grant programs and distributed approximately \$20 billion to states and urban areas over the past 6 years for emergency preparedness and response. Improving DHS management of these areas may lead to substantial cost savings and better value for dollars spent.
- Opportunities to improve DHS oversight of its acquisition function (GAO-10-588SP):
  - strengthen oversight of contractors,
  - better manage the relationships and dependencies among related programs, and
  - adhere to more rigorous management review and key acquisition management processes.
- Improving Oversight and Management of DHS Grant Programs could include (GAO-10-64, GAO-09-589, GAO-09-491, GAO-08-852):
  - improved oversight of state grantees,
  - better guidance for grantees in preparing applications and understanding the purposes for which funds can be used, and
  - further streamlining—including standardization and more efficient administration across grants to a multitude of state and local governments and non-profit organizations.

# Other Potential Major Cost Saving and Revenue Options

- **Tax Expenditures.** Tax expenditures are preferential provisions in the tax code, such as exemptions, deductions, credits, deferrals, and preferential tax rates. By narrowing the tax base, tax expenditures require tax rates to be higher to raise a given amount of revenue (GAO-05 690). For 2009, tax expenditures were estimated to have an aggregate revenue loss of almost \$1 trillion.
- Options to improve the effectiveness of tax expenditures include:
  - Congress could consider modifying the Research Tax Credit to reduce windfalls to taxpayers for research spending they would have done anyway (GAO-10-136);
  - Congress could convert at least part of the New Markets Tax Credit to a grant program to increase the amount of federal subsidy reaching low-income businesses (GAO-10-334);
  - Congress may want to consider whether the Volumetric Ethanol Excise Tax Credit is still needed to stimulate conventional corn ethanol production (GAO-09-446); and
  - Additional data could benefit Congress's ability to determine the effectiveness of other tax expenditures, such as community revitalization tax credits (GAO-10-464R, GAO-06-727).

# Other Potential Major Cost Saving and Revenue Options

- **Tax Gap:** Although taxpayers voluntarily and timely pay about 84 percent of owed taxes, for tax year 2001, the Internal Revenue Service (IRS) estimated an unpaid tax debt of \$345 billion, which was adjusted to about \$290 billion after late payments and IRS enforcement actions. The current annual tax gap may be larger, but an updated IRS estimate is not expected until 2013.
- Opportunities to close the tax gap include:
  - identifying additional opportunities for third parties to report taxpayer transactions to IRS that it can match to information on tax returns (GAO-09-769),
  - improving compliance for individuals with business income (GAO-10-195, GAO-09-815, GAO-07-1014),
  - periodically adjusting civil tax penalties for inflation to maintain deterrent value (GAO-07-1062),
  - using compliance data to better target scarce tax enforcement resources (GAO-07-719T),
  - leveraging new systems and technologies to enhance IRS effectiveness (GAO-10-687R),

# Other Potential Major Cost Saving and Revenue Options

- Opportunities to close the tax gap (continued):
  - considering how to better enlist paid tax return preparers in improving compliance (GAO-08-781),
  - expanding electronic filing of tax returns to improve the efficiency of enforcement actions and reduce return processing costs (GAO-08-38),
  - further developing return on investment measures for IRS enforcement programs (GAO-08-567, GAO-09-754), and
  - expanding IRS's authority to correct taxpayer errors before issuing refunds (GAO-10-225).
- **Oversight of Oil and Gas Royalties**: In fiscal year 2009, the Department of Interior collected more than \$9 billion in royalties related to oil and gas, but GAO's work raises serious doubts about the accuracy of these collections. Improved oversight of existing royalty programs could increase collection of royalties due to the federal government under existing policy.
- Opportunities to improve collection of oil and gas royalties include:
  - improving production inspections, which could result in improved oversight of production and more accurate measurements of oil produced from federal lands and water, for which royalties are owed (GAO-08-893R),

# Other Potential Major Cost Saving and Revenue Options

- Opportunities to improve collection of oil and gas royalties (continued):
  - improving information technology systems to limit data problems that limit Interior's ability to ensure that the federal government is receiving all royalties it is due (GAO-08-893R), and
  - requiring improvements in how Interior determines if companies are complying with, among other things, rules regarding payment of royalties (GAO-08-560T).
- **Federal Farm Programs:** The U.S. Department of Agriculture spends about \$16 billion per year on farm programs. Of this total, the agency spends about \$5 billion per year on Direct Payments, even though farm incomes have been at an all-time high in recent years. Also, GAO has found that the agency has provided benefits to thousands of individuals whose incomes exceeded eligibility caps and that each year it makes payments to thousands of individuals who have only limited involvement in farming (GAO-09-67, GAO-08-657, GAO-07-818, GAO-04-407).
- Opportunities to reduce the cost of federal farm programs include:
  - changing the percentage of acres eligible for the Direct Payments program, and
  - verifying that payments go only to individuals who meet eligibility requirements.

# Other Potential Major Cost Saving and Revenue Options

- **Federal Improper Payments:** The federal government estimated that it made about \$99 billion in improper payments involving over 60 programs in fiscal year 2009. The full scope of improper payments governmentwide is likely higher. In November 2009, the President issued an executive order to further heighten awareness of the need to reduce improper payments and eliminate waste, fraud, and abuse in federal programs. Further, in July 2010 Congress enacted legislation aimed at preventing and recouping improper payments. Effectively resolving issues that can lead to improper payments is critical to achieving savings (GAO-08-819R, GAO-08-438T, GAO-07-92).
- Opportunities to reduce improper payments from federal programs include:
  - Internal controls - Agencies should design and implement internal controls to identify and prevent improper payments, as well as to combat fraud;
  - Program design – Federal agencies with state-administered programs should establish a culture of accountability, develop a system to collect program information at the state level for estimating improper payments, and monitor program performance; and
  - Legal reforms – Legislation imposing penalties for fraud, improving benefit coordination between agencies, simplifying eligibility requirements, and allowing agencies to share data could help reduce improper payments.

# Other Potential Major Cost Saving and Revenue Options

- **User fees:** User fees can reduce taxpayer burden by charging the primary users of a program—such as the Postal Service, Customs, Immigration, and Agriculture inspections—in proportion to the benefit they receive. However, the extent to which some programs benefit identifiable users vs. the general public is often unclear. Also, variables such as the value of services relative to demand, users’ ability to pay, the ability of fees to cover all costs, and administrative or enforcement costs can affect equity and efficiency (GAO-09-180, GAO-09-70, GAO-08-386SP, GAO-08-321, GAO-07-1131).
- Opportunities to increase federal revenue obtained from user fees include:
  - agencies could biennially review both fee-funded and non-fee-funded programs to ensure that fees reflect changes in costs or to determine if fees should be charged,
  - agencies could recommend legislative changes to fee restrictions, as appropriate,
  - agencies and Congress should consider reducing budget requests and/or appropriations in accordance with available unobligated user fees,
  - agencies could design fee structures to recover the full costs of services, rather than just a portion, to the extent permissible by law,
  - Congress could consider better aligning statutorily permissible fee-funded activities with actual program activities,
  - when setting fees, agencies could identify and consider the full costs to the government.

# Challenges to Addressing Duplication

A number of challenges exist that can hamper efforts to address unnecessary duplication in federal programs and activities, and achieve other major cost saving efforts.

- **Definitions**: There can be differing views over degrees of duplication and the extent to which it exists.
- **Developing baseline data**: Developing baseline data on duplication can be difficult for a myriad of reasons including lack of comparable data; the reliability of data; and difficulties conducting data analyses across a wide range of government agencies and spending, regulatory, credit, and tax programs, and activities. Perhaps the most fundamental of all data-related challenges is the two-pronged issue regarding the lack of:
  - commonly accepted program definitions, which can make it difficult to consistently identify individual program boundaries and budget line items and to aggregate consistent trend data over time, and
  - comprehensive outcome-focused performance measures, which complicates efforts to identify inefficient programs or opportunities to achieve cost savings.



# Challenges to Addressing Duplication

- **Identifying potential savings vs. realizing actual savings:** Our previous work has shown that program consolidations can lead to increased efficiency and improvements in performance that significantly benefit taxpayers, administrators, service providers, and beneficiaries alike, and achieve budgetary savings. For example, program consolidations offer opportunities to reduce federal spending in terms of administrative costs, program costs, or both. However:
  - estimating and achieving savings pose challenges;
  - if federal activities are consolidated in a new office or bureau—but the affected responsibilities and personnel are simply transferred rather than reduced or eliminated—little, if any, savings will result;
  - obtaining reliable cost information to adequately evaluate potential savings can be problematic; and
  - reliable information on baseline spending, which is needed in order to accurately calculate savings compared to previous levels of spending, can be difficult to obtain.

# Challenges to Addressing Duplication

- **Identifying specific solutions:** GAO's work has typically focused on ways to address fragmentation, overlap, and/or duplication by improving interagency coordination and integration. However, agencies encounter a range of challenges in addressing duplication. For instance:
  - missions may not be mutually reinforcing or may even conflict, making it difficult to reach consensus on strategies and priorities;
  - interagency coordination is often hindered by incompatible procedures, processes, data, and computer systems; and
  - it can be difficult to alleviate agency concerns about protecting their jurisdictions and resources.
- While significant gains can be achieved by more aggressive restructuring or consolidation of outmoded government organizations and operations, such restructurings can be immensely complex and politically charged.
- In addition, consolidation of programs and services often result in implementation costs.

# Challenges to Addressing Duplication

- **Implementing recommendations:** Our prior work examining a range of government reform initiatives illustrates challenges associated with achieving specific savings dealing with efforts to address fragmentation and duplication across multiple organizations and activities. For example,
  - significant time can be required to reach agreements among various administration and congressional stakeholders on actions to be taken, particularly if policy decisions and/or legislative changes are needed, and
  - even when agreement exists on a broad framework of action, significant time can be required to flesh out the details of the steps to be taken, timeframes, and implementation budgets.
- Sustained leadership, commitment, monitoring, and oversight are keys to success.
- Ultimately, all key players must be involved in the process—Congress, the President, affected executive branch agencies, their employees and unions, and other interested parties, including the public.

# GAO's Approach Going Forward

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- Section 21 of the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139) stipulated that the Comptroller General shall:
  - conduct routine investigations to identify programs, agencies, offices, and initiatives with duplicative goals and activities within Departments and governmentwide, and
  - report annually to Congress on the findings, including the cost of such duplication and with recommendations for consolidation and elimination to reduce duplication identifying specific rescissions.
- The legislation requires us to examine duplication. For the purposes of our analysis, we will consider it to include unnecessary mission fragmentation and program overlap across spending, credit, regulatory, and tax programs.

# GAO's Approach Going Forward

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- GAO's first annual report to Congress in response to the Duplication Mandate is planned for February 2011.
  - The first annual report will be developed around selected key issues related to fragmentation, overlap, and/or duplication which, if effectively addressed, offer the potential for cost savings and other benefits, including increased government efficiency and effectiveness. The report will:
    - focus primarily on federal programs receiving discretionary funds,
    - provide an overview of past and current GAO work addressing fragmentation, overlap, and/or duplication, and discuss key lessons learned and challenges,
    - update information for achieving major cost savings or enhanced revenue drawn from a broader body of GAO's work over the years, including GAO's list of "High Risk" government programs, and
    - outline additional issues to be examined in future years.
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