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Report to Congressional Addressees

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

G A O

Accountability * Integrity * Reliability

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Contents

Abbreviations

AC	Bureau of Arms Control
AFR	Agency Financial Report
AFV	alternative fuel vehicle
AHLTA	Armed Forces Health Longitudinal Technology Application
ARS	Agricultural Research Service
ATF	Bureau of Alcohol, Tobacco, Firearms and Explosives
AUR	Automated Underreporter Program
BEA	business enterprise architecture
BEST	Border Enforcement Security Task Force
BLM	Bureau of Land Management
BOEMRE	Bureau of Ocean Energy Management, Regulation and Enforcement
BPA	blanket purchase agreement
BRAC	base realignment and closure
CBP	Customs and Border Protection
CDE	Community Development Entities
CFDA	Catalog of Federal Domestic Assistance
CDFI	Community Development Financial Institution
CERP	Commander's Emergency Response Program
CIO	Chief Information Officer
CMS	Centers for Medicare & Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act of 1985
Commerce	Department of Commerce
Corrosion Office	Office of Corrosion Policy and Oversight
DHS	Department of Homeland Security
DLA	Defense Logistics Agency
DNDO	Domestic Nuclear Detection Office
DOD	Department of Defense
DOT	Department of Transportation
DSH	Disproportionate Share Hospital
EAS	Essential Air Service
Education	Department of Education
EDA	Economic Development Administration
EHR	Electronic Health Record
Energy	Department of Energy
EPA	Environmental Protection Agency
EPAct	Energy Policy Act
FAM	Foreign Affairs Manual

FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
FFS	fee-for-service
FMCSA	Federal Motor Carrier Safety Administration
FPDS-NG	Federal Procurement Data System-Next Generation
FSIS	Food Safety and Inspection Service
FSSI	Federal Strategic Sourcing Initiative
FTA	Federal Transit Administration
FTHBC	First-Time Homebuyer Credit
Fund	Universal Service Fund
GAGAS	generally accepted government auditing standards
GHG	greenhouse gas
GPO	Government Pension Offset
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHA	home health agency
HHS	Department of Health and Human Services
HUBZone	Historically Underutilized Business Zone
HUD	Department of Housing and Urban Development
IBET	Integrated Border Enforcement Team
IED	improvised explosive device
IG	Inspector General
Interior	Department of the Interior
IPERA	Improper Payments Elimination and Recovery Act
IRS	Internal Revenue Service
ISN	Bureau of International Security and Nonproliferation
ISR	intelligence, surveillance, and reconnaissance
IT	information technology
JIEDDO	Joint IED Defeat Organization
Justice	Department of Justice
Labor	Department of Labor
MAS	Multiple Award Schedule
MEA	math error authority
MHS	Military Health System
MPPR	multiple procedure payment reduction
NAFTA	North American Free Trade Agreement
NASA	National Aeronautics and Space Administration
NMTC	New Markets Tax Credit
NP	Bureau of Nonproliferation
NSLP	National School Lunch Program

OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
ONRR	Office of Natural Resources and Revenue
O&S	operating and support
PAR	Performance and Accountability Report
PBL	performance-based logistics
PMS	Payment Management System
RAC	recovery audit contractor
RFS	renewable fuel standard
ROI	return on investment
S&T	Science and Technology Directorate
SBA	Small Business Administration
SNAP	Supplemental Nutrition Assistance Program
SPOT	Screening of Passengers by Observation Techniques
SSA	Social Security Administration
State	Department of State
STEM	science, technology, engineering, and mathematics
TANF	Temporary Assistance for Needy Families
Treasury	Department of the Treasury
TSA	Transportation Security Administration
USAC	Universal Service Administrative Company
USAID	U.S. Agency for International Development
USDA	Department of Agriculture
USICH	U.S. Interagency Council on Homelessness
VA	Department of Veterans Affairs
VC	Bureau of Verification and Compliance
VCI	Bureau of Verification, Compliance and Implementation
VEETC	Volumetric Ethanol Excise Tax Credit
VistA	Veterans Health Information Systems and Technology Architecture
WEP	Windfall Elimination Provision
WIA	Workforce Investment Act
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

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Comptroller General of the United States

United States Government Accountability Office
Washington, DC 20548

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Congressional Addressees:

This is GAO's first annual report to Congress in response to a new statutory requirement that GAO identify federal programs, agencies, offices, and initiatives, either within departments or governmentwide, which have duplicative goals or activities. Congress asked GAO to conduct this work and to report annually on our findings.[1] This work will inform government policymakers as they address the rapidly building fiscal pressures facing our national government. GAO's most recent update of its annual simulations of the federal government's fiscal outlook underscores the need to address the long-term sustainability of the federal government's fiscal policies.[2] Since the end of the recent recession, the gross domestic product has grown slowly and unemployment has remained at a high level. While the economy is still recovering and in need of careful attention, there is widespread agreement on the need to look not only at the near term but also at steps that begin to change the long-term fiscal path as soon as possible without slowing the recovery. With the passage of time, the window to address the challenge narrows and the magnitude of the required changes grows. GAO's simulations show continually increasing levels of debt that are unsustainable over time absent changes in current fiscal policies.

The objectives of this report are to (1) identify federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, the actions needed to address such conditions, and the potential financial and other benefits of doing so; and (2) highlight other opportunities for potential cost savings or enhanced revenues. To meet these objectives, we are including 81 areas for consideration based on related GAO work. This report is divided into two sections. Section I presents 34 areas where agencies, offices, or initiatives have similar or overlapping objectives or provide similar services to the same populations; or where government missions are fragmented across multiple agencies or

[1]Pub. L. No. 111-139, § 21, 124 Stat. 29 (2010), 31 U.S.C. § 712 Note.

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

programs. These areas span a range of government missions: agriculture, defense, economic development, energy, general government, health, homeland security, international affairs, and social services. Within and across these missions, this report touches on hundreds of federal programs, affecting virtually all major federal departments and agencies. Overlap and fragmentation among government programs or activities can be harbingers of unnecessary duplication. Reducing or eliminating duplication, overlap, or fragmentation could potentially save billions of tax dollars annually and help agencies provide more efficient and effective services. The areas identified in this report are not intended to represent the full universe of duplication, overlap, or fragmentation within the federal government. We will continue to identify additional issues in future reports.

Given today's fiscal environment, Section II of this report summarizes 47 additional areas—beyond those directly related to duplication, overlap, or fragmentation—describing other opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections for the Treasury. These cost-savings and revenue opportunities also span a wide range of federal government agencies and mission areas. The issues raised in both sections were drawn from GAO's prior and ongoing work.

Many of the issues included in this report are focused on activities that are contained within single departments or agencies. In those cases, agency officials can generally achieve cost savings or other benefits by implementing existing GAO recommendations or by undertaking new actions suggested in this report. However, a number of issues we have identified, particularly in the duplication area, span multiple organizations and therefore may require higher-level attention by the executive branch or enhanced congressional oversight or legislative action.

In some cases, there is sufficient information available today to show that if actions are taken to address individual issues summarized in this report, financial benefits ranging from the tens of millions to several billion dollars annually may be realized by addressing that single issue. For example, while the Department of Defense is making limited changes to the governance of its military health care system, broader restructuring could result in annual savings of up to $460 million. Similarly, we developed a range of options that could reduce federal revenue losses by up to $5.7 billion annually by addressing potentially duplicative policies designed to boost domestic ethanol production. Likewise, we identified a number of other opportunities for cost savings or enhanced revenues such

as reducing improper federal payments totaling billions of dollars, or addressing the gap between taxes owed and paid, potentially involving billions of dollars. Collectively, these savings and revenues could result in tens of billions of dollars in annual savings, depending on the extent of actions taken.

In other cases, precise estimates of the extent of unnecessary duplication among certain programs, and the cost savings that can be achieved by eliminating any such duplication, are difficult to specify in advance of congressional and executive branch decision making. In some instances, needed information on program performance is not readily available; the level of funding in agency budgets devoted to overlapping or fragmented programs is not clear; and the implementation costs that might be associated with program consolidations or terminations, among other variables, are difficult to predict. For example, we identified 44 federal employment and training programs that overlap with at least one other program in that they provide at least one similar service to a similar population. However, our review of three of the largest programs showed that the extent to which individuals receive the same services from these programs is unknown due to program data limitations. In addition, Congress' determinations in making policy decisions and actions that agencies may take would affect the potential savings associated with any given option.[3] Nevertheless, considering the amount of program dollars involved in the issues we have identified, even limited adjustments could result in significant savings.

Given the challenges noted above, careful, thoughtful actions will be needed to address many of the issues discussed in this report, particularly those involving potential duplication. Additionally, in January 2011, the President signed the GPRA Modernization Act of 2010,[4] updating the almost two-decades-old Government Performance and Results Act (GPRA).[5] Implementing provisions of the new act—such as its emphasis on establishing outcome-oriented goals covering a limited number of crosscutting policy areas—could play an important role in clarifying

[3]The mandate calling for this report also asked GAO to identify specific areas where Congress may wish to cancel budget authority it has previously provided—a process known as rescission. To date, GAO's work has not identified a basis for proposing specific funding rescissions.

[4]Pub. L. No. 111-352, 124 Stat. 3866 (2011).

[5]Pub. L. No. 103-62, 107 Stat. 285 (1993).

desired outcomes, addressing program performance spanning multiple organizations, and facilitating future actions to reduce unnecessary duplication, overlap, and fragmentation.

As the nation rises to meet the current fiscal challenges, GAO will continue to assist Congress and federal agencies in reducing duplication, overlap, or fragmentation; achieving cost savings; and enhancing revenues. In GAO's future annual reports, we will look at additional federal programs to identify further instances of duplication, overlap, or fragmentation, as well as other opportunities to reduce the cost of government operations or increase revenues to the government. Likewise, we will continue to monitor developments in the areas we have already identified. Issues of duplication, overlap, and fragmentation will be addressed in our routine audit work during the year as appropriate and summarized in our annual reports.

This report is based substantially upon work conducted for ongoing audits and previously completed GAO products, which were conducted in accordance with generally accepted government auditing standards or with GAO's quality assurance framework, as appropriate. We conducted the work for the overall report from February 2010 through February 2011. For issues being reported on for the first time, GAO sought comments from the agencies involved and incorporated those comments as appropriate. Appendix II contains additional details of our scope and methodology.

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Section I: GAO Identified Areas of Potential Duplication, Overlap, and Fragmentation, Which, if Effectively Addressed, Could Provide Financial and Other Benefits

Table 1 presents 34 areas for consideration related to duplication, overlap, or fragmentation from GAO's recently completed and ongoing work. In some cases, there is sufficient information to estimate potential savings or other benefits if actions are taken to address individual issues. In those cases, as noted below, financial benefits ranging from hundreds of millions to several billion dollars annually may be realized. In other cases, estimates of cost savings or other benefits would depend upon what congressional and executive branch decisions were made, including how certain GAO recommendations are implemented. Additionally, information on program performance, the level of funding in agency budgets devoted to overlapping or fragmented programs, and the implementation costs that might be associated with program consolidations or terminations, are factors that could impact actions to be taken as well as potential savings. Following the table are summaries for each of the 34 areas listed. In addition to summarizing what GAO has found, each area presents actions for the executive branch or Congress to consider. Each of the summaries contains a "Framework for Analysis" providing the methodology used to conduct the work and a list of related GAO products for further information.

Table 1: Duplication, Overlap, or Fragmentation Areas Identified in This Report

Missions	Areas identified	Federal agencies and programs where duplication, overlap, or fragmentation may occur	Page
Agriculture	1. Fragmented **food safety** system has caused inconsistent oversight, ineffective coordination, and inefficient use of resources	The Department of Agriculture's (USDA) Food Safety and Inspection Service and the Food and Drug Administration are the primary food safety agencies, but 15 agencies are involved in some way	8
Defense	2. Realigning **DOD's military medical command** structures and consolidating common functions could increase efficiency and result in projected savings ranging from $281 million to $460 million annually	Department of Defense (DOD), including the Office of the Assistant Secretary for Health Affairs, the Army, the Navy, and the Air Force	13
	3. Opportunities exist for consolidation and increased efficiencies to maximize response to **warfighter urgent needs**	At least 31 entities within DOD	18
	4. Opportunities exist to avoid unnecessary redundancies and improve the coordination of **counter-improvised explosive device efforts**	The services and other components within DOD	23
	5. Opportunities exist to avoid unnecessary redundancies and maximize the efficient use of **intelligence, surveillance,** and **reconnaissance** capabilities	Multiple intelligence organizations within DOD	26
	6. A departmentwide acquisition strategy could reduce DOD's risk of costly duplication in purchasing **Tactical Wheeled Vehicles**	DOD, including Army and Marine Corps	31

	7.	Improved joint oversight of DOD's **prepositioning programs** for equipment and supplies may reduce unnecessary duplication	DOD including Air Force, Army, and Marine Corps	34
	8.	**DOD business systems** modernization: opportunities exist for optimizing business operations and systems	About 2,300 investments across DOD	38
Economic development	9.	The efficiency and effectiveness of fragmented **economic development programs** are unclear	USDA, Department of Commerce (Commerce), Housing and Urban Development (HUD), and the Small Business Administration (SBA); 80 programs involved	42
	10.	The federal approach to **surface transportation** is fragmented, lacks clear goals, and is not accountable for results	Five agencies within the Department of Transportation (DOT); over 100 programs involved	48
	11.	Fragmented federal efforts to meet **water needs** in the **U.S.-Mexico border region** have resulted in an administrative burden, redundant activities, and an overall inefficient use of resources	USDA, Commerce's Economic Development Administration, Environmental Protection Agency (EPA), Department of Health and Human Services' (HHS) Indian Health Service, Department of the Interior's (Interior) Bureau of Reclamation, HUD, and the U.S. Army Corps of Engineers	52
Energy	12.	Resolving conflicting requirements could more effectively achieve **federal fleet energy goals**	A number of agencies, including the Department of Energy (Energy) and the General Services Administration (GSA) play a role overseeing the governmentwide requirements	55
	13.	Addressing duplicative federal efforts directed at increasing **domestic ethanol production** could reduce revenue losses by up to $5.7 billion annually	EPA and the Department of the Treasury	59
General government	14.	**Enterprise architectures**: key mechanisms for identifying potential overlap and duplication	Governmentwide	62
	15.	Consolidating **federal data** centers provides opportunity to improve government efficiency and achieve significant cost savings	Twenty-four federal agencies	66
	16.	Collecting improved data on **interagency contracting** to minimize duplication could help the government leverage its vast buying power	Governmentwide	70
	17.	Periodic reviews could help identify ineffective **tax expenditures** and redundancies in related tax and spending programs, potentially reducing revenue losses by billions of dollars	Governmentwide	75
Health	18.	Opportunities exist for **DOD** and **VA** to jointly modernize their **electronic health record systems**	DOD and the Department of Veterans Affairs (VA)	79
	19.	**VA** and **DOD** need to control **drug** costs and increase **joint contracting** whenever it is cost-effective	DOD and VA	82
	20.	HHS needs an overall strategy to better integrate nationwide **public health information** systems	Multiple agencies, led by HHS	88
Homeland security/Law enforcement	21.	Strategic oversight mechanisms could help integrate fragmented interagency efforts to defend against **biological threats**	USDA, DOD, Department of Homeland Security (DHS), HHS, Interior, and others; more than two dozen presidentially appointed individuals with responsibility for biodefense	92

	22. DHS oversight could help eliminate potential duplicating efforts of interagency forums in **securing** the **northern border**	DHS and other federal law enforcement partners	96
	23. The Department of Justice plans actions to reduce overlap in **explosives investigations**, but monitoring is needed to ensure successful implementation	Department of Justice's Federal Bureau of Investigation and Bureau of Alcohol, Tobacco, Firearms and Explosives	101
	24. **TSA's security assessments** on commercial trucking companies overlap with those of another agency, but efforts are under way to address the overlap	DHS's Transportation Security Administration (TSA) and DOT	105
	25. DHS could streamline mechanisms for **sharing security-related information** with **public transit agencies** to help address overlapping information	Three information-sharing mechanisms funded by DHS and TSA	111
	26. **FEMA** needs to improve its oversight of **grants** and establish a framework for assessing capabilities to identify gaps and prioritize investments	DHS's Federal Emergency Management Agency (FEMA); 17 programs involved	116
International affairs	27. Lack of information sharing could create the potential for duplication of efforts between U.S. agencies involved in **development efforts** in **Afghanistan**	Principally DOD and the U.S. Agency for International Development	120
	28. Despite restructuring, overlapping roles and functions still exist at State's **Arms Control** and **Nonproliferation Bureaus**	Two bureaus within the Department of State (State)	123
Social services	29. Actions needed to reduce administrative overlap among **domestic food assistance** programs	USDA, DHS, and HHS; 18 programs involved	125
	30. Better coordination of federal **homelessness** programs may minimize fragmentation and overlap	Seven federal agencies, including Department of Education (Education), HHS, and HUD; over 20 programs involved	129
	31. Further steps needed to improve cost-effectiveness and enhance services for **transportation-disadvantaged** persons	USDA, DOT, Education, Interior, HHS, HUD, Department of Labor (Labor), and VA; 80 programs involved	134
Training, employment, and education	32. Multiple **employment** and **training** programs: providing information on colocating services and consolidating administrative structures could promote efficiencies	Education, HHS, and Labor, among others; 44 programs involved	140
	33. **Teacher quality**: proliferation of programs complicates federal efforts to invest dollars effectively	Ten agencies including DOD, Education, Energy, National Aeronautics and Space Administration, and the National Science Foundation; 82 programs involved	144
	34. Fragmentation of **financial literacy** efforts makes coordination essential	More than 20 different agencies; about 56 programs involved	151

Source: GAO analysis based on areas addressed in Section I of this report.

Fragmented Food Safety System Has Caused Inconsistent Oversight, Ineffective Coordination, and Inefficient Use of Resources

Why GAO Is Focusing on This Area

The fragmented federal oversight of food safety has caused inconsistent oversight, ineffective coordination, and inefficient use of resources. Fifteen federal agencies collectively administer at least 30 food related laws. Budget obligations for the two primary food safety agencies—the Food and Drug Administration (FDA) and the U.S. Department of Agriculture's (USDA) Food Safety and Inspection Service (FSIS)—totaled over $1.6 billion in fiscal year 2009. USDA is responsible for the safety of meat, poultry, processed egg products, and catfish and FDA is responsible for virtually all other food, including seafood. Three major trends also create food safety challenges: (1) a substantial and increasing portion of the U.S. food supply is imported, (2) consumers are eating more raw and minimally processed foods, and (3) segments of the population that are particularly susceptible to food-borne illnesses, such as older adults and immune-compromised individuals, are growing.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

For more than a decade, GAO has reported on the fragmented nature of federal food safety oversight. The 2010 nationwide recall of more than 500 million eggs due to *Salmonella* contamination highlights this fragmentation. FDA is generally responsible for ensuring that shell eggs, including eggs at farms such as those where the outbreak occurred, are safe, wholesome, and properly labeled and FSIS is responsible for the safety of eggs processed into egg products. In addition, while USDA's Agricultural Marketing Service sets quality and grade standards for the eggs, such as Grade A, it does not test the eggs for microbes such as *Salmonella*. Further, USDA's Animal and Plant Health Inspection Service helps ensure the health of the young chicks that are supplied to egg farms, but FDA oversees the safety of the feed they eat.

Oversight is also fragmented in other areas of the food safety system. For example, the 2008 Farm Bill assigned USDA responsibility for catfish, thus splitting seafood oversight between USDA and FDA. In September 2009, GAO also identified gaps in food safety agencies' enforcement and collaboration on imported food. Specifically, the import screening system used by the Department of Homeland Security's Customs and Border Protection (CBP) does not notify FDA's or FSIS's systems when imported food shipments arrive at U.S. ports. Without access to time-of-arrival information, FDA and FSIS may not know when shipments that require examinations arrive at the port, which could increase the risk that unsafe food could enter U.S. commerce. GAO recommended that the CBP Commissioner ensure that CBP's new screening system communicates time-of-arrival information to FDA's and FSIS's screening systems and GAO continues to monitor their actions.

Actions Needed and Potential Financial or Other Benefits

GAO has made numerous recommendations intended to address the fragmented federal oversight of the nation's food supply. One key recommendation in October 2001 was to reconvene the President's Council on Food Safety, which disbanded earlier that year. In response, the President created the Food Safety Working Group in 2009 to coordinate federal efforts and develop goals to make food safer. Through the working group, which is co-chaired by the Secretaries of Health and Human Services and Agriculture, federal agencies have begun collaborating in certain areas that cross regulatory jurisdictions—improving produce safety, reducing *Salmonella* contamination, and developing food safety performance measures. However, as a presidentially appointed working group its future is uncertain, and the experience of the Council on Food Safety, which disbanded less than 3 years after it was created, illustrates that this type of approach can be short lived. In addition, developing a results-oriented governmentwide performance plan for food safety, commissioning a detailed analysis of alternative organizational structures, and enacting comprehensive risk-based food safety legislation could help address fragmentation. In January 2007, GAO said that what remains to be done is to develop a governmentwide performance plan that is mission based, has a results orientation, and provides a cross-agency perspective. In July 2009, the Food Safety Working Group issued its key findings—a set of goals and actions for improving food safety. While the key findings are mission based and offer a cross-agency perspective, they are not fully results oriented. Further, the working group has not provided information about the resources that are needed to achieve its goals. As a next step, the Director of the Office of Management and Budget, in consultation with the federal agencies that have food safety responsibilities, should develop a governmentwide performance plan for food safety that includes results-oriented goals and performance measures and a discussion of strategies and resources. Without a governmentwide performance plan for food safety, decision makers do not have a comprehensive picture of the federal government's performance on this crosscutting issue. In addition, the federal government does not formulate an overall budget for food safety, making it difficult for Congress to monitor the federal resources allocated to federal food safety oversight.

GAO, in October 2001, suggested that Congress consider commissioning the National Academy of Sciences or a blue ribbon panel to conduct a detailed analysis of alternative food safety organizational structures. A detailed analysis has yet to be commissioned and GAO reiterated its suggestion to Congress in February 2011. GAO and other organizations

have identified alternative organizational structures that could be analyzed in more detail, including:

- a single food safety agency, either housed within an existing agency or established as an independent entity, that assumes responsibility for all aspects of food safety at the federal level;
- a single food safety inspection agency that assumes responsibility for food safety inspection activities, but not other activities, under an existing department, such as USDA or FDA;
- a data collection and risk analysis center for food safety that consolidates data collected from a variety of sources and analyzes it at the national level to support risk-based decision making; and
- a coordination mechanism that provides centralized, executive leadership for the existing organizational structure, led by a central chair who would be appointed by the president and have control over resources.

GAO, the National Academy of Sciences, and others have also suggested that Congress enact comprehensive risk-based food safety legislation. In May 2004, GAO reported that such legislation can provide the foundation for focusing federal oversight and resources on the most important food safety problems from a public health perspective. New food safety legislation that was signed into law in January 2011 strengthens a major part of the food safety system and expands FDA's oversight authority. However, the law does not apply to the federal food safety system as a whole and GAO reiterated its suggestion for comprehensive, risk-based food safety legislation in February 2011. The European Union adopted comprehensive food safety legislation in 2004 intended to create a single, transparent set of food safety rules.

Although reducing fragmentation in federal food safety oversight is not expected to result in significant cost savings, new costs may be avoided by preventing further fragmentation, as illustrated by the approximately $30 million for fiscal years 2011 and 2012 that USDA officials had said they would have to spend developing and implementing the agency's new congressionally mandated catfish inspection program. Subsequently, no funding was proposed for the program in the President's fiscal year 2012 budget because of the need for considerable stakeholder engagement and regulatory development before its adoption and implementation. In addition, GAO has reported that user fees are means of financing federal

services that can be designed to reduce the burden on tax payers and promote economic efficiency and equity. The Congressional Budget Office has estimated that if FSIS charged user fees, federal revenues would increase by $902 million in fiscal year 2011 and could offset inspection costs. FDA has proposed user fees in its fiscal year 2011 congressional budget request that it estimates could increase revenues by almost $194 million and could enable the agency to expand its food safety efforts.

GAO recognizes that reorganizing federal food safety responsibilities is a complex process. Further, GAO's work on other agency mergers and transformations indicates that reorganizing food safety could have short-term disruptions and transition costs. However, reducing fragmentation and overlap could result in a number of nonfinancial benefits. GAO reported in March 2004 that integrating food safety oversight can create synergy and economies of scale and can provide more focused and efficient efforts to protect the nation's food supply. In June 2008, GAO also reported that other countries that reorganized their food safety systems have experienced additional benefits, such as improved public confidence in the systems. For example, GAO reported that industry and consumer stakeholders generally had positive views of the reorganized food safety systems and said that transparency had improved.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below. In addition, GAO reviewed relevant food safety reports and legislation, and interviewed officials from USDA, FDA, and the Office of Management and Budget. GAO also collected and analyzed information about the Food Safety Working Group, its activities, and its plan for food safety, as well as alternative organizational structures for food safety oversight.

Related GAO Products

High-Risk Series: An Update. GAO-11-278. Washington, D.C.: February 16, 2011.

Live Animal Imports: Agencies Need Better Collaboration to Reduce the Risk of Animal-Related Diseases. GAO-11-9. Washington, D.C.: November 8, 2010.

Food Safety: Agencies Need to Address Gaps in Enforcement and Collaboration to Enhance Safety of Imported Food. GAO-09-873. Washington, D.C.: September 15, 2009.

Seafood Fraud: FDA Program Changes and Better Collaboration among Key Federal Agencies Could Improve Detection and Prevention. GAO-09-258. Washington, D.C.: February 19, 2009.

Food Safety: Selected Countries' Systems Can Offer Insights into Ensuring Import Safety and Responding to Foodborne Illness. GAO-08-794. Washington, D.C.: June 10, 2008.

Oversight of Food Safety Activities: Federal Agencies Should Pursue Opportunities to Reduce Overlap and Better Leverage Resources. GAO-05-213. Washington, D.C.: March 30, 2005.

Food Safety and Security: Fundamental Changes Needed to Ensure Safe Food. GAO-02-47T. Washington, D.C.: October 10, 2001.

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Realigning DOD's Military Medical Command Structures and Consolidating Common Functions Could Increase Efficiency and Reduce Costs

Why GAO Is Focusing on This Area

Department of Defense (DOD) components provide health care to over 9.6 million eligible beneficiaries, including U.S. military personnel, retirees, and their family members. With more than 130,000 military and government medical professionals, a large network of private health care providers, 59 DOD hospitals, and hundreds of clinics worldwide, DOD's collective Military Health System (MHS) manages more than 200,000 medical visits and fills more than 300,000 prescriptions per day. Additionally, the MHS is an important source for education, military medical training, and research and development. However, MHS costs have more than doubled from $19 billion in fiscal year 2001 to $49 billion in 2010 and are expected to increase to over $62 billion by 2015. Studies by GAO and others over many years have identified opportunities to gain efficiencies and save costs by consolidating administrative, management, and clinical functions.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

The responsibilities and authorities for DOD's military health system are distributed among several organizations within DOD with no central command authority or single entity accountable for minimizing costs and achieving efficiencies. Under the MHS's current command structure, the Office of the Assistant Secretary of Defense for Health Affairs, the Army, the Navy, and the Air Force each has its own headquarters and associated support functions, such as information technology, human capital management, financial activities, and contracting. Additionally, the three services each have Surgeons General to oversee their deployable medical forces and operate their own health care systems. Moreover, while the Assistant Secretary of Defense for Health Affairs controls the Defense Health Program budget, this office does not directly supervise the services' medical personnel.

In 2005, GAO identified DOD's health care system as an example of a key challenge facing the U.S. government in the 21st century as well as an area in which DOD could achieve economies of scale and improve delivery by combining, realigning, or otherwise changing selected support functions. In 2001, a RAND Corporation study on reorganizing the MHS uncovered at least 13 studies since the 1940s that had addressed military health care organization. All but three of those studies had either favored a unified system or recommended a stronger central authority to improve coordination among the services. However, DOD has taken limited actions to date to consolidate common administrative, management, and clinical functions within its MHS.

In 2005, DOD formed a working group to develop an implementation plan for a joint medical command. This group in 2006 developed and evaluated several reorganization alternatives to promote effectiveness and efficiency in its medical command structure by increased sharing of resources, use of common operating processes, and reduction in duplicative functions and organizations. One alternative would have established a unified medical command similar to DOD's unified transportation command; the second alternative would have established two separate commands—one to provide operational/deployable medicine and another to provide beneficiary care through military hospitals and contracted providers; and a third alternative would have designated one of the military services to provide all health care services across DOD.

Because of an inability to obtain a consensus among the services on which alternative to implement, the Under Secretary of Defense for Personnel and Readiness and the Assistant Secretary of Defense for Health Affairs presented a new concept which, in November 2006, the Deputy Secretary of Defense approved. This chosen concept directed seven smaller scale, incremental reorganization efforts designed to minimize duplicative layers of command and control where possible; reduce redundant efforts, personnel, and expenses; and leverage efficiencies through combining common service support functions being performed within each of the services, such as finance, information management and technology, human capital management, support, and logistics. However, the concept left the existing command structures of the three services' medical departments over all military treatment facilities essentially unchanged. In updating its previous reviews, GAO found that DOD officials have made varying levels of progress in implementing four of the seven incremental steps.

More specifically, DOD is taking actions to (1) create a command, control, and management structure in DOD's base realignment and closure (BRAC) markets (National Capital Area and San Antonio); (2) realign command and control of the Joint Medical Education Training Center in San Antonio; (3) colocate the Military Health System and service medical headquarters; and (4) consolidate all medical research and development under the Army Medical Research and Material Command. Progress on these actions has been facilitated by the fact that three of them are related to BRAC recommendations made in 2005 that DOD must complete by the BRAC statutory deadline of September 2011. According to officials, DOD has not implemented actions to (1) establish a Joint Military Health Service Directorate under Assistant Secretary of Defense for Health Affairs; (2) consolidate command and control in other locations with more than one DOD component providing military health care services; and

(3) realign current TRICARE Management Activity to focus on health plan management. The Office of the Assistant Secretary of Defense for Health Affairs has not provided guidance on how and when to accomplish the three remaining steps, and officials indicated that further action is not likely to occur until the results of a broader, ongoing DOD-wide organizational and efficiency assessment is completed.

For the three BRAC-related steps under way, DOD's BRAC budget reporting[1] indicates a net annual savings of $275 million after full implementation. However, DOD medical officials have expressed uncertainty as to whether these savings will be achieved because of changes that occurred within the MHS since the BRAC decision was made. For example, they point out that the care of casualties from operations in Iraq and Afghanistan and the congressional direction to provide "world class health care" in the National Capital Region have all significantly increased MHS costs.

Finally, GAO reported in July 2010 that DOD would benefit from enhanced collaboration among the services in their medical personnel requirements determination processes and recommended that DOD identify, develop, and implement cross-service medical personnel standards for common capabilities. The report made recommendations to each of the services to improve their medical personnel requirements determination processes. That report also recognized that while each of the services has unique operational medical capabilities, the day-to-day operations at military treatment facilities are very similar across the services and could be more collaboratively managed, and that DOD should identify the common medical capabilities that are shared across the services in their military treatment facilities that would benefit from the development of cross-service medical personnel standards. DOD replied that developing cross-service standards in specific medical functional areas where there is measurable benefit makes good sense, and the services generally agreed with the need for improvements to their respective requirements determination processes.

[1]DOD is required by section 2907 of the Defense Base Closure and Realignment Act of 1990, Pub. L. No. 101-510 (as amended by section 2831(b) of Pub. L. No. 109-163 (2006) and section 2711 of Pub. L. No. 110-417 (2008)) to, among other reporting requirements, estimate the total expenditures required and cost savings to be achieved by each closure and realignment. To calculate DOD's expected BRAC annual savings, GAO used dollar amounts obtained from DOD's budget submission for fiscal year 2011.

Actions Needed and Potential Financial and Other Benefits

To reduce duplication in its command structure and eliminate redundant processes that add to growing defense health care costs, DOD could take action to further assess alternatives for restructuring the governance structure of the military health care system. In 2007, GAO recommended that DOD needed to demonstrate a sound business case for proceeding with its chosen concept, including an analysis of benefits, costs, and risks of implementing that choice. Although not explicitly stated, such an analysis, to be complete, would require analyzing other alternatives such as a unified medical command. These analyses have not been conducted, and GAO's ongoing review will seek to determine the extent to which DOD has developed an approach for implementing the remaining actions in its chosen concept. Without such actions, DOD is not in a sound position to assure the Secretary of Defense and Congress that it made an informed decision in implementing its chosen concept over other alternatives or whether it will have the desired impact on DOD's MHS or achieve anticipated results.

In 2006, if DOD and the services had chosen to implement one of the three other alternatives studied by the DOD working group, a May 2006 report by the Center for Naval Analyses showed DOD could have achieved significant savings. GAO's adjustment of those projected savings from 2005 into 2010 dollars indicates those savings could range from $281 million to $460 million annually depending on the alternative chosen and numbers of military, civilian, and contractor positions eliminated. The report largely focused on personnel as the primary source of potential savings or costs.[2] However, the report indicated that these savings would require a long and potentially costly transition period to be realized. Additionally, the report stated that DOD's ability to realize the potential savings depended crucially on clear command and control to make the necessary changes.

In his selection of the chosen option in 2006, the Deputy Secretary of Defense acknowledged that implementing the chosen concept may not achieve the estimated level of savings of implementing a unified medical structure but believed minimum annual savings of about $200 million ($221 million in 2010 dollars) was a realistic goal. Additionally, significant cost avoidance from improved performance once changes had been

[2]The Center for Naval Analyses categorized the potential savings into the following 10 areas: health care operations; comptroller operations; information management and information technologies; education and training; research and development; logistics; strategic planning; human capital management; force health protection and environmental health; and general headquarters.

implemented was anticipated. For example, in September 2010, DOD officials told GAO that they had identified about $30 million in annual savings from the reduction in contract medical staff among the newly established joint hospitals in the National Capital Region—one of the seven incremental steps of the chosen concept. Additionally, officials believe the colocation of the medical headquarters will provide improved collaboration and opportunities for consolidating their operations where possible.

Framework for Analysis

The information contained in this analysis is based on the GAO reports listed below as well as work updating the extent to which DOD has (1) conducted a cost benefit analysis of its chosen concept and (2) implemented its 2006 chosen concept. To do this, GAO obtained, reviewed, and discussed with DOD officials any analyses performed related to the chosen concept or other alternatives subsequently considered. Additionally, GAO reviewed DOD documents, policies, directives, briefings, and concept papers related to DOD's 2006 chosen concept, as well as GAO's prior findings and recommendations associated with this effort. In meetings with officials from OSD, the services' medical departments, and other relevant offices, GAO obtained, analyzed, and discussed documents related to the status, costs, and results of the seven steps in the chosen concept. In obtaining oral comments, DOD officials said that they generally agreed with the facts and findings in this analysis.

Related GAO Products

Military Personnel: Enhanced Collaboration and Process Improvements Needed for Determining Military Treatment Facility Medical Personnel Requirements. GAO-10-696. Washington, D.C.: July 29, 2010.

Defense Health Care: DOD Needs to Address the Expected Benefits, Costs, and Risks for Its Newly Approved Medical Command Structure. GAO-08-122. Washington, D.C.: October 12, 2007.

Defense Health Care: Tri-Service Strategy Needed to Justify Medical Resources for Readiness and Peacetime Care. GAO/HEHS-00-10. Washington, D.C.: November 3, 1999.

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Opportunities Exist for Consolidation and Increased Efficiencies to Maximize Response to Warfighter Urgent Needs

Why GAO Is Focusing on This Area

Forces in Iraq and Afghanistan have faced significant risks of mission failure and loss of life due to rapidly changing enemy threats. In response, the Department of Defense (DOD) established urgent needs processes to rapidly develop, modify, and field new capabilities, such as intelligence, surveillance, and reconnaissance (ISR) technology, and counter-improvised explosive devices (IED) systems. GAO identified at least 31 entities that play a role in DOD's urgent needs processes and has estimated funding for addressing urgent needs through those entities to be at least $76.9 billion, since 2005.

GAO has identified challenges with the department's fragmented guidance and GAO and others have raised concerns about the numbers and roles of the various entities and processes involved and the potential of overlap and duplication. With the shift in priority for overseas operations from Iraq to Afghanistan—a theater that may pose more complex long-term challenges—deployed or soon-to-deploy units will likely continue to request critical capabilities to help them accomplish their missions.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Over the past two decades, the fulfillment of urgent needs has evolved as a set of complex processes within the Joint Staff, the Office of the Secretary of Defense, each of the military services, and the combatant commands to rapidly develop, equip, and field solutions and critical capabilities to the warfighter. DOD's experience with the rapidly evolving threats in Iraq and Afghanistan has led to the expanded use of existing urgent needs processes, the creation of new policies, and establishment of new organizations to manage urgent needs and to expedite the development of solutions to address them. However, DOD has not comprehensively evaluated opportunities for consolidation across the department, even though concerns have been raised by the Defense Science Board, GAO, and others about the numbers and roles of the various entities and processes involved and the potential of overlap and duplication. For example, the Defense Science Board, in July and September 2009 reports, found that DOD has done little to adopt urgent needs as a critical, ongoing DOD institutional capability essential to addressing future threats, and has provided recommendations to the department about potential consolidations. Many DOD and military service officials stated that higher-level senior leadership needs to take decisive action to evaluate the breadth of DOD's urgent needs activities to determine what opportunities may exist for reducing unnecessary duplication in staff, information technology, support, and funding.

Additionally, GAO found that overlap exists among urgent needs entities in the roles they play as well as the capabilities for which they are responsible. For example:

- There are numerous places for the warfighter to submit a request for an urgently needed capability. Warfighters may submit urgent needs, depending on their military service and the type of need, to one of the following different entities: Joint Staff J/8, Army Deputy Chief of Staff G/3/5/7, Army Rapid Equipping Force, Navy Fleet Forces Command or Commander Pacific Fleet, Marine Corps Deputy Commandant for Combat Development and Integration, Air Force Major Commands, Special Operations Requirements and Resources, or the Joint IED Defeat Organization. These entities then validate the submitted urgent need request and thus allow it to proceed through their specific process.

- Multiple entities reported a role in responding to similar types of urgently needed capabilities. GAO identified eight entities focused on responding to ISR capabilities, five entities focused on responding to counter-IED capabilities, and six entities focused on responding to communications, command and control, and computer technology. In some cases, duplication of efforts may have occurred—see related summaries in this report on the subjects of intelligence, surveillance, and reconnaissance systems and counter-improvised explosive devices.

The department is hindered in its ability to identify key improvements, including consolidation to reduce any overlap, duplication, or fragmentation because it lacks a comprehensive approach to manage and oversee the breadth of its urgent needs efforts. Specifically, DOD does not have a comprehensive, DOD-wide policy that establishes a baseline and provides a common approach for how all joint and military service urgent needs are to be addressed—including key activities of the process such as validation, execution, or tracking. For example, the Joint Staff, the Joint IED Defeat Organization, the military services, and the Special Operations Command have issued their own guidance that varies in terms of the key activities associated with processing and meeting urgent needs—including how an urgent needs statement is generated by the warfighter, validated as an urgent requirement, and tracked after a solution is provided. Furthermore, DOD does not have visibility over the full range of its urgent needs efforts. For example, DOD cannot readily identify the cost of its

departmentwide urgent needs efforts, which is at least $76.9 billion[1] since 2005 based on GAO's analysis. Additionally, DOD does not have a comprehensive tracking system, a set of universal metrics, and a senior-level focal point to lead the department's efforts to fulfill validated urgent needs requirements. Without DOD-wide guidance and a focal point to lead its efforts, DOD risks having duplicative, overlapping, and fragmented efforts, which can result in avoidable costs.

Actions Needed and Potential Financial or Other Benefits

In the absence of a comprehensive DOD evaluation, GAO's March 2011 report identified and analyzed several options, aimed at potential consolidations and increased efficiencies in an effort intended to provide ideas for the department to consider in streamlining its urgent needs entities and processes. These options include the following:

- Consolidate into one entity, within the Office of the Secretary of Defense, all the urgent needs processes of the services and DOD, while keeping at the services' program offices the development of solutions.
- Consolidate entities that have overlapping mission or capability portfolios regarding urgent needs solutions.
- Establish a gatekeeper within each service to oversee all key activities to fulfill a validated urgent needs requirement.
- Consolidate within each service any overlapping activities in the urgent needs process.

The options GAO identified are not meant to be exhaustive or mutually exclusive. Rather, DOD would need to perform its own analysis, carefully weighing the advantages and disadvantages of options it identifies to determine the optimal course of action. Additionally, it must be recognized that many entities involved in the fulfillment of urgent needs have other roles as well. However, until DOD performs such an evaluation, it will remain unaware of opportunities for consolidation and increased efficiencies in the fulfillment of urgent needs.

[1]Estimate is based on funding data provided by urgent needs-related entities responding to our data collection instrument and includes funding for processing of urgent needs as well as development of solutions and some acquisition costs.

GAO's March 2011 report recommended that the department develop comprehensive guidance that, among other things, creates a focal point to lead its urgent needs efforts. Additionally, GAO recommended that DOD's Chief Management Officer evaluate potential options for consolidation to reduce overlap, duplication, and fragmentation and take appropriate action. DOD concurred with these recommendations. This is an issue that may warrant continuing congressional oversight. Timely and effective actions on these recommendations should improve DOD's ability to address urgent warfighter needs in the most efficient and cost-effective manner by minimizing the risks of duplication, overlap, and fragmentation.

Framework for Analysis

The information contained in this analysis is based on the related GAO products below.

Related GAO Products

Warfighter Support: DOD's Urgent Needs Processes Need a More Comprehensive Approach and Evaluation for Potential Consolidation. GAO-11-273. Washington, D.C.: March 1, 2011.

Warfighter Support: Improvements to DOD's Urgent Needs Processes Would Enhance Oversight and Expedite Efforts to Meet Critical Warfighter Needs. GAO-10-460. Washington, D.C.: April 30, 2010.

Warfighter Support: Actions Needed to Improve Visibility and Coordination of DOD's Counter-Improvised Explosive Device Efforts. GAO-10-95. Washington, D.C.: October 29, 2009.

Warfighter Support: Challenges Confronting DOD's Ability to Coordinate and Oversee Its Counter-Improvised Explosive Devices Efforts. GAO-10-186T. Washington, D.C.: October 29, 2009.

Defense Management: More Transparency Needed over the Financial and Human Capital Operations of the Joint Improvised Explosive Device Defeat Organization. GAO-08-342. Washington, D.C.: March 6, 2008.

Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production and Installation of Marine Corps Truck Armor. GAO-06-274. Washington, D.C.: June 22, 2006.

Defense Logistics: Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations. GAO-06-160. Washington, D.C.: March 22, 2006.

Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations. GAO-05-275. Washington, D.C.: April 8, 2005.

Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom. GAO-04-305R. Washington, D.C.: December 18, 2003.

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Opportunities Exist to Avoid Unnecessary Redundancies and Improve the Coordination of Counter-Improvised Explosive Device Efforts

Why GAO Is Focusing on This Area

Improvised explosive devices (IED) continue to be the number one threat to U.S. troops. IED incidents in Afghanistan numbered 1,128 in the month of May 2010—a 120 percent increase over the prior year. In addition to Afghanistan incidents, the IED threat is increasingly expanding throughout the globe with over 300 IED events per month worldwide, according to the Joint IED Defeat Organization (JIEDDO). The Department of Defense (DOD) created this organization in 2006, reporting directly to the Deputy Secretary of Defense, to lead and coordinate all of DOD's counter-IED efforts. While Congress has appropriated over $17 billion to JIEDDO through fiscal year 2010 to address the IED threat, other DOD components, including the Armed Services, have devoted at least $1.5 billion to develop their own counter-IED solutions.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

DOD created JIEDDO to lead and coordinate all of DOD's counter-IED efforts, but many of the organizations engaged in the counter-IED-defeat effort prior to the creation of JIEDDO have continued to develop, maintain, and expand their own IED-defeat capabilities. GAO has preliminarily identified several instances in which DOD entities operate independently and may have developed duplicate counter-IED capabilities. For example, both the Army and the Marine Corps continue to develop their own counter-IED mine rollers with full or partial JIEDDO funding. The Marine Corps' mine roller per unit cost is about $85,000 versus a cost range of $77,000 to $225,000 per unit for the Army mine roller. However officials disagree about which system is most effective, and DOD has not conducted comparative testing and evaluation of the two systems. Additionally, JIEDDO does not adequately involve the Services in its process to select initiatives. For example, the Navy developed a directed energy technology to fill a critical theater capability gap, yet JIEDDO later underwrote the Air Force's development of the same technology for use in a different system. However, the Air Force has now determined that its system will not meet requirements and has deferred fielding it pending further study. This may have a negative impact on the continued development of this technology by the Navy or others for use in theater. For example, according to DOD officials, during the recent testing of the Air Force's system, safety concerns were noted unique to that system that may limit warfighters' willingness to accept the technology.

Eliminating unnecessary duplication and enabling effective coordination in counter-IED efforts is hindered, in part, because neither JIEDDO nor any other DOD organization has full visibility over all of DOD's counter-IED efforts. GAO has recommended that DOD establish a DOD-wide database for all counter-IED initiatives to establish comprehensive visibility,

however, DOD has yet to develop such a tool. According to DOD officials, DOD had initiated a database—the Technology Matrix—to establish a comprehensive list of counter-IED efforts and the organizations sponsoring these efforts; however, DOD has not required its various organizations involved in developing counter-IED solutions to use this database nor otherwise taken action to ensure these organizations provide information to JIEDDO on their respective counter-IED efforts. Therefore, the database has not been as comprehensive as intended. To date, DOD's senior leadership has not taken adequate action to facilitate improved visibility, coordination, and authority for JIEDDO to address these shortcomings. This lack of leadership attention may be another key factor contributing to the lack of full visibility and effective coordination of the wide range of counter-IED measures conducted throughout DOD. Consequently, DOD components and the Services continue to pursue counter-IED efforts independent of one another that may be redundant or overlapping.

Actions Needed and Potential Financial or Other Benefits

DOD has taken steps to address several of GAO's prior recommendations regarding the improvement of its counter-IED programs, such as revising JIEDDO's process for evaluating and implementing counter-IED solutions. However, 5 years after its coordination efforts began through JIEDDO, DOD has still not achieved full visibility over all of its counter-IED investments and resources nor has it required comprehensive data from all DOD components and the Services to enable effective coordination. JIEDDO has encountered difficulty obtaining information on all counter-IED efforts, in part, because according to JIEDDO officials, the Services and components are not inclined to share this information. Therefore, DOD's senior leadership, to include the Deputy Secretary of Defense, should consider what actions the department can take to assure that JIEDDO can centrally collect information and coordinate efforts and whether it should enhance JIEDDO's tools to ensure all information on DOD-wide counter-IED programs is centrally collected and evaluated to limit unnecessary duplication, overlap, and fragmentation. DOD leadership should also take a more active role to ensure investment decisions of each of the individual counter-IED activities are consistent with DOD's overarching counter-IED goals and objectives and that they are pursued in a coordinated and efficient manner.

Framework for Analysis

The information contained in this analysis is based on prior GAO products below, as well as GAO's ongoing work on DOD's counter-IED efforts. As part of this ongoing work GAO will comprehensively identify, to the extent possible, all counter-IED organizations and efforts within DOD, and collect

quantitative data on these efforts such as the funds invested and the number of persons engaged in these efforts. Using these data, GAO will evaluate the nature and extent of any overlap or duplication, as well as the potential for consolidation, improved coordination, or other efficiencies. GAO is also evaluating DOD's progress in improving visibility over all counter-IED efforts.

Related GAO Products

Warfighter Support: DOD's Urgent Needs Processes Need a More Comprehensive Approach and Evaluation for Potential Consolidation. GAO-11-273. Washington, D.C.: March 1, 2011.

Warfighter Support: Actions Needed to Improve Visibility and Coordination of DOD's Counter-Improvised Explosive Device Efforts. GAO-10-95. Washington, D.C.: October 29, 2009.

Warfighter Support: Challenges Confronting DOD's Ability to Coordinate and Oversee Its Counter-Improvised Explosive Devices Efforts. GAO-10-186T. Washington, D.C.: October 29, 2009.

Defense Management: More Transparency Needed over the Financial and Human Capital Operations of the Joint Improvised Explosive Device Defeat Organization. GAO-08-342. Washington, D.C.: March 6, 2008.

Defense Logistics: Lack of a Synchronized Approach between the Marine Corps and Army Affected the Timely Production and Installation of Marine Corps Truck Armor. GAO-06-274. Washington, D.C.: June 22, 2006.

Defense Logistics: Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations. GAO-06-160. Washington, D.C.: March 22, 2006.

Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations. GAO-05-275. Washington, D.C.: April 8, 2005.

Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom. GAO-04-305R. Washington, D.C.: December 18, 2003.

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Opportunities Exist to Avoid Unnecessary Redundancies and Maximize the Efficient Use of Intelligence, Surveillance, and Reconnaissance Capabilities

Why GAO Is Focusing on This Area

To plan and execute military operations in Iraq and Afghanistan, military commanders depend on intelligence, surveillance, and reconnaissance (ISR) systems to collect, process, and disseminate timely and accurate information on adversaries' capabilities and vulnerabilities. The Department of Defense's (DOD) ISR enterprise consists of multiple intelligence organizations that individually plan for, acquire, and operate manned and unmanned airborne, space-borne, maritime, and ground-based ISR systems. The success of ISR systems at providing key information has led to increased demand, and DOD continues to invest in ISR programs. For example, DOD requested about $6.1 billion in fiscal year 2010 for unmanned aircraft programs alone. DOD is further examining its airborne ISR budget needs for fiscal year 2012 and beyond. Further, GAO has reported since 2005 that ISR activities are not integrated and efficient; effectiveness may be compromised by lack of visibility into operational use of ISR assets; and agencies could better collaborate in the acquisition of new capabilities.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

ISR activities cut across services and defense agencies, and no single entity at the departmental level has responsibility, authority, and control over investments to prioritize resources to meet joint priority requirements. The ISR enterprise exhibits extensive, structural fragmentation with a high number of separate organizations sharing the same roles. For example, multiple ISR organizations conduct strategic planning, budgeting, and data analysis across intelligence disciplines. Although DOD has designated the Under Secretary of Defense for Intelligence to manage ISR investments as a departmentwide portfolio, the Under Secretary of Defense for Acquisition, Technology, and Logistics has been designated to lead the task force responsible for oversight of issues related to the management and acquisition of unmanned aircraft systems that collect ISR data. In addition, as the ISR portfolio manager, the Under Secretary of Defense for Intelligence has only advisory authority and cannot direct the services or agencies to make changes in their investment plans.

Further, two key factors make tracking DOD's ISR spending difficult. First, funding for DOD's ISR capabilities can come from several sources, including the Military Intelligence Program, the National Intelligence Program, and service budgets. Second, each service maintains or develops its own requirements process, budget, and strategic plans. For example, each service identifies its requirements and prioritizes spending for its equipment and personnel needs, and tracks and accounts for ISR funding differently.

The Secretary of Defense has identified ISR as an area of scrutiny for potential cost savings in the military intelligence program budget, which totals $27 billion in spending for fiscal year 2010 including ISR capabilities and personnel. In addition, the National Intelligence Program budget of $53.1 billion includes some resources for DOD ISR activities. Since 1988, GAO has reported on the potential for duplication and fragmentation in DOD's unmanned ISR systems. Service-driven requirements and funding processes continue to hinder integration and efficiency and contribute to unnecessary duplication in addressing warfighter needs. Although several unmanned aircraft systems have achieved some commonality among the airframes they use, most are pursuing service-unique subsystems and components. The lack of collaboration and commonality among the services has led to duplicative costs for designing and manufacturing ISR systems, and has resulted in inefficiencies in the contracting and acquisition processes. For example in 2005, the Army initiated a development program with the same contractor for a variant of the Air Force Predator estimated to cost nearly $570 million, although the Predator was already successfully providing capabilities to the warfighter. Similarly, in 2009 GAO reported that, although the Navy expected to save time and money by using the Air Force's existing Global Hawk airframe, the Navy also planned to spend over $3 billion to develop maritime surveillance capabilities. Conversely, the Marine Corps avoided the cost of initial system development and was able to quickly deliver a useful capability to the warfighter by choosing to procure existing Army Shadow systems rather than developing its own unmanned aircraft.

DOD has established numerous organizations and initiatives intended to integrate the determination of requirements, development, acquisition, and operation of ISR systems to address joint and service-specific needs, but these efforts have not had the desired effect of minimizing fragmentation and overlap in its ISR enterprise. For example, although the Under Secretary of Defense for Intelligence, as capability portfolio manager, updated the congressionally directed ISR Integration Roadmap, the Roadmap does not represent a comprehensive ISR architecture to guide service investments to meet joint needs. For example, the Roadmap does not enable comparison and tradeoffs between intelligence platforms and capabilities. In addition, the Joint Requirements Oversight Council, which is charged with validating requirements and approving proposals for new capabilities to meet joint capability gaps, has been generally ineffective in ensuring that the services collaborate in developing capabilities for joint requirements.

In 2010, the Joint Staff launched a decision support tool intended to catalog existing airborne ISR capabilities and validate new requirements. This tool could help DOD prioritize investments in new programs and make tradeoffs among capabilities that could result in cost savings, but it is uncertain whether the effort will receive funding for expanding the database to include other ISR assets and improve functionality. Meanwhile, DOD continues to invest in ISR capabilities that may not be the most efficient or effective use of resources. Further, although DOD has invested heavily in capabilities to collect ISR data, it has not invested proportionally in the capabilities that would enable it to process and use the information. Weaknesses in the military services' ability to process and securely share ISR data have led to gaps in or duplicative collection efforts and contributed to continuing warfighter demands for ISR assets to support their missions.

Actions Needed and Potential Financial or Other Benefits

DOD has taken steps to improve ISR management, but these actions have not had the desired effect. To develop a more fully integrated approach to minimizing fragmentation, overlap, and duplication in its ISR enterprise, DOD could align DOD-wide strategic goals, identify performance measures, and establish linkages between ISR acquisition plans and strategic goals to inform investment decisions.

Since 2005, GAO has identified challenges with DOD's ISR enterprise and made a number of recommendations to assist DOD in improving its ISR management and reducing unnecessary duplication and overlap. DOD has taken some positive steps to address GAO's recommendations, such as recent military service efforts to acquire some common unmanned aircraft and sensors and develop performance measures, but its efforts are limited and have not yet improved its ability to integrate ISR requirements generation, development and acquisition, or utilization. In keeping with GAO's previous recommendations, DOD could take several actions to develop a more fully integrated approach to minimize fragmentation, overlap, and duplication in its ISR enterprise. Specifically, DOD could do the following:

- Develop an integrated ISR architecture, including manned and unmanned systems, to align DOD-wide strategic goals.
- Continue to develop tools—such as the Joint Staff's decision support tool—and performance measures to inform investment decisions.

- Establish linkages between ISR acquisition plans and strategic goals to better inform investment decisions.
- Develop and enforce commonality and interoperability standards for sharing of ISR data and establish timelines for implementation.

Increased integration of DOD's ISR enterprise could improve efficiencies, reduce redundancies and avoid duplication of similar development initiatives, possibly saving production and life-cycle costs and improve the interoperability among systems. Although the department has begun to take some initial steps in this area, until all participants in the defense enterprise successfully share ISR information, inefficiencies will hamper the effectiveness of efforts to support the warfighter, and ISR data collection efforts may be unnecessarily duplicative. In addition, comprehensive data on its ISR enterprise, including resources and performance measures to assess the effectiveness of ISR assets, could better position DOD to make trade-offs among ISR capabilities.

Framework for Analysis

In addition to obtaining information from the reports listed below, GAO reviewed documentation related to DOD's funding for ISR through the Military Intelligence Program and analyzed planned ISR investments in DOD's Future Years Defense Program Fiscal Years 2012-2015. GAO also assessed the ISR Integration Roadmap against strategic planning and legislative criteria, and reviewed the Joint Staff's ISR assessment tool. In addition, GAO conducted interviews with officials from the offices of DOD's Under Secretary of Defense for Intelligence, the Joint Staff, the military services, the Defense Intelligence Agency, the National Geospatial Intelligence Agency, and the National Security Agency.

Related GAO Products

Defense Acquisitions: DOD Could Achieve Greater Commonality and Efficiencies among Its Unmanned Aircraft Systems. GAO-10-508T. Washington, D.C.: March 23, 2010.

Intelligence, Surveillance, and Reconnaissance: Establishing Guidance, Timelines, and Accountability for Integrating Intelligence Data Would Improve Information Sharing. GAO-10-265NI. Washington, D.C.: January 22, 2010.

Defense Acquisitions: Opportunities Exist to Achieve Greater Commonality and Efficiencies among Unmanned Aircraft Systems. GAO-09-520. Washington, D.C.: July 30, 2009.

Unmanned Aircraft Systems: Additional Actions Needed to Improve Management and Integration of DOD Efforts to Support Warfighter Needs. GAO-09-175. Washington, D.C.: November 14, 2008.

Intelligence, Surveillance, and Reconnaissance: DOD Can Better Assess and Integrate ISR Capabilities and Oversee Development of Future ISR Requirements. GAO-08-374. Washington, D.C.: March 24, 2008.

Unmanned Aircraft Systems: Advance Coordination and Increased Visibility Needed to Optimize Capabilities. GAO-07-836. Washington, D.C.: July 11, 2007.

Unmanned Aircraft Systems: New DOD Programs Can Learn from Past Efforts to Craft Better and Less Risky Acquisition Strategies. GAO-06-447. Washington, D.C.: March 15, 2006.

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A Departmentwide Acquisition Strategy Could Reduce DOD's Risk of Costly Duplication in Purchasing Tactical Wheeled Vehicles

Why GAO Is Focusing on This Area

The Department of Defense (DOD) spends billions of dollars each year to procure tactical wheeled vehicles, such as several types of Mine Resistant Ambush Protected vehicles. Tactical wheeled vehicles are used to transport people, weapons, and cargo. The advent of improvised explosive devices has had a significant effect on designing tactical wheeled vehicles for survivability. DOD is in the process of acquiring two new armored designs—the Mine Resistant Ambush Protected All Terrain Vehicle, and the Joint Light Tactical Vehicle. The estimated total acquisition cost for the Mine Resistant Ambush Protected All Terrain Vehicle is about $12.5 billion. The military services expect to have a variety of tactical wheeled vehicles in use at any given time. Since 2008, GAO has identified tactical wheeled vehicle procurement as being at risk for duplication, and in 2009 GAO recommended that DOD develop a unified acquisition strategy.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

DOD's acquisition of two similar tactical wheeled vehicles—the Mine Resistant Ambush Protected vehicle, including an All Terrain variant, and eventually the Joint Light Tactical Vehicle—creates a risk of unplanned overlap in capabilities that could increase acquisition costs significantly. The Mine Resistant Ambush Protected All Terrain vehicle contractor was expected to complete deliveries in November 2010. According to program officials, the vehicles fielded so far appear to be performing well. Development efforts for the Joint Light Tactical Vehicle, with an expected initial acquisition of over 60,000 vehicles, are still ongoing. While acquisition costs for the Joint Light Tactical Vehicle are yet to be determined, a low-end estimate is $18.5 billion. The cost per unit, including mission equipment, could be over $800,000 each.

To date, the services have not considered using the vehicles in the Mine Resistant Ambush Protected family—with the exception of some vehicles planned for use by route clearance, explosives ordinance disposal, and medical evacuation units—to offset the need for or replace other tactical wheeled vehicles. Currently, the services consider Mine Resistant Ambush Protected vehicles to be mainly additive to their fleets. Given the high potential cost of the Joint Light Tactical Vehicle, reducing the number of units acquired could offer substantial savings, albeit with potential performance tradeoffs. To illustrate, a 5 percent reduction in Joint Light Tactical Vehicle quantities could save nearly $2.5 billion, assuming a unit cost of $800,000.

DOD does not have a unified tactical wheeled vehicle strategy that considers timing, capabilities, affordability, and sustainability. DOD stated in 2009 that it would create a unified plan for tactical wheeled vehicle

investment decisions. The plan would be a comprehensive strategy compatible with Army and Marine Corps equipping strategies. As of January 2011, the Army had completed and released its updated tactical wheeled vehicle strategy, the Marine Corps had not yet completed its updated strategy, and DOD had not yet issued a timetable for completing a unified, departmentwide strategy.

With the Army and Marine Corps facing decisions about whether to repair, upgrade, or replace older tactical vehicles, it is important to fully assess the requirements and cost for buying and maintaining all classes of tactical wheeled vehicles from the dual perspectives of mission need and affordability. The services need to know what capabilities the Joint Light Tactical Vehicle will have, the scope and cost of any recapitalization of other vehicles or production effort, and the sustainment cost of placing the Mine Resistant Ambush Protected family of vehicles in their force structures. The services have expressed concern about their ability to fund operations and support costs for tactical wheeled vehicles in the future.

Actions Needed and Potential Financial or Other Benefits

DOD could save both acquisition and support costs through a departmentwide tactical wheeled vehicle strategy that considers costs and benefits of the Joint Light Tactical Vehicle compared to other tactical wheeled vehicle options.

To help the agency assess the affordability of these acquisitions and their implications for competing demands within the department, DOD needs to complete its planned DOD-wide tactical wheeled vehicle strategy to determine

- what capabilities Joint Light Tactical Vehicle will have,
- the scope and cost of any recapitalization of other vehicles or production effort, and
- the sustainment cost of placing the Mine Resistant Ambush Protected family of vehicles in their force structures.

In addition, as GAO recommended in November 2010, DOD should include in the strategy a cost-benefit analysis that could minimize the collective acquisition and support costs of the various tactical wheeled vehicle programs and reduce the risk of unplanned overlap or duplication. Such a cost-benefit analysis should provide an estimate of dollar savings for

various options for offsetting Joint Light Tactical Vehicle quantities in favor of recapitalizing existing vehicles.

Any potential offsets between Mine Resistant Ambush Protected vehicles and Joint Light Tactical Vehicles, to the extent that they are supported by cost-benefit analyses, could save both acquisition and support costs. Simply reducing the number of Joint Light Tactical Vehicles DOD procures could result in billions of dollars in cost savings. For instance, a reduction of just 5 percent would save $2.5 billion, assuming a unit cost of $800,000. In addition to saving initial procurement costs, reducing tactical wheeled vehicle acquisition quantities has the potential to reduce future operational and maintenance costs.

DOD concurred with GAO's recommendations and said that the Joint Light Tactical Vehicle program will conduct an analysis of alternatives that explores potential offsets to planned acquisition quantities, including those related to the replacement of Mine Resistant Ambush Protected vehicles. In addition, as a part of DOD's planned analysis of alternatives to the Joint Light Tactical Vehicle, the Army and Marine Corps have stated they will explore the implications, including maintenance and lifecycle cost benefits, of acquiring a Joint Light Tactical Vehicle family of vehicles as a part of a mixed vehicle fleet.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Defense Acquisitions: Issues to Be Considered as DOD Modernizes Its Fleet of Tactical Wheeled Vehicles. GAO-11-83. Washington, D.C.: November 5, 2010.

Defense Acquisitions: Department of Defense Needs a Unified Strategy for Balancing Investments in Tactical Wheeled Vehicles. GAO-09-968R. Washington, D.C.: September 28, 2009.

Rapid Acquisition of Mine Resistant Ambush Protected Vehicles. GAO-08-884R. Washington, D.C.: July 15, 2008.

Area Contact

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Improved Joint Oversight of DOD's Prepositioning Programs May Reduce Unnecessary Duplication

Why GAO Is Focusing on This Area

The Department of Defense (DOD) prepositions equipment and supplies worth billions of dollars, including major items such as combat vehicles, rations, medical supplies, and repair parts at strategic locations around the world. Both afloat and ashore, prepositioning enables DOD to field combat-ready forces in days, rather than the weeks it would take if equipment had to be moved from the United States to the locations of conflicts. Prepositioned equipment can also be used to support security cooperation, deterrence, multilateral training exercises, and humanitarian assistance or disaster relief.

The Air Force, Army, and Marine Corps have drawn on their prepositioned stocks to support military operations in Iraq and Afghanistan, increasing the opportunities to gain efficiencies in rebuilding these stocks. Since 2005, GAO has identified challenges regarding DOD's prepositioned stocks and made numerous recommendations related to strategic planning, requirements determination, inventory management, and other issues.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Although the services are expected to operate in a joint environment, some prepositioning activities are fragmented among the services, with the potential for unnecessary duplication. For example, the Army's and Air Force's transportable base equipment, including mobile housing and dining facilities, illustrates an instance in which the services separately fund and manage prepositioned equipment that has been used interchangeably among the services. Since 2005, GAO has reported that the lack of a departmentwide approach to prepositioning potentially misses opportunities to achieve greater efficiencies by reducing unnecessary duplication. Greater efforts toward a departmentwide approach to prepositioning that ensures the services' plans to spend billions of dollars to rebuild prepositioned stocks accurately reflect DOD's current and future needs could help prevent unnecessary duplication and expenditures.

While prior GAO recommendations and DOD's own instruction indicate the need for a departmentwide approach to prepositioning, the department still does not have such an approach. In 2008 DOD published an instruction on prepositioned stocks directing the development of overarching strategic guidance on prepositioning. However, as of September 2010 DOD's guidance contained little information related to prepositioned stocks. As a result, the services' individual plans and priorities for rebuilding their prepositioned stocks may continue to be implemented without a clear understanding of how these plans fit together to meet evolving defense goals. DOD has estimated that as of the end of

fiscal year 2009, such replenishment will take about 8 years and cost an estimated $6.1 billion. GAO has reported that, as the rebuilding progresses, without the development and implementation of departmentwide guidance that includes planning and funding priorities linking current and future needs and desired responsiveness of DOD's prepositioned stocks, the services may not be able to make fully informed decisions that would support the effective and efficient achievement of national military objectives.

Organizational challenges that have hindered DOD's joint oversight of its prepositioned stocks further illustrate the lack of a departmentwide approach to prepositioning. DOD's 2008 instruction on prepositioned stocks formalized the establishment of a joint prepositioning working group. According to the federal standards for internal control, federal agencies are to employ internal control activities, such as reviews by managers, to help ensure that an organization's directives are carried out and resources are effectively and efficiently used. However, as GAO recently reported, the working group has had a limited focus, such as information sharing, and has not conducted the wider range of tasks the working group was directed to perform, such as addressing joint issues concerning requirements for prepositioned stocks, developing recommendations for improved processes, and making recommendations that balance limited resources against operational risk during budget and program reviews. If performed, these tasks could produce cost savings.

Actions Needed and Potential Financial or Other Benefits

Joint, departmental, and service components within DOD are in the process of undertaking or have completed five major reviews, which may have the potential to identify areas of needed enhancements to the management of prepositioning activities. Nevertheless, without overarching guidance and the organizational means to institutionalize the results of these efforts, their impact may be limited. Therefore, as GAO recently recommended, the Secretary of Defense should take the following actions to enhance joint oversight of DOD's prepositioning programs:

- Direct the Office of the Undersecretary of Defense for Policy to develop strategic guidance that includes planning and resource priorities, linking the department's current and future needs for prepositioned stocks to evolving national defense objectives.

- Direct the Undersecretary of Defense for Acquisition, Technology, and Logistics, in coordination with the Chairman of the Joint Chiefs of Staff, to strengthen DOD's joint oversight of its prepositioned stocks

through such actions as clarifying lines of authority and reporting between the joint prepositioning working group and other components within DOD.

- Direct the Chairman of the Joint Chiefs of Staff and the Secretaries of the military services to synchronize at a DOD-wide level, as appropriate, the services' prepositioning programs so that they include updated requirements and maximize efficiency in managing prepositioned assets and activities across the department to reduce unnecessary duplication.

In November 2010 DOD concurred with GAO's recommendations, but insufficient time has passed to assess progress in implementing them. Also, information is not available on the extent of potential savings that may result from the integration of elements of the services' prepositioning programs. Any actual savings would be dependent upon specific steps taken. However, implementing joint management for the staging and maintenance of prepositioned equipment stored on ships; consolidating elements common among the services' programs, such as expeditionary base and fuel transfer equipment; and leveraging the Defense Logistics Agency to manage some prepositioned repair parts are some steps that service officials believe may reduce costs.

Framework for Analysis

This analysis draws on information contained in the GAO products listed below and in a classified report that GAO issued in February 2011. For this analysis, GAO excluded all information associated with certain details that DOD identified as being classified or sensitive in nature, which must be protected from public disclosure. Although the information contained in this analysis omits classified and sensitive information, these omissions addressed other issues and have no bearing on the findings, conclusions, and recommendations stated above. GAO plans to issue a full unclassified version of its report and conduct future work on DOD's prepositioned stocks in response to its annual reporting mandate.

Related GAO Products

Defense Logistics: Department of Defense's Annual Report on the Status of Prepositioned Materiel and Equipment Can Be Further Enhanced to Better Inform Congress. GAO-10-172R. Washington, D.C.: November 4, 2009.

Defense Logistics: Department of Defense's Annual Report on the Status of Prepositioned Materiel and Equipment Can Be Enhanced to Better Inform Congress. GAO-09-147R. Washington, D.C.: December 15, 2008.

Force Structure: Restructuring and Rebuilding the Army Will Cost Billions of Dollars for Equipment but the Total Cost Is Uncertain. GAO-08-669T. Washington, D.C.: April 10, 2008.

Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces. GAO-08-497T. Washington, D.C.: February 14, 2008.

Defense Logistics: Army Has Not Fully Planned or Budgeted for the Reconstitution of Its Afloat Prepositioned Stocks. GAO-08-257R. Washington D.C.: February 8, 2008.

Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements. GAO-07-814. Washington D.C.: September 19, 2007.

Defense Logistics: Improved Oversight and Increased Coordination Needed to Ensure Viability of the Army's Prepositioning Strategy. GAO-07-144. Washington, D.C.: February 15, 2007.

Defense Logistics: Better Management and Oversight of Prepositioning Programs Needed to Reduce Risk and Improve Future Programs. GAO-05-427. Washington, D.C.: September 6, 2005.

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DOD Business Systems Modernization: Opportunities Exist for Optimizing Business Operations and Systems

Why GAO Is Focusing on This Area

Delivering modernized business systems is at the heart of the Department of Defense (DOD) efforts to transform its business operations. These systems include timeworn and duplicative systems that support DOD business operations such as civilian personnel, finance, health, logistics, military personnel, procurement, and transportation. Since 1995, GAO has designated the department's business systems modernization efforts as high risk. One key to effectively modernizing DOD's multibillion dollar systems environment is ensuring that business system investments comply with an enterprisewide strategic blueprint, commonly called an enterprise architecture. For DOD's business systems modernization, it is developing and using a federated business enterprise architecture (BEA), which is a coherent family of parent and subsidiary architectures, to help modernize its nonintegrated and duplicative business operations and the systems that support them.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

DOD reports that its business systems environment includes about 2,300 investments, which are supported by billions of dollars in annual expenditures and are intended to support business functions and operations. As GAO has previously reported, DOD's business systems environment has been characterized by (1) little standardization, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) manual data entry into multiple systems. According to DOD, one purpose of the federated BEA is to identify and provide for sharing common applications and systems across the department and the components and promote interoperability and data sharing among related programs. Because DOD spends over $10 billion each year on its business systems and related information technology infrastructure, the potential for identifying and avoiding the costs associated with duplicative functionality across its business system investments is significant.

To accomplish this, DOD has developed an automated tool to map each system's functionality to the BEA operational activities and business functions that the system supports. Using an enterprise architecture in this way offers significant dollar savings potential, as it provides an authoritative frame of reference against which to analyze proposed investments and collect the information needed to identify where a given investment may overlap with other investments and thus unnecessary duplication of effort can be avoided. However, GAO has previously found that much remains to be done in extending and developing DOD's BEA and ensuring that disciplined management controls are applied at the institutional and program-specific levels. Without sufficient rigor in its

business systems modernization, GAO found that DOD programs were at increased risk of being defined and implemented in a way that does not sufficiently ensure interoperability and avoid duplication and overlap. To adequately ensure that DOD business system investments are defined and implemented within the context of the federated BEA, GAO recommended in August 2008 that DOD use the program-specific data in its architecture compliance tool to identify and analyze potential overlap and duplication and thus take advantage of opportunities for reuse and consolidation among programs. DOD agreed and stated that it plans to update its investment review board process guidance to require use of program-specific data for certification decisions on business systems compliance with the BEA. However, it has yet to establish a date for doing so.

More broadly, GAO has recommended steps DOD needs to take to further improve its business systems modernization efforts. At the institutional level

- the supporting component architectures need to be developed and aligned with the corporate architecture to complete the federated business enterprise architecture,
- DOD business system investments need to be defined and implemented within the context of its federated business enterprise architecture, and
- the investment process needs to evolve and be institutionalized at all levels of the organization.

Furthermore, DOD needs to ensure that its business system programs and projects are managed with integrated institutional controls and that they consistently deliver benefits and capabilities on time and within budget.

Between 2005 and 2008, GAO reported that DOD made progress implementing key institutional modernization management controls in response to GAO recommendations as well as to statutory requirements. For example, the department had continued to develop updates to its BEA that addressed important elements related to statutory requirements and best practices that GAO previously identified as missing. In addition, DOD defined and began implementing investment controls, such as the Business Capability Lifecycle, which is intended to streamline business system capability definition, acquisition, and investment oversight processes, to guide and constrain its departmentwide systems modernizations. However, notwithstanding this progress, additional actions are still needed.

Actions Needed and Potential Financial or Other Benefits

In May 2009, GAO reported that the pace of DOD's efforts in defining and consistently implementing fundamental business systems modernization management controls (both institutional and program specific) had slowed compared with progress made in previous years, leaving much to be accomplished. To this end, GAO's work has highlighted challenges that DOD still faces in aligning its corporate architecture and its component organization architectures, leveraging the federated architecture to avoid investments that provide similar but duplicative functionality in support of common DOD activities, and institutionalizing the business systems investment process at all levels of the organization. In addition, ensuring that effective system acquisition management controls are implemented on each business system investment also remains a formidable challenge, as GAO's recent reports on management weaknesses associated with individual programs have disclosed.

Because of these limitations, DOD programs continue to be at increased risk of being defined and implemented in a way that does not sufficiently ensure interoperability and avoid duplication and overlap, which are both goals of the BEA and the department's related investment management approach. If these limitations are addressed, DOD and its components could have a sufficient basis for knowing if its business system programs have been defined to effectively and efficiently support corporate business operations. Congress can play a critical role by continuing to provide focus and oversight.

At the request of the Senate Armed Services Committee, GAO is initiating two engagements focusing on (1) the status and progress of the military departments' enterprise architecture programs and (2) prior GAO recommendations pertaining to the department's and the military departments' investment management processes, and the effectiveness of the department's investment review boards in approving and certifying business system investments in accordance with applicable criteria.

Framework for Analysis

The information contained in this analysis is based on the related GAO reports listed below.

Related GAO Products

Business Systems Modernization: Scope and Content of DOD's Congressional Report and Executive Oversight of Investments Need to Improve. GAO-10-663. Washington, D.C.: May 24, 2010.

DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed. GAO-09-841. Washington, D.C.: September 15, 2009.

DOD Business Systems Modernization: Recent Slowdown in Institutionalizing Key Management Controls Needs to Be Addressed. GAO-09-586. Washington, D.C.: May 18, 2009.

DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas. GAO-08-896. Washington, D.C.: September 8, 2008.

DOD Systems Modernization: Maintaining Effective Communication Is Needed to Help Ensure the Army's Successful Deployment of the Defense Integrated Military Human Resources System. GAO-08-927R. Washington, D.C.: September 8, 2008.

DOD Business Systems Modernization: Planned Investment in Navy Program to Create Cashless Shipboard Environment Needs to Be Justified and Better Managed. GAO-08-922. Washington, D.C.: September 8, 2008.

DOD Business Systems Modernization: Key Navy Programs' Compliance with DOD's Federated Business Enterprise Architecture Needs to Be Adequately Demonstrated. GAO-08-972. Washington, D.C.: August 7, 2008.

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Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear

Why GAO Is Focusing on This Area

Economic development programs that are administered efficiently and effectively can contribute to the well-being of the nation's economy at the least cost to taxpayers. Absent a common definition for economic development, GAO has previously developed a list of nine activities most often associated with economic development. These activities include: planning and developing strategies for job creation and retention, developing new markets for existing products, building infrastructure by constructing roads and sewer systems to attract industry to undeveloped areas, and establishing business incubators to provide facilities for new businesses' operations.

GAO is currently examining 80 economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA); and the Small Business Administration (SBA)—to assess potential for overlap in the design of the programs, the extent to which the four agencies collaborate to achieve common goals, and the extent to which the agencies have developed measures to determine the programs' effectiveness. Funding provided for these 80 programs in fiscal year 2010 amounted to $6.5 billion, of which about $3.2 billion was for economic development efforts, largely in the form of grants, loan guarantees, and direct loans. Some of these 80 programs can fund a variety of activities, including those focused on noneconomic development activities, such as rehabilitating housing and building community parks. This analysis presents the preliminary findings of GAO's ongoing work in conjunction with findings from its prior work.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Preliminary results of GAO's ongoing work involving 80 economic development programs at four agencies—Commerce, HUD, SBA, and USDA—indicate that the design of each of these fragmented programs appears to overlap with that of at least one other program in terms of the economic development activities that they are authorized to fund. For example, as shown in the table below, the four agencies administer a total of 52 programs that can fund "entrepreneurial efforts," which includes helping businesses to develop business plans and identify funding sources.

Overlap and Fragmentation Among Selected Agencies Authorized to Fund Economic Development Activities

	Programs by agency				
Activity	**Commerce**	**HUD**	**SBA**	**USDA**	**Total**
Entrepreneurial efforts	9	12	19	12	**52**
Infrastructure	4	12	1	18	**35**
Plans and strategies	7	13	13	6	**39**
Commercial buildings	4	12	4	7	**27**
New markets	6	10	6	6	**28**
Telecommunications	3	11	2	10	**26**
Business incubators	5	12	—	3	**20**
Industrial parks	5	11	—	3	**19**
Tourism	5	10	—	4	**19**

Source: GAO

Note: Numbers of programs by agency do not total to 80 since an individual program may fund several activities.

GAO's prior work going back more than 10 years also identified potential overlap and fragmentation in economic development programs and found that many of the programs were differentiated by legislative or regulatory restrictions that targeted funding on the basis of characteristics such as geography, income levels, and population density (rural or urban).

While some of the 80 programs GAO is currently assessing fund several of the nine economic development activities, almost 60 percent of the programs (46 of 80) fund only one or two activities. These smaller, narrowly scoped programs appear to be the most likely to overlap because many of them can only fund the same limited types of activities. For example, narrowly scoped programs comprise 21 of the 52 programs that fund entrepreneurial efforts. Moreover, most of these 21 programs target similar geographic areas.

To address issues arising from potential overlap and fragmentation in economic development programs, GAO has previously identified collaborative practices agencies should consider implementing in order to maximize the performance and results of federal programs that share common outcomes. These practices include leveraging physical and administrative resources, establishing compatible policies and procedures, monitoring collaboration, and reinforcing agency accountability for collaborative efforts through strategic or annual performance plans. Preliminary findings from GAO's ongoing work show that Commerce,

HUD, SBA, and USDA appear to have taken actions to implement some of the collaborative practices, such as defining and articulating common outcomes, for some of their related programs. However, the four agencies have offered little evidence so far that they have taken steps to develop compatible policies or procedures with other federal agencies or search for opportunities to leverage physical and administrative resources with their federal partners. Moreover, GAO is finding that most of the collaborative efforts performed by program staff on the front line that GAO has been able to assess to date have occurred only on a case-by-case basis. As a result, it appears that the agencies do not consistently monitor or evaluate these collaborative efforts in a way that allows them to identify areas for improvement. GAO reported in September 2008 that the main causes for limited agency collaboration include few incentives to collaborate and no guide for agencies to rely on for consistent and effective collaboration. In GAO's ongoing work, USDA and SBA officials also stated that certain statutory authorities may impede their ability to collaborate. In failing to find ways to collaborate more, agencies may miss opportunities to leverage each other's unique strengths to more effectively promote economic development, in addition to inefficiently using the taxpayer dollars set aside for that purpose.

In addition, a lack of information on program outcomes is a current and long-standing concern. This information is needed to determine whether this potential overlap and fragmentation is resulting in ineffective or inefficient programs. More specifically:

- Commerce's Economic Development Administration (EDA), which administers eight of the programs GAO is currently reviewing, continues to rely on a potentially incomplete set of variables and self-reported data to assess the effectiveness of its grants. The incomplete set of variables that the agency relies on to estimate the effectiveness of EDA program grants may lead to inaccurate claims about program results, such as the number of jobs created. Moreover, EDA staff request documentation or conduct site visits to validate the self-reported data provided by grantees only in limited instances. GAO first reported on this issue in March 1999 and issued a subsequent report in October 2005. In response to a recommendation GAO made in 2005, EDA issued revised operational guidance in December 2006 that included a new methodology that regional offices are to use to calculate estimated jobs and private sector investment attributable to EDA projects. However, GAO's ongoing work found that the agency still primarily relies on grantee self-reported data and conducts a limited number of site visits to assess the accuracy of the data. While

acknowledging these findings, EDA officials stated that they do employ other verification and validation methods in lieu of site visits. These methods include reviews to ensure the data are consistent with regional trends and statistical tests to identify outliers and anomalies. GAO plans to assess the quality and adequacy of these methods as part of its ongoing work.

- The USDA's Office of Rural Development, which administers 31 of the programs GAO is reviewing, has yet to implement the USDA Inspector General's (IG) 2003 recommendation related to ensuring that data exist to measure the accomplishments of one of its largest rural business programs—the Business and Industry loan program, which cost approximately $53 million to administer in fiscal year 2010. USDA officials stated that they have recently taken steps to address the open recommendation, including requiring staff to record actual jobs created rather than estimated jobs created, but according to an IG official it is too early to tell whether their actions will fully address the recommendation.

- HUD does not track long-term performance outcome measures for its Section 108 program because the agency continues to lack a reporting mechanism to capture how program funds are used, an issue the Office of Management and Budget (OMB) reported on in 2007. Moreover, OMB also found in 2007 that the program's impact and effectiveness in neighborhoods remained unknown.

- SBA has not yet developed outcome measures that directly link to the mission of its Historically Underutilized Business Zones (HUBZone) program, nor has the agency implemented its plans to conduct an evaluation of the program based on variables tied to its goals. GAO reported in June 2008 that while SBA tracks a few performance measures, such as the number of small businesses approved to participate in the program, the measures do not directly link to the program's mission. While SBA continues to agree that evaluating program outcomes is important, to date the agency has not yet committed resources for such an evaluation.

Without quality data on program outcomes, these agencies lack key information that could help them better manage their programs. In addition, such information would enable congressional decision makers and others to make decisions to better realign resources, if necessary, and to identify opportunities for consolidating or eliminating some programs.

Actions Needed and Potential Financial or Other Benefits

Preliminary findings of ongoing GAO work have identified several areas that could benefit from continued attention.

- Agencies need to further utilize promising practices for enhanced collaboration. GAO first made this recommendation to SBA and USDA in September 2008, but these agencies have taken only limited steps to fully address GAO's concerns. The actions that the four agencies should consider include seeking more opportunities for resource-sharing across economic development programs with shared outcomes, and identifying ways to leverage each program's strengths to improve their existing collaborative efforts. Continuing to explore the extent to which these agencies collaborate could help identify promising practices that may result in more effective and efficient delivery of economic development programs to distressed areas.

- Agencies need to collect accurate and complete data on program outcomes and use the information to assess each program's effectiveness. In June 2008 GAO made a similar recommendation to SBA about its HUBZone program, but the agency has taken limited action thus far.

Additional work to assess progress in collaboration and evaluation could identify areas for improvement, consolidation, or elimination. Further, programs that are designed to target similar economic development activities, locations, and applicants may not be adding unique value, and more analysis is needed by the agencies and OMB to determine the actual amount of duplicative spending.

The above are actions that could be taken by agencies to address fragmentation and overlap, and increase program efficiencies across the multiple agencies, which support economic development efforts. However, given the long-standing nature of these issues, GAO also believes that increased attention and oversight by OMB and Congress are warranted to ensure needed actions are taken.

Framework for Analysis

The information contained in this analysis is based on the GAO products listed below, as well as GAO's ongoing work following up on the recommendations from those products, and the preliminary results of GAO's ongoing evaluation of economic development programs at four federal agencies. For the most recent work, GAO gathered new information related to, for example, program missions, targeted populations, and funding provided for the programs. The data on program

funds were self-reported by agency officials. The data were determined to be sufficiently reliable for the purposes of this review. For this review, GAO focused on USDA, Commerce, HUD, and SBA. GAO met with officials from each of the agencies to discuss each of the programs and the program missions. Because SBA officials view all of their programs as being related to economic development, GAO included all SBA programs in this review. Using the Catalog of Federal Domestic Assistance and other agency documents, GAO identified 80 federal programs administered by the four agencies that could fund economic development activities. GAO did not include tax credit programs aimed at economic development in this review. For information on how tax programs can contribute to duplication, see the section of this report entitled "Periodic Reviews Could Help Identify Ineffective Tax Expenditures and Redundancies in Related Tax and Spending Programs."

Related GAO Products

Rural Economic Development: Collaboration between SBA and USDA Could Be Improved. GAO-08-1123. Washington, D.C.: September 18, 2008.

Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results. GAO-08-643. Washington, D.C.: June 17, 2008.

Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported. GAO-06-294. Washington, D.C.: February 24, 2006.

Economic Development Administration: Remediation Activities Account for a Small Percentage of Total Brownfield Grant Funding. GAO-06-7. Washington, D.C.: October 27, 2005.

Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities. GAO/RCED/GGD-00-220. Washington, D.C.: September 29, 2000.

Economic Development: Observations Regarding the Economic Development Agency's May 1998 Final Report on Its Public Works Program. GAO/RCED-99-11R. Washington, D.C.: March 23, 1999.

Area Contact

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The Federal Approach to Surface Transportation Is Fragmented, Lacks Clear Goals, and Is Not Accountable for Results

Why GAO Is Focusing on This Area

The nation's surface transportation system is critical to the economy and affects the daily life of most Americans. The Department of Transportation (DOT) currently administers scores of surface transportation programs costing over $58 billion annually. The cost to repair and upgrade roads, bridges, and other infrastructure so they can safely and reliably meet current and future demands is estimated in the hundreds of billions of dollars. However, large increases in federal expenditures for transportation in recent years have not commensurately improved system performance. Proposals to reauthorize the surface transportation program—which expired in September 2009 and has been extended until March 2011—have recommended consolidating or eliminating some of these programs.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

The current federal approach to surface transportation was established in 1956 to build the Interstate Highway System, but has not evolved to reflect current national priorities and concerns. Over the years, in response to changing transportation, environmental, and societal goals, federal surface transportation programs grew in number and complexity to encompass broader goals, more programs, and a variety of program approaches and grant structures. This variety of approaches and structures did not result from a specific rationale or plan, but rather an agglomeration of policies and programs established over half a century without a well-defined overall vision of the national interest and federal role in our surface transportation system. This has resulted in a fragmented approach as five DOT agencies with 6,000 employees administer over 100 separate programs with separate funding streams for highways, transit, rail, and safety functions. This fragmented approach impedes effective decision making and limits the ability of decision makers to devise comprehensive solutions to complex challenges. For example, the federal government largely lacks mechanisms for aiding projects that span multiple jurisdictions and implementing projects that involve more than one state or local sponsor or multiple transportation modes.

At the core of this fragmentation is the fact that federal goals and roles for the program are unclear or may conflict with other federal priorities, programs lack links to the performance of the transportation system or of the grantees, and programs do not use the best tools to target investments in transportation to the areas of greatest benefit. For example, the federal government lacks a comprehensive national strategy that defines its role in freight transportation projects, even though enhancing freight mobility is viewed as a top transportation priority. Furthermore, efforts to spur economic development through highway construction may conflict with efforts to improve air quality, and motor fuel taxes that encourage fuel

consumption to finance highways may conflict with reducing carbon emissions. The largest highway, transit, and safety grant programs distribute funds through formulas that are typically not linked to performance and, in many cases, have only an indirect relationship to needs. As a result, it is difficult to assess the impact of funding on achieving transportation goals. The federal aid highway program, in particular, distributes about $40 billion a year to the states through complicated formulas that are ultimately overridden by provisions that return federal fuel excise tax revenues to their state of origin. Once DOT apportions funds, states have wide latitude to select their own projects and considerable flexibility to reallocate their funds among highway and transit programs. While these provisions give states the discretion to pursue their own priorities, the provisions may impede the targeting of federal funds toward specific national goals and objectives. To some extent, the federal aid highway program functions as a cash-transfer general-purpose grant program, rather than as a tool for pursuing a cohesive national transportation policy.

Actions Needed and Potential Financial or Other Benefits

A fundamental re-examination and reform of the nation's surface transportation policies is needed. Since 2004, GAO has made several recommendations and matters for congressional consideration to address the need for a more goal-oriented approach to surface transportation, introduce greater performance and accountability for results, and break down modal stovepipes. Also, GAO has identified a number of principles that can help guide a fundamental re-examination and reform of the nation's surface transportation policies that recognizes emerging national and global imperatives—such as reducing the nation's dependence on foreign fuel sources and minimizing the effect of transportation systems on global climate. These principles include ensuring the federal role is defined based on identified areas of national interest and goals, incorporating accountability for results by entities receiving federal funds, employing the best tools and approaches to emphasize return on targeted federal investment, and ensuring fiscal sustainability.

Applying these principles to a re-examination and reform of surface transportation programs would potentially result in a more clearly defined federal role in relation to other levels of government and thus a more targeted federal role focused around evident national interests. Where national interests are less evident—for example, where the economic benefits are more locally focused or there are varying regional preferences—other stakeholders could assume more responsibility, and some functions could potentially be assumed by the states or other levels of

government. This would then result in a more streamlined federal program approach and enhance the efficient delivery of programs and services.

From the standpoint of state and local governments, re-examination and reform of the federal approach could reduce the administrative expenses states face complying with myriad federal statutory and regulatory requirements. For example, in May 2009, GAO reported that consolidating the application processes for three federal transit programs that provide funding for transportation-disadvantaged populations could reduce the administrative burden for states and transit agencies applying for these funds. However, GAO has reported that estimates from the states on the costs of complying with some federal requirements are not available.

Congressional reauthorization of surface transportation programs presents an opportunity to address GAO recommendations and matters for congressional consideration that have not been implemented in large part because the current multiyear authorization for surface transportation programs expired in 2009, and existing programs have been funded since then through temporary extensions. Several reform proposals have been introduced, which indicate that some of GAO's more recent recommendations and matters for congressional consideration are gaining traction. In its 2008 report, the National Surface Transportation Policy and Revenue Study Commission, established by Congress, recommended that federal surface transportation investments be carefully aligned with defined national interests through a comprehensive performance-based approach. In a bipartisan "blueprint" for reauthorization, the leadership of the House Transportation and Infrastructure Committee proposed redefining the federal role and restructuring programs by consolidating or eliminating more than 75 programs. The American Recovery and Reinvestment Act of 2009 helped break down modal barriers by establishing a $1.5 billion discretionary grant program that placed increased emphasis on integrated solutions to transportation challenges and provided an unprecedented ability for proposed projects that cut across modes of transportation to compete for federal funding.

Framework for Analysis

The information contained in this analysis is based on previously issued work listed in the following related GAO products.

Related GAO Products

Surface Transportation Planning: Opportunities Exist to Transition to Performance-Based Planning and Federal Oversight. GAO-11-77. Washington, D.C.: December 15, 2010.

Federal Transit Programs: Federal Transit Administration Has Opportunities to Improve Performance Accountability. GAO-11-54. Washington, D.C.: November 17, 2010.

Highway Trust Fund: Nearly All States Received More Funding Than They Contributed in Highway Taxes Since 2005. GAO-10-780. Washington, D.C.: June 30, 2010.

Federal Transit Administration: Progress and Challenges in Implementing and Evaluating the Job Access and Reverse Commute Program. GAO-09-496. Washington, D.C.: May 21, 2009.

Surface Transportation: Clear Federal Role and Criteria-Based Selection Process Could Improve Three National and Regional Infrastructure Programs. GAO-09-219. Washington, D.C.: Feb. 6, 2009.

Federal-Aid Highways: Federal Requirements for Highways May Influence Funding Decisions and Create Challenges, but Benefits and Costs Are Not Tracked. GAO-09-36. Washington, D.C.: December 12, 2008.

Surface Transportation Programs: Proposals Highlight Key Issues and Challenges in Restructuring the Programs. GAO-08-843R. Washington, D.C.: July 29, 2008.

Surface Transportation: Restructured Federal Approach Needed for More Focused, Performance-Based, and Sustainable Programs. GAO-08-400. Washington, D.C.: March 6, 2008.

Freight Transportation: National Policy and Strategies Can Help Improve Freight Mobility. GAO-08-287. Washington, D.C.: January 7, 2008.

Intermodal Transportation: DOT Could Take Further Actions to Address Intermodal Barriers. GAO-07-718. Washington, D.C.: June 20, 2007.

Intercity Passenger Rail: National Policy and Strategies Needed to Maximize Public Benefits from Federal Expenditures. GAO-07-15. Washington, D.C.: November 13, 2006.

Area Contact

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Fragmented Federal Efforts to Meet Water Needs in the U.S.-Mexico Border Region Have Resulted in an Administrative Burden, Redundant Activities, and an Overall Inefficient Use of Resources

Why GAO Is Focusing on This Area

Meeting the drinking water and wastewater needs of rural areas, particularly areas such as the U.S.-Mexico border region, can be difficult. More than 90 percent of public water supply systems and 70 percent of wastewater systems throughout the United States serve communities with populations fewer than 10,000, usually in rural areas. The lack of access to safe drinking water and sanitation systems can pose risks to human health and the environment, including the risk of waterborne illnesses. In 2009, GAO found that seven federal agencies active in the border region—the Environmental Protection Agency (EPA), the U.S. Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD), the U.S. Army Corps of Engineers, the Indian Health Service, the Economic Development Administration (EDA), and the Department of the Interior's Bureau of Reclamation—obligated at least $1.4 billion from fiscal years 2000 through 2008 to fund numerous projects in the region.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Key federal agencies recognized more than a decade ago that coordinated policies and procedures would improve federal efforts to deliver water and wastewater systems to rural areas, including those in the U.S.-Mexico border region; however, overall these programs remain uncoordinated and fragmented, and their delivery continues to be inefficient and ineffective. The U.S.-Mexico border region is predominately rural in nature, and federal agencies can find it difficult to meet the needs of residents in this region. Specifically, the remoteness of some communities can make it challenging to identify residents in need of water and wastewater services, communities may not have the institutional capacity to identify solutions to address their water and wastewater needs, and rural areas typically lack adequate funds for constructing and upgrading water supply and wastewater treatment facilities. Overcoming differences in agency missions and cultures, as well as program differences resulting from separate mandates and project eligibility requirements, add to the complexity of meeting these communities' water and wastewater needs.

In December 2009, GAO found that federal efforts to meet drinking water and wastewater needs in the border region have been ineffective, in part, because most of the seven federal agencies that provide assistance have not comprehensively assessed the needs of the region. Federal agencies have assembled some data and conducted limited studies of drinking water and wastewater conditions in the border region, but the resulting patchwork of data does not provide a comprehensive assessment of the region's needs. Without a comprehensive needs assessment, federal agencies cannot target resources toward the most urgent needs or provide assistance to communities that do not have the technical or financial

resources to initiate a proposal for assistance. Instead, GAO found that most federal programs generally provide funds to those communities with the ability to initiate projects and seek assistance, which may not be the ones with the greatest need. Only one agency—the Indian Health Service—had collected data on water and wastewater conditions for each tribal reservation in the region, enabling it to select projects that target the greatest need.

In addition, GAO found that the key agencies have not developed coordinated policies and procedures for selecting water and wastewater projects, resulting in an administrative burden, duplication of efforts, and inefficient use of resources. Specifically, most programs have different applications and application processes for water or wastewater projects, different requirements for engineering and environmental reports, and different deadlines for submitting applications. Because most federal programs require separate documentation to meet similar requirements and the agencies do not consistently coordinate in selecting projects, applicants can experience increased costs and delays in project completion. For example, a public utility engineer in Texas said that one applicant trying to expand water service to a particular area paid $30,000 more in fees because the engineer had to complete two separate sets of engineering documentation for EPA and USDA. Also, because most federal programs have no process by which to coordinate and share information on projects they have selected for funding, GAO found examples where agencies made inefficient use of limited resources. For example, GAO found a case where HUD provided a utility in Hudspeth County, Texas, over $860,000 in grant funds from 2004 to 2006 to extend water distribution and waste collection lines for residents of a community. However, through September 2009, the distribution lines remained unused because the utility did not have enough water to serve the additional households. The utility intended to use funding from USDA to construct a new well, but the funding obligated by the agency was not enough to cover project costs. Three years after the HUD funds were provided to construct the distribution lines, the utility had not been able to obtain additional assistance from federal agencies to construct the well.

Actions Needed and Potential Financial or Other Benefits

To improve program coordination for rural water and wastewater infrastructure in the U.S.-Mexico border region, GAO suggested in December 2009 that Congress may wish to consider requiring federal agencies to establish an interagency mechanism or process, such as a task force on water and wastewater infrastructure, in the border region. GAO also suggested that Congress could direct a group or task force to conduct

certain activities. Specifically, GAO suggested that a task force, in partnership with state and local officials, should leverage collective resources to identify needs within the border region and establish compatible and coordinated polices across relevant agencies, such as a coordinated process for the selection of projects, and standardize applications, environmental review requirements, and engineering requirements to the extent possible. Such activities would help to ensure that a comprehensive needs assessment for the region is completed and that coordination in other areas occurs. Although such coordination and uniformity will not likely result in significant cost savings for the federal government, these activities, if implemented, could improve the effectiveness of federal water and wastewater programs and result in more efficient use of funds provided to the border region. Most of the cost savings would likely be realized by the communities and utilities that would benefit from federal agencies establishing a uniform application and coordinated funding cycles. While these actions have not yet been taken, a bill introduced in the House of Representatives in March 2010 would have established a Southwest Border Region Water Task Force with specific responsibilities such as assessing the water needs of communities in the region and reporting to Congress every 6 months on its progress.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

Rural Water Infrastructure: Improved Coordination and Funding Processes Could Enhance Federal Efforts to Meet Needs in the U.S.-Mexico Border Region. GAO-10-126. Washington, D.C.: December 18, 2009.

Area Contact

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Resolving Conflicting Requirements Could More Effectively Achieve Federal Fleet Energy Goals

Why GAO Is Focusing on This Area

The federal government's vehicle fleet has over 600,000 civilian and nontactical military vehicles and consumes over 963,000 gallons of petroleum-based fuel per day. In fiscal year 2009, the federal government spent approximately $1.9 billion on procuring new vehicles. According to General Services Administration (GSA) officials, the governmentwide fleet is used to support of a variety of missions and consists of approximately 60 percent trucks, buses, and ambulances; fewer than 40 percent are passenger vehicles including passenger vans and sport utility vehicles.

The federal government's goals to reduce reliance on petroleum fuel and the negative impacts of greenhouse gas (GHG) emissions have led Congress and the Administration to prioritize the acquisition of alternative fuel vehicles (AFV) by federal agencies. The following federal laws and executive orders have set requirements and goals for acquiring alternative-fuel and plug-in hybrid electric vehicles, increasing use of alternative fuels and reducing petroleum consumption: Energy Policy Act (EPAct) of 1992, EPAct of 2005, the Energy Independence and Security Act of 2007, Executive Order 13423, and Executive Order 13514. These laws and executive orders affect over 20 agencies. A number of federal agencies play a role in overseeing and implementing these requirements including, the Department of Energy (DOE) and GSA.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

In light of multiple and sometimes conflicting statutes and a lack of performance measures, fleet managers often lack the flexibility and tools to meet the goal of reducing the federal fleet's use of petroleum and its GHG emissions. Congress and the Administration have defined a set of energy requirements for the federal fleet through statutes and executive orders. However, these statutes and orders were enacted and issued in a piecemeal fashion and represent a fragmented rather than integrated approach to meeting key national goals. Specifically, the requirements and priorities to increase use of alternative fuels, reduce petroleum use, and reduce GHG emissions, compel fleet managers to resolve the following conflicts:

- *Increase the use of alternative fuels vs. the unavailability of alternative fuels.* Agencies are required to increase alternative fuel use, although most alternative fuels are not yet widely available. Thus, agencies have been purchasing primarily flex-fueled AFVs, those that can operate on E85—a blend of up to 85 percent ethanol and petroleum—or petroleum. However, since E85 was only available at 1 percent of U.S. fueling stations in 2009, agencies are requesting waivers from the requirement to use alternative fuels. According to DOE, in

2010, approximately 55 percent of flex-fueled AFVs received a waiver. Further, some fleet operators indicated they use petroleum without a waiver when alternative fuels are available because it is either more convenient, less expensive, or both.

- *Acquire AFVs vs. reduce petroleum consumption.* Agencies are required to purchase AFVs, but this requirement may, in some cases, undermine the requirement to reduce petroleum consumption. Virtually every agency has succeeded in acquiring more AFVs, but there have been only modest reductions in petroleum use and modest increases in alternative fuel use, due to the lack of available alternative fuels. As previously stated, the lack of available alternative fuels results in agencies using petroleum to fuel AFVs. In areas where alternative fuels are not available, purchasing more fuel efficient non-AFVs could reduce petroleum consumption more than purchasing AFVs.[1]

- *Reduce GHG emissions vs. acquire AFVs.* Under existing law, according to DOE, some vehicles with the lowest GHG emissions do not qualify as AFVs; and according to GSA, some AFVs emit more GHG emissions than some petroleum-fueled vehicles. Thus, by procuring a new vehicle with low GHG emissions the agency may meet the requirement to reduce GHG emissions, but not the requirement to purchase AFVs for its fleet.

- *Use plug-in hybrid vehicles vs. reduce electricity consumption in federal facilities.* Other conflicts exist between fleet energy goals and the federal government energy goals. Agencies are encouraged to acquire plug-in hybrids for their fleets when they become publicly available; however, this could conflict with other requirements that encourage agencies to reduce electricity consumption in federal facilities. Thus, if an agency acquires plug-in vehicles they may meet the requirement, but this may lead to increased electricity consumption.[2]

[1]According to DOE, agencies may acquire low-GHG-emitting vehicles and consider them AFVs when alternative fuels are not available. However, agencies have found very few low-GHG options exist that meet mission requirements.

[2]DOE has identified a reporting approach that would allow fleet electricity use to be subtracted from facility electricity use.

Because fleet managers have to follow these conflicting and narrowly defined requirements, they do not always have the flexibility to make procurement decisions that would maximize the reduction in petroleum use and GHG emissions.

GAO has previously recommended that federal agencies propose legislative changes to resolve conflicts and set priorities for the requirements. DOE and GSA are working with stakeholders to develop proposed legislation that would create broader requirements targeted at fleet efficiency. These changes could streamline the federal fleet requirements to focus broadly on the reduction of petroleum use and GHG emissions. DOE has provided the results of these efforts to the Office of Management and Budget to inform their work.

A broader, performance-based approach, as DOE and GSA propose, would provide federal agencies—subject to these laws and executive orders—greater flexibility to make procurement decisions that would maximize the reduction in petroleum use and GHG emissions. GAO has found that results-oriented organizations strive to ensure that their day-to-day activities move them closer to accomplishing their goals. Further, GAO has reported that performance-based measures should cover multiple priorities, support decision making by providing useful information, and be limited to a few vital measures. Interviews and meetings with DOE, GSA officials and other fleet managers indicate that such broad goals and related performance measures would provide agencies greater flexibility to achieve the requirements of reduced petroleum use, decreased GHG emissions, or any other requirement defined in statute. For example, GSA officials indicated that a simple mandate to reduce petroleum consumption and GHG emissions by increasing fleet efficiency—rather than by narrowly defining the vehicle or fuel type—would provide agency fleet managers with a rational target and allow them to use a variety of available options to attain it.

Actions Needed and Potential Financial or Other Benefits

Changes in existing laws could streamline the requirements and provide fleet managers with more flexibility in meeting goals. DOE, in consultation with GSA and other appropriate agencies and organizations, has taken steps to implement GAO's prior recommendation to propose legislative changes that resolve conflicts and set priorities for agencies by providing proposed legislative changes to OMB. This is an important step in addressing the issue of conflicting and narrowly defined requirements. In addition to helping agencies set priorities, these proposals could inform Congress and agencies on how to potentially resolve conflicting

requirements by developing performance-based goals and related measures which could provide agencies with greater flexibility allowing them to optimize strategies and meet broader goals. If properly developed, performance-based goals and measures would support fleet managers' decision making by providing a few key measures that help managers balance the priorities of the fleet requirements.

Framework for Analysis

The information contained in this analysis is based primarily on previously issued work listed in the related GAO products below. Interviews with and documentation from GSA and DOE, as well as attendance at and discussions during fleet operators' meetings, together provided updated information.

Related GAO Products

Federal Energy and Fleet Management: Plug-in Vehicles Offer Potential Benefits, but High Costs and Limited Information Could Hinder Integration into the Federal Fleet. GAO-09-493. Washington, D.C.: June 9, 2009.

Federal Energy Management: Agencies Are Acquiring Alternative Fuel Vehicles but Face Challenges in Meeting Other Fleet Objectives. GAO-09-75R. Washington, D.C.: October 22, 2008.

U.S. Postal Service: Vulnerability to Fluctuating Fuel Prices Requires Improved Tracking and Monitoring of Consumption Information. GAO-07-244. Washington, D.C.: February 16, 2007.

Area Contact

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Duplicative Federal Efforts Directed at Increasing Domestic Ethanol Production Cost Billions Annually

Why GAO Is Focusing on This Area

Congress supported domestic ethanol production through a $5.4 billion tax credit program in 2010. The Volumetric Ethanol Excise Tax Credit (VEETC or the ethanol tax credit), a 45-cent-per-gallon federal tax credit, is provided to fuel blenders that purchase and blend ethanol with gasoline. Congress also supported domestic ethanol production through a renewable fuel standard (RFS or the fuel standard) that applies to transportation fuels used in the United States. First enacted in 2005 and expanded in 2007, the fuel standard generally requires overall transportation fuels in the United States to contain certain volumes of biofuels, such as ethanol and biodiesel. The fuel standard generally requires rising use of ethanol and other biofuels, from 12.95 billion gallons in 2010 to 36 billion gallons in 2022. At present, the fuel standard is largely met from conventional biofuels—defined as ethanol derived from corn starch—which made up 12 billion gallons of the 12.95 billion gallon fuel standard for 2010. Of the 36 billion gallon total required for 2022, 15 billion gallons can come from conventional biofuels. The other 21 billion gallons are to come from advanced biofuels such as ethanol made from the cellulose of plants. To meet the RFS, the Departments of Agriculture and Energy are developing advanced biofuels that use cellulosic feedstocks, such as corn stover and switchgrass. The Environmental Protection Agency administers the RFS.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

The ethanol tax credit and the renewable fuel standard can be duplicative in stimulating domestic production and use of ethanol, and can result in substantial loss of revenue to the Treasury. If reauthorized and left unchanged, the VEETC's annual cost to the Treasury in forgone revenues could grow from $5.4 billion in 2010 to $6.75 billion in 2015, the year the fuel standard requires 15 billion gallons of conventional biofuels. The ethanol tax credit was recently extended at 45-cents-per-gallon through December 31, 2011, in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Pub. L. No. 111-312). However, as GAO reported in August 2009, given the requirements of the fuel standard, the ethanol tax credit is largely unneeded today to ensure demand for domestic ethanol production.

Since the 1970s the federal government has provided increasing levels of support to the domestic ethanol industry. The Energy Tax Act of 1978, among other things, provided tax incentives designed to stimulate the production of ethanol for blending with gasoline. These tax incentives were restructured in 2005 as the Volumetric Ethanol Excise Tax Credit. In addition, the Energy Policy Act of 2005 created the RFS, which established increasing annual floors for the amount of renewable fuels to be blended

into U.S. transportation fuels. The act generally required transportation fuels in the United States to contain 4 billion gallons of renewable fuels, such as ethanol and biodiesel, in 2006 and 7.5 billion gallons in 2012. The Energy Independence and Security Act of 2007 expanded the RFS by substantially increasing its annual biofuel volume requirements, including up to 9 billion gallons of conventional corn starch ethanol in 2008 and up to 15 billion gallons of conventional corn starch ethanol in 2015. To offset the advantage foreign ethanol producers may gain from the ethanol tax credit, a 54-cent-per-gallon tariff is placed on imported ethanol.

Both the ethanol tax credit and the fuel standard create demand for domestic ethanol production. Fuel blenders receive the ethanol tax credit for each gallon of ethanol they combine with gasoline and sell, yet they are also required under the fuel standard to acquire and blend specified volumes of ethanol with gasoline. As GAO reported in August 2009, the ethanol tax credit was important in helping to create a profitable corn starch ethanol industry when the industry had to fund investment in new facilities, but it is less important now for sustaining the industry because most of the capital investment in corn starch ethanol refineries has already been made. As of January 2010, the domestic corn starch ethanol industry had 13 billion gallons of refining capacity with an additional 1.4 billion gallons under construction, according to the Renewable Fuels Association. This domestic refining capacity is nearing the effective fuel standard limit of 15 billion gallons per year for conventional ethanol beginning in 2015.

Importantly, the fuel standard is now at a level high enough to ensure that a market for domestic ethanol production exists in the absence of the ethanol tax credit and may soon itself be at a level beyond what can be consumed by the nation's existing vehicle infrastructure. The ethanol content in gasoline available for most vehicles is 10 percent. This 10 percent limitation results in an upper bound of about 15 billion gallons of ethanol that can be blended into the nation's fuel pool. While EPA recently allowed newer vehicles to use gasoline that contains up to 15 percent ethanol this fuel is not yet readily available.

Actions Needed and Potential Financial or Other Benefits

The VEETC will cost $5.7 billion in forgone revenues in 2011. Because the fuel standard allows increasing annual amounts of conventional biofuels through 2015, which ensures a market for a conventional corn starch ethanol industry that is already mature, Congress may wish to consider whether revisions to the ethanol tax credit are needed. Options could include the following:

- Maintain the VEETC at current levels.
- Allow the VEETC to expire at the end of 2011.
- Reduce the VEETC as Congress did in the 2008 Farm Bill, when the ethanol tax credit was reduced from 51 cents to 45 cents per gallon.
- Phase out the VEETC over a number of years.
- Modify the VEETC to counteract fluctuations in other commodities that can influence ethanol production, such as changes in crude oil prices. For instance, the ethanol tax credit could increase when crude oil prices are low and decrease when crude oil prices are high.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below. In addition, information on the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and information on tax expenditure estimates and domestic ethanol refining capacity were updated from more recent sources.

Related GAO Product

Biofuels: Potential Effects and Challenges of Required Increases in Production and Use. GAO-09-446. Washington, D.C.: August 25, 2009.

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Enterprise Architectures: Key Mechanisms for Identifying Potential Overlap and Duplication

Why GAO Is Focusing on This Area

An enterprise architecture is a modernization blueprint that is used by organizations to describe their current state and a desired future state and to leverage information technology (IT) to transform business and mission operations. In light of the importance of developing well-defined enterprise architectures, GAO recently issued a seven-stage enterprise architecture management maturity framework that defines actions needed to effectively manage an architecture program. The alternative, as GAO's work has shown, is the perpetuation of the kinds of operational environments that burden most agencies today, where a lack of integration among business operations and the IT resources supporting them leads to systems that are duplicative, poorly integrated, and unnecessarily costly to maintain.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Historically, federal agencies have struggled with operational environments characterized by a lack of integration among business operations and IT resources supporting them. A key to successfully leveraging IT for organizational transformation is having and using an enterprise architecture—or modernization blueprint—as an authoritative frame of reference against which to assess and decide how individual system investments are defined, designed, acquired, and developed. The development, implementation, and maintenance of architectures are widely recognized as hallmarks of successful public and private organizations, and their use is required by the Clinger-Cohen Act of 1996 and the Office of Management and Budget.

GAO's experience has shown that attempting to modernize (and maintain) IT environments without an architecture to guide and constrain investments results in organizational operations and supporting technology infrastructures and systems that are duplicative, poorly integrated, unnecessarily costly to maintain and interface, and unable to respond quickly to shifting environmental factors. For example, GAO's reviews of enterprise architecture management at federal agencies, such as the Department of Homeland Security and the Federal Bureau of Investigation, as well as reviews of critical agency functional areas, such as Department of Defense financial management, logistics management, combat identification, and business systems modernization have continued to identify the absence of complete and enforced enterprise architectures, which in turn has led to agency business operations, systems, and data that are duplicative, incompatible, and not integrated; these conditions have either prevented agencies from sharing data or forced them to depend on expensive, custom-developed system interfaces to do so.

GAO's framework provides a standard yet flexible benchmark against which to determine where the enterprise stands in its progress toward the ultimate goal: having a continuously improving enterprise architecture program that can serve as a featured decision support tool when considering and planning large-scale organizational restructuring or transformation initiatives. In addition, it also provides a basis for developing architecture management improvement plans, as well as for measuring, reporting, and overseeing progress in implementing these plans.

In August 2006, GAO reported on its work in applying its prior framework across 27 major federal departments and agencies. This work showed that the state of enterprise architecture development and implementation varied considerably across departments and agencies, with some having more mature architecture programs than others. However, overall, most departments and agencies were not where they needed to be, particularly with regard to their approaches to assessing each investment's alignment with the enterprise architecture and measuring and reporting on enterprise architecture results and outcomes.

Accordingly, GAO made recommendations to departments and agencies that are aimed at improving the content and use of their respective architectures. Nonetheless, while some progress has been made, more time is needed for agencies to fully realize the value of having well-defined and implemented architectures. Such value can be derived from realizing cost savings through consolidation and reuse of shared services and elimination of antiquated and redundant mission operations, enhancing information sharing through data standardization and system integration, and optimizing service delivery through streamlining and normalization of business processes and mission operations.

Actions Needed and Potential Financial or Other Benefits

If managed effectively, enterprise architectures can be a useful change management and organizational transformation tool. The conditions for effectively managing enterprise architecture programs are contained in GAO's enterprise architecture management maturity framework. To advance the state of enterprise architecture development and use in the federal government, senior leadership in the departments and agencies need to demonstrate their commitment to this organizational transformation tool, as well as ensure that the kind of management controls embodied in GAO's framework are in place and functioning. Collectively, the majority of the departments and agencies' architecture efforts can still be viewed as a work in progress with much remaining to

be accomplished before the federal government as a whole fully realizes their transformational value. Moving beyond this status will require most departments and agencies to overcome significant obstacles and challenges, such as organizational parochialism and cultural resistance, inadequate funding, and the lack of top management understanding and skilled staff. One key to doing so continues to be sustained organizational leadership. As GAO's work has demonstrated, without such organizational leadership, the benefits of enterprise architecture will not be fully realized.

In GAO's prior work, most departments and agencies reported they expect to realize the benefits from their respective enterprise architecture programs, such as improved alignment between their business operations and the IT that supports these operations and consolidation of their IT infrastructure environments, which can reduce the costs of operating and maintaining duplicative capabilities, sometime in the future. What this suggests is that the real value in the federal government from developing and using enterprise architectures remains largely unrealized. GAO's framework recognizes that a key to realizing this potential is effectively managing department and agency enterprise architecture programs. However, knowing whether benefits and results are in fact being achieved requires having associated measures and metrics. In this regard, it is important for agencies to satisfy the core element associated with measuring and reporting enterprise architecture results and outcomes. Examples of results and outcomes to be measured include costs avoided through eliminating duplicative investments or by reusing common services and applications and improved mission performance through re-engineered business processes and modernized supporting systems. GAO's work has shown that over 50 percent of the departments and agencies assessed had yet to fully satisfy this element. On the other hand, some have reported they are addressing this element and have realized significant financial benefits. For example, the Department of the Interior has demonstrated that it is using its enterprise architecture to modernize agency IT operations and avoid costs through enterprise software license agreements and hardware procurement consolidation. These architecture-based decisions have resulted in financial benefits of at least $80 million. This means that the departments and agencies can demonstrate achievement of expected benefits, to include costs avoided through eliminating duplicative investments, if enterprise architecture results and outcomes are measured and reported. The Office of Management and Budget can play a critical role by continuing to oversee the development and use of enterprise architecture efforts, to include the measurement and reporting of enterprise architecture results and outcomes across the federal government.

GAO plans to follow up with those departments and agencies that reported having satisfied the element associated with measuring and reporting return on enterprise architecture results and outcomes to identify associated dollar savings resulting from elimination of duplicative investments.

Framework for Analysis

The information contained in this analysis is based on the related GAO reports listed below.

Related GAO Products

Organizational Transformation: A Framework for Assessing and Improving Enterprise Architecture Management (Version 2.0). GAO-10-846G. Washington, D.C.: August 2010.

Enterprise Architecture: Leadership Remains Key to Establishing and Leveraging Architectures for Organizational Transformation. GAO-06-831. Washington, D.C.: August 14, 2006.

Information Technology: A Framework for Assessing and Improving Enterprise Architecture Management, version 1.1. GAO-03-584G. Washington, D.C.: April 2003.

Area Contact

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Consolidating Federal Data Centers Provides Opportunity to Improve Government Efficiency

Why GAO Is Focusing on This Area

The federal government's demand for information technology (IT) is ever-increasing. Over time, this increasing demand has led to a dramatic rise in the number of federal data centers (defined as data processing and storage facilities over 500 square feet with strict availability requirements)—and a corresponding increase in operational costs. The growth in the number of federal data centers, many offering similar services and resources, has resulted in overlap and duplication among the centers.

In February 2010, the Office of Management and Budget (OMB) launched the Federal Data Center Consolidation Initiative to guide federal agencies in developing and implementing data center consolidation plans. OMB plans to oversee the agencies' plans and measure their progress.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

In recent years, as federal agencies modernized their operations, put more of their services online, and increased their information security profiles, they have demanded more computing power and data storage resources. According to OMB, the number of federal data centers grew from 432 in 1998 to more than 2,000 in 2010. These data centers often house similar types of equipment and provide similar processing and storage capabilities. These factors have led to concerns associated with the provision of redundant capabilities, the underutilization of resources, and the significant consumption of energy.

Operating such a large number of centers places costly demands on the government. In 2010, the Federal Chief Information Officer (CIO) reported that operating and maintaining such redundant infrastructure investments was costly, inefficient, and unsustainable, and had a significant impact on energy consumption. While the total annual federal spending associated with data centers has not yet been determined, the Federal CIO has found that operating data centers is a significant cost to the federal government, including hardware, software, real estate, and cooling costs. For example, according to the Environmental Protection Agency, the electricity cost to operate federal servers and data centers across the government is about $450 million annually. According to the Department of Energy, data center spaces can consume 100 to 200 times as much electricity as standard office spaces. Reported server utilization rates as low as 5 percent and limited reuse of these data centers within or across agencies lends further credence to the need to restructure federal data center operations to improve efficiency and reduce costs.

In February 2010, OMB and the Federal CIO announced the Federal Data Center Consolidation Initiative and outlined four high-level goals:

- Promote the use of Green IT by reducing the overall energy and real estate footprint of government data centers.
- Reduce the cost of data center hardware, software, and operations.
- Increase the overall IT security posture of the government.
- Shift IT investments to more efficient computing platforms and technologies.

As part of this initiative, OMB directed federal agencies to prepare an inventory of their data center assets and a plan for consolidating these assets by August 30, 2010, and to begin implementing them in fiscal year 2011. In October 2010, OMB reported that all of the agencies submitted their plans. OMB plans to monitor agencies' progress through annual reports and has established a goal of closing 800 of the over 2,100 federal data centers by 2015.

Data center consolidation makes sense economically and as a way to achieve more efficient IT operations, but challenges exist. For example, agencies face challenges in ensuring the accuracy of their inventories and plans, providing upfront funding for the consolidation effort long before any cost savings accrue, integrating consolidation plans into fiscal year 2012 agency budget submissions (as required by OMB), establishing and implementing shared standards (for storage, systems, security, etc.), establishing reimbursement mechanisms to fund the centralized operations, overcoming cultural resistance to such major organizational changes, and maintaining current operations during the transition to consolidated operations. Mitigating these and other challenges will require commitment from the agencies and continued oversight by OMB and the Federal CIO.

Actions Needed and Potential Financial or Other Benefits

Moving forward, it will be important for individual agencies to move quickly to correct any missing items in their plans, establish sound baselines so that progress and efficiencies can be measured, begin their consolidation efforts, track their progress, and report to OMB on their progress over time. It will also be important for OMB to work with agencies to establish goals and targets for consolidation (both in terms of cost savings and reduced data centers), maintain strong oversight of the agencies' efforts, and look for consolidation opportunities across agencies. Doing so will more fully address unnecessary overlap and duplication, and

could achieve further operational improvements, efficiencies, and financial benefits.

As part of their individual consolidation plans, each federal department and agency was expected to estimate cost savings over time. In ongoing work, GAO reviewed 15 of the 24 agencies' consolidation plans. In these plans, agencies provided the following information on estimated savings:

- Seven agencies estimated savings totaling over $369 million between fiscal years 2011 and 2015; however, actual savings may be even higher because three of these agencies' estimates were only partial estimates. They included expected energy savings but not savings from other sources, such as facilities or equipment reductions.
- Two agencies reported that net savings would not accrue until fiscal years 2017 and 2018, respectively.
- Six agencies did not provide estimated cost savings; however, two of these agencies suggested that they plan to develop cost-benefit analyses in the future.

Although some agencies reported that it was too soon to estimate cost savings because they are just beginning to plan to consolidate and other agencies noted that near-term savings were offset by consolidation costs, the opportunity for long-term savings is significant. In October 2010, a council of chief executive officers representing technical industry companies estimated that the federal government could save $150 billion to $200 billion over the next decade, primarily through data center and server consolidation.

GAO has ongoing work reviewing the Federal Data Center Consolidation Initiative as well as federal agencies' efforts to develop and implement consolidation plans.

Framework for Analysis

As part of an ongoing review of the Federal Data Center Consolidation Initiative, GAO analyzed 15 of 24 federal agencies' data center consolidation plans and inventories to identify plans and anticipated cost savings, and discussed challenges to the consolidation initiative with those agencies. GAO also met with agency officials to discuss data center consolidation initiatives at OMB, the Agency for International Development, the Department of Agriculture, the Department of Defense, the Department of Energy, the Department of Homeland Security, the

Department of the Interior, the Department of Labor, the Department of State, the Department of the Treasury, the Environmental Protection Agency, the National Aeronautics and Space Administration, the Nuclear Regulatory Commission, the Small Business Administration, the Department of Commerce, the Department of Education, the Department of Health and Human Services, the Department of Housing and Urban Development, the Department of Justice, the Department of Transportation, the Department of Veterans Affairs, the General Services Administration, the National Science Foundation, the Office of Personnel Management, and the Social Security Administration.

Related GAO Products

Information Security: Governmentwide Guidance Needed to Assist Agencies in Implementing Cloud Computing. GAO-10-855T. Washington, D.C.: July 1, 2010.

Information Security: Federal Guidance Needed to Address Control Issues with Implementing Cloud Computing. GAO-10-513. Washington, D.C.: May 27, 2010.

Social Security Administration: Effective Information Technology Management Essential for Data Center Initiative. GAO-09-662T. Washington, D.C.: April 28, 2009.

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Improved Data on Interagency Contracting Needed to Minimize Duplication and Better Leverage the Government's Buying Power

Why GAO Is Focusing on This Area

Interagency and agencywide contracting was responsible for at least $54 billion of the approximately $540 billion that was obligated governmentwide for goods and services in fiscal year 2009. Interagency contracting is a process by which one agency either uses another agency's contract directly or obtains contracting support services from another agency. In agencywide contracting, sometimes called enterprisewide contracting, a component within an agency awards a contract for use by all components of that agency. Both contracting methods are intended to leverage the government's buying power and provide cost savings. By providing a simplified, expedited, and lower cost method of procurement, they can help agencies save both time and administration costs. However, unjustified duplication among available contracts can result in increased costs to the government.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Agencies have created numerous interagency and agencywide contracts using existing statutes, the Federal Acquisition Regulation, and agency-specific policies. The creation of these contracts is based on a number of rationales, including avoiding user fees that would be paid for using another agency's contract, allowing for cost-reimbursement contracts, and gaining more control over procurement actions within the agencies. With the proliferation of these contracts, however, there is a risk of unintended duplication and inefficiency. Billions of taxpayer dollars flow through interagency and agencywide contracts, but the federal government does not have a clear, comprehensive view of which agencies use these contracts and if they are being utilized in an efficient and effective manner. Without this information, agencies may be unaware of existing contract options that could meet their needs and may be awarding new contracts when use of an exiting contract would suffice. The government, therefore, might be missing opportunities to better leverage its vast buying power.

Government contracting officials and representatives of vendors have expressed concerns about potential duplication among the interagency and agencywide contracts across government, which they said can result in increased procurement costs, redundant buying capacity, and an increased workload for the acquisition workforce. Some vendors stated they offer similar products and services on multiple contracts and that the effort required to be on multiple contracts results in extra costs to the vendor, which they pass to the government through increased prices. Some vendors stated that the additional cost of being on multiple contracts ranged from $10,000 to $1,000,000 per contract due to increased bid and proposal and administrative costs. One vendor stated that General Services Administration contracts compete with agencywide contracts,

and from industry's perspective, this has introduced redundant buying capacity.

For several years the General Service Administration's Federal Acquisition Service and its Inspector General have reported that unnecessary duplication exists within the Multiple Award Schedule (MAS) program. Similarly, the January 2007 Report of the Acquisition Advisory Panel identified several problems regarding interagency contracting. In particular, the report noted that too many choices without information related to the performance and management of these contracts make the cost-benefit analysis and market research needed to select an appropriate acquisition contract impossible. Such problems persist, as GAO reported in April 2010.

GAO has identified two overriding factors that hamper the government's ability to realize the strategic value of using interagency and agencywide contracts: (1) the lack of consistent governmentwide policy on the creation, use, and costs of awarding and administering some contracts; and (2) long-standing problems with the quality of information on interagency and agencywide contracts in the federal procurement data system. Both factors may have contributed to unnecessary duplication.

In April 2010, GAO recommended that the Office of Management and Budget (OMB), which has governmentwide procurement policy responsibilities, establish a policy framework for establishing some types of interagency contracts and agencywide contracts, including a requirement to conduct a sound business case. GAO also recommended that OMB take steps to improve the data on interagency contracts including updating existing data on interagency and agencywide contracts, ensuring that departments and agencies accurately record this data, and assessing the feasibility of creating and maintaining a centralized database of interagency and agencywide contracts. This database would allow contracting officers to identify and make informed decisions on available contracts. GAO's recommendations were consistent with provisions in the 2009 National Defense Authorization Act, which directed that the Federal Acquisition Regulation be amended to require that certain interagency contracts entered into by an executive agency be supported by a business case analysis and all interagency contracting be supported by a written determination that the approach is the best procurement alternative. An interim regulation addressing the legislation was issued in December 2010.

OMB has taken some steps to improve interagency contracting and related data. It reported in August 2010 that agencies are working to improve their

internal management controls, such as making determinations that using another agency's contract is in the best interest of the government. In addition to the recent interim regulation, OMB reported that it planned to issue overarching guidance that would address the need for agencies to prepare business cases describing the need for a new multiagency or agencywide contract, the value added by its creation, and the agency's suitability to serve as an executive agent. According to OMB, the upcoming guidance will require agencies to address the anticipated impact that a proposed multiagency contract will have on the government's ability to leverage its buying power—such as how it differs from an existing contract and the basis for concluding that it will offer greater value than an existing contract. This business case analysis also will require the agency to evaluate the cost of awarding and managing the contract and compare this cost to the likely fees that would be incurred if the agency used an existing contract or sought out acquisition assistance.

While the interim regulation and OMB's plans concerning a requirement for agencies to submit business cases for new multiagency or agencywide contracts constitute steps forward, in the absence of better data regarding the universe of such contracts, agencies may face challenges in evaluating the value of existing contracts. GAO has reported numerous times over the years on issues related to the quality of the government's data on contracts. In that regard, OMB reports that it has a new effort under way to improve contract information in the Federal Procurement Data System-Next Generation (FPDS-NG), the current federal government database for information and data on all federal contracts. OMB also is discussing options for creating a clearinghouse of existing interagency and agencywide contracts.

In OMB's announcement of its planned guidance, it noted that progress has been insufficient on the issue of contract duplication and concerns remain that agencies are duplicating each other's contracting efforts and creating redundant contracting capacity. Until controls to address the issue of duplication are fully implemented, the government will continue to miss opportunities to take advantage of the government's buying power through more efficient and more strategic contracting. At the same time, the added workload for the acquisition workforce and procurement costs for vendors, which result in higher prices for the government, will continue until this problem is addressed.

Actions Needed and Potential Financial or Other Benefits

To realize the benefits of using interagency and agencywide contracts, OMB and the General Services Administration will need to fully implement the steps they are taking to address identified shortcomings in the management of interagency contracting. The procuring agencies will have to play their parts as well. In particular, despite numerous GAO recommendations over the years, improvements are still needed regarding the accuracy of the federal contracts database in order to determine whether the contracts are being used in an efficient and effective manner. Continued congressional oversight of this issue is warranted.

Requiring business case analyses for new multiagency and agencywide contracts and ensuring agencies have access to up-to-date and accurate data on the available contracts will promote the efficient use of interagency and agencywide contracting and, by reducing the costs associated with duplicate contracts, help the government better leverage its purchasing power when buying commercial goods and services.

Framework for Analysis

The information contained in this analysis has been based on the related products list below, with updates provided through the OMB Report to Congress from August 2010 and an interview with OMB officials. GAO determined that the data it used were sufficiently reliable for its purposes.

Related GAO Products

Contracting Strategies: Better Data and Management Needed to Leverage Value of Interagency and Enterprisewise Contracts. GAO-10-862T. Washington, D.C.: June 30, 2010.

Contracting Strategies: Data and Oversight Problems Hamper Opportunities to Leverage Value of Interagency and Enterprisewide Contracts. GAO-10-367. Washington, D.C.: April 29, 2010.

Federal Contracting: Observations on the Government's Contracting Data Systems. GAO-09-1032T. Washington, D.C.: September 29, 2009.

High-Risk Series: An Update. GAO-09-271 Washington, D.C.: January 2009.

Interagency Contracting: Need for Improved Information and Policy Implementation at the Department of State. GAO-08-578. Washington, D.C.: May 8, 2008.

Department of Homeland Security: Better Planning and Assessment Needed to Improve Outcomes for Complex Service Acquisitions. GAO-08-263. Washington, D.C.: April 22, 2008.

Federal Acquisition: Oversight Plan Needed to Help Implement Acquisition Advisory Panel Recommendations. GAO-08-160. Washington, D.C.: December 20, 2007.

A Call For Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges. GAO-08-93SP. Washington, D.C.: December 2007.

Improvements Needed to the Federal Procurement Data System-Next Generation. GAO-05-960R. Washington, D.C.: September 27, 2005.

Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts. GAO-05-229. Washington, D.C.: February 11, 2005.

High-Risk Series: An Update. GAO-05-207. Washington, D.C.: January 2005.

Contract Management: Guidance Needed to Promote Competition for Defense Task Orders. GAO-04-874. Washington D.C.: July 30, 2004.

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Periodic Reviews Could Help Identify Ineffective Tax Expenditures and Redundancies in Related Tax and Spending Programs

Why GAO Is Focusing on This Area

According to the sum of U.S. Department of the Treasury estimates for fiscal year 2009, almost $1 trillion in federal revenue was forgone due to tax exclusions, credits, deductions, deferrals, and preferential tax rates—legally known as tax expenditures. The revenue that the government forgoes is viewed by many analysts as spending channeled through the tax system. Similar to spending programs, tax expenditures represent a substantial federal commitment in a wide range of mission areas. For fiscal year 2009, the U.S. Department of the Treasury listed a total of 173 tax expenditures, some of which were of the same magnitude or larger than related federal spending for some mission areas. Like mandatory spending programs such as Medicare, many tax expenditures are governed by eligibility rules and formulas that provide benefits to those who are eligible and wish to participate. Since 1994, GAO has recommended greater scrutiny of tax expenditures.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Tax expenditures, if well designed and effectively implemented, can be an effective tool to further federal goals, such as encouraging economic development in disadvantaged areas, financing higher education, and stimulating research and development. However, tax expenditures can contribute to mission fragmentation and program overlap, thus creating the potential for duplication. Moreover, some tax expenditures may be ineffective at achieving their social or economic purposes. Tax expenditures do not compete overtly with other priorities in the annual budget, and spending embedded in the tax code is effectively funded before discretionary spending is considered. Many tax expenditures are not subject to congressional reauthorization. Therefore, Congress lacks the opportunity to regularly review their effectiveness. Periodic reviews could help identify redundancy in related tax and spending programs and determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of programs with similar goals.

In the case of higher education, the federal government offers seven tax expenditures and nine spending programs—grant and loan programs authorized by Title IV of the Higher Education Act of 1965—to help students and their families pay for postsecondary education. In 2005, the number of tax filers claiming a higher education tax credit or tuition deduction surpassed the number of Title IV aid recipients. Perhaps due to the multiple, complex tax provisions, hundreds of thousands of taxpayers in 2005 failed to claim tax incentives or did not claim the most advantageous tax benefit. Simplifying the tax, grant, and loan programs may reduce complexities in higher education financing, including reducing

the number of eligible taxpayers that do not claim tax benefits. However, GAO reported in 2008 that Congress had received little information about the roles and effectiveness of the tax and Title IV programs.

To date, the Office of Management and Budget (OMB) has not used its budget and performance review processes to systematically review tax expenditures and promote integrated reviews of related tax and spending programs.

Past GAO reviews of specific tax expenditures have identified options to improve their design and better target resources. For example, in 2010, GAO suggested that Congress modify the Research Tax Credit to reduce windfalls to taxpayers for research spending they would have done anyway. GAO also suggested that Congress convert at least part of the New Markets Tax Credit to a grant program to increase the amount of federal subsidy reaching businesses in impoverished, low-income communities.

Data availability has been a challenge in assessing tax expenditure performance. In the case of the Empowerment Zone, Enterprise Community, and Renewal Community programs, the lack of tax benefit data limits the ability of the Department of Housing and Urban Development (HUD) and the Department of Agriculture to evaluate the overall mix of grant and tax programs to revitalize selected urban and rural communities. In response to GAO recommendations, HUD and the Internal Revenue Service (IRS) collaborated to share data on some program tax credits. However, the IRS data do not tie the program tax incentives to specific designated communities, making it difficult to assess the impact of the tax benefits.

Actions Needed and Potential Financial or Other Benefits

Coordinated reviews of tax expenditures with related federal spending programs could help policymakers reduce overlap and inconsistencies and direct scarce resources to the most effective or least costly methods to deliver federal support.

In 2005, GAO recommended that the Director of the Office of Management and Budget in consultation with the Secretary of the Treasury take specific actions to ensure that policymakers have necessary information to exercise scrutiny of tax expenditures:

- Present tax expenditures in the budget together with related outlay programs.

- Develop and implement a framework for conducting performance reviews of tax expenditures. This includes (1) outlining leadership responsibilities and coordination among agencies with related responsibilities; (2) setting a review schedule; (3) identifying review methods and ways to address the lack of credible tax expenditure performance information; and (4) identifying resources needed for tax expenditure reviews.

- Develop guidance on incorporating tax expenditures in agencies' strategic plans and performance reports.

- Require that tax expenditures be included in Executive Branch budget and performance review processes.

The Executive Branch had made little progress in implementing similar recommendations that GAO made in 1994, and, OMB, citing methodological and conceptual issues, disagreed with GAO's 2005 recommendations. However, in its fiscal year 2012 budget guidance, OMB instructed agencies, where appropriate, to analyze how to better integrate tax and spending policies that have similar objectives and goals. Such analysis could be useful in identifying redundancies.

Improving tax expenditure performance or eliminating tax expenditures could reduce revenue losses, potentially by billions of dollars. For example, improved designs may enable individual tax expenditures to achieve better results for the same revenue loss or the same results with less revenue loss. Also, reductions in revenue losses from eliminating ineffective or redundant tax expenditures could be substantial depending on the size of the eliminated provisions. Whether and how much federal revenues would increase from improving tax expenditures' performance or eliminating them also would depend on whether and how much Congress might adjust overall tax rates as tax expenditure inefficiencies are addressed. GAO believes that tax expenditure performance is an area that would benefit from enhanced congressional scrutiny as Congress considers ways to address the nation's long-term fiscal imbalance.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below and GAO's work following up on the recommendations from those products.

Related GAO Products

Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities. GAO-10-464R. Washington, D.C.: March 12, 2010.

New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified. GAO-10-334. Washington, D.C.: January 29, 2010.

Tax Policy: The Research Tax Credit's Design and Administration Can Be Improved. GAO-10-136. Washington, D.C: November 6, 2009.

Higher Education: Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes. GAO-08-717T. Washington, D.C.: May 1, 2008.

21st Century Challenges: How Performance Budgeting Can Help. GAO-07-1194T. Washington, D.C.: September 20, 2007.

Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program is Unclear. GAO-06-727. Washington, D.C.: September 22, 2006.

Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined. GAO-05-690. Washington, D.C.: September 23, 2005.

Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families through Title IV Student Aid and Tax Preferences. GAO-05-684. Washington, D.C.: July 29, 2005.

Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited. GAO-04-306. Washington, D.C.: March 5, 2004.

Tax Policy: Tax Expenditures Deserve More Scrutiny. GAO/GGD/AIMD-94-122. Washington, D.C.: June 3, 1994.

Area Contact

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Opportunities Exist for DOD and VA to Jointly Modernize Their Electronic Health Record Systems

Why GAO Is Focusing on This Area

The Departments of Defense (DOD) and Veterans Affairs (VA) operate two of the nation's largest health care systems, providing health care to 9.6 million active duty service members and their beneficiaries and 6 million veterans at estimated annual costs of about $49 billion and $48 billion, respectively. Although they have identified many common health care business needs, both departments have spent large sums of money to develop and operate electronic health record systems that they rely on to create and manage patient health information. Furthermore, the departments have each begun multimillion dollar modernizations of their electronic health record systems. Specifically, DOD has obligated approximately $2 billion over the 13-year life of its Armed Forces Health Longitudinal Technology Application (AHLTA) and requested $302 million in fiscal 2011 year funds for a new system. For its part, VA reported spending almost $600 million from 2001 to 2007 on eight projects as part of its Veterans Health Information Systems and Technology Architecture (VistA) modernization. In April 2008, VA estimated an $11 billion total cost to complete the modernization by 2018.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Although DOD and VA have many common health care business needs, the departments have begun separate modernizations of their electronic health record systems. Reduced duplication in this area could save system development and operation costs while supporting higher-quality health care for service members and veterans.

In May 2010, the departments identified 10 areas—inpatient documentation, outpatient documentation, pharmacy, laboratory, order entry and management, scheduling, imaging and radiology, third-party billing, registration, and data sharing—in which they have common business needs. Moreover, the results of a 2008 study conducted for the departments found that over 97 percent of functional requirements for an inpatient electronic health record system are common to both departments. Nevertheless, DOD has initiated an effort called the EHR (Electronic Health Record) Way Ahead to modernize AHLTA. At the same time, VA has begun a separate effort to modernize VistA.

The departments' distinct modernization efforts are due in part to barriers they face to jointly addressing their common health care system needs. These barriers stem from weaknesses in three key information technology (IT) management areas: strategic planning, enterprise architecture, and investment management. First, the departments have not articulated explicit plans, goals, and time frames for jointly addressing the health IT requirements common to their electronic health record systems. For

example, DOD's and VA's joint strategic plan, which is intended to describe the departments' coordination and sharing efforts, does not discuss how or when the departments propose to identify and develop joint health IT solutions, and department officials have not yet determined whether the IT capabilities developed for the new Federal Health Care Center can or will be implemented at other DOD and VA medical facilities. Second, although DOD and VA have taken steps toward developing and maintaining elements of a joint health architecture, such as a description of business processes and supporting technologies, it is not being used to guide the departments' health IT modernization efforts. For example, the departments have not defined how they intend to transition from their current architecture to a planned future state. Third, DOD and VA have not established a joint process for selecting IT investments based on criteria that consider cost, benefit, schedule, and risk elements, which would help to ensure that the chosen solution meets their common health IT needs and provides better value and benefits to the government as a whole. Without these key management capabilities in place, DOD and VA are impeded in identifying and implementing efficient and effective IT solutions to jointly address their common needs and achieving the seamless, comprehensive access to information that is necessary to optimally treat patients as they transition from servicemember to veteran status.

Actions Needed and Potential Financial or Other Benefits

GAO's recent work identified several actions that the Secretaries of Defense and Veterans Affairs could take to overcome barriers that DOD and VA face in modernizing their electronic health record systems to jointly address their common health care business needs, including the following:

- Revise the departments' joint strategic plan to include information discussing their electronic health record system modernization efforts and how those efforts will address the departments' common health care business needs.
- Further develop the departments' joint health architecture to include their planned future state and transition plan from their current state to the next generation of electronic health record capabilities.
- Define and implement a process, including criteria that considers costs, benefits, schedule, and risks, for identifying and selecting joint IT investments to meet the departments' common health care business needs.

Officials from both DOD and VA agreed with these recommendations. GAO will continue to monitor their progress on this important issue.

Efforts by the departments to jointly identify and develop common IT solutions to address their mutual health care needs could result in system development and operation cost savings while supporting higher-quality health care for service members and veterans. Although the financial benefit of reducing duplication in this area is to be determined, a joint approach to electronic health record modernization should not only result in cost savings, it should also improve the departments' ability to share health information, which in turn can optimize the quality of health care the departments provide to service members and veterans.

Framework for Analysis

The information contained in this analysis is based on findings from GAO's recent report on DOD and VA electronic health record system modernizations and the other products listed below.

Related GAO Products

Electronic Health Records: DOD and VA Should Remove Barriers and Improve Efforts to Meet Their Common System Needs. GAO-11-265. Washington, D.C.: February 2, 2011.

Information Technology: Opportunities Exist to Improve Management of DOD's Electronic Health Record Initiative. GAO-11-50. Washington, D.C.: October 6, 2010.

Information Technology: Management Improvements Are Essential to VA's Second Effort to Replace Its Outpatient Scheduling System. GAO-10-579. Washington, D.C.: May 27, 2010.

Electronic Health Records: DOD and VA Interoperability Efforts Are Ongoing; Program Office Needs to Implement Recommended Improvements. GAO-10-332. Washington D.C.: January 28, 2010.

Veterans Affairs: Health Information System Modernization Far from Complete; Improved Project Planning and Oversight Needed. GAO-08-805. Washington, D.C.: June 30, 2008.

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VA and DOD Need to Control Drug Costs and Increase Joint Contracting Whenever it is Cost Effective

Why GAO Is Focusing on This Area

The Department of Veterans Affairs (VA) and the Department of Defense (DOD) spent about $11.4 billion on prescription drugs for beneficiaries in fiscal year 2009. Reflecting national trends, VA and DOD drug expenditures have risen significantly. Since the early 1980s, Congress has urged the departments to achieve greater efficiencies through increased collaboration. Therefore, VA and DOD have attempted to restrain pharmacy costs by jointly contracting for some drugs to obtain discounts from drug manufacturers. In 2001, GAO recommended that VA and DOD jointly procure all brand name and generic drugs for which such procurement was clinically appropriate and cost-effective and report to Congress annually on their joint drug procurement efforts. VA and DOD agreed with GAO's recommendations. Also, GAO testified that addressing differences in their health care systems could increase joint contracting for brand name drugs, which make up a smaller share of the departments' drug volume than generic drugs but account for a far higher share of expenditures.

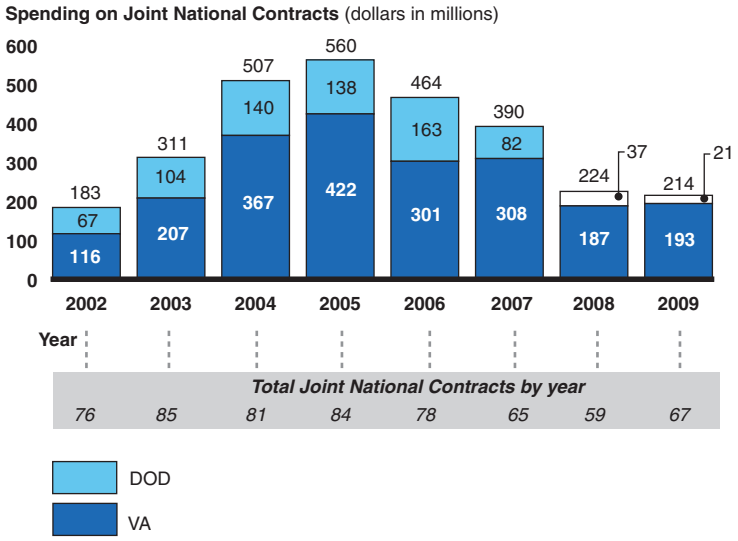
What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

As GAO previously recommended, from fiscal year 2002 through 2005, VA and DOD increased joint procurement of brand name and generic drugs. However, GAO found that by fiscal year 2009, joint national contracts[1] for prescription drugs accounted for only a small proportion of VA and DOD spending on prescription drugs. Specifically, in fiscal year 2009, VA spent about $3.7 billion and DOD spent about $7.7 billion on prescription drugs, while spending under joint national contracts represented about 5 percent and less than 1 percent of those totals, respectively. As the following bar chart shows, although VA and DOD spending on joint national contracts increased from $183 million on 76 contracts in fiscal year 2002 to $560 million on 84 contracts in fiscal year 2005, it decreased by fiscal year 2009 to $214 million on 67 contracts.[2]

[1]Joint national contracts are one of the strategies used by VA and DOD to obtain discounts on drugs from manufacturers beyond those that might otherwise be available to federal purchasers.

[2]The Veterans Benefits and Health Care Improvement Act of 2000 included a provision encouraging VA and DOD to increase their level of cooperation in the procurement and management of prescription drugs. Pub. L. No. 106-419, § 223, 114 Stat. 1822, 1845 (2000).

VA and DOD Joint National Contracts and Spending



Sources: VA and DOD.

With regard to brand name drugs—which account for more than 80 percent of VA's and DOD's total drug spending—VA and DOD had no joint national contracts for brand name drugs in 2002, had three in 2003, four in 2004 and 2005, three in 2006, two in 2007, and none in 2008 or 2009. VA and DOD have attributed significant cost avoidance[3] to their joint contracting efforts; for example, VA estimated about $666 million in cost avoidance in fiscal year 2005 alone. These cost avoidance estimates have declined significantly as joint contract spending has decreased.

VA and DOD officials attributed the decline in joint contracting since 2005 primarily to the elimination of joint contracting for brand name drugs due to a change to DOD's drug procurement process which occurred as a

[3]VA and DOD generally calculate the cost avoidance attributable to joint contracting efforts by determining the difference between actual costs under the joint contract pricing and estimated costs they would have incurred had the joint contract pricing not been in place.

result of its implementation of its uniform formulary.[4,5] Prior to DOD's implementation of its uniform formulary process, a VA contracting officer offered formulary placement to a drug manufacturer in connection with the award of a brand name drug joint contract, taking into account clinical reviews conducted by the relevant VA and DOD committees.[6] By statute, responsibility for DOD's uniform formulary is vested under the Secretary of Defense, and by DOD regulation the Director of DOD's TRICARE Management Activity is responsible for formulary placement decisions.[7] VA and DOD officials told us that DOD's uniform formulary process therefore precludes DOD from participating in a VA-led joint contract that offers formulary placement as part of the contracting process. According to VA and DOD, they can still jointly contract for generic drugs because these contracts do not usually require formulary addition.[8] In 2001, GAO reported that a DOD uniform formulary could increase joint contracting opportunities because the larger the departments' formularies, the greater the chance they would overlap and provide opportunities to jointly procure brand name drugs. However, DOD's formulary process appears to have limited rather than increased joint contracting opportunities. VA data confirm that the decline in spending under joint national contracts since

[4]Formularies are lists of medications that health care organizations encourage or require providers to prescribe for patients. By concentrating their purchases on particular drugs, organizations can negotiate with manufacturers to secure better prices. Likewise, manufacturers have a strong interest in having their drugs listed on formularies in order to capture greater market shares for their drugs. VA and DOD each has had centralized formularies since 1997, but DOD implemented its current uniform formulary in fiscal year 2005.

[5]DOD was required by the National Defense Authorization Act for Fiscal Year 2000 to establish a uniform formulary. Pub. L. No. 106-65, § 701, 113 Stat. 512, 677-80 (1999). Neither the act nor the accompanying reports addressed joint contracting with VA, and it is not clear whether or not Congress considered the matter when passing the uniform formulary requirement.

[6]For VA these committees are the VA Pharmacy Benefits Management Strategic Healthcare Group, Medical Advisory Panel, and Veterans Integrated Service Network Formulary Leaders Committee. For DOD, this committee is the Pharmacy & Therapeutics Committee.

[7]TRICARE is DOD's regionally structured health care program for active duty personnel and their dependents, eligible National Guard and Reserve servicemembers and their dependents, and retirees and their dependents and survivors.

[8]Typically, a generic drug being considered for a joint national contract would already be included on VA's and DOD's formularies. For generic drug joint contracts, one manufacturer is selected from a group of manufacturers who make the same generic drug. In contrast, a joint contract for a brand name drug would typically involve selection of one brand name drug from a group of drugs that were determined to be therapeutic alternatives, with the selected drug being placed on the formularies.

2005 can be largely attributed to the elimination of joint contracting for costly brand name drugs. VA data show that spending under joint national contracts for generic drugs has remained relatively constant between fiscal years 2005 and 2009, fluctuating between $175 million and $196 million, while VA spending under joint national contracts for brand name drugs declined over this period, from $232 million in 2005 to $0 in 2008 and 2009.

In addition, officials told us that joint contracting is not available for a large segment of drug spending. Specifically, DOD does not contract, jointly or on its own, for drugs dispensed through retail pharmacies. In fiscal year 2009, DOD officials reported $5.8 billion in retail pharmacy drug spending, none of which currently presents a joint contracting opportunity.

Despite the limits to joint contracting, VA and DOD officials said they are independently achieving cost savings in other ways. VA officials told us that VA obtains equally good prices working independently as it does when it jointly contracts with DOD, and consequently VA officials believe VA is not missing any savings opportunities by not jointly contracting with DOD for brand name drugs. VA officials told us they do not think additional joint contracting could lead to increased cost savings for VA. Additionally, DOD officials said that while joint contracting has declined, their uniform formulary process has been more effective at producing savings, citing $926 million in cost avoidance in fiscal year 2007.[9]

Actions Needed and Potential Financial or Other Benefits

While VA and DOD officials assert they are independently achieving significant drug cost savings, the departments' spending on brand-name drugs has been increasing, totaling almost $10 billion dollars in fiscal year 2009, or about 85 percent of the approximately $11.4 billion in total drug spending that year. Since it is unclear whether substantial cost savings could be realized if the departments resumed joint contracting for brand name drugs, VA and DOD should analyze whether greater cost savings could be achieved through joint contracting for brand name drugs than are currently achieved through their independent strategies, and determine whether it would be cost-effective to take steps to resume joint

[9]For more information about uniform formulary cost savings, see GAO, *DOD Pharmacy Benefits Program: Reduced Pharmacy Costs Resulting from the Uniform Formulary and Manufacturer Rebates*, GAO-08-172R (Washington, D.C.: Oct. 31, 2007).

contracting for brand name drugs. Regardless of whether joint contracting for brand name drugs is practicable, the departments face continued challenges in controlling increasing drug costs, and should make finding drug savings a priority. For example, GAO previously recommended that DOD identify, implement, and monitor efforts to control retail pharmacy spending, an area for which drug spending is increasing and cannot be controlled through joint contracting efforts.[10] DOD agreed with this recommendation. The departments should also continue their efforts to jointly contract for generic drugs, and look for opportunities to increase joint contracting efforts as generic versions of existing brand name drugs become available. Officials noted, for example, that generic versions of drugs for reducing cholesterol and controlling asthma may become available within a few years.

VA and DOD provided comments on GAO's draft analysis of this issue. VA stated that it would explore whether cost savings might be possible if it resumed joint contracting for brand name drugs, and agreed that the departments should continue and potentially increase joint contracting for generic drugs. DOD concurred with the draft and offered additional contextual information. For example, DOD noted that while its retail pharmacy network remains the largest and most costly component of its pharmacy benefit, the agency has received a total of over $960 million in federal pricing discounts[11] on purchases made through retail pharmacies in fiscal years 2009 and 2010.[12]

Framework for Analysis

The information contained in this analysis is based in part on the related GAO products listed below. In addition, to determine the factors that contributed to the decline in joint contracting since 2005, GAO interviewed VA and DOD pharmacy and procurement officials and obtained and reviewed relevant documents, including articles and reports to Congress related to VA's and DOD's pharmacy management systems. GAO also reviewed VA and DOD drug spending and joint contracting data from 2002

[10]See GAO, *DOD Pharmacy Program: Continued Efforts Needed to Reduce Growth in Spending at Retail Pharmacies*, GAO-08-327 (Washington, D.C.: Apr. 4, 2008).

[11]The National Defense Authorization Act for Fiscal Year 2008 required that federal pricing arrangements be applied to drugs dispensed at retail pharmacies as of January 28, 2008. *See* Pub. L. No. 110-181, § 703, 122 Stat. 3, 188 (codified at 10 U.S.C. § 1074g(f)).

[12]DOD reported federal pricing discounts received through July 31, 2010.

through 2009 and determined that the data were sufficiently reliable for use in this report.

Related GAO Products

Prescription Drugs: Overview of Approaches to Control Prescription Drug Spending in Federal Programs. GAO-09-819T. Washington, D.C.: June 24, 2009.

DOD Pharmacy Program: Continued Efforts Needed to Reduce Growth in Spending at Retail Pharmacies. GAO-08-327. Washington, D.C.: April 4, 2008.

DOD Pharmacy Benefits Program: Reduced Pharmacy Costs Resulting from the Uniform Formulary and Manufacturer Rebates. GAO-08-172R. Washington, D.C.: October 31, 2007.

Mail Order Pharmacies: DOD's Use of VA's Mail Pharmacy Could Produce Savings and Other Benefits. GAO-05-555. Washington, D.C.: June 22, 2005.

DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs. GAO-01-588. Washington, D.C.: May 25, 2001.

DOD and VA Health Care: Jointly Buying and Mailing Out Pharmaceuticals Could Save Millions of Dollars. T-HEHS-00-121. Washington, D.C.: May 25, 2000.

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HHS Needs an Overall Strategy to Better Integrate Nationwide Public Health Information Systems

Why GAO Is Focusing on This Area

Public health functions in the United States—such as disease surveillance and emergency detection and response—are conducted by public health officials from 59 state and territorial health departments; more than 3,000 local health departments; over 180,000 clinical laboratories; and multiple federal agencies. As the federal point of contact for public health initiatives, the Department of Health and Human Services (HHS) is responsible for coordinating nationwide efforts to detect and respond to disease outbreaks and other public health emergencies. Because of the many participants involved, the identification and management of public health emergencies call for effective communication and collaboration across all levels of government and the private sector. In addition, officials at HHS and other federal, state, and local agencies recognize the need to improve the use of information technology to collect, analyze, and share data that can be used to enhance nationwide public health situational awareness—that is, public knowledge of key health-related events and the availability of medical and emergency response resources.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

HHS has taken steps over the past decade to improve the ability of public health entities to electronically collect, analyze, and share information that supports early event detection and emergency response operations, but the department's initiatives have been undertaken without the strategic planning needed to coordinate and integrate the priorities, goals, and objectives of various related initiatives. HHS officials have identified at least 25 information technology systems that are key to the department's efforts to support public health situational awareness. In fiscal year 2009, reported costs for developing and implementing these systems were approximately $40 million. Additionally, other federal, state, local, and tribal public health entities throughout the country have expended scarce resources to develop and implement numerous other systems for conducting public health functions within their own jurisdictions.

HHS has also defined data and other technical standards intended to better enable public health entities throughout the nation to develop and implement interoperable systems for collecting, analyzing, and sharing data. However, the department has not developed and implemented an overall strategy that defines goals, objectives, and priorities and that integrates related strategies to achieve the unified electronic nationwide situational awareness capability required by the Pandemic and All-Hazards Preparedness Act.[1] Rather, HHS and the public health community have

[1]Pub. L. No. 109-417 (Dec. 19, 2006).

developed and implemented information systems to enhance public health situational awareness in an often stove-piped fashion, focusing on specific public health functions. Therefore, public health entities are limited in their ability to electronically collect, analyze, and share information needed to enhance public health situational awareness and improve the effectiveness of their efforts to prepare for and respond to public health emergencies.

In December 2006, the Pandemic and All-Hazards Preparedness Act mandated that the Secretary of HHS, in collaboration with state, local, and tribal public health entities, develop and implement a strategic plan for the establishment of an electronic network of interoperable systems to enhance nationwide public health situational awareness. GAO's December 2010 report on HHS's efforts to establish an electronic network for enhancing nationwide situational awareness of public health emergencies found that the Secretary of HHS had not developed and delivered a strategic plan within 180 days of the mandate as required (i.e., by June 16, 2007). Without an overall strategic plan that defines requirements for establishing and evaluating the capabilities of existing and planned information systems implemented throughout the public health community, HHS cannot be assured that its resources are being effectively used to provide a unified electronic nationwide public health situational awareness capability. Further, absent more effective planning, HHS runs the risk of expending additional funds for continued fragmented efforts without realizing the mandated goal.

Actions Needed and Potential Financial or Other Benefits

GAO's December 2010 report recommended that the Secretary of HHS develop and implement a strategic plan that defines goals, objectives, and priorities for establishing an electronic public health situational awareness network. Such a plan should include performance measures for evaluating capabilities of existing and planned information systems. Additionally, the strategic plan should integrate related strategies and information technology initiatives within HHS for sharing information among federal, state, local, and tribal entities. In responding to the report, HHS stated that a complete strategy for health and public health situational awareness will be developed and incorporated into the Biennial Implementation Plan for the National Health Security Strategy, which will identify actions to be accomplished in the next 2 years. The department added that it intends to release this first biennial plan in early 2011. As discussed in GAO's report, developing a strategic plan that integrates the goals, objectives, and priorities of related strategies will be essential to establishing cohesiveness of HHS's related information technology initiatives, therefore

better ensuring the success of the department's efforts to support and enhance nationwide public health situational awareness. To what extent future savings may be expected from this effort are unclear, but more effective planning has the potential to ensure more cost-effective efforts in the future.

GAO expects to complete additional work in the future assessing HHS's progress toward developing and implementing an overall strategic plan for establishing and evaluating an electronic network of systems that meets the information-sharing requirements for enhanced nationwide public health situational awareness defined by law.

Framework for Analysis

The information contained in this analysis is based on the GAO products listed below.

Related GAO Products

Public Health Information Technology: Additional Strategic Planning Needed to Guide HHS's Efforts to Establish Electronic Situational Awareness Capabilities. GAO-11-99. Washington, D.C.: December 17, 2010.

Biosurveillance: Efforts to Develop a National Biosurveillance Capability Need a National Strategy and a Designated Leader. GAO-10-645. Washington, D.C.: June 30, 2010.

Biosurveillance: Developing a Collaboration Strategy Is Essential to Fostering Interagency Data and Resource Sharing. GAO-10-171. Washington, D.C.: December 18, 2009.

Health Information Technology: More Detailed Plans Needed for the Centers for Disease Control and Prevention's Redesigned BioSense Program. GAO-09-100. Washington, D.C.: November 20, 2008.

Information Technology: Federal Agencies Face Challenges in Implementing Initiatives to Improve Public Health Infrastructure. GAO-05-308. Washington, D.C.: June 10, 2005.

Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism. GAO-04-408T. Washington, D.C.: February 3, 2004.

Bioterrorism: Information Technology Strategy Could Strengthen Federal Agencies' Abilities to Respond to Public Health Emergencies. GAO-03-139. Washington, D.C.: May 30, 2003.

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Strategic Oversight Mechanisms Could Help Integrate Fragmented Interagency Efforts to Defend against Biological Threats

Why GAO Is Focusing on This Area

A catastrophic biological event, such as a terrorist attack with a weapon of mass destruction or a naturally occurring pandemic, could cause mass casualties, weaken the economy, damage public morale, and threaten national security. Biodefense includes measures to prevent, detect, respond to, and recover from harm or damage caused by microorganisms or biological toxins to humans, animals, or the food supply. In January 2010, the bipartisan Commission on the Prevention of Weapons of Mass Destruction Proliferation and Terrorism (now known as the WMD Center), which was established by the Implementing Recommendations of the 9/11 Commission Act (Pub. L. No. 110-53, § 1851), gave the nation a failing grade in its efforts to enhance capabilities for rapid response to prevent biological attacks from inflicting mass casualties.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

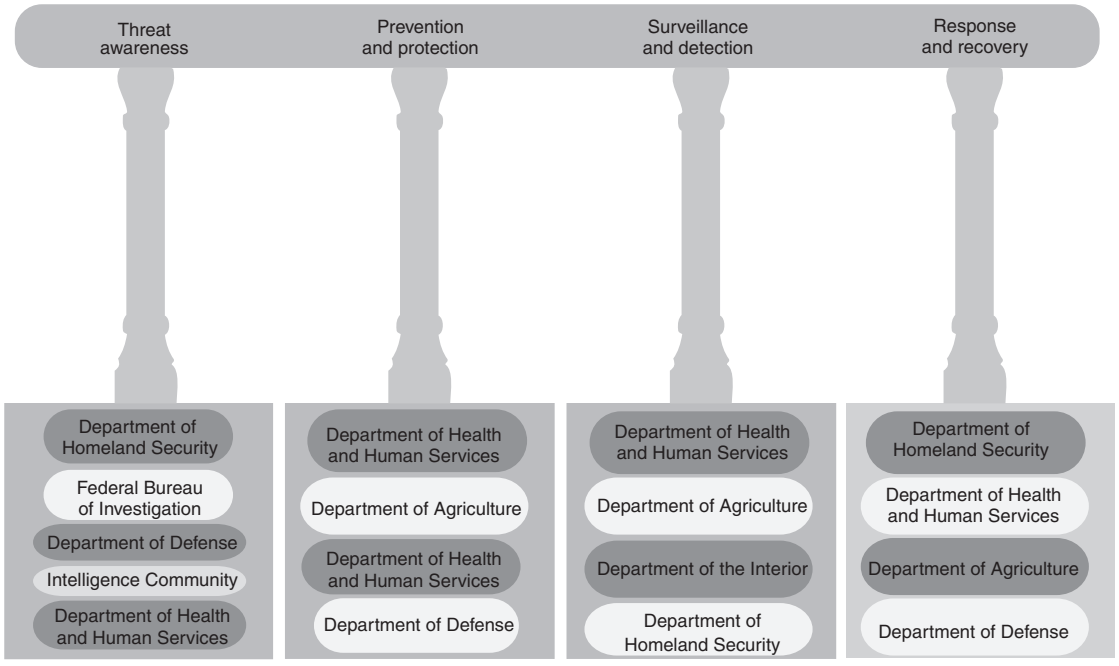
According to the head of the WMD Center, there are more than two dozen presidentially appointed individuals with some responsibility for biodefense. In addition, numerous federal agencies, encompassing much of the federal government, have some mission responsibilities for supporting biodefense activities. However, there is no individual or entity with responsibility, authority, and accountability for overseeing the entire biodefense enterprise.

According to Homeland Security Presidential Directive 10, published in April 2004, successful implementation of the nation's biodefense enterprise requires optimizing critical cross-cutting functions such as information management and communications, research and development, and acquisition. In 2004, GAO reported that interagency and intergovernmental activities can benefit from the leadership of a single entity with sufficient time, responsibility, authority, and resources needed to provide assurance that the federal programs are well coordinated, and that gaps and duplication in capabilities are avoided. GAO also reported in 2001 that complex interagency and intergovernmental efforts can benefit from developing a national strategy.

Biodefense is organized into four pillars—threat awareness, prevention and protection, surveillance and detection, and response and recovery—and multiple federal agencies have some biodefense responsibilities within them, as shown in the figure below. Each of these pillars comprise numerous activities—such as controlling access to dangerous biological agents used in research—that generally require coordination across federal departments as well as with state, local, and international governments, and the private sector. Deterrence of bioterrorism rests upon the ability of the nation to mitigate the effects of an attack.

According to the WMD Center's January 2010 report, Prevention of WMD Proliferation and Terrorism Report Card, there is no national plan to coordinate federal, state, and local efforts following a bioterror attack, and the United States lacks the technical and operational capabilities required for an adequate response. The report goes on to say that these technical and operational capabilities are each links in a chain, critical to the strength of the attack response, and that weakness in any capability leads to a diminished response, and diminished effectiveness in deterring an attack.

Pillars of Biodefense and Examples of Associated Federal Departments



Source: GAO analysis of Homeland Security Presidential Directive 10.

GAO's past work has highlighted fragmentation in the surveillance and detection pillar, which indicates the need for strategic oversight mechanisms—such as a national strategy and a focal point—across the entire biodefense enterprise. In June 2010, GAO reported that an activity in the surveillance and detection pillar known as biosurveillance is fragmented and that the decision makers responsible for developing a national biosurveillance capability are spread across multiple agencies and

departments, as it is with the rest of the biodefense enterprise. Yet, strategic oversight mechanisms, such as a focal point or national strategy, had not been established to coordinate and lead efforts across the multiple federal departments with biosurveillance responsibilities. GAO recommended that the Homeland Security Council, which was established to serve as a mechanism for ensuring coordination of federal homeland security-related activities and development of homeland security policies, should direct the National Security Staff to establish a focal point and charge this focal point with the responsibility for developing a national biosurveillance strategy. The National Security Staff did not comment on these recommendations.

While some high-level biodefense strategies have been developed, there is no broad, integrated national strategy that encompasses all stakeholders with biodefense responsibilities that can be used to guide the systematic identification of risk, assessment of resources needed to address those risks, and the prioritization and allocation of investment across the entire biodefense enterprise. Further, neither the Office of Management and Budget nor the federal agencies account for biodefense spending across the entire federal government. As a result, the federal government does not know how much is being spent on this critical national security priority. However, a private sector analysis of the fiscal year 2011 federal budget for civilian biodefense estimates that the U.S. biodefense effort will total $6.48 billion across 8 of the more than 12 federal agencies with biodefense responsibilities. GAO's work noted that having a strategy in place to guide development of a national biosurveillance capability could potentially help agencies address challenges that are complex, inherent to building capabilities that cross mission areas and agencies, and not easily resolved—challenges that are also present in the larger biodefense enterprise. A national strategy could define the scope of the problems to be addressed, and in turn could lead to specific objectives and activities for tackling those problems, better allocation and management of resources, clarification of roles and responsibilities, and, finally, to integration of a biodefense strategy with other related preparedness and response strategies. In addition, because responsibilities and resources are dispersed across a number of federal agencies, the nation's biodefense enterprise could benefit from designated leadership—a focal point—that provides leadership for the interagency community.

Actions Needed and Potential Financial or Other Benefits

Because none of the departments has authority over the entire biodefense enterprise, the Homeland Security Council should consider establishing a focal point to coordinate federal biodefense activities, including biosurveillance, consistent with GAO's previous recommendation for the Council to establish a focal point for biosurveillance. The overarching biodefense enterprise would benefit from strategic oversight mechanisms, including a focal point such as a national biodefense coordinator and a national strategy, to ensure efficient, effective, and accountable results. Reduced fragmentation in the biodefense enterprise could enhance assurance that the nation is prepared to prevent, detect, and respond to biological attacks with potentially devastating consequences in terms of loss of life, economic damage, and decreased national security.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below. GAO also has work under way on threat and risk assessments and countermeasure development, which focuses on issues of integration and coordination across multiple agencies and expects to report on its results in spring 2011.

Related GAO Products

Biosurveillance: Efforts to Develop a National Biosurveillance Capability Need a National Strategy and Designated Leader. GAO-10-645. Washington, D.C.: June 30, 2010.

Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism. GAO-04-408T. Washington, D.C.: February 3, 2004.

Combating Terrorism: Selected Challenges and Recommendations. GAO-01-822. Washington D.C.: September 20, 2001.

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DHS Oversight Could Help Eliminate Potential Duplicating Efforts of Interagency Forums in Securing the Northern Border

Why GAO Is Focusing on This Area

The Department of Homeland Security (DHS) has primary responsibility for securing the nearly 4,000 miles that comprise the U.S.-Canadian border from Washington state to Maine. DHS components, in collaboration with other federal, state, local, tribal, and Canadian law enforcement partners, are responsible for securing this border, which involves coordination and the leveraging of scarce resources through interagency forums. In December 2010, GAO reported on overlap and potential duplication among two of these forums—the Integrated Border Enforcement Team (IBET) and the Border Enforcement Security Task Force (BEST). These forum members meet to share information on coordination of cross-border law enforcement efforts, among other activities, to enhance bi-national border security. IBET members focus on national security, organized crime, and other criminal activity between ports of entry; BEST members work to identify, disrupt, and dismantle organizations seeking to exploit border vulnerabilities. DHS components, such as U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement, and the U.S. Coast Guard, along with Canadian law enforcement partners participate in 24 IBETs (which are part of 15 regions across the northern border) and 3 BESTs (led by Immigration and Customs Enforcement) that have been established across the northern border.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

In December 2010, GAO reported on northern border interagency coordination and highlighted concerns about mission overlap and potential duplication of effort between the BEST and IBET interagency forums. For example, of the 13 partners GAO interviewed that operate within two jurisdictions where two BEST and four IBET interagency forums are located, more than half of these partners cited concerns about mission overlap between these two forums that could result in duplication of effort. Specifically, these partners expressed concern that some BEST activities to investigate and interdict cross-border illegal activity duplicated IBET efforts to conduct the same activities because, among other factors, smuggling rings and other criminal organizations do not limit their activities by geographic area.

Overlap and potential duplication of effort between the BEST and IBET may also exist when these interagency forums are established in the same location, as has been done in at least two jurisdictions where BEST and IBET forums are located. DHS officials stated that decisions to establish interagency forums are made, in part, by DHS components participating in the forums based on their work requirements. Specifically, the Immigration and Customs Enforcement headquarters program manager stated that the agency sponsored the establishment of BEST interagency

forums along the northern border because of the need for additional Immigration and Customs Enforcement investigative resources, and that the locations were identified on the basis of the agency's investigative workload requirements, but that analyses of whether the existing IBETs established in these areas could be used for these investigative purposes were not a factor.

Moreover, in an April 2007 report, the DHS Inspector General reported that it was not clear how a BEST would operate differently from IBETs and that care should be taken to avoid duplication of efforts with IBETs on the northern border. In 2009, IBET members convened an interagency working group to study the interaction between the IBET and BEST.[1] This group raised concerns about mission overlap and duplication of effort between the two interagency forums and identified the need for a vision that clearly defines IBET-BEST roles and responsibilities, as well the framework for their routine interaction and collaboration. According to DHS officials, in November 2010, DHS, the Department of Justice, and Canadian officials established another working group to evaluate best practices of existing interagency forums, including the IBET and BEST, to improve U.S.-Canadian border enforcement efforts.[2] However, as of December 2010 it is too soon to tell whether this effort will address the recommendation made by the previous working group.

In December 2010, GAO reported that DHS does not provide guidance or oversight to its components to establish or assess the results of interagency forums across northern border locations. GAO has previously reported that federal agencies can enhance and sustain their collaborative efforts by, in part, developing mechanisms to monitor their results. DHS officials stated that DHS is developing processes to provide department-level oversight of those forums; however, DHS has not provided documentation to support its plans, and thus the scope and the time frames for finalizing this effort are unclear. Completing such guidance and

[1]Eight agencies were represented on the IBET/BEST working group, including Canada's Royal Canadian Mounted Police and the Canada Border Services Agency and U.S. agencies including Customs and Border Protection, Immigration and Customs Enforcement, the Coast Guard, and the Department of Justice. The findings of this working group were published in a final report. DHS, *IBET/BEST Interaction Final Report* (Washington, D.C., April 2009).

[2]This working group consists of the representatives from the same agencies that served on the 2009 interagency working group, which include DHS, Department of Justice, and Canadian law enforcement agencies, according to DHS officials.

processes for oversight could better position DHS to identify areas of duplication and determine if existing forums could be modified or consolidated to leverage its resources more efficiently in conducting border security operations.

DHS intends to outline a vision for interagency coordination with an emphasis on partnerships, including the Canadian government, through its northern border strategy scheduled to be issued in calendar year 2011.[3] In addition, in November 2010, the Secretary of Homeland Security directed DHS components to develop a new approach to better integrate northern border enforcement efforts. Until DHS clearly defines IBET-BEST roles and responsibilities, aligns its resources, and ensures accountability through oversight, DHS risks hindering collaborative relationships with its partners and lacks reasonable assurance that resources are deployed efficiently and effectively to secure the northern border.

DHS is also working to establish a mechanism to identify and report on the benefits achieved through its participation in the IBET-BEST interagency forums, but has not maintained comprehensive data on the costs of these forums to help it ascertain whether the benefits obtained outweigh the costs. For example, Immigration and Customs Enforcement officials maintained information on that agency's participation in two of three northern border BEST locations and estimated its costs for IBET locations.[4] However, DHS could not provide information on the costs incurred by other federal, state, local, tribal, and international agencies that participate in BEST or IBET. The interagency group studying these forums raised concerns about law enforcement agencies gathering the resources necessary to participate in the increasing number of these forums. By leading efforts to develop a framework for identifying both its

[3]According to DHS officials, in addition to emphasizing the importance of its partners, this strategy is to guide efforts to deter and prevent illicit smuggling and trafficking along the northern border.

[4]Specifically, in 2010, Immigration and Customs Enforcement's costs ranged from approximately $1.5 million to $6.3 million per BEST location and from almost $480,000 to about $2 million per IBET location (dedicated personnel, facilities, and equipment). Since IBET positions are created out of the responsible Immigration and Customs Enforcement office's base funding, all costs associated with these programs are estimated since each responsible Immigration and Customs Enforcement office has to shift resources from one program to another. Customs and Border Protection does not track its costs of participating in either forum, but a Customs and Border Protection official responsible for patrolling the border estimated that its fiscal year 2010 cost averaged $100,000 for one BEST location and $182,000 for IBET.

and its partners' costs for participating in each forum, DHS would be better positioned to evaluate the need for and success of both forums.

Actions Needed and Potential Financial or Other Benefits

Ongoing DHS oversight of the interagency forums could help prevent duplication of efforts. DHS headquarters officials report that policies governing DHS coordination efforts are under development and that Immigration and Customs Enforcement and Customs and Border Protection have deployed personnel to key northern border locations to improve collaboration and facilitate timely information sharing. However, DHS does not currently provide guidance or oversight to its components to establish or assess the results of interagency forums—which include both IBET and BEST interagency forums—across northern border locations to help ensure that forums established in the same locations do not duplicate activities. Accordingly, GAO recommended in December 2010 that DHS provide guidance and oversight for interagency forums to help prevent duplication of effort and help efficiently utilize personnel resources to strengthen DHS's coordination efforts along the northern border. By implementing this recommendation, DHS could help prevent duplication and identify whether existing forums can be modified or consolidated to better leverage scarce resources and more efficiently conduct border security operations. Moreover, as DHS establishes a mechanism for determining the benefits of participating in the IBET and BEST interagency forums, DHS could lead efforts to develop a framework for identifying the costs incurred by all partners participating in each forum. Doing so could help DHS evaluate the success of these forums and the need for both the IBETs and BESTs.

Framework for Analysis

The information contained in this analysis was based on GAO's December 2010 report as well as selected updates obtained from September 2010 through February 2011, including cost data related to Immigration and Customs Enforcement and Customs and Border Protection's participation in IBET and BEST for fiscal year 2010. GAO interviewed relevant agency officials responsible for overseeing the accuracy of these data and determined they were sufficiently reliable for purposes of this report.

Related GAO Products

B*order Security: Enhanced DHS Oversight and Assessment of Interagency Coordination Is Need for the Northern Border*. GAO-11-97. Washington, D.C.: December 17, 2010.

Border Security: Additional Actions Needed to Better Ensure a Coordinated Federal Response to Illegal Activity on Federal Lands. GAO-11-177. Washington, D.C.: November 18, 2010.

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The Department of Justice Plans Actions to Reduce Overlap in Explosives Investigations, but Monitoring Is Needed to Ensure Successful Implementation

Why GAO Is Focusing on This Area

In fiscal year 2009, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) and the Federal Bureau of Investigation (FBI), both components of the Department of Justice (Justice), initiated over 1,600 cases involving explosives incidents such as actual or attempted bombings with improvised explosive devices. Since 2004, Justice has taken actions intended to address duplication and overlap in the areas of explosives investigations jurisdiction, training, information sharing and use of databases, and laboratory forensic analysis. However, a 2009 report from Justice's Inspector General found there has been little progress since 2004 in addressing overlap and duplication. In response to the Inspector General's report, in August 2010, the Acting Deputy Attorney General issued a protocol for assigning lead agency jurisdiction in explosives investigations. The memorandum accompanying the protocol directed the ATF and FBI to take actions to conduct assessments of its explosives operations and make recommendations by November 1, 2010, for consolidating and eliminating redundancies, where appropriate.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

GAO has reviewed actions planned by Justice to reduce overlap and duplication and improve explosives investigation coordination between the ATF and FBI. GAO found that the actions Justice is proposing should address most of these issues, but additional monitoring by Congress and agency personnel could help ensure that plans to address these long-standing challenges are fully implemented and successful since Justice did not follow through on past efforts to achieve these same objectives. GAO has reported that federal agencies can enhance and sustain their collaborative efforts by creating the means to monitor and evaluate their efforts to identify areas for improvement. In his August 2010 memorandum directed to ATF and FBI, the Deputy Attorney General highlighted four areas of explosives investigations where duplication and redundant efforts needed to be addressed: jurisdiction, explosives training, shared explosives databases, and laboratories.

Jurisdiction. The Deputy Attorney General noted that defining lead agency jurisdiction over explosives investigations has been a persistent problem for Justice; led to confusion among federal, state, and local law enforcement; and resulted in duplication of effort between ATF and FBI. GAO's ongoing work on law enforcement coordination found that disputes have occurred over the past 5 years between the agencies regarding jurisdiction of explosives investigations and there is potential overlap. For example, Justice had designated FBI as the lead agency for incidents related to domestic terrorism but had not defined the term, so ATF and FBI have had disputes about when an incident would be related to

terrorism, and, therefore, under FBI's jurisdiction. A 2009 Inspector General report found that, despite Justice's attempts to coordinate explosives investigations and activities, the components have developed separate and conflicting approaches to these investigations. The August 2010 directive attempted to resolve the dispute regarding jurisdiction by citing a definition for both "International Terrorism" and "Domestic Terrorism," and outlining factors associated with an explosive incident that indicate a presumptive nexus to terrorism. The directive also intended to clarify roles and responsibilities in all other explosives jurisdiction matters. However, it is too soon to know to what extent the directive will resolve the dispute.

Explosives training. ATF and FBI continue to separately operate their own explosives-training facilities and programs, both of which are located at the Redstone Arsenal in Huntsville, Alabama, resulting in potential duplication.[1] Regarding facilities, for example, the FBI's Hazardous Devices School trains and certifies federal, state, and local bomb technicians and bomb squads. Similarly, ATF's National Center for Explosives Training and Research offers explosives courses to ATF and state and local law enforcement personnel. Regarding programs, both components offer post-blast explosives training.[2] According to ATF and FBI data, the cost of the training facilities in fiscal year 2010 totaled $11.0 million and $7.5 million, respectively.[3] In August 2010, the Deputy Attorney General directed the components to provide a joint plan to consolidate training programs with recommendations for consolidating and eliminating redundancies. Justice officials said the components submitted a plan in November 2010 that proposed consolidating post-blast training programs and curricula beginning in the spring of 2011, which is consistent with the Deputy Attorney General's directive. Justice officials also stated that both components concluded they should continue to operate separate explosives-training facilities because of the high demand and wait lists for explosives courses offered at each facility. By continually monitoring the need to support both facilities, Justice's ability to determine that its resources are being used effectively could be strengthened.

[1]FBI also operates the Secure Training Facility and Vehicle-Borne Improvised Explosives Device Training Facility as part of the Hazardous Devices School in Alabama.

[2]Post-blast explosives training teaches methods and processes for investigating explosives scenes.

[3]$7.4 million of ATF's cost were for construction.

Shared explosives database. In 2009, Justice's Inspector General reported that ATF and FBI have not effectively consolidated and maintained one distinct explosives incident reporting database, as directed by the Attorney General. Also, the Inspector General found that although FBI had discontinued use of its database that compiles information on explosives incidents and transferred its historical data into ATF's Bomb and Arson Tracking System,[4] FBI had not subsequently input any additional explosives incident information. In addition, ATF had not consistently reported all its explosives incidents to the Bomb and Arson Tracking System. Taken together, these omissions undermined the components' ability to accurately determine trends in explosives incidents. In response to the August 2010 protocol, according to Justice officials, the components have developed and plan to implement information-sharing procedures in early 2011 to ensure that FBI bomb technicians and state and local bomb squads have access to and report explosives incidents to the reporting system. By monitoring implementation of this plan, Justice would be better positioned to obtain feedback for improving both policy and operational effectiveness.

Explosives laboratories. Both ATF and FBI have laboratories that perform forensic analysis of explosives evidence. Specifically, ATF operates laboratories in Maryland, Georgia, and California, while FBI uses its Virginia laboratory for forensic analysis. For fiscal year 2010, ATF reported the cost to operate its three laboratories was $11.2 million,[5] and FBI reported the cost to conduct analysis at its laboratory was $6.6 million.[6] In 2004, the Attorney General required Justice to establish a Lab Board to examine its available laboratory resources and workloads, analyze demands, and make recommendations to the Deputy Attorney General on the most productive allocation of resources. While Justice established the Lab Board, its Inspector General found no record of a report or recommendations. In August 2010, the Deputy Attorney General directed the Lab Board to reconvene to develop recommendations by November 1, 2010, for further integration of Justice's laboratory capabilities, among other things. According to Justice officials, the components submitted a

[4]The Bomb and Arson Tracking System is intended to be Justice's single source for reporting and sharing explosives incident information.

[5]According to ATF, the laboratory costs include explosives, arson, and firearms forensic analysis.

[6]According to FBI, the costs for explosives forensic analysis does not include Laboratory Division employees who perform forensic analysis on improvised-explosive-device-related submissions.

progress report in November 2010 that outlines areas they believed could produce operational efficiencies and better coordination. These areas include the adoption of a common laboratory information management system and coordinated training of laboratory personnel. By continually monitoring these actions, Justice's ability to ensure that the components follow through on these areas to better coordinate and integrate laboratory resources could be enhanced.

Actions Needed and Potential Financial or Other Benefits

Continually monitoring these efforts can help key decision makers within the agencies, as well as clients and stakeholders, obtain feedback for improving policy and operational effectiveness. Justice, ATF, and FBI officials have planned or begun actions to reduce duplication and overlap, and achieve efficiencies, which Justice officials stated are responsive to the Deputy Attorney General's directives. These actions represent positive steps that, if implemented effectively, should lead to more efficient approaches to explosives investigations and related activities such as training, information sharing, and forensic analysis. However, given that the components did not fully follow through on past efforts to achieve these same objectives, by continually monitoring the components' actions, Congress and Justice would be better positioned to ensure that the plans have their intended effect and are enforced.

Framework for Analysis

The information contained in this analysis is based on GAO's ongoing work for the Chairman of the House Judiciary Committee on law enforcement coordination and recent Inspector General reports and internal efforts at Justice to address the Inspector General's recommendations to improve explosives-related coordination between ATF and FBI. GAO interviewed representatives from the Deputy Attorney General's Office, FBI, and ATF to discuss actions planned or under way to remedy duplication and overlap in explosives-related operations. GAO also obtained and analyzed fiscal year 2010 cost data from the components, and assessed the data sources. GAO found the components' cost data reliable for the purposes of this report.

Related GAO Product

No GAO products related to this issue have previously been published.

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Transportation Security Administration's Security Assessments on Commercial Trucking Companies Overlap with Those of Another Agency, but Efforts Are Under Way to Address Overlap

Why GAO Is Focusing on This Area

Terrorist attacks on transportation systems in Moscow and Mumbai caused significant loss of life and highlighted the vulnerability of surface transportation systems to terrorist attacks. The Transportation Security Administration (TSA), within the Department of Homeland Security (DHS), is the primary federal agency responsible for securing the nation's transportation system. GAO has previously reported that TSA has taken actions to improve transportation security, but additional actions could enhance its efforts, such as consistently coordinating security assessments. GAO made recommendations to improve TSA's coordination with stakeholders, including other DHS entities and federal agencies. Likewise, the Administration's *Surface Transportation Security Priority Assessment* highlighted the need for federal entities to coordinate their security assessment activities given that TSA's security assessment responsibilities overlap with those of other federal agencies, such as the Department of Transportation (DOT). The report recommended, among other things, an integrated federal approach for conducting security assessments to produce more thorough risk-based evaluations.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

GAO has found that TSA and DOT do not have a process in place to share information on the results of their security programs, and stakeholders in the commercial trucking industry have expressed concerns about a lack of coordination between the two agencies. Specifically, TSA's security assessments for hazardous material trucking companies overlapped with efforts conducted by DOT's Federal Motor Carrier Safety Administration (FMCSA), and as a result, government resources were not being used effectively. After GAO discussed this overlap with TSA in January 2011, TSA officials stated that, moving forward, they intend to only conduct reviews on trucking companies that are not covered by FMCSA's program, which, if implemented as intended, GAO projects could save more than $1 million over the next 5 years. However, it will be important for TSA and FMCSA to continue efforts to improve data sharing and coordination to help prevent future overlap in security reviews, as well as continue efforts toward the long-term goal of TSA assuming full regulatory responsibility from FMCSA for commercial trucking security, thereby reducing fragmentation.

In February 2009, GAO reported that TSA and FMCSA have similar security review programs for hazardous material trucking companies. TSA conducts corporate security reviews (TSA review)—voluntary in-person

reviews of a trucking company's security practices and plans.[1] FMCSA, which has primary responsibility for commercial trucking safety, conducts security contact reviews (FMCSA review)—mandatory in-person reviews that enforce the Pipeline and Hazardous Materials Safety Administration's regulations on hazardous material trucking companies' security plans. In 2010, GAO continued to identify considerable overlap between TSA's and FMCSA's security reviews. For example, nearly half (43 percent) of the 95 questions in a TSA review were either "somewhat similar" or "substantially or entirely similar" to one or more of the questions in an FMCSA review, and almost all (92 percent) of the 48 questions that comprise an FMCSA review were either "somewhat similar" or "substantially or entirely similar" to one or more of the questions in a TSA review.[2] In addition, officials from both agencies agreed that there are similarities between the two reviews. Furthermore, 71 of the 200 TSA reviews performed from fiscal years 2006 through 2010 by TSA staff on hazardous material trucking companies were conducted on companies that had received an FMCSA review during the same period; of these, 31 were conducted less than 2 years after the FMCSA review.[3] The Implementing Recommendations of the 9/11 Commission Act of 2007 requires that DOT consult with DHS to limit, to the extent practicable, duplicative reviews of hazardous material security plans.[4]

In February 2009, GAO recommended that TSA establish a process to strengthen coordination with the commercial vehicle industry, including ensuring that the roles and responsibilities of industry and government are fully defined and clearly communicated. DHS concurred with this recommendation and has taken steps to address it. However, in August and September 2010, officials from three industry associations GAO interviewed continued to express concerns about overlap between TSA's

[1]TSA also conducts corporate security reviews on nonhazardous material trucking companies, as well as entities in other transportation modes. GAO excluded these other reviews from its analysis.

[2]For the purposes of this analysis, the term "substantially or entirely similar" refers to questions for which a trucking company would likely provide the same or mostly the same information. The term "somewhat similar" refers to questions for which a trucking company would likely provide some of the same information, but would likely also provide additional or different information for one of the questions.

[3]TSA reviews were also conducted by state inspectors in five states, primarily Missouri. However, TSA was unable to provide comprehensive data for these reviews, and as a result GAO excluded them from its analysis.

[4]Pub. L. No. 110-53, § 1555, 121 Stat. 266, 475 (2007) (codified at 6 U.S.C. § 1205).

and FMCSA's security reviews and a lack of coordination between the two agencies. Moreover, in July 2010, the Office of Management and Budget advised TSA to work with DOT to implement an integrated federal approach for security assessments and take advantage of existing information to avoid redundancy.

Actions Needed and Potential Financial or Other Benefits

By taking action to reduce or eliminate overlap in hazardous material security reviews and improve data sharing and coordination, TSA and FMCSA could use their resources more effectively and improve the relationship between the federal government and industry stakeholders. TSA and FMCSA officials have stated that TSA's long-term plan is to develop security regulations for hazardous material trucking companies to replace the existing security regulations FMCSA enforces, which they believe would address the overlap between the two agencies' security reviews. These officials added that once TSA develops regulations, the agencies plan to work together to eliminate FMCSA's security-related regulatory responsibilities so that it can focus solely on safety issues while TSA focuses on security issues. However, TSA is in the early stages of the rulemaking process, which TSA officials believe may take up to 3 years. Until the rulemaking is completed and TSA is able to assume full responsibility for commercial trucking security, it will be important for TSA and FMCSA to continue efforts to delineate their respective security roles and reduce fragmentation.

Until TSA issues security regulations to replace the existing regulations enforced by FMCSA, GAO has identified two potential options for improving data sharing and coordination to address the overlap of TSA's and FMCSA's security reviews in the short term; in addition, TSA proposed a third option that GAO believes, if implemented as intended, should also address existing overlap in the short term:

(1) Improve interagency coordination by sharing each other's schedules for conducting future security reviews, and avoid scheduling reviews on hazardous material trucking companies that have recently received, or are scheduled to receive, a review from the other agency. TSA and FMCSA considered this option worthy of pursuit, and in October 2010 they signed an interagency agreement to coordinate with each other when scheduling their respective security reviews. The agreement is intended to eliminate duplicate visits to the same trucking company that occur within 2 years of each other. However, it is too early to assess the results from this effort.

(2) Enable TSA to access the full results of past FMCSA reviews through an existing DOT Web portal. This increased access could enable TSA to leverage security information on the thousands of hazardous material trucking companies that have received FMCSA reviews without having to conduct a TSA review on them, thereby efficiently increasing the agency's knowledge of industry security. TSA has spent $400,000 since February 2010 to access the Web portal, and according to FMCSA, TSA already has access to data on FMCSA reviews through the portal. However, although the portal does include some data related to FMCSA reviews (such as the dates and recipients of past reviews), it does not contain the full results of these reviews, which TSA officials agreed would be beneficial. DOT officials who administer the portal stated that adding this information to the portal and granting TSA access to it most likely would be relatively straightforward, but doing so would require a request and cooperation from both TSA and FMCSA. TSA officials added that they were unsure whether future budget constraints would allow continued funding for TSA access to the portal.

(3) Discontinue conducting the voluntary TSA reviews on hazardous material trucking companies, thereby enabling TSA to increase its security efforts in other areas. For example, TSA could seek to improve security practices among nonhazardous material trucking companies, as these entities are not subject to the FMCSA security reviews. TSA officials stated in January 2011 that they intend to pursue this option, which, if implemented as intended, should eliminate the short-term overlap between FMCSA and TSA commercial trucking security assessments. However, as stated previously, GAO believes it will be important for TSA and FMCSA to continue efforts to improve data sharing and coordination to help prevent future overlap in security reviews, as well as continue efforts toward the long-term goal of TSA assuming full regulatory responsibility from FMCSA for commercial trucking security, thereby reducing fragmentation.

Reducing overlap between TSA's and FMCSA's security reviews could result in cost savings. TSA's total spending on the 71 reviews it conducted from fiscal years 2006 through 2010 on companies that had also received an FMCSA review during the same period was about $268,000. TSA's spending on the 31 reviews that occurred less than 2 years after an FMCSA review at the same company was about $120,000. Extrapolating from data from prior years, GAO estimated that, over the next 5 years, avoiding TSA reviews conducted on companies less than 2 years after an FMCSA review

could save approximately $164,000; avoiding TSA reviews on companies that receive an FMCSA review during the same 5-year period could save approximately $373,000; and eliminating all TSA reviews on hazardous material trucking companies could save over $1 million.[5] Reducing overlap between the two agencies' security reviews could also improve their relationship with the commercial trucking industry. As industry observes more coordination among federal agencies, trucking companies may be more willing to participate in voluntary security initiatives and share information with federal stakeholders.

Framework for Analysis

The information contained in this analysis is based on a previously issued report, noted below, and recent efforts to update that work. To update that information and identify continuing issues related to overlap in commercial trucking security assessments, GAO interviewed officials from TSA, FMCSA, and other agencies, as well as officials from three key industry groups that represent a large portion of the trucking industry.[6] GAO also reviewed prior reports and relevant documentation, including DHS/DOT interagency agreements and examples of completed TSA and FMCSA security reviews. To estimate the amount of overlap in trucking company security assessments, GAO compared the 95 questions in TSA's hazardous material corporate security review protocol with the 48 questions in FMCSA's security contact review protocol and assessed their similarity using three categories: substantially or entirely similar,

[5]All estimated costs are reported in 2010 dollars and based on TSA estimates of the staff time, staff salaries, and travel costs associated with conducting TSA reviews. While eliminating some or all TSA reviews could result in cost savings, it may also result in the loss of some security information, since TSA reviews do not completely duplicate FMCSA reviews. Additionally, GAO identified 84 FMCSA reviews from fiscal years 2006 through 2010 on trucking companies that had also received a TSA review during the same time period. Of these FMCSA reviews, 21 were conducted less than 2 years after a TSA review. However, FMCSA was unable to provide cost estimates for its security reviews, so GAO could not calculate the cost associated with this overlap. Moreover, FMCSA conducted more than 9,000 reviews during the same period, and less than 1 percent of these reviews overlapped with a TSA review.

[6]These three stakeholder groups were the American Trucking Associations, the Commercial Vehicle Safety Alliance, and the Owner-Operator Independent Drivers Association.

somewhat similar, and not at all or slightly similar.[7] To determine the extent to which TSA's and FMCSA's security reviews were conducted on the same companies, GAO analyzed TSA and FMCSA data on reviews conducted from fiscal years 2006 through 2010. GAO reviewed the data for obvious errors and spoke with knowledgeable officials to determine that the data were sufficiently reliable for the purposes of its review. GAO estimated the cost of overlapping security reviews on hazardous material trucking companies by using TSA data on (1) the number of TSA reviews conducted from fiscal years 2006 through 2010 and (2) the staff time, estimated staff salaries, and estimated travel costs associated with conducting these reviews. Cost estimates do not include indirect costs, such as general administrative costs. GAO estimated the potential financial savings associated with eliminating overlapping security reviews by (1) estimating the average annual number of reviews, and (2) multiplying by the estimated cost of conducting a review. GAO reviewed the data for obvious errors and spoke with knowledgeable TSA officials to determine that the data were sufficiently reliable to provide a general indication of costs and potential savings.

Related GAO Product

Commercial Vehicle Security: Risk-Based Approach Needed to Secure the Commercial Vehicle Sector. GAO-09-85. Washington, D.C.: February 27, 2009.

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[7]GAO categorized each question based on its assessment of the similarity of the information that trucking companies would likely provide in response to that question. Specifically, if GAO determined that, in response to a TSA review question, a company would likely provide the same or mostly the same information as it would in response to an FMCSA review question (and vice versa), those questions were considered "substantially or entirely similar." If GAO determined that a company would likely provide some of the same information in response to a TSA review question as it would in response to an FMCSA review question (and vice versa)—but would likely also provide additional or different information for one of the questions that likely would not be provided for the other—those questions were considered "somewhat similar." If GAO determined that a company would likely provide mostly or completely different information in responding to a TSA review question relative to an FMCSA review question (and vice versa), those questions were considered "not at all or slightly similar."

DHS Could Streamline Mechanisms for Sharing Security-Related Information with Public Transit Agencies to Help Address Overlapping Information

Why GAO Is Focusing on This Area

Since January 2005, GAO has identified sharing terrorism-related information as a high-risk area because the federal government continues to face challenges with its information-sharing efforts. To facilitate information sharing with the public transit industry, the Department of Homeland Security (DHS) and the Transportation Security Administration (TSA) created and funded various mechanisms. For example, the publicly funded but privately operated public transit analysis center and the public transit subportal on DHS's information network were established to serve as the primary mechanisms for sharing security threats and other types of security-related information with public transit agencies. In March 2010, TSA also introduced its portal on DHS's information network to share information with the transportation industry. However, in September 2010, GAO reported that public transit agencies receive similar security-related information from multiple sources and recommended that DHS establish time frames for its working group to assess opportunities to streamline information-sharing mechanisms to reduce any unneeded overlap. DHS concurred and has begun taking steps to address this recommendation, but has not provided specifics on the extent to which its actions will reduce overlap.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

GAO identified the potential for overlap between three information-sharing mechanisms that DHS funds and uses to communicate security-related information with public transit agencies, which could unnecessarily complicate those agencies' efforts to discern relevant information and take appropriate actions to enhance transportation security. While a certain amount of redundancy is understandable and can be beneficial if it occurs as part of a management strategy to provide better customer service delivery, GAO found that this potential for overlap could overwhelm public transit agencies with similar information. According to a key TSA transportation strategy document, a streamlined and effective system to share transit and passenger rail information is needed to facilitate information sharing among the federal government and public and private stakeholders.

In September 2010, GAO reported that public transit agencies received similar security-related information from a variety of sources, including the three discussed below. Specifically, GAO reported that:

- According to the American Public Transportation Association, which co-sponsors the public transit analysis center, this mechanism is intended to be a one stop shop for public transit agencies' information

needs. This mechanism received a total of $1.2 million during fiscal years 2009 and 2010 from TSA.

- TSA officials stated that the agency intends for the public transit portal on DHS's information network to be the primary mechanism for sharing such information with public transit agencies. DHS could not provide cost data for the operation of this specific portal because, according to DHS officials, the department does not break out the costs associated with maintaining individual portals on its information network. However, DHS reported that for fiscal years 2009 and 2010, the department expended $62 million on its information network—which includes the public transit portal—and its estimated lifecycle costs are $451 million.

- According to TSA officials, TSA's portal on DHS's information network was established to serve as a collaborative information-sharing platform for all transportation modes, including public transit.[1] In September 2010, TSA told GAO that for fiscal years 2009 and 2010, it applied $2.5 million to its portal on DHS's information network, primarily on developing and organizing data for all transportation modes.

GAO's survey of 96 U.S. public transit agencies, representing about 91 percent of total 2008 public transit ridership, highlighted the variety of mechanisms used by public transit agencies to obtain security-related information. Twenty-four of the 80 transit agencies that responded to the survey provided comments in favor of consolidating existing information-sharing mechanisms to reduce the volume of similar information they receive.

GAO reported in 2007 and 2009 that effective information sharing continues to be a challenge for the federal government. Similarly, the Administration's March 2010 S*urface Transportation Security Priority Assessment* recommended that TSA take steps to improve the effectiveness of information flow. In August 2010, the Office of Management and Budget (OMB) added DHS's information network to its list of high-priority information technology projects, indicating that this mechanism is at risk of failure and requires additional oversight. According to the Federal Chief Information Officer, in order to justify

[1]The six transportation modes include aviation, maritime, public transit, highway, freight rail, and pipeline.

future funding for these technology projects, agencies will need to, among other things, define deliverables and outcomes and put in place a strong governance structure. Projects that do not meet such criteria will not be continued. DHS officials have indicated that they are working with OMB to address OMB's concerns, but have not provided GAO with information related to the specific actions that DHS has taken.

Actions Needed and Potential Financial or Other Benefits

Taking steps to streamline information sharing with public transit agencies could reduce the volume of similar information public transit agencies receive, making it easier for them to discern relevant information and take appropriate actions to enhance security. Government and private sector stakeholders are participating in an information-sharing working group to review how information-sharing mechanisms might be streamlined to reduce the volume of overlapping information public transit agencies receive. In September 2010, GAO recommended that TSA establish time frames for this working group to develop options for improving its information-sharing efforts with public transit agencies. In October 2010, TSA reported that the working group had agreed upon a consolidated product for sharing security-related information with public transit agencies. In January 2011, TSA reported that the working group had established a proposed time frame for piloting and implementing this product. However, TSA did not provide specifics on the extent to which this product will reduce overlap among existing information-sharing mechanisms. Thus, it is too early to tell whether GAO's recommendation has been fully addressed.

GAO's review of the costs associated with maintaining the public transit analysis center, the public transit portal on DHS's information network, and the TSA portal on DHS's information network found that the department continues to face challenges collecting and reporting useful financial management information. According to DHS officials, the department does not break out the costs associated with maintaining individual portals on its information network—including the public transit portal and TSA's portal—and therefore could not provide GAO with a reliable estimate of the potential cost savings resulting from consolidating the public transit portal on DHS's information network with the public transit analysis center or the TSA portal on DHS's information network. Developing such cost data could assist the department in determining how to best allocate its limited resources to provide public transit agencies with quality security-related information.

Moreover, by assessing the various mechanisms available to public transit agencies and the information they provide, and identifying opportunities to streamline these mechanisms, DHS could identify and implement ways to more efficiently share security-related information, which would allow public transit officials to more quickly obtain security-related information and thereby enhance transit agencies' efforts to secure their transportation systems. In doing so, DHS could develop and track verifiable cost data specific to each of its information-sharing mechanisms as part of TSA's streamlining and financial management efforts. Developing such baseline cost data could assist TSA in identifying potential cost savings resulting from the consolidation of these mechanisms and provide opportunities for the agency to better allocate its information-sharing resources.

DHS officials stated that conducting a cost comparison of the public transit portal on DHS's information network, TSA's portal on this network, and the public transit analysis center would not result in a meaningful comparison because DHS's information-sharing mechanism costs are distributed across several transportation sectors, including public transit, while the costs for the public transit analysis center are applied to a specific sector. Additionally, TSA officials stated that TSA's portal on DHS's information network was not designed to compete with the public transit analysis center or the public transit subportal on DHS's information network since TSA's portal shares information with all transportation modes. GAO recognizes that TSA's portal was designed to share information with all transportation modes, including public transit. However, GAO believes that to the extent possible, TSA should consider ways to reduce any unneeded overlap of information sharing for the public transit industry regardless of the mechanisms used to share such information. Furthermore, GAO continues to believe that developing and tracking verifiable cost data specific to each information-sharing mechanism as it relates to services provided to the public transit sector could assist TSA in identifying potential cost savings resulting from consolidating such mechanisms.

Framework for Analysis

The information contained in this analysis is based on GAO's September 2010 report on federal efforts to share security-related information with public transit agencies. In addition, this analysis contains updated information obtained from September 2010 through January 2011. GAO reviewed DHS's cost data for completeness and accuracy and determined the data were reliable for the purposes of this analysis.

Related GAO Products

Public Transit Security Information Sharing: DHS Could Improve Information Sharing through Streamlining and Increased Outreach. GAO-10-895. Washington, D.C.: September 22, 2010.

Interagency Collaboration: Key Issues for Congressional Oversight of National Security Strategies, Organizations, Workforce, and Information Sharing. GAO-09-904SP. Washington, D.C.: September 25, 2009.

High-Risk Series: An Update. GAO-09-271. Washington, D.C.: January 22, 2009.

Information Technology: Management Improvements Needed on the Department of Homeland Security's Next Generation Information Sharing System. GAO-09-40. Washington, D.C.: October 8, 2008.

Homeland Security: Departmentwide Integrated Financial Systems Remain a Challenge. GAO-07-536. Washington, D.C.: June 21, 2007.

Information Technology: Numerous Federal Networks Used to Support Homeland Security Need to Be Better Coordinated with Key State and Local Information-Sharing Initiatives. GAO-07-455. Washington, D.C.: April 16, 2007.

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FEMA Needs to Improve Its Oversight of Grants and Establish a Framework for Assessing Capabilities to Identify Gaps and Prioritize Investments

Why GAO Is Focusing on This Area

From fiscal year 2002 through 2010, Congress appropriated over $34 billion for homeland security preparedness grant programs to enhance the ability of state, territory, local, and tribal governments to prevent, protect against, respond to, and recover from terrorist attacks and other disasters, according to the Congressional Research Service. The number of preparedness grant programs Federal Emergency Management Agency (FEMA) administers has grown from 8 in 2002 to 17 in 2010 as the result of congressional and executive branch actions. A number of FEMA's preparedness grant programs fund common eligible recipients (such as state homeland security agencies) for similar-broad purposes.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

FEMA does not compare and coordinate grant applications across its preparedness programs to identify potential duplication. In addition, FEMA has not established measurable goals or performance measures for preparedness capabilities to identify gaps to assist in effectively prioritizing national investments through preparedness grant programs.

The Department of Homeland Security (DHS) Inspector General reported in March 2010 that FEMA's application process for its preparedness grant programs did not promote effectiveness and efficiency because FEMA did not compare and coordinate grant applications across preparedness programs to identify and mitigate potential duplications (for example, planning and interoperable communications are two activities that can be funded by almost all of the programs reviewed by the Inspector General); the report recommended FEMA do so.[1] The report also cited barriers at the legislative, departmental, and state levels that impede FEMA's ability to coordinate these programs, such as annual appropriation laws that may contain congressional earmarks dedicating funds toward specific grant projects. The report made two other recommendations for improving grant management, and FEMA concurred, saying the agency had efforts under way that will help to address the report's findings. Until FEMA evaluates grant applications across grant programs, FEMA cannot ascertain whether or to what extent multiple funding requests are being submitted for similar purposes.

[1]The Inspector General reviewed 13 preparedness grant programs; see Department of Homeland Security Office of Inspector General, *Efficacy of DHS Grant Programs*, OIG-10-69 (Washington, D.C., Mar. 22, 2010).

In October 2006, the Post-Katrina Emergency Management Reform Act charged FEMA with leading the nation in developing a national preparedness system.[2] The act requires FEMA to develop a national preparedness system and assess preparedness capabilities—capabilities needed to respond effectively to disasters—to determine the nation's preparedness capability levels and the resources needed to achieve desired capability levels.[3] In a report to Congress in March 2009, FEMA identified, among other things, the need for federal agencies to work jointly to develop national standards for describing the functionality and performance characteristics of preparedness resources and capabilities for use by relevant homeland security grant programs to enable cross-program coordination and assessment.[4]

In October 2010, GAO reported that FEMA had not developed measurable national preparedness capability requirements to provide a framework for these assessments. In January 2011, FEMA reported that the Administrator had established a strategic priority, referred to as "Whole of Community" that identified a series of requirements or core capabilities, to ensure response and recovery actions are driven by the needs of the affected community in the event of a catastrophic disaster. As a result, FEMA is planning to generate measurable national preparedness capability requirements, and evaluation criteria (e.g., in terms of speed, effectiveness, and efficiency, among other factors) that are to provide a comprehensive framework for guiding investments and assessing readiness. Until FEMA has done so, it cannot operationalize and implement its approach for assessing local, state, and federal preparedness capabilities to identify gaps for prioritizing investments in national preparedness. According to program officials, FEMA's efforts to define a framework within which its capability assessments can be effectively applied rely on the results of two key efforts: the recommendations of the October 2010 report of the congressionally mandated Local, State, Tribal and Federal Preparedness Task Force, and

[2]Pub. L. No. 109-295, § 644, 120 Stat. 1355, 1425 (2006) (codified at 6 U.S.C. § 744). The Act defines capability as "the ability to provide the means to accomplish one or more tasks under specific conditions and to specific performance standards." Id. at 641, 120 Stat. at 1424 (codified at 6 U.S.C. § 741).

[3]Pub. L. No. 109-295, § 649, 120 Stat. 1355, 1428 (2006) (codified at 6 U.S.C. § 749).

[4]FEMA, *Grant Programs Directorate, Interagency Report on Preparedness Grant Programs, Report to Congress* (Washington, D.C., May 2009).

planned revisions to Homeland Security Presidential Directive-8.[5] If the problems regarding preparedness grant applications and capabilities are not addressed, FEMA could spend billions of dollars without the ability to identify duplication of effort and prioritize the development and maintenance of the most important preparedness capabilities.

On October 12, 2010, Congress enacted the Redundancy Elimination and Enhanced Performance for Preparedness Grants Act.[6] The act calls for the FEMA administrator to identify redundant reporting requirements for recipients of certain grants and regularly report to Congress on efforts to eliminate identified redundancies; submit a plan for developing performance metrics for the grants; and conduct an assessment of the grant programs. In January 2011, FEMA reported that it is reviewing its grant programs and application processes to identify operational redundancies and is working with DHS to consolidate grant programs where activities are allowable under multiple grants. FEMA also stated that the agency is working with the National Academy of Public Administration to develop a plan by December 2011, for developing quantifiable performance measures and metrics to assess the effectiveness of preparedness grant programs. While these are positive steps, it is too early to determine their effectiveness in eliminating redundancies, increasing efficiency in administering FEMA's grant programs, and assessing the effectiveness of preparedness grant programs.

Actions Needed and Potential Financial or Other Benefits

GAO has not previously made recommendations in this area, but to identify and address any unnecessary overlap and duplication, as well as to achieve operational improvements, efficiencies, and associated financial benefits, FEMA could benefit from examining its grant programs and coordinating its application process to eliminate or reduce redundancy among grant recipients and program purposes. FEMA's actions in response to the Redundancy Elimination and Enhanced Performance for Preparedness Grants Act may help FEMA measure and assess the performance of its grants programs and achieve efficiencies and savings in administering these

[5]The Local, State, Tribal and Federal Preparedness Task Force is a group of experts charged with assessing the state of the nation's disaster preparedness and making recommendations to the Secretary of Homeland Security about ways to build preparedness in communities across America. The Task Force is composed of 35 members of federal, state, local and tribal governments.

[6]Pub. L. No. 111-271, 124 Stat. 2852 (2010).

programs. However, FEMA's actions in response to this act are still ongoing, thus it is too early to assess their effectiveness.

In addition, Congress may wish to consider limiting preparedness grant funding to maintaining existing capabilities (as determined by FEMA) until FEMA completes a national preparedness assessment of capability gaps at each level based on tiered, capability-specific performance objectives to enable prioritization of grant funding. According to FEMA officials, the administration is planning to issue a revision of Homeland Security Presidential Directive-8 (no issue date has been set); the revision will significantly affect FEMA's national preparedness policies and plans.

Once FEMA has completed a comprehensive, measurable, national preparedness assessment of capability gaps, as described above, FEMA could identify the potential costs for establishing and maintaining those capabilities at each level, and determine what capabilities federal agencies should provide. Accordingly, Congress may wish to consider limiting the use of federal preparedness grant programs to fund only projects that support the development of identified, validated, and documented capability gaps.

Framework for Analysis

The information contained in this analysis is based on GAO's review of agency reports and other sources well as the related GAO products listed below. GAO determined that the data it used were sufficiently reliable for its purposes.

At the request of the House Homeland Security Committee, GAO has a review under way examining FEMA's management of selected homeland security grants and potential duplication and expects to issue a report in 2011.

Related GAO Products

FEMA Has Made Limited Progress in Efforts to Develop and Implement a System to Assess National Preparedness Capabilities. GAO-11-51R. Washington, D.C., October 29, 2010.

National Preparedness: FEMA Has Made Progress, but Needs to Complete and Integrate Planning, Exercise, and Assessment Efforts. GAO-09-369. Washington, D.C.: April 30, 2009.

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Lack of Information Sharing Could Create the Potential for Duplication of Efforts between U.S. Agencies Involved in Development Efforts in Afghanistan

Why GAO Is Focusing on This Area

The United States has appropriated over $16 billion since fiscal year 2002 for development efforts in Afghanistan, implemented by the U.S. Agency for International Development (USAID) and the Department of Defense (DOD). USAID, through its assistance program, and DOD, through its Commander's Emergency Response Program (CERP), have implemented development projects focusing on similar initiatives, such as improving Afghanistan's road, water, and other infrastructure sectors. This line of effort is an integral part of the U.S. integrated civilian-military campaign plan focused on countering insurgents in Afghanistan and requires extensive interagency coordination and information sharing. There is a potential for duplication of agencies' efforts.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Agencies involved in the implementation of development projects in Afghanistan—principally USAID and DOD—have not adopted a centralized data system that tracks all U.S. government-funded Afghan development efforts and is accessible by all relevant agencies. GAO has made recommendations for such action and agencies have concurred with those recommendations. Without a centralized data system to improve visibility of individual development projects, the U.S. government may not be able to fully leverage available resources and risks duplicating efforts and wasting taxpayer dollars, as a result of fragmented or overlapping efforts.

Maintaining an accessible data system that promotes interagency information sharing is particularly important in an environment such as Afghanistan, where several agencies are involved in similar development efforts that are dispersed throughout the country. In a review of U.S.-funded road projects in Afghanistan, GAO reported in July 2008 that, despite CERP guidance requiring DOD to provide CERP-funded project information to a USAID-maintained database, DOD had not done so. As a result, a comprehensive database of all U.S.-funded road projects in Afghanistan did not exist. Moreover, DOD officials said that because of missing documentation and frequent staff rotation, they did not know where some CERP-funded roads were built. GAO recommended that information on DOD's CERP-funded road projects be included in a USAID-maintained database, and DOD concurred.

However, in a May 2009 report that reviewed DOD's coordination of CERP-funded projects in Afghanistan with USAID, GAO found that, while the two agencies had mechanisms in place to facilitate coordination, they lacked a common database accessible to all parties involved in development efforts in Afghanistan. GAO noted that DOD used a classified database—Combined Information Data Network Exchange—to track

CERP-funded projects, while USAID used a database called GeoBase to track its development projects. GAO further noted that in early 2009, USAID officials were granted access to the unclassified portion of DOD's database, but DOD officials did not have access to USAID's GeoBase database at the time.

Subsequently, in late 2009 USAID initiated a new database system, known as Afghan Info, to replace GeoBase. According to USAID, Afghan Info is intended to provide a comprehensive and transparent interagency picture of how project implementers use foreign assistance resources to support U.S. objectives in Afghanistan. USAID officials said they would like the Afghan Info system designated as the official system for data on U.S. assistance activities in Afghanistan, subject to Ambassador-level approval. However, GAO's review of U.S. development efforts in Afghanistan's water sector completed in November 2010 found that a centralized database that contains information on all U.S.-funded development projects, including information on water sector projects, still did not exist. Each agency continues to maintain its own project tracking system that identifies agency-specific information on water projects in Afghanistan.

A USAID official responsible for developing the Afghan Info database noted that Afghan Info did not include data from any other agency, aside from unclassified quarterly CERP data that DOD began providing to USAID in February 2010. This official also did not know whether the system was being used to coordinate water sector development in Afghanistan. Moreover, senior DOD officials told GAO they were not familiar with the Afghan Info system or the data it contained. For its CERP-related data, DOD continues to use the Combined Information Data Network Exchange, which was not intended as a platform for interagency coordination. Agency officials have acknowledged that having access to project data from other agencies would contribute to better project planning, eliminate potential overlap, and allow agencies to leverage each other's resources more effectively.

Actions Needed and Potential Financial or Other Benefits

To enhance interagency coordination and to help ensure there is no overlap or duplication and to increase accountability for use of agency funds, USAID, in consultation with DOD and other relevant U.S. agencies, should consider designating Afghan Info or some other database as the centralized U.S. government database for U.S. development efforts in Afghanistan. This database should, among other things, ensure that the information in the database (1) captures all agency development efforts

and (2) is accessible to all U.S. government agencies involved in U.S.-funded development projects in Afghanistan.

Framework for Analysis

The information contained in this analysis is based on the related products identified below.

Related GAO Products

Afghanistan Development: U.S. Efforts to Support Afghan Water Sector Increasing but Improvements Needed in Project Planning, Coordination, and Management. GAO-11-138. Washington, D.C.: November 15, 2010.

Military Operations: Actions Needed to Improve Oversight and Interagency Coordination for the Commander's Emergency Response Program in Afghanistan. GAO-09-615. Washington, D.C.: May 18, 2009.

Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed. GAO-08-689. Washington, D.C.: July 8, 2008.

Area Contact

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Despite Restructuring, Overlapping Roles and Functions Still Exist at State's Arms Control and Nonproliferation Bureaus

Why GAO Is Focusing on This Area

State assumed direct responsibility for arms control, nonproliferation, and disarmament issues in 1999 and established three bureaus to perform these missions. In 2004, the Department of State (State) Inspector General (IG) concluded that State's three-bureau structure for conducting arms control and nonproliferation policy—the bureaus for Arms Control (AC), Nonproliferation (NP), and Verification and Compliance (VC)—did not adequately address post-September 11 challenges, including possible terrorist use of weapons of mass destruction. The IG also noted that State had yet to formalize the responsibilities of the three bureaus in its Foreign Affairs Manual (FAM), which sets out agency organization and functions. Between late 2005 and early 2006, State created a new two-bureau structure—the bureaus for International Security and Nonproliferation (ISN) and Verification, Compliance and Implementation (VCI)—to better address these issues and improve efficiency. In July 2009, GAO documented continuing problems with the department's reorganization of these bureaus.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

GAO's 2009 review of the reorganization of State bureaus responsible for nonproliferation activities found that the lack of clear guidance in the FAM contributed to past and current overlap problems among the AC, NP, and VC bureaus (referred to as T bureaus). Despite previous reorganization efforts, the fragmentation, overlap, and redundancies continue to exist among the T bureaus. This may be due somewhat to the lack of clear guidance in the department's FAM.

In 2004, the State IG identified a number of areas of overlap among the T bureaus. The overlap included multiple bureau reporting channels for some U.S. international conference representatives and treaty negotiators, and unclear and conflicting demarcation of responsibilities between AC and NP for their South Asia and North Korea issues. State's objectives of the 2006 reorganization were to eliminate overlap among the bureaus, missions, and issues; reduce bureaucratic inefficiencies and top-heavy management; and enable the department to better focus on post-September 11 challenges.

State officials noted that the reorganization undertaken in 2006 addressed some organizational redundancies. Specifically, State reduced the number of offices, functions, and staff slots when it merged its three-bureau structure for conducting arms control and nonproliferation policy into a two-bureau structure. However, a May 2006 State study on workforce allocation conducted after the reorganization found that mission redundancies persisted for chemical weapons, missile defense and space policy, nuclear nonproliferation, and bioterrorism issues among 14 offices and functions of the new ISN and VCI bureaus.

GAO's 2009 review of the reorganization found that the lack of clear guidance in the FAM contributed to past and current overlap problems among the T bureaus. As a result, concerns about mission overlaps persist; State employees stated that some offices remain overworked while others are underworked. The section of the manual detailing the roles and responsibilities of these bureaus had never been drafted and approved since the 1999 incorporation of the Arms Control and Disarmament Agency into State and the creation of the AC, NP, and VC bureaus. A State official on the panel responsible for assigning roles and missions under the new two-bureau structure stated that their deliberations were hindered by the lack of an up-to-date FAM. The department agreed with GAO's 2009 recommendation that it delineate the roles and responsibilities for the ISN and VCI bureaus and add them to the FAM. On October 1, 2010, State announced a new reorganization of its arms control and nonproliferation functions, with the goal of improving and revitalizing efforts to enhance U.S. national security by effectively addressing global nuclear, chemical, biological, and conventional weapons threats. However, as of January 2011, State has not modified the FAM.

Actions Needed and Potential Financial or Other Benefits

State should implement GAO's recommendations to (1) formally delineate in the FAM the roles of the two new bureaus, and (2) direct that key transformation practices and steps be incorporated into the FAM. Implementing these recommendations could reduce personnel and other overhead costs by helping the T bureaus address the multiple mission redundancies identified among the offices and functions of the new ISN and VCI bureaus. The fiscal year 2010 appropriations for the ISN and VCI bureaus were $48.9 million and $31.0 million, respectively.

Framework for Analysis

The information contained in this analysis is based on the related product identified below.

Related GAO Product

State Department: Key Transformation Practices Could Have Helped in Restructuring Arms Control and Nonproliferation Bureaus. GAO-09-738. Washington, D.C.: July 15, 2009.

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Actions Needed to Reduce Administrative Overlap among Domestic Food Assistance Programs

Why GAO Is Focusing on This Area

The federal government spent more than $62.5 billion on 18 domestic food and nutrition assistance programs in fiscal year 2008. Programs' spending ranged from $4 million for the smallest program to more than $37 billion for the largest. These programs help ensure that millions of low-income individuals have consistent, dependable access to enough food for an active, healthy life. Programs provide nutrition assistance in a variety of forms, ranging from agricultural commodities to prepared meals to vouchers or other targeted benefits used in commercial food retail locations. The U.S. Department of Agriculture's (USDA) Food and Nutrition Service oversees most of these programs—including the five largest. The Department of Homeland Security (DHS) and the Department of Health and Human Services (HHS) also fund food assistance programs.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Domestic food and nutrition assistance is provided through a decentralized system of primarily 18 different federal programs that shows signs of overlap and inefficient use of resources. In addition to USDA, HHS, DHS, and multiple state and local government and nonprofit organizations work together to administer a complex network of programs and providers. GAO has found that some of these programs provide comparable benefits to similar or overlapping populations. For example, individuals eligible for groceries through the Commodity Supplemental Food Program are also generally eligible for groceries through the Emergency Food Assistance Program and for targeted benefits that are redeemed in authorized stores through the largest program, the Supplemental Nutrition Assistance Program (SNAP—formerly the Food Stamp Program). The availability of multiple programs with similar benefits helps ensure that those in need have access to nutritious food, but can also increase administrative costs, which account for approximately a tenth to more than a quarter of total costs among the largest of these programs. In addition, GAO's previous work has shown that overlap among programs can lead to inefficient use of federal funds, duplication of effort, and confusion among those seeking services.

These 18 programs were created individually by Congress over the past several decades to address a variety of emerging needs, such as targeting benefits to groups at high risk of malnutrition or hunger. Agency officials and local providers have indicated that the multiple food assistance programs work together and provide various points of entry to the system to help increase access to food for vulnerable or target populations. Those officials and providers told us that, since no one program alone is intended to meet a household's full nutritional needs, the variety of food assistance

programs can help households fill gaps and address the specific needs of individual members.

Despite the potential benefits of varied points of entry, program rules related to determining eligibility often require the collection of similar information by multiple entities. For example, six programs—the National School Lunch Program, the School Breakfast Program, the Fresh Fruit and Vegetable Program, the Summer Food Service Program, the Special Milk Program, and the Child and Adult Care Food Program—all provide food to eligible children in settings outside the home, such as at school, day care, or summer day camps. Most of the 18 programs have specific and often complex legal requirements and administrative procedures that federal, state, and local organizations follow to help manage each program's resources. According to previous GAO work and state and local officials, rules that govern these and other nutrition assistance programs often require applicants who seek assistance from multiple programs to submit separate applications for each program and provide similar information verifying, for example, household income. This can create unnecessary work for both providers and applicants and may result in the use of more administrative resources than needed.

Moreover, not enough is known about the effectiveness of many of these programs. Research suggests that participation in 7 of the 18 programs—including the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the National School Lunch Program, the School Breakfast Program, and SNAP—is associated with positive health and nutrition outcomes consistent with programs' goals, such as raising the level of nutrition among low-income households, safeguarding the health and well-being of the nation's children, and strengthening the agricultural economy. Yet little is known about the effectiveness of the remaining 11 programs because they have not been well studied. As part of its broader recommendation GAO suggested that USDA consider which of the lesser-studied programs need further research, and USDA agreed to consider the value of examining potential inefficiencies and overlap among smaller programs

Actions Needed and Potential Financial or Other Benefits

Actions to address food assistance programs' overlap and inefficiencies are needed to better leverage government resources. Provided such actions are balanced with the program goals of serving eligible vulnerable and low-income individuals and the need to maintain program integrity, creating efficiencies could put these agencies in a position to better assist program participants while decreasing administrative burdens. In April 2010, GAO recommended that USDA identify and develop methods for

addressing potential inefficiencies and reducing unnecessary overlap among its smaller food assistance programs while ensuring that those who are eligible receive the assistance they need. These methods could include conducting a study as a first step; convening a group of experts; identifying which of the lesser-studied programs need further research and taking steps to fill the research gap; or identifying and piloting proposed changes. To date, USDA has not taken action on this recommendation.

One of the possible methods for reducing program inefficiencies would entail USDA broadening its efforts to simplify, streamline, or better align eligibility procedures and criteria across programs to the extent that it is permitted by law. For example, the Child Nutrition and WIC Reauthorization Act of 2004 requires sharing of data between SNAP and the National School Lunch Program (NSLP) to allow automatic eligibility for NSLP without further application. According to USDA officials, by the 2008-2009 school year, 78 percent of local educational agencies directly certified SNAP-participant children for free school meals, which increased administrative efficiency and reduced improper payments. While privacy concerns and incompatible data systems pose challenges, expanding these efforts across programs could further improve efficiency. Because the legislative and regulatory eligibility criteria for the various entitlement programs are not identical, with some more stringent than others, changes to better align eligibility criteria could result in either fewer or more eligible individuals. Nevertheless, such efforts could result in sizable administrative cost savings since, as noted earlier, they are a large part of program costs.

Options such as consolidating or eliminating overlapping programs also have the potential to reduce administrative costs but may not reduce spending on benefits unless fewer individuals are served as a result. For example, in fiscal years 2007, 2008, and 2009, USDA proposed eliminating the Commodity Supplemental Food Program, which targets low-income pregnant women, children, and persons age 60 or over, but Congress continued to fund the program. USDA viewed this program as duplicative of other programs, and eliminating the program would have yielded close to $140 million savings in fiscal year 2008. However, according to agency officials, because the program is targeted to particularly vulnerable groups, elimination of the program would likely increase enrollment in programs such as WIC, reducing overall savings. As part of any effort to significantly change the nutrition assistance benefit delivery system, care must be taken to understand the likely effects on target populations. Nevertheless, GAO believes opportunities exist for reducing costs and improving the efficiency of nutrition assistance programs.

Framework for Analysis

The information contained in this analysis builds upon prior GAO work, which is cited below.

Related GAO Products

Domestic Food Assistance: Complex System Benefits Millions, but Additional Efforts Could Address Potential Inefficiency and Overlap among Smaller Programs. GAO-10-346. Washington, D.C.: April 15, 2010.

School Meal Programs: Experiences of the States and Districts That Eliminated Reduced-price Fees. GAO-09-584. Washington, D.C.: July 17, 2009.

Food Stamp Program: Options for Delivering Financial Incentives to Participants for Purchasing Targeted Foods. GAO-08-415. Washington, D.C.: July 30, 2008.

Department of Agriculture, Food and Nutrition Service: Special Supplemental Nutrition Program for Women, Infants and Children (WIC): Revisions in the WIC Food Packages. GAO-08-358R. Washington, D.C.: December 17, 2007.

Nutrition Education: USDA Provides Services through Multiple Programs, but Stronger Linkages among Efforts Are Needed. GAO-04-528. Washington, D.C.: April 27, 2004.

Federal Food Safety and Security System: Fundamental Restructuring Is Needed to Address Fragmentation and Overlap. GAO-04-588T. Washington, D.C.: March 30, 2004.

Food Stamp Program: Steps Have Been Taken to Increase Participation of Working Families, but Better Tracking of Efforts Is Needed. GAO-04-346. Washington, D.C.: March 5, 2004.

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Better Coordination of Federal Homelessness Programs May Minimize Fragmentation and Overlap

Why GAO Is Focusing on This Area

According to the Department of Housing and Urban Development (HUD), approximately 643,000 individuals and persons in families experienced homelessness on a single night in January 2009. Multiple federal programs provide assistance targeted to those experiencing homelessness or more broadly assist low-income populations. GAO reported that in 2009 federal agencies spent about $2.9 billion on over 20 programs targeted to address the various needs of persons experiencing homelessness. Some federal programs may offer similar types of services and serve similar populations, potentially leading to overlap or fragmentation.

In June 2010, GAO recommended that the Departments of Education, Health and Human Services (HHS), and HUD develop a common vocabulary to better coordinate homeless services. GAO also recommended in July 2010 that HUD and HHS consider more formally linking their housing and supportive services programs. The agencies concurred with these recommendations and to date have taken some actions to address them.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Several federal agencies provide a range of programs that offer not only housing assistance but also supportive services to those experiencing homelessness and to those at risk of becoming homeless, but coordination of these programs varies by program and agency. A number of federal programs are specifically targeted to address issues related to homelessness while other mainstream programs that are generally designed to help low-income individuals by providing housing assistance and services such as health care, job training, and food assistance may also serve those experiencing homelessness or at risk of becoming homeless. In some cases, different agencies may be offering similar types of services to similar populations. For example, GAO reported in July 2010 that at least seven federal agencies administered more than 20 programs that provide some type of shelter or housing assistance. Similarly, five agencies administered programs that deliver food and nutrition services, and four agencies administered programs that provide health services including mental health services and substance abuse treatment. This range of programs has resulted in a fragmented service system. Fragmentation and overlap in some of these programs may be due in part to their legislative creation as separate programs under the jurisdiction of

several agencies.[1] Moreover, additional programs have since developed incrementally over time to address the specific needs of certain segments of the population. Nevertheless, this fragmentation can create difficulties for people in accessing services as well as administrative burdens for providers who must navigate various application requirements, selection criteria, and reporting requirements. Fragmentation of programs across federal agencies has also resulted in differing methods for collecting data on those experiencing homelessness. In part because of the lack of comprehensive data collection requirements, the data have limited usefulness. Complete and accurate data are essential for understanding and meeting the needs of those who are experiencing homelessness and to prevent homelessness from occurring.

Coordination among targeted homelessness programs and with other mainstream programs that support individuals or families experiencing homelessness includes agencies working together on program guidance and prevention strategies. In July 2010, GAO reported that agencies had taken some steps toward improved coordination and that the U.S. Interagency Council on Homelessness (USICH) has provided a renewed focus on such coordination. However, the lack of federal coordination was still viewed by some local service providers as an important barrier to the effective delivery of services to those experiencing homelessness. Without more formal coordination of federal programs to specifically include the linking of supportive services and housing, federal efforts to address homelessness may remain fragmented and not be as effective as they could be.

Actions Needed and Potential Financial or Other Benefits

Federal agencies have taken some positive steps to improve coordination of programs that benefit those experiencing homelessness and reduce overlap and fragmentation but more needs to be done. In 2010, the 19 members and staff of USICH, including the Departments of Education, HUD, and HHS, worked collaboratively to develop a plan—the Federal Strategic Plan to Prevent and End Homelessness. The plan is an important

[1]Many federal programs providing services to persons experiencing homelessness were created by the McKinney-Vento Homeless Assistance Act, Pub. L. No. 100-77 (1987). The act, enacted originally as the Stewart B. McKinney Homeless Assistance Act, was renamed in 2000. Pub. L. No. 106-400. The act originally consisted of 15 programs providing a range of services to persons experiencing homelessness, including emergency shelter, transitional housing, job training, primary health care, education, and some permanent housing.

first step that recognizes that to prevent and end homelessness, targeted and mainstream programs including housing, health, education, and human services must be coordinated. Consistent with recent GAO recommendations, a key plan objective is to increase collaborative planning and better target initiatives to populations that need support across multiple systems.

In keeping with GAO's previous recommendations and the plan's objective to increase coordination, it will be important for the federal agencies that have adopted the plan to develop implementation plans that include but are not limited to a project schedule, resource allocation, outreach measures, and a performance measurement strategy to evaluate their progress. The plan recognizes that collection, analysis, and reporting of quality, timely data on homelessness are essential for targeting interventions, tracking results, strategic planning, and resource allocation. As noted above, currently each federal program generally has distinct data requirements. The plan acknowledges that a common data standard and uniform performance measures across all federal programs that are targeted at homelessness would facilitate greater understanding and simplify local data management. Consistent with the plan, representatives with USICH noted that agencies are taking steps to improve and coordinate data, specifically citing the December 2010 announcement by the Department of Veterans Affairs to participate in Homeless Information Management Systems over the next 12 months.[2] The formal coordination among agencies outlined in this plan may minimize fragmentation of federal programs and help address gaps in supportive services while linking housing and supportive services. The linking of these services is considered to be important for effectively delivering assistance to those experiencing homelessness.

Implementation challenges could hamper efforts to increase agency coordination as outlined in the plan. For example, according to representatives with USICH, agencies may face challenges in coordinating plans, programs, and activities because of individual agency regulations

[2]The Homeless Management Information System (HMIS) is a software application designed to record and store information on the characteristics and service needs of those experiencing homelessness. HUD and other planners and policymakers at the federal, state, and local levels can use aggregate HMIS data to obtain information about the extent and nature of homelessness over time. Specifically, HMIS can be used to produce an unduplicated count of homeless persons, understand patterns of service use, and measure the effectiveness of homeless programs.

that could prohibit sharing budgetary or other predecisional program information. Nevertheless, to facilitate interagency coordination, the plan encourages identifying and removing barriers to working together and seeking opportunities to conduct data matches and share data on those experiencing homelessness. It also indicates agencies at the state and local levels could review budget processes to determine if avenues exist for recognizing savings across partners and seek opportunities for engaging congressional committees jointly on issues related to preventing and ending homelessness. Despite these potential challenges, it is important for agencies to improve collaborative efforts as outlined in the plan. Given the importance of these issues, GAO believes that coordination of targeted and mainstream federal programs could benefit from increased Office of Management and Budget and congressional oversight.

GAO plans to examine further the extent to which these programs have been evaluated on their efficiency and effectiveness and the potential benefits of consolidating or eliminating federal programs that deliver services to those experiencing homelessness. GAO also plans to evaluate what other options may more fully address fragmentation and overlap and achieve operational improvements, efficiencies, or financial savings.

Framework for Analysis

GAO reviewed prior reports, listed below, about federal agencies that provide homelessness assistance. GAO also obtained information from representatives of the U.S. Interagency Council on Homelessness as well as national policy and advocacy organizations that deal with issues of homelessness.

Related GAO Products

Rural Homelessness: Better Collaboration by HHS and HUD Could Improve Delivery of Services in Rural Areas. GAO-10-724. Washington, D.C.: July 20, 2010.

Homelessness: A Common Vocabulary Could Help Agencies Collaborate and Collect More Consistent Data. GAO-10-702. Washington, D.C.: June 30, 2010.

Homelessness: Improving Coordination and Client Access to Programs. GAO-02-485T. Washington, D.C.: March 6, 2002.

Homelessness: Barriers to Using Mainstream Programs. GAO/RCED-00-184. Washington, D.C.: July 6, 2000.

Homelessness: Coordination and Evaluation of Programs Are Essential. GAO/RCED-99-49. Washington, D.C.: February 26, 1999.

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Further Steps Needed to Improve Cost-Effectiveness and Enhance Services for Transportation-Disadvantaged Persons

Why GAO Is Focusing on This Area

Millions of Americans are unable to provide their own transportation or have difficulty accessing public transportation. Individuals who are "transportation disadvantaged" may include people who are elderly, have disabilities, or low incomes. In 2003, GAO reported that eight federal departments had 62 programs providing transportation services to this population. At that time, GAO was unable to identify spending on transportation services for more than half of these programs. However, spending for 29 programs totaled more than $2 billion in fiscal year 2001.

Following GAO's recommendation to increase federal agency participation, a 2004 Executive Order expanded the existing Interagency Transportation Coordinating Council on Access and Mobility to include 10 federal agencies and charged it with promoting interagency cooperation and establishing mechanisms to minimize program duplication and overlap. A 2004 GAO report found that some federal agencies were developing guidance and technical assistance for transportation coordination as recommended by GAO, and the Coordinating Council had launched the "United We Ride" transportation coordination initiative. These actions notwithstanding, program overlap and fragmentation continue today.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Agencies providing transportation services to transportation-disadvantaged persons often provide similar services to similar client groups, leading to potential duplication and service inefficiencies when coordination does not occur. Interagency forums for coordination at the federal, state, and local levels have expanded in recent years, but participation has varied among federal departments and program requirements have not been aligned to facilitate coordination. To improve cost-effectiveness and transportation services, federal departments should facilitate coordination by identifying and assessing programs, collecting information on expenditures, and developing or disseminating guidance and policies.

GAO and others have reported that the variety of federal programs providing transportation services to the transportation disadvantaged has resulted in fragmented services that can be difficult for clients to navigate and narrowly focused programs that may result in service gaps. Further, services can be costly because of inconsistent, duplicative, and often restrictive program rules and regulations.

- GAO identified 80 existing federal programs in eight departments that provided funding for transportation services for the transportation disadvantaged in fiscal year 2010 (see table).[1]
- Programs may provide bus tokens, transit passes, taxi vouchers, or mileage reimbursement, for example, to transportation-disadvantaged persons for trips to access government services (such as job-training programs), the grocery store, medical appointments, or for other purposes.

As in prior work, GAO could not determine the total amount spent, because agencies often do not separately track transportation costs from other program costs. However, GAO obtained fiscal year 2009 funding information for 23 programs, which spent an estimated total of $1.7 billion on transportation services that year. Further, the Medicaid program in the Department of Health and Human Services spent $704 million in fiscal year 2010—the first year for which such information was available.

Number of Programs GAO Identified That Provide Transportation Services to Transportation-disadvantaged Persons, by Federal Department, as of October 2010

Federal department	Number of programs identified
Agriculture	2
Education	11
Health and Human Services	30
Housing and Urban Development	11
Interior	7
Labor	9
Transportation	7
Veterans Affairs	3
Total[a]	**80**

Source: Federal departments and GAO analysis of the Catalog of Federal Domestic Assistance (October 2010).

[a]The Corporation for National and Community Service—an independent federal agency—also funds three programs that provide transportation services.

The Interagency Transportation Coordinating Council on Access and Mobility—the venue charged with promoting interagency coordination—

[1]Two new programs in the Departments of Agriculture and Housing and Urban Development have not yet awarded grants, but will have transportation as an eligible use of funds. These have not been included in the count of programs.

has developed an action plan and a policy statement to encourage and facilitate coordination, but action by federal departments—individually and in concert—will be necessary to better coordinate programs and eliminate duplication and fragmentation at the federal level. For example, because neither the Coordinating Council nor most federal departments have an inventory of existing programs providing transportation services or their expenditures, they lack the information to identify opportunities to improve the efficiency and service of their programs through coordination. Available information is outdated and incomplete. Additionally, departments have not aligned program requirements. For instance, a 2009 report by the National Resource Center for Human Service Transportation Coordination found that three federal departments providing transportation services—the departments of Health and Human Services, Labor, and Education—had yet to coordinate their planning processes or requirements with the Department of Transportation.[2] GAO found that these steps still had not occurred as of the end of 2010. These departments account for 50 of the 80 existing programs identified.

With limited interagency coordination and direction at the federal level, the "United We Ride" initiative and the Federal Transit Administration (FTA) have encouraged state and local coordination. For example, certain FTA transit programs require that projects selected for grant funding be derived from locally developed, coordinated public transit-human service transportation plans.[3] The National Conference of State Legislatures reported in 2010 that 25 states had created councils to improve coordination among state and local grantees.[4] Some states also have regional or local councils. These councils are generally responsible for identifying available transportation services, conducting needs assessments, and determining how gaps should be filled. However, participation by non-FTA grantees—which is optional—has varied, limiting these efforts.

[2]See Report to the Secretary of Transportation, National Resource Center for Human Service Transportation Coordination (March 2009).

[3]*See* Formula grants for special needs of elderly individuals and individuals with disabilities, 49 U.S.C. § 5310(d)(2)(B); Job Access and Reverse Commute formula grants, 49 U.S.C. § 5316(g)(3); New Freedom Program, 49 U.S.C. § 5317(f)(3).

[4]National Conference of State Legislatures, State Human Service Transportation Coordinating Councils: An Overview and State Profiles (Denver, Colo., February 2010).

Actions Needed and Potential Financial or Other Benefits

Federal coordination of transportation services can lead to economic benefits, such as funding flexibility, reduced costs or great efficiency, and increased productivity, as well as improved customer service and enhanced mobility, as GAO and others have reported. To realize these benefits, GAO now suggests departments undertake actions in two key areas to help identify opportunities to eliminate duplication and fragmentation and improve coordination:

- *Program information.* To reduce fragmentation, overlap, and duplication, federal departments on the Coordinating Council should identify and assess their transportation programs and related expenditures and work with other departments to identify potential opportunities for additional coordination such as the use of one-call centers, transportation brokerages, or shared resources, among other options. The Coordinating Council should develop the means for collecting and sharing this information by establishing agency roles and responsibilities and developing a strategy to reinforce cooperation.

- *Policies and guidance.* Federal departments also have more work to do in developing and disseminating policies and grantee guidance for coordinating transportation services. This is important because state and local grantees typically look to their administrating departments for guidance on issues such as coordination. Some stakeholders indicated that policies for cost sharing among programs still need to be developed. Another noted that some coordination policies, such as vehicle sharing among service providers, could be better disseminated.

In 2003, GAO discussed three potential options to overcome obstacles to the coordination of transportation for the transportation disadvantaged, two of which would require substantial statutory or regulatory changes and include potential costs: making federal program standards more uniform or creating some type of requirement or financial incentive for coordination. As a result, at that time GAO recommended expanding the Coordinating Council and better disseminating guidance. Subsequently, the Coordinating Council was expanded and several coordination initiatives were launched, and progress has been made in coordination efforts, particularly at the state and local level. However, to assure that coordination benefits are realized, Congress may want to consider requiring key programs to participate in coordinated planning.

Framework for Analysis

GAO reviewed prior work listed below on the coordination of transportation services and the Job Access and Reverse Commute program. GAO interviewed department officials with the FTA and United We Ride and contacted the Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, the Interior, Justice, Labor, and Veterans Affairs. GAO also spoke with the National Resource Center for Human Service Transportation Coordination, the National Council on Disability, American Association of Retired Persons, American Association of State Highway and Transportation Officials, and Project ACTION, and reviewed relevant reports. Finally, GAO searched the Catalog of Federal Domestic Assistance for 2010 to confirm that programs identified in 2003 still exist and offer transportation services and to identify new programs funding these services. Program information was verified with department officials, who provided spending data.

Related GAO Products

Federal Transit Administration: Progress and Challenges in Implementing and Evaluating the Job Access and Reverse Commute Program. GAO-09-496. Washington, D.C.: May 21, 2009.

Transportation Disadvantaged: Progress in Implementing the New Freedom Program Has Been Limited, and Better Monitoring Procedures Would Help Ensure Program Funds Are Used as Intended. GAO-07-999R. Washington, D.C.: July 19, 2007.

Transportation-Disadvantaged Populations: Actions Needed to Clarify Responsibilities and Increase Preparedness for Evacuations. GAO-07-44. Washington, D.C.: December 22, 2006.

Federal Transit Administration: Progress Made in Implementing Changes to the Job Access Program, but Evaluation and Oversight Processes Need Improvement. GAO-07-43. Washington, D.C.: November 17, 2006.

Disaster Preparedness: Preliminary Observations on the Evacuation of Vulnerable Populations due to Hurricanes and Other Disasters. GAO-06-790T. Washington, D.C.: May 18, 2006.

Transportation-Disadvantaged Seniors: Efforts to Enhance Senior Mobility Could Benefit from Additional Guidance and Information. GAO-04-971. Washington, D.C.: August 30, 2004.

Transportation-Disadvantaged Populations: Federal Agencies Are Taking Steps to Assist States and Local Agencies in Coordinating Transportation Services. GAO-04-420R. Washington, D.C.: February 24, 2004.

Transportation-Disadvantaged Populations: Some Coordination Efforts Among Programs Providing Transportation Services, but Obstacles Persist. GAO-03-697. Washington, D.C.: June 30, 2003.

Transportation-Disadvantaged Populations: Many Federal Programs Fund Transportation Services, but Obstacles to Coordination Persist. GAO-03-698T. Washington, D.C.: May 1, 2003.

Area Contact

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Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies

Why GAO Is Focusing on This Area

Federally funded employment and training programs play an important role in helping job seekers obtain employment. In fiscal year 2009, 47 programs spent about $18 billion to provide services, such as job search and job counseling, to program participants. Most of these programs are administered by the Departments of Labor, Education, and Health and Human Services (HHS).

GAO has previously issued reports on the number of programs that provide employment and training services and overlap among them. In the 1990s, GAO issued a series of reports that identified program overlap and possible areas of resulting inefficiencies. In 2000 and 2003, GAO identified programs for which a key program goal was providing employment and training assistance and tracked the increasing number of programs. GAO recently updated information on these programs, found overlap among them, and examined potential duplication among three selected large programs—HHS's Temporary Assistance for Needy Families (TANF) and the Department of Labor's Employment Service and Workforce Investment Act (WIA) Adult programs.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Forty-four of the 47 federal employment and training programs GAO identified, including those with broader missions such as multipurpose block grants, overlap with at least one other program in that they provide at least one similar service to a similar population. Some of these overlapping programs serve multiple population groups. Others target specific populations, most commonly Native Americans, veterans, and youth. Even when programs overlap, they may have meaningful differences in their eligibility criteria or objectives, or they may provide similar types of services in different ways.

GAO examined the TANF, Employment Service, and WIA Adult programs for potential duplication and found they provide some of the same services to the same population through separate administrative structures. Although the extent to which individuals receive the same services from these programs is unknown due to limited data, GAO found these programs maintain parallel administrative structures to provide some of the same services, such as job search assistance, to low-income individuals (see following table). It should be noted that employment is only one aspect of the TANF program, which also provides a wide range of other services, including cash assistance. At the state level, the TANF program is typically administered by the state human services or welfare agency, while the Employment Service and WIA Adult programs are typically administered by the state workforce agency and provided

through one-stop centers. Agency officials acknowledged that greater efficiencies could be achieved in delivering services through these programs, but said factors such as the number of clients that any one-stop center can serve and one-stop centers' proximity to clients, particularly in rural areas, could warrant having multiple entities provide the same services.

Selected Employment and Training Services Provided by the Employment Service, TANF, and WIA Adult Programs, Fiscal Year 2009

Program name	Employment counseling and assessment	Development of job opportunities	Job readiness skills training	Job referrals	Job search or job placement activities
Employment Service/Wagner-Peyser Funded Activities (DOL)	○	●	●	●	●
Temporary Assistance for Needy Families (HHS)	○	●	○	○	○
WIA Adult Program (DOL)	●	●	●	●	●

● Primary services ○ Secondary services

Source: GAO survey of agency officials.

Note: DOL = Department of Labor

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

An obstacle to further progress in achieving greater administrative efficiencies is that little information is available about the strategies and results of such initiatives. In addition, little is known about the incentives that states and localities have to undertake such initiatives and whether additional incentives are needed.

Actions Needed and Potential Financial or Other Benefits

To facilitate further progress by states and localities in increasing administrative efficiencies in employment and training programs, GAO recommended in 2011 that the Secretaries of Labor and HHS work together to develop and disseminate information that could inform such efforts. This should include information about state initiatives to consolidate program administrative structures and state and local efforts to colocate new partners, such as TANF, at one-stop centers. Information on these topics could address challenges faced, strategies employed, results achieved, and remaining issues. As part of this effort, Labor and HHS should examine the incentives for states and localities to undertake such initiatives, and, as warranted, identify options for increasing such incentives. Labor and HHS agreed that they should develop and disseminate this information. HHS noted that it lacks legal authority to mandate increased TANF-WIA coordination or create incentives for such efforts.

To the extent that colocating services and consolidating administrative structures reduce administrative costs, funds could potentially be available to serve more clients or for other purposes. For the TANF program alone, GAO estimated that states spent about $160 million to administer employment and training services in fiscal year 2009. According to a Department of Labor official, the administrative costs for the WIA Adult program were at least $56 million in program year 2009. Officials told GAO they do not collect data on the administrative costs associated with the Employment Service program, as they are not a separately identifiable cost in the legislation. Labor officials said that, on average, the agency spends about $4,000 for each WIA Adult participant who receives training services. In periods of budgetary constraints, it is all the more important that resources are used effectively. Depending on the reduction in administrative costs associated with colocation and consolidation, these funds could be used to train potentially hundreds or thousands of additional individuals.

Framework for Analysis

The information contained in this analysis is based on GAO products listed below. GAO did not conduct a legal review in order to determine the programs, their requirements, or goals.

Related GAO Products

Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies. GAO-11-92. Washington, D.C.: January 13, 2011.

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

Multiple Employment and Training Programs: Overlapping Programs Indicate Need for Closer Examination of Structure. GAO-01-71. Washington, D.C.: October 13, 2000.

Area Contact

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Teacher Quality: Proliferation of Programs Complicates Federal Efforts to Invest Dollars Effectively

Why GAO Is Focusing on This Area

In fiscal year 2009, the federal government spent over $4 billion specifically to improve the quality of our nation's 3 million teachers through numerous programs across the government. Teacher quality can be enhanced through a variety of activities, including training, recruitment, and curriculum and assessment tools. In turn, these activities can influence student learning and ultimately improve the global competitiveness of the American workforce in a knowledge-based economy. Prior GAO reports have noted that sustained coordination among key federal education programs could enhance state efforts to improve teacher quality.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Federal efforts to improve teacher quality have led to the creation and expansion of a variety of programs across the federal government; however, there is no governmentwide strategy to minimize fragmentation, overlap, or duplication among these many programs. Specifically, GAO identified 82 distinct programs designed to help improve teacher quality, either as a primary purpose or as an allowable activity, administered across 10 federal agencies. Many of these programs share similar goals. For example, 9 of the 82 programs support improving the quality of teaching in science, technology, engineering, and mathematics (STEM subjects) and these programs alone are administered across the Departments of Education, Defense, and Energy; the National Aeronautics and Space Administration; and the National Science Foundation. Further, in fiscal year 2010, the majority (53) of the programs GAO identified supporting teacher quality improvements received $50 million or less in funding and many have their own separate administrative processes.

The proliferation of programs has resulted in fragmentation that can frustrate agency efforts to administer programs in a comprehensive manner, limit the ability to determine which programs are most cost-effective, and ultimately increases program costs. For example in the Department of Education (Education), eight different offices administer over 60 of the federal programs supporting teacher quality improvements, primarily in the form of competitive grants. Education officials believe that federal programs have failed to make significant progress in helping states close achievement gaps between schools serving students from different socioeconomic backgrounds, because, in part, federal programs that focus on teaching and learning of specific subjects are too fragmented to help state and district officials strengthen instruction and increase student achievement in a comprehensive manner. While Education officials noted, and GAO concurs, that a mixture of programs can target services to underserved populations and yield strategic innovations, the current

programs are not structured in a way that enables educators and policymakers to identify the most effective practices to replicate. According to Education officials, it is typically not cost-effective to allocate the funds necessary to conduct rigorous evaluations of small programs; therefore, small programs are unlikely to be evaluated. Finally, it is more costly to administer many separately authorized federal programs because each program has its own policies, applications, award competitions, reporting requirements, and, in some cases, federal evaluations.

While all of the 82 federal programs GAO identified support teacher quality improvement efforts, several overlap in that they share more than one key program characteristic. For example, teacher quality programs may overlap if they share similar objectives, serve similar target groups, or fund similar activities. GAO previously reported that 23 of the programs administered by Education in fiscal year 2009 had improving teacher quality as a specific focus, which suggested that there may be overlap among these and other programs that have teacher quality improvements as an allowable activity. When looking across a broader set of criteria, GAO found that 14 of the programs administered by Education overlapped with another program with regard to allowable activities as well as shared objectives and target groups (see table). For example, the Transition to Teaching program and Teacher Quality Partnership Grant program can both be used to fund similar teacher preparation activities through institutions of higher education for the purpose of helping individuals from non-teaching fields become qualified to teach.

Areas of Overlap among Selected Programs Administered by Education That Support Teacher Quality Improvement

	Even Start[a]	Striving Readers[a]	Mathematics and Science Partnerships[a]	Improving Teacher Quality State Grants[a]	Title I, Part A	School Improvement Grants	Transition to Teaching[a]	Advanced Certification or Advanced Credentialing[a]	Teacher Quality Partnership Grants[a]	Language Resource Centers	Teachers for a Competitive Tomorrow Program: Baccalaureate[a]	Teachers for a Competitive Tomorrow: Masters[a]	Foreign Language Assistance Program[a]	Teach for America[a]
Objective														
Improve Education in Specific Subjects	●	●	●						●	●	●	●		
Improve Education in General	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Improve Education for Special Populations	●	●		●	●	●	●	●			●	●		●
Target Group														
Current Teachers	●	●	●	●	●	●		●		●		●	●	
Prospective Teachers				●			●		●		●	●		●
Other Education Professionals	●	●		●	●	●				●				
Activity[b]														
Teacher Preparation				●			●		●		●	●		●
Professional Development	●	●	●	●	●	●			●	●	●	●	●	
Recruitment or Retention			●	●	●	●	●	●	●		●	●		●
Certification or Licensure				●			●	●	●		●	●		
Induction or Mentoring				●			●		●		●			●

Source: GAO analysis of Department of Education documents and interviews.

Note: The 14 programs shown in the table are a subset of over 60 Education programs supporting teacher quality improvement either specifically or as an allowable activity. Specifically, although Title I, Part A, School Improvement Grants, and Even Start allow program funds to be used for teacher quality activities, this is not their primary focus. The 14 programs presented above overlapped with at least 1 other program across objective, target group, and activity.

[a]Education has proposed consolidating this program under a broader program in its proposal for the reauthorization of the Elementary and Secondary Education Act of 1965.

[b]This is not an exhaustive list of activities allowed under these programs, but rather the activities GAO determined were most relevant for the purposes of this analysis.

Although there is overlap among these programs, several factors make it difficult to determine whether there is unnecessary duplication. First, when similar teacher quality activities are funded through different programs and delivered by different entities, some overlap can occur

unintentionally, but is not necessarily wasteful. For example, a local school district could use funds from the Foreign Language Assistance program to pay for professional development for a teacher who will be implementing a new foreign language course, and this teacher could also attend a summer seminar on best practices for teaching the foreign language at a Language Resource Center. Second, by design, individual teachers may benefit from federally funded training or financial support at different points in their careers. Specifically, the teacher from this example could also receive teacher certification through a program funded by the Teachers for a Competitive Tomorrow program. Further, both broad and narrowly targeted programs exist simultaneously, meaning that the same teacher who receives professional development funded from any one or more of the above three programs might also receive professional development that is funded through Title I, Part A. The actual content of these professional development activities may differ though, since the primary goal of each program is different. In this example, it would be difficult to know whether the absence of any one of these programs would make a difference in terms of the teacher's ability to teach the new language effectively.

In past work, GAO and Education's Inspector General have concluded that improved planning and coordination could help Education better leverage expertise and limited resources, and to anticipate and develop options for addressing potential problems among the multitude of programs it administers. Generally, GAO has reported that uncoordinated program efforts can waste scarce funds, confuse and frustrate program customers, and limit the overall effectiveness of the federal effort. However, given the large number of teacher quality programs and the extent of overlap, it is unlikely that improved coordination alone can fully mitigate the effects of the fragmented and overlapping federal effort.

Actions Needed and Potential Financial or Other Benefits

In 2009, GAO recommended that the Secretary of Education work with other agencies as appropriate to develop a coordinated approach for routinely and systematically sharing information that can assist federal programs, states, and local providers in achieving efficient service delivery. Coordination is essential to ensure that programs do not work at cross-purposes, do not repeat mistakes, and do not engage in wasteful duplication of services. Education has established working groups to help develop more effective collaboration across Education offices, and has reached out to other agencies to develop a framework for sharing information on some teacher quality activities, but it has noted that coordination efforts do not always prove useful and cannot fully eliminate

barriers to program alignment, such as programs with differing definitions for similar populations of grantees, which create an impediment to coordination.

Congress could help eliminate some of these barriers through legislation, particularly through the pending reauthorization of the Elementary and Secondary Education Act of 1965 and other key education bills. Specifically, to minimize any wasteful fragmentation and overlap among teacher quality programs, Congress may choose either to eliminate programs that are too small to evaluate cost-effectively or combine programs serving similar target groups into a larger program. Education has already proposed combining 38 programs into 11 programs in its reauthorization proposal, which could allow the agency to dedicate a higher portion of its administrative resources to monitoring programs for results and providing technical assistance. Congress might also include legislative provisions to help Education reduce fragmentation, such as by giving broader discretion to the agency to move resources away from certain programs. Congress could provide Education guidelines for selecting these programs. For example, Congress could allow Education discretion to consolidate programs with administrative costs exceeding a certain threshold or failing to meet performance goals, into larger or more successful programs. Finally, to the extent that overlapping programs continue to be authorized, they could be better aligned with each other in a way that allows for comparison and evaluation to ensure they are complementary rather than duplicative.

Framework for Analysis

The information contained in this analysis is based in part on issued GAO products listed below. Additionally, it is based on recent GAO analysis of overlap among teacher quality programs among a broad range of 82 federal programs that support teacher quality efforts directly as a primary purpose, or as an allowable activity. GAO reviewed programs that it had previously identified as teacher quality programs and refined the initial list of programs based on a keyword search of the Catalog of Federal Domestic Assistance (CFDA) for programs that included “teacher quality,” “teacher training,” or “professional development” in their descriptions. GAO then reviewed agency Web sites, budget documents, and other information to verify that these programs support teacher quality improvements directly or allowed funds to be used to support teacher quality improvements. Education verified that the 63 programs that they administer and that GAO identified as supporting teacher quality improvement did so either directly or as an allowable activity; GAO did not ask other agencies to verify other programs on the list.

To specifically identify potential fragmentation and overlap among these programs, GAO reviewed the CFDA descriptions and other documentation to determine if programs had similar objectives, served similar target groups, and provided similar types of assistance. For purposes of this report, GAO focused on Education programs, which further narrowed the list of potentially overlapping programs to 14. GAO then interviewed responsible program officials to obtain more detailed information about each of these programs. GAO also interviewed Education officials to determine if progress had been made in addressing previous recommendations aimed at improving coordination among agencies administering teacher quality programs, and to obtain information about the potential impact of consolidating or eliminating programs that GAO identified as being potentially duplicative.

Related GAO Products

English Language Learning: Diverse Federal and State Efforts to Support Adult English Language Learning Could Benefit from More Coordination. GAO-09-575. Washington, D.C.: July 29, 2009.

Teacher Preparation: Multiple Federal Education Offices Support Teacher Preparation for Instructing Students with Disabilities and English Language Learners, but Systematic Departmentwide Coordination Could Enhance This Assistance. GAO-09-573. Washington, D.C.: July 20, 2009.

Teacher Quality: Sustained Coordination among Key Federal Education Programs Could Enhance State Efforts to Improve Teacher Quality. GAO-09-593. Washington, D.C.: July 6, 2009.

No Child Left Behind Act: Education Actions Could Improve the Targeting of School Improvement Funds to Schools Most in Need of Assistance. GAO-08-380. Washington, D.C.: February 29, 2008.

Teacher Quality: Approaches, Implementation, and Evaluation of Key Federal Efforts. GAO-07-861T. Washington, D.C.: May 17, 2007.

No Child Left Behind Act: States Face Challenges in Measuring Academic Growth that Education's Initiatives May Help Address. GAO-06-661. Washington, D.C.: July 17, 2006.

Troops-to-Teachers: Program Brings More Men and Minorities to the Teaching Workforce, but Education Could Improve Management to Enhance Results. GAO-06-265. Washington, D.C.: March 1, 2006.

No Child Left Behind Act: Improved Accessibility to Education's Information Could Help States Further Implement Teacher Qualification Requirements. GAO-06-25. Washington, D.C.: November 21, 2005.

Higher Education: Activities Underway to Improve Teacher Training, but Reporting on These Activities Could Be Enhanced. GAO-03-6. Washington, D.C.: December 11, 2002.

Early Education and Care: Overlap Indicates Need to Assess Crosscutting Programs. GAO/HEHS-00-78. Washington, D.C.: April 28, 2000.

Federal Education Funding: Multiple Programs and Lack of Data Raise Efficiency and Effectiveness Concerns. GAO/T-HEHS-98-46. Washington, D.C.: November 6, 1997.

Area Contact

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Fragmentation of Financial Literacy Efforts Makes Coordination Essential

Why GAO Is Focusing on This Area

Improving financial literacy is essential to ensuring consumers' economic well-being and security. Poor money management and financial decision making can lower a family's standard of living and interfere with crucial long-term goals, such as buying a home and financing retirement. Financial literacy has broader public policy implications as well. For example, financial markets work best when consumers understand how financial services providers and products work and know how to choose among them. Federal financial literacy programs and resources are spread widely among many different federal agencies, raising concerns of potential duplication or fragmentation.

What GAO Has Found to Indicate Duplication, Overlap, or Fragmentation

Federal financial literacy activities are fragmented across multiple agencies, with more than 20 different federal agencies providing about 56 programs related to financial literacy. This increases the risk of inefficiency and highlights the need for strong coordination of these efforts. Federally funded financial literacy programs cover a number of topics (such as saving for retirement and avoiding fraudulent practices), target a range of audiences (such as schoolchildren, prospective homeowners, and investors), and include a variety of delivery mechanisms (such as classroom curricula, print materials, Web sites, broadcast media, and individual counseling). To streamline federal efforts in this area and improve coordination, Congress created the multiagency Financial Literacy and Education Commission (the Commission) in 2003. It charged the Commission with, among other things, developing a national strategy to promote financial literacy and education, coordinating federal efforts, and identifying—and proposing means of eliminating—areas of overlap and duplication.

GAO recommended in 2006 that the Commission use an unbiased, third-party evaluator to examine the extent of overlap and duplication among federal financial literacy activities. In response, the Treasury Department, which staffs and chairs the Commission and coordinates its activities, contracted for two studies, both of which found limited evidence of overlap and duplication. Staff at four federal agencies and two research institutions that GAO spoke with noted that even when different agencies' programs appeared similar, closer inspection can reveal important differences in such elements as the target audience or the specific content.

However, with 20 different agencies playing a role in financial education, federal financial literacy efforts clearly are fragmented. There are some advantages to having multiple federal agencies involved in financial literacy—for example, agencies can focus their efforts on the particular

subject matter or target audiences for which they have expertise. At the same time, fragmentation across agencies can also make it difficult to develop a coherent global approach for identifying gaps and needs and for rationally allocating overall resources. In part to encourage a more coordinated approach to federal financial literacy resources, Congress mandated the Commission to develop a national strategy. However, as GAO has reported, the 2006 National Strategy for Financial Literacy largely was descriptive rather than strategic; generally did not include a plan for implementation; and only partially addressed or defined elements such as performance measures, resource needs, and roles and responsibilities. In December 2010, the Commission released a new national strategy, which identifies five action areas—policy, education, practice, research, and coordination—as well as a series of goals and related objectives intended to help guide financial literacy efforts over the next 3 to 5 years. The Commission stated that in 2011 it will release an implementation plan for how the Commission, its members, and other organizations can best incorporate the new strategy into their activities and initiatives. As that implementation plan is developed, GAO believes that one of its goals should be to address the fragmentation of federal financial literacy efforts.

Fragmentation across federal agencies has the potential to result in inefficient, uncoordinated, or redundant use of resources. In the case of financial literacy programs, there are numerous funding streams and little good data on the amount of federal funds devoted to financial literacy. Financial literacy efforts are not necessarily organized as separate budget line items or cost centers within federal agencies and there is no estimate of overall federal spending for financial literacy and education, according to the Department of the Treasury. The Commission was charged with coordinating federal resources, but GAO has noted in the past that the Commission faces significant challenges in its role as a centralized focal point: it is composed of many agencies, but it has no independent budget and no legal authority to compel member agencies to take any action.

Actions Needed and Potential Financial or Other Benefits

GAO has identified several possible steps that could be taken to address fragmentation in federal financial literacy efforts:

- *Improve coordination among federal agencies.* Because of the crosscutting nature of financial literacy, it would be difficult, if not impossible, for one agency alone to address the issue, but coordination among agencies is clearly essential. In prior work, GAO has identified barriers to coordinating programs and initiatives across the federal government, which can include competing missions, concerns about

protecting resources, and a lack of clearly articulated roles and responsibilities. The Commission should enhance its efforts to coordinate federal activities, such as by exploring further opportunities to strengthen its role as a central clearinghouse for federal financial literacy resources.

- *Delineate roles for two key financial education offices.* In 2010, Congress enacted legislation creating an Office of Financial Education within the new Bureau of Consumer Financial Protection. This office is charged with duties that are in some ways similar to those of the separate Office of Financial Education and Financial Access within the Department of the Treasury. The respective offices will need to coordinate their roles and activities closely to avoid unnecessary overlap and make the most productive use of their respective resources.

- *Foster public-private partnerships.* Given the wide array of state, local, nonprofit, and private organizations providing financial literacy programs, it is essential to leverage private sector resources and coordinate federal activities with resources at the community level. The Commission should build on progress it has made in recent years in promoting such partnerships. Federal collaboration with state and local governments may be particularly important given the critical role that school districts can play in improving financial literacy among young people.

- *Measure outcomes and focus resources accordingly.* Federal financial literacy resources should be focused on those agencies and programs with the most expertise and best track records. The Commission and the Bureau of Consumer Financial Protection could potentially play a role in developing or disseminating a standard set of evaluation tools or benchmarks that would help assess which federal initiatives have the most effective outcomes.

The potential monetary savings to coordinating or consolidating financial literacy efforts is unknown. As noted earlier, there is no estimate of overall federal spending for financial literacy and education, and most federal agencies do not have an estimate for spending on "financial literacy" per se. However, streamlining federal financial literacy resources would have other benefits—it would make the best use of scarce resources and focus efforts on programs and initiatives that have been shown to be most effective in improving the financial literacy of the American people.

Framework for Analysis

The information contained in this analysis builds upon prior GAO work, which is cited below. To supplement that work, GAO reviewed two studies on federal financial literacy resources that were conducted by private entities and commissioned by the Department of the Treasury. GAO also conducted interviews with staff at four federal agencies and two research organizations.

Related GAO Products

Financial Literacy and Education Commission: Progress Made in Fostering Partnerships, but National Strategy Remains Largely Descriptive Rather Than Strategic. GAO-09-638T. Washington, D.C.: April 29, 2009.

Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy. GAO-07-100. Washington, D.C.: December 4, 2006.

Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy. GAO-05-93SP. Washington, D.C.: November 15, 2004.

Area Contact

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Section II: Other GAO-Identified Cost-Saving and Revenue-Enhancing Areas

Table 2 provides 47 areas for consideration where the government can achieve cost savings or enhance revenue collections. The table includes the estimated cost savings or additional revenues, if available. In many cases, there is sufficient information to show that if actions are taken to address individual issues summarized in Table 2, financial benefits ranging from tens of millions to tens of billions of dollars annually may be realized. In other cases, however, estimates for savings or revenues would depend upon the nature and scope of congressional and executive branch decisions, or additional programmatic data may be needed. Following the table are summaries for each of the areas listed. Each of the summaries contains a "Framework for Analysis" providing the methodology used to conduct the work and a list of related GAO products for further information.

Table 2: Federal agencies and programs where cost saving or revenue enhancement opportunities may exist

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist	Page
Agriculture	35. Reducing some **farm program payments** could result in savings from $800 million over 10 years to up to $5 billion annually	Department of Agriculture	159
Defense	36. DOD should assess costs and benefits of **overseas military presence** options before committing to costly personnel realignments and construction plans, thereby possibly saving billions of dollars	Department of Defense (DOD)	164
	37. Total compensation approach is needed to manage significant growth in **military personnel costs**	DOD	169
	38. Employing best management practices could help DOD save money on its **weapon systems acquisition programs**	DOD	173
	39. More efficient management could limit future costs of **DOD's spare parts** inventory	DOD, including the military services and Defense Logistics Agency	178
	40. More comprehensive and complete cost data can help DOD improve the cost-effectiveness of **sustaining weapon systems**	DOD	182
	41. Improved **corrosion prevention** and control practices could help DOD avoid billions in unnecessary costs over time	DOD's Office of Corrosion Policy and Oversight	186
Economic development	42. Revising the **essential air service** program could improve efficiency and save over $20 million annually	Department of Transportation	190
	43. Improved design and management of the **universal service fund** as it expands to support broadband could help avoid cost increases for consumers	Federal Communications Commission; four programs involved	194

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist	Page
	44. The **Corps of Engineers** should provide Congress with project-level information on **unobligated balances**	U.S. Army Corps of Engineers	198
Energy	45. Improved management of federal **oil and gas resources** could result in approximately $1.75 billion over 10 years	Department of the Interior's Bureau of Land Management, Bureau of Ocean Energy Management, Regulation and Enforcement, and Office of Natural Resources Revenue	200
General government	46. Efforts to address **governmentwide improper payments** could result in significant cost savings	About 20 federal agencies; over 70 programs involved	205
	47. Promoting **competition fo**r the over $500 billion in **federal contracts** can potentially save billions of dollars over time	Governmentwide	211
	48. Applying **strategic sourcing** best practices throughout the federal procurement system could save billions of dollars annually	Governmentwide	215
	49. Adherence to new guidance on **award fee contracts** could improve agencies' use of award fees and produce savings	Several agencies, including DOD and the National Aeronautics and Space Administration	219
	50. Agencies could realize cost savings of at least $3 billion by continued disposal of **unneeded federal real property**	Governmentwide, including DOD, General Services Administration (GSA), and Department of Veterans Affairs	222
	51. Improved cost analyses used for making **federal facility ownership** and **leasing** decisions could save tens of millions of dollars	Primarily GSA, the central leasing agent for most agencies	226
	52. The Office of Management and Budget's **IT Dashboard** reportedly has already resulted in $3 billion in savings and can further help identify opportunities to invest more efficiently in information technology	Governmentwide	230
	53. Increasing **electronic filing** of individual income **tax returns** could reduce IRS's processing costs and increase revenues by hundreds of millions of dollars	Department of the Treasury's (Treasury) Internal Revenue Service (IRS)	234
	54. Using **return on investment** information to better target IRS enforcement could reduce the tax gap; for example, a 1 percent reduction would increase tax revenues by $3 billion	IRS	238
	55. Better management of **tax debt collection** may resolve cases faster with lower IRS costs and increase debt collected	IRS	241
	56. Broadening IRS's authority to correct **simple tax return errors** could facilitate correct tax payments and help IRS avoid costly, burdensome audits	IRS	244
	57. Enhancing **mortgage interest information** reporting could improve tax compliance	IRS	248
	58. More information on the types and uses of canceled debt could help IRS limit revenue losses on **forgiven mortgage debt**	IRS	251

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist	Page
	59. Better information and outreach could help increase revenues by tens or hundreds of millions of dollars annually by addressing overstated **real estate tax deductions**	IRS	254
	60. Revisions to content and use of **Form 1098-T** could help IRS enforce higher education requirements and increase revenues	IRS	258
	61. Many options could improve the tax compliance of **sole proprietors** and begin to reduce their $68 billion portion of the tax gap	IRS	260
	62. IRS could find additional **businesses not filing tax returns** by using third-party data, which show such businesses have billions of dollars in sales	IRS	264
	63. Congress and IRS can help **S corporations** and their shareholders be more tax compliant, potentially increasing tax revenues by hundreds of millions of dollars each year	IRS	267
	64. IRS needs an agencywide approach for addressing tax evasion among the at least 1 million **networks of businesses** and related entities	IRS	270
	65. Opportunities exist to improve the targeting of the $6 billion **research tax credit** and reduce forgone revenue	Treasury and IRS	273
	66. Converting the **new markets tax credit** to a grant program may increase program efficiency and significantly reduce the $3.8 billion 5-year revenue cost of the program	Treasury	276
	67. Limiting the tax-exempt status of certain **governmental bonds** could yield revenue	Treasury	279
	68. Adjusting **civil tax penalties** for inflation potentially could increase revenues by tens of millions of dollars per year, not counting any revenues that may result from maintaining the penalties' deterrent effect	IRS	281
	69. IRS may be able to systematically identify **nonresident aliens** reporting unallowed tax deductions or credits	IRS	284
	70. Tracking **undisbursed balances** in **expired grant accounts** could facilitate the reallocation of scarce resources or the return of funding to the Treasury	Governmentwide	286
Health	71. Preventing billions in **Medicaid improper payments** requires sustained attention and action by CMS	Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS)	289
	72. Federal oversight over **Medicaid supplemental payments** needs improvement, which could lead to substantial cost savings	CMS	293
	73. Better targeting of **Medicare**'s claims review could reduce **improper payments**	CMS	296

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist	Page
	74. Potential savings in **Medicare's payments** for **health care**	CMS	300
Homeland security/Law enforcement	75. **DHS's management of acquisitions** could be strengthened to reduce cost overruns and schedule and performance shortfalls	Department of Homeland Security (DHS)	306
	76. Improvements in **managing research and development** could help reduce inefficiencies and costs for homeland security	DHS	311
	77. Validation of **TSA's behavior-based screening** program is needed to justify funding or expansion	Transportation Security Administration (TSA)	316
	78. More efficient **baggage screening systems** could result in about $470 million in reduced TSA personnel costs over the next 5 years	TSA	320
	79. Clarifying availability of certain **customs fee collections** could produce a one-time savings of $640 million	DHS's Customs and Border Protection (CBP)	324
Income security	80. **Social Security** needs data on pensions from noncovered earnings to better enforce **offsets** and ensure benefit fairness, resulting in estimated $2.4-$2.9 billion savings over 10 years	Social Security Administration	326
International affairs	81. Congress could pursue several options to improve collection of **antidumping** and **countervailing duties**	CBP	330

Source: GAO analysis based on areas addressed in Section II of this report.

Reducing Some Farm Program Payments Could Result in Substantial Savings

Why GAO Is Focusing on This Area

Between 2005 and 2009, the U.S. Department of Agriculture (USDA) spent an average of about $15 billion annually on programs to support farm income, assist farmers after disasters, and conserve natural resources. Under one of these federal farm programs, USDA provides fixed annual payments—called direct payments—to farmers based on a farm's history of crop production. Direct payments were most recently reauthorized in the Food, Conservation, and Energy Act of 2008, which will expire in 2012 without future action.

GAO has shown that taxpayer dollars can be saved with strengthened oversight of farm program payments, including direct payments. For example, GAO reported in October 2008 that USDA provided farm program payments to thousands of individuals with incomes exceeding income eligibility caps. GAO has also shown that USDA's oversight and enforcement of program rules is not always effective. For example, in July 2007, GAO reported that USDA paid $1.1 billion in such payments to more than 170,000 deceased individuals, and in April 2004 GAO reported that USDA provided such payments to people who may have had only limited involvement in farming because the agency lacks sufficient management controls. Since then, USDA has taken some actions in response to GAO's recommendations.

What GAO Has Found Indicating Potential for Cost Saving

Reducing or eliminating direct payments to farmers—particularly those to large farming operations—could achieve cost savings of as much as $5 billion annually. In contrast to other major farm programs, which compensate farmers for declines in price or lost crops, direct payments go to farmers regardless of risk factors. Direct payments are calculated using a formula that considers the crop and production history and the number of acres planted during certain years in the past on a farm. Generally, a percentage of the acres that were planted is multiplied by a set payment rate for the crop that was planted.[1] For 2009 through 2011, this percentage is 83.3 percent, and for 2012, it will be 85 percent. Although a farmer's direct payments are based on the historical production of a particular crop, the farmer has almost complete flexibility in deciding which crops to plant and whether to plant any crops at all. To be eligible for such a payment, a farmer's average nonfarm income (over the preceding 3 tax

[1]Specifically, the formula uses a percentage of the average number of acres planted during 1998 through 2001 and multiplies it by a set payment rate and the historical crop yield for a farm. The percentage and payment rates for each crop are specified in legislation commonly referred to as farm bills passed by Congress roughly every 5 years.

years) can be no more than $500,000, or average farm income no more than $750,000. Direct payments are limited to $40,000 per person per year; however, a farm can receive multiple payments depending on its ownership structure. For example, a husband and wife operating a farm together can collect up to $80,000 annually, and a partnership with 10 partners can collect up to $400,000 annually.

In light of the following observations made by GAO and others, the need for direct payments should be reconsidered:

- *Farmers receive direct payments even in years of record farm income.* Although direct payments were established after a period of relatively lower farm income in the early 1990s, USDA reported that the top 5 earnings years since the payments began have occurred after 2004, attesting to the profitability of farming in this decade. Furthermore, USDA estimated farm income was about $82 billion in 2010—up by $19 billion, or 31 percent, from 2009—which would be the third-highest level ever recorded for U.S. farming.

- *Direct payments are concentrated among the largest recipients* because they are tied to land and paid on a per-acre basis. About 62 percent of farm program payments—including direct payments—went to the largest 12 percent of farms in 2008, according to USDA. Similarly, GAO found that in 2009, 305 farm operations each received $200,000 or more in direct payments, in part because they were structured so that five or more partners or members of a farm business were eligible to receive the payments. Noting this concentration of payments, the Office of Management and Budget (OMB) and others have cited direct payments for failing to target the payments to those who need them the most, including small farmers.

- *Recipients of farm program payments have higher incomes, on average, than other tax filers.* When farm programs were first established, farmers had lower incomes on average than other Americans, but now the opposite may be true—particularly for those receiving program payments. In 2008, GAO reported that individuals who receive program payments, including direct payments, are more than twice as likely to have higher incomes as other tax filers. For example, in examining the more than 138 million federal tax returns filed for 2006, GAO found that 4.6 percent of individuals receiving program payments reported adjusted gross income of between $200,000 and $500,000, whereas 2.3 percent of other tax filers reported income at this level.

- *Direct payments may compound challenges for beginning farmers.* GAO reported in September 2007 that beginning farmers face multiple challenges, including a need for funds to purchase farmland. With an aging farmer population in the United States, USDA set a goal of increasing assistance to beginning farmers, but direct payments may instead compound the challenges beginning farmers face. According to USDA studies, these payments result in higher prices to buy or rent land because in some cases the payments go directly to landowners—resulting in increased land value—and in other cases the payments go to tenants, prompting landlords to increase rental rates. Furthermore, because direct payments are linked to a farm's number of acres, large farms can use these payments to expand their operations, but higher land values make it difficult for beginning farmers to do so, as OMB and others have noted.

- *Direct payments were expected to be transitional.* According to the Conference Report to the 1996 farm bill, direct payments were established to help farmers make a transition to planting decisions on the basis of market signals rather than government programs. Accordingly, the payments were scheduled to decrease over time and expire in 2002. However, subsequent farm bills have continued these payments.

- *Direct payments may no longer be needed to comply with trade agreements.* Proponents of direct payments say they help the United States meet its commitments under international trade agreements, which set ceilings on government payments classified as trade-distorting. Unlike other farm program payments, direct payments do not depend on current market prices, so the World Trade Organization generally considers them to be non-trade distorting and the United States does not count them against the international restrictions. As a result, other farm program payments can be provided with a reduced risk of exceeding the ceilings. However, according to economists, this advantage has become less relevant recently because high crop prices, which are expected to continue through the foreseeable future, have kept farm program payments well below the ceiling on trade-distorting payments.

Actions Needed and Potential Savings

Recognizing current budget constraints, the National Commission on Fiscal Responsibility and Reform,[2] the Debt Reduction Taskforce,[3] the administration, Members of Congress, GAO, and some farming groups have proposed options to reduce or eliminate direct payments. For example, Congress may wish to consider the following three. To reduce direct payments, the administration and others have proposed lowering payment or income eligibility limits. They argue that lower limits leave payments intact for recipients of smaller payments or with smaller incomes and could therefore still help smaller and beginning farmers. On the other hand, critics say, focusing on payment limits may be ineffective because farmers may develop methods to avoid being restricted by the limits. GAO previously reported that many farmers structure their operations to avoid payment limits and that USDA has not consistently enforced eligibility requirements, bringing into question the effectiveness of both types of limits.

Congress may also wish to consider reducing the portion of a farm's acres eligible for direct payments. In 2009, GAO reported that reducing the portion of eligible acres to 80 percent from 83.3 percent might save millions of dollars annually.[4] Further reducing the portion of eligible acres to 75 percent could save millions more each year. Such an across-the-board reduction would affect all recipients. Moreover, Congress may wish to consider terminating the payments. Some agriculture organizations, including the National Farmers Union and the Iowa Farm Bureau, have recommended phasing out or terminating the payments altogether and using the savings to bolster other farm programs.

[2]The National Commission on Fiscal Responsibility and Reform was established under Executive Order 13531 (Feb. 18, 2010). It issued *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform* (Washington, D.C., December 2010).

[3]Led by former Senate Budget Committee Chairman Pete Domenici and former White House Budget Director Alice Rivlin, the Debt Reduction Task Force issued *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System* (Washington, D.C., Nov. 17, 2010).

[4]See http://www.gao.gov/highrisk/opportunities/natural_resources/strengthening-integrity-and-efficiency-of-federal-farm-programs.php.

GAO has identified the following potential for cost savings:

- about $800 million over 10 years by reducing payment and income eligibility limits for a very small portion of recipients, according to the administration's estimate in its budget for fiscal year 2011;
- about $600 million annually by reducing the portion of acres used to calculate payments to 75 percent, according to GAO's estimate; or
- about $5 billion annually by terminating or phasing out the payments.

Framework for Analysis

To update information on the number of farms receiving direct payments of $200,000 or more, GAO used data from USDA's Producer Payment Reporting System and determined that the data were sufficiently reliable for its purposes. To estimate the potential savings from reducing the portion of acres used to calculate direct payments and from terminating the payments, GAO used the most recent budget figures from the Congressional Budget Office. Other information in this analysis is primarily based on the related GAO products listed below.

Related GAO Products

Federal Farm Programs: USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits. GAO-09-67. Washington, D.C.: October 24, 2008.

Beginning Farmers: Additional Steps Needed to Demonstrate the Effectiveness of USDA Assistance. GAO-07-1130. Washington, D.C.: September 18, 2007.

Federal Farm Programs: USDA Needs to Strengthen Controls to Prevent Improper Payments to Estates and Deceased Individuals. GAO-07-818. Washington, D.C.: July 9, 2007.

Farm Program Payments: USDA Needs to Strengthen Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitations. GAO-04-407. Washington, D.C.: April 30, 2004.

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DOD Should Assess Costs and Benefits of Overseas Military Presence Options Before Committing to Costly Personnel Realignments and Construction Plans

Why GAO Is Focusing on This Area

Overseas presence provides operational capabilities and demonstrates a commitment to our allies. In addition to the costs of supporting ongoing combat operations, the Department of Defense (DOD) spends billions of dollars annually on its network of installations around the world. For example, according to data provided by the military services, between fiscal years 2006 and 2009 the military services obligated $17.2 billion for the installations they manage in Europe. These obligations do not include funds obligated by other DOD organizations that use those facilities, overseas contingency funding, or personnel costs. Further, the military services estimated a requirement of $24 billion through fiscal year 2015 to build, operate, and maintain these installations. In light of current fiscal challenges facing the country, questions have arisen about the magnitude of overseas basing projects and costs, and whether DOD's planned investments support a coherent and affordable strategy. GAO's prior work has shown that DOD has taken positive steps to improve its planning for overseas infrastructure, but continues to devote insufficient attention to costs or analysis of alternatives.

What GAO Has Found Indicating Potential for Cost Saving

Having U.S. troops stationed overseas provides benefits, such as deterring aggression against U.S. allies, but permanent stationing may come at significantly higher costs than other alternative approaches such as deploying domestically stationed forces when needed. GAO's work since 2006 has found a systemic lack of cost information used to inform DOD's planning for its overseas infrastructure. As a consequence, DOD and Congress lack reasonable assurance that overseas presence is being planned and implemented in a cost-effective and financially sustainable way. Reliable and complete cost estimates are critical to allow analyses of alternatives and oversight by decision makers.

Since 2008, DOD has taken steps to develop regional plans for its overseas infrastructure, but department guidance regarding these posture plans has not required comprehensive cost information to support this emerging process. Recognizing the considerable costs involved with stationing forces overseas, in August 2010 the Secretary of Defense identified DOD's overseas presence as an area for review. Among other concerns, the Secretary of Defense questioned the growth in the number of general and flag officers across the department, highlighting that the U.S. European Command maintains four-star service component headquarters more than 20 years after the end of the Cold War and the vast majority of their fighting forces have departed from the region. Recent GAO reports have identified several evolving elements of DOD's global infrastructure, which have the potential to cost—or possibly save—the department billions of

dollars depending on decisions DOD and Congress make. For each of these decisions, reliable, complete cost data will be invaluable to the ability of decision makers to choose among available options. For example:

- *Plans to reduce forces in Europe are being reconsidered.* DOD recently held up the planned return of two Army brigades from Germany pending an announcement of the North Atlantic Treaty Organization's strategic concept as well as the results of ongoing U.S. assessments of the global defense posture. GAO's work has shown that leaving these two brigades in Europe could cost DOD between $1 billion and $2 billion over 10 years compared to bringing the forces back to the United States. In addition, the Army plans to continue to invest in a new Army headquarters in Germany even though the Secretary of Defense has questioned the size of U.S. European Command and its associated service component commands, and DOD may ultimately return some forces to the United States. U.S. European Command and service officials noted that forward military presence in Europe provides important but difficult-to-quantify benefits, including commitment to the North Atlantic Treaty Organization. Recognizing this, in September 2010, GAO recommended that DOD reassess its alternatives for Europe, weighing the costs of the presence against its perceived benefits to ensure DOD takes a cost-effective course of action. DOD officials agreed with this recommendation and noted that certain actions have already been undertaken, and DOD is currently conducting a broad review of the European theater.

- *Efforts to establish military presence in Africa have met with concerns.* DOD has few facilities in Africa, but Camp Lemonnier in Djibouti houses a 2,000-person joint task force as well as supports other U.S. and multinational missions such as building the security capacity of partner states, at a cost of about $238 million in 2010. However, as GAO reported in April 2010, the task force's future is uncertain because it relies on overseas contingency operations appropriations. Moreover, the task force's original war-fighting mission has evolved to civil affairs missions like drilling water wells and building schools, and needs to be reassessed. Efforts to date have not always yielded the intended results or were sometimes poorly coordinated with other U.S. agencies. It is uncertain where DOD will ultimately place a headquarters for U.S. Africa Command, which it designated as being fully operational in 2008. DOD had planned to locate the headquarters in Africa but stepped back from those plans after some African nations raised concerns. The command currently

occupies temporary facilities in Stuttgart, Germany, and has postponed its decision on a permanent headquarters until 2012.

- *Substantial costs are anticipated for enduring locations in Iraq, Afghanistan, and other locations in southwest Asia.* Supporting the continuing operations in Iraq and Afghanistan is DOD's priority, and its regional presence includes installations in Kuwait, Bahrain, and Qatar, among other nations. While DOD has made progress executing the drawdown, challenges remain that could impact DOD's ability to close bases in Iraq as planned. GAO has begun work to examine how much DOD's presence in the region will cost moving forward relative to the potential benefits and what other alternatives to current plans may exist.

- *Large and costly realignment is being undertaken in Asia.* DOD has several major initiatives under way in the Pacific region that represent a significant restructuring and transformation of the U.S. military presence in Asia. For example, DOD plans to increase the U.S. military presence on Guam from about 15,000 in 2009 to more than 39,000 by 2020, which will increase the current island population by about 14 percent over those years. GAO has previously reported that the reported costs for these and other posture initiatives may be significantly understated. GAO is examining the scope, magnitude, management, and costs associated with DOD posture initiatives in Asia, as well as the extent to which DOD has incorporated cost and benefit analysis into its decision-making process. GAO plans to report the results of its analysis in early 2011.

GAO has made recommendations since 2006 that DOD gather more comprehensive cost data and report it to Congress; in general, DOD has generally agreed with these recommendations but has yet to implement them in full. As a result, initiatives are proceeding without assurance that the efforts are being undertaken in a cost-effective way.

Actions Needed and Potential Savings

Given the significant resources being dedicated to building and maintaining DOD's global presence, DOD needs to ensure it is routinely assessing the benefits of its overseas presence relative to the cost of maintaining that presence. Specifically, DOD should conduct a comprehensive reassessment of its overseas presence, including the costs and benefits of various alternatives.

To address the specific regional issues in Europe and Africa, GAO has issued a number of recommendations that DOD generally agreed with including reassessing:

- plans in Europe, including the costs and benefits of keeping Army brigades in Germany and the appropriateness of building a new Army headquarters given the potential changes in force structure; and
- missions of the combined joint task force in Djibouti as well as identifying the projected costs for the task force and, in concert with DOD or the Navy, developing a realistic funding plan for the task force's sustainability.

The financial stakes are high for DOD, since according to DOD data the department has obligated billions of dollars annually to build and maintain its global network of installations. A thorough consideration of alternatives and an assessment of their costs and benefits could help DOD shape its future overseas investments and ensure long-term affordability. Savings or cost avoidances would be dependent upon the nature of changes made to DOD's plans and how DOD implements its chosen options.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Defense Management: Additional Cost Information and Stakeholder Input Needed to Assess Military Posture in Europe. GAO-11-131. Washington, D.C.: February 3, 2011.

Defense Planning: DOD Needs to Review the Costs and Benefits of Basing Alternatives for Army Forces in Europe. GAO-10-745R. Washington, D.C.: September 13, 2010.

Defense Management: Improved Planning, Training, and Interagency Collaboration Could Strengthen DOD's Efforts in Africa. GAO-10-794. Washington, D.C.: July 28, 2010.

Operation Iraqi Freedom: Actions Needed to Facilitate the Efficient Drawdown of U.S. Forces and Equipment from Iraq. GAO-10-376. Washington, D.C.: April 19, 2010.

Defense Management: DOD Needs to Determine the Future of Its Horn of Africa Task Force. GAO-10-504. Washington, D.C.: April 15, 2010.

Defense Infrastructure: Guam Needs Timely Information from DOD to Meet Challenges in Planning and Financing Off-Base Projects and Programs to Support a larger Military Presence. GAO-10-90R. Washington, D.C.: November 13, 2009.

Force Structure: Actions Needed to Improve DOD's Ability to Manage, Assess, and Report on Global Defense Posture Initiatives. GAO-09-706R. Washington, D.C.: July 2, 2009.

Defense Management: Actions Needed to Address Stakeholder Concerns, Improve Interagency Collaboration, and Determine Full Costs Associated with the U.S. Africa Command. GAO-09-181. Washington, D.C.: February 20, 2009.

Defense Management: Comprehensive Strategy and Annual Reporting Are Needed to Measure Progress and Costs of DOD's Global Posture Restructuring. GAO-06-852. Washington, D.C.: September 13, 2006.

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Total Compensation Approach Is Needed to Manage Significant Growth in Military Personnel Costs

Why GAO Is Focusing on This Area

Over the years, the Department of Defense's (DOD) military compensation system has become an increasingly complex and piecemeal addition of pays, allowances, and benefits costing over $200 billion each year. Pay and benefits are important tools used by DOD to recruit, retain, and motivate sufficient numbers—approximately 1.4 million active duty and 1.2 million reservists—of qualified people. In recent years, Congress has taken steps to fund enhanced compensation and benefit programs for active duty and reserve personnel at a time when many military personnel are spending months or years away from home, often in harm's way. DOD leaders have expressed concern about growing personnel costs and their effect on other important investments, such as recapitalizing equipment and infrastructure.

In 2005 and in 2007, GAO found that the cost for military compensation was significantly increasing, and the total cost for compensation was not transparent because it was spread across different budgets within DOD. GAO recommended that DOD improve the transparency of compensation costs and assess the appropriateness of its compensation system.

What GAO Has Found Indicating Potential for Cost Saving

DOD and Congress have expanded military pay and benefits using a piecemeal approach rather than a total compensation approach that could help to balance the appropriateness, affordability, and sustainability of personnel-related costs. GAO has estimated that the federal government's total compensation costs for active duty servicemembers increased about 32 percent, using fiscal year 2008 constant dollars, from $143.8 billion in fiscal year 2000 to $189.4 billion in fiscal year 2008. Also, GAO found that using fiscal year 2008 constant dollars, the federal government's total estimated compensation for reserve and national guard members grew over 31 percent from about $17.8 billion in fiscal year 2001 to nearly $23.5 billion in fiscal year 2008. Basic pay alone, the largest component of active duty military compensation, has increased from $45 billion to $50.1 billion between fiscal years 2000 and 2008. In addition to basic pay, DOD expends billions of dollars each year to recruit, retain, and motivate its personnel using other pays and benefits. For instance, in fiscal year 2008, for active duty servicemembers, DOD spent $17.1 billion on non-taxable housing allowances; $6.4 billion on special and incentive pays, such as enlistment and re-enlistment bonuses; $10.9 billion on health care for active duty

servicemembers and their dependents[1]; and $31.4 billion on retirement pay and retiree health care.

Much of the increase in basic pay in recent years has been driven by concerns that military basic pay was not equivalent to civilian (or private sector) pay, without taking into consideration other types of compensation beyond basic pay. GAO reported in April 2010 that studies done by the Congressional Budget Office and the Center for Naval Analyses concluded that when pay and some benefits are taken into account, military compensation compares favorably to civilian compensation when considering personnel of similar age and education level. GAO also reported that when comparing military and civilian compensation, it is reasonable to take into account other types of compensation than basic pay. For example, according to DOD, in 2010 the basic allowance for housing for an O-5 (i.e., a lieutenant colonel) with dependents living in the Washington, D.C., metro area is approximately $2,900 a month. In addition, recent growth of total compensation has been driven by the costs for deferred compensation, primarily attributed to enhanced health care benefits, and DOD officials anticipate significant continued growth in health care costs because of these expansions in coverage.

DOD has sponsored some efforts to assess its military personnel compensation strategy, such as the 10th Quadrennial Review of Military Compensation, which was released in 2008, but these reviews have not been comprehensive, and the department does not know the extent to which the current mix of pays and benefits is best suited to meet its human capital goals. Further, GAO's work has shown that DOD is unable to demonstrate the efficiency and effectiveness of these changes in meeting its recruiting and retention goals because it does not have performance measures for its compensation system. Without performance measures, DOD cannot determine the return on its compensation investment or make fact-based choices on how its compensation resources should be allocated.

[1]This is an estimated costs for providing active duty servicemembers and their dependents health care. It does not include costs such as medical personnel salaries or construction costs of medical facilities. However, a more comprehensive medical cost for DOD is the Unified Medical Budget, which for fiscal year 2010 was about $50 billion. This cost includes military medical personnel costs, construction cost of any medical facilities, operation and maintenance funds, procurement funds, and research and development funds.

Actions Needed and Potential Savings

Using a total compensation approach in making decisions about military pay and benefits would provide DOD with an important tool for more efficiently and effectively managing its human-capital-related costs. Assessing the mix of pay and benefits and developing a comprehensive compensation strategy could enable DOD to more effectively recruit and retain a highly qualified force with the right skills in sufficient numbers to carry out its mission while minimizing unnecessary cost increases. GAO has recommended in the past that DOD (1) assess the affordability and sustainability of its military compensation system, as well as the reasonableness and appropriateness of the allocation to cash and benefits, and whether changes in the allocation are needed to more efficiently achieve recruiting and retention goals; and (2) establish a clear compensation strategy that includes performance measures to evaluate the efficiency of compensation in meeting recruiting and retention goals and use of data from the performance measures to monitor the effectiveness of compensation and assess what mix of compensation will be most efficient in the future.

DOD concurred with GAO's recommendation to assess the affordability and sustainability of its military compensation system and stated that it is engaged in multiple simultaneous efforts to assess the overarching strategy. GAO acknowledges that DOD has sponsored and engaged in a number of studies looking at aspects of compensation, such as the Quadrennial Review of Military Compensation, but the department has not taken a total compensation approach to assessing compensation.

DOD partially concurred with GAO's recommendation to establish a clear compensation strategy noting that it has consistently communicated its approach to Congress in congressional testimony. GAO continues to assert that with a total compensation strategy the department would be in a better position to make business case arguments for or against changes to its compensation system, and provide fact-based evidence regarding the efficiency of the allocation of cash, noncash, or deferred compensation.

GAO's prior work has indicated that compensation areas should have closer scrutiny in terms of continued need and the potential to reduce unnecessary costs. For example, GAO reported in 2006 and 2009 instances of excessive payments of enlistment and re-enlistment bonuses (types of special and incentive pays) to servicemembers in occupations that exceeded their authorized levels while other occupations were underfilled. GAO recommended that DOD, among other things, assess reasons occupations are over- or underfilled and justify use of financial incentives for overfilled occupations. As a result of GAO's findings and

recommendations, DOD developed a more rigorous approach to managing and overseeing its recruiting and retention bonuses leading to savings totaling $947.3 million. More broadly, DOD could recognize long-term cost avoidance by addressing in a compensation strategy what types of compensation are effective and not incurring costs for compensation that may not be effective in helping the department achieve its recruiting and retention goals.

Framework for Analysis

The information contained in this analysis is based on the related products listed below.

Related GAO Products

Questions for the Record Related to Military Compensation. GAO-10-803R. Washington, D.C.: June 3, 2010.

Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation. GAO-10-561R. Washington, D.C.: April 1, 2010.

Military Personnel: Reserve Component Servicemembers on Average Earn More Income While Activated. GAO-09-688R. Washington, D.C.: June 23, 2009.

Military Personnel: Army Needs to Focus on Cost-Effective Use of Financial Incentives and Quality Standards in Managing Force Growth. GAO-09-256. Washington, D.C.: May 4, 2009.

Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost. GAO-07-828. Washington, D.C.: June 20, 2007.

Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System. GAO-05-798. Washington, D.C.: July 19, 2005.

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Employing Best Management Practices Could Help DOD Save Money on Its Weapon Systems Acquisitions

Why GAO Is Focusing on This Area

Over the next 5 years, the Department of Defense (DOD) expects to invest almost $343 billion (in fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. Defense acquisition programs usually take longer, cost more, and deliver fewer quantities and capabilities than DOD originally planned. For several decades, Congress and DOD have taken steps to improve the acquisition of major weapon systems, yet some program outcomes continue to fall short of what was agreed to when the programs started. With the prospect of slowly growing or flat defense budgets for the foreseeable future, DOD must get better value for its weapon system spending and find ways to deliver needed capability to the warfighter for less than it has spent in the past.

What GAO Has Found Indicating Potential for Cost Saving

Increasing combat demands and fiscal constraints make it critical for DOD to ensure that its weapon systems investments not only meet the needs of the warfighter but make the most efficient use of available resources. Over the last several years, GAO's work has highlighted a number of underlying systemic causes for cost growth and schedule delays in weapon programs. At the strategic level, DOD's processes for identifying warfighter needs, allocating resources, and managing acquisitions, which together define its weapon system investment strategy, are often not fully aligned. For example, the department often fails to balance the competing needs of the warfighter and commits to more programs than available resources can support. At the program level, GAO's work has shown that DOD's culture and environment often allow programs to start with too many unknowns, such as entering the acquisition process without a full understanding of requirements; cost and schedule estimates based on overly optimistic assumptions; and insufficient knowledge about the maturity of technology, the completeness and the performance of the design, and predictability of manufacturing processes when decisions are made to move forward into the next phase of the acquisition process. Poor outcomes in DOD's weapon system programs reverberate across the entire federal government as every additional dollar spent on acquiring weapon systems is less money available for other priorities.

Since fiscal year 2000, DOD has significantly increased the number of major defense acquisition programs and its overall investment in them. From that time to the present, acquisition outcomes in some cases continued to fall short of what was agreed to when the programs started. In most cases, the programs GAO assessed failed to deliver capabilities when promised—often forcing the department to spend additional funds on maintaining legacy systems. In March 2009, GAO reported that programs experienced, on average, a 22-month delay in delivering initial

capabilities to the warfighter. Continued cost growth in such acquisitions results in less funding being available for other DOD priorities and programs. Schedule delays prevent timely delivery of critical capabilities to the warfighter.

GAO has reported that greater adherence to proven management practices at key phases of the acquisition process can reduce weapon system costs, help contain pressures for increased funding, and better address critical warfighter needs. Early systems engineering, ideally beginning before a program is initiated and a business case is set, is critical to designing a system that meets requirements within available resources. In addition, an analysis of alternatives can help ensure that new programs have a sound, executable business case and represent a cost-effective solution to meeting warfighters' needs. Another key step in the process involves managing requirements changes, which if minimized, could decrease the amount of cost growth experienced by acquisition programs. Finally, more prototyping early in programs could help DOD ensure that a system's proposed design can meet performance requirements.

Additionally, DOD requirements continue to be driven primarily by the individual services with little involvement from the combatant commands, which are largely responsible for planning and carrying out military operations. By continuing to rely on capability proposals that lack a joint perspective, DOD may be losing opportunities to improve joint warfighting capabilities and reduce the duplication of capabilities in some areas.

DOD has demonstrated a strong commitment, at the highest levels, to address the management of its weapon system acquisitions, and has started to reprioritize and rebalance its weapon system investments. In 2009 and 2010, the Secretary of Defense proposed canceling or significantly curtailing certain weapon programs, such as the Army's Future Combat System Manned Ground Vehicle and the Navy's DDG-1000 Destroyer—which he characterized as too costly or no longer relevant for current operations. DOD plans to replace several of the canceled programs and therefore has an opportunity to pursue knowledge-based acquisition strategies on the new programs. In addition, DOD plans to eliminate redundant programs within capability portfolios and make affordability a key requirement for weapon programs. These actions are consistent with past GAO findings and recommendations. However, if these initiatives are going to have a lasting, positive effect, they need to be translated into better day-to-day management and decision making.

GAO's recent observations present a mixed picture of DOD's adherence to a knowledge-based acquisition approach, which is key for improving acquisition outcomes. For 42 programs GAO assessed in depth in 2010, there was continued improvement in the technology, design, and manufacturing knowledge the programs had at key points in the acquisition process. However, most programs were still proceeding with less knowledge than best practices suggest, putting them at higher risk for cost growth and schedule delays.

Congress passed a number of acquisition reforms in the Weapon Systems Acquisition Reform Act of 2009 to emphasize and increase oversight and reporting on cost estimating, early systems engineering, developmental testing, and technology maturity for major weapon system programs. Since then, DOD has begun to implement a revised acquisition policy based on these congressional reforms to address these and other areas of acquisition risk. If DOD consistently implements these reforms, the number of programs adhering to a knowledge-based acquisition approach should increase and the outcomes for DOD programs should improve.

Actions Needed and Potential Savings

DOD can take steps to maximize its use of taxpayer dollars by improving its business operations, including the acquisition process. By employing best management practices at all phases of its weapon system acquisition process—including early systems engineering, analyzing alternatives, managing changes in system requirements, and more prototyping early in programs development testing—DOD could achieve significant cost savings. While activities, such as early prototyping, require upfront investments, the knowledge gained can help products proceed more quickly and smoothly through development into production, thereby lowering the costs to develop them.

While DOD's acquisition policies and process may be improving, fiscal pressures continue to build. In addition to the federal government's long-term fiscal challenges, DOD faces its own near- and long-term fiscal pressures as it attempts to balance competing demands, including ongoing operations in Afghanistan and Iraq, initiatives to grow and modernize the force, and increasing personnel and health care costs. DOD's fiscal year 2010 budget request started the process of reprioritizing acquisition dollars to meet warfighters' most pressing needs, but the department must still address the overall affordability of its weapon system investments.

As DOD competes for resources in a constrained fiscal environment, it can not afford to miss opportunities to achieve greater efficiencies and free up

resources for higher-priority needs. Because of the complexity and magnitude of the challenges facing DOD in transforming its business operations, it will need strong and sustained leadership, as well as sound strategic planning to guide and integrate its efforts. Ultimately, DOD still needs to do a better job planning and executing programs on a day-to-day basis to achieve better outcomes. Critical to achieving successful outcomes is establishing and sustaining knowledge-based, realistic program baselines. Without realistic baselines, there is no foundation for accurately measuring the knowledge and health of programs.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Defense Acquisitions: Observations on Weapon Program Performance and Acquisition Reforms. GAO-10-706T. Washington, D.C.: May 19, 2010.

Defense Acquisitions: Strong Leadership Is Key to Planning and Executing Stable Weapon Programs. GAO-10-522. Washington, D.C.: May 6, 2010.

Defense Acquisitions: Assessments of Selected Weapon Programs. GAO-10-388SP. Washington, D.C.: March 30, 2010.

Defense Acquisitions: Managing Risk to Achieve Better Outcomes. GAO-10-374T. Washington, D.C.: January 20, 2010.

Maximizing DOD's Potential to Face New Fiscal Challenges and Strengthen Interagency Partnerships. GAO-10-359CG. Washington, D.C.: January 6, 2010.

Defense Acquisitions: Many Analyses of Alternatives Have Not Provided a Robust Assessment of Weapon System Options. GAO-09-665. Washington, D.C.: September 24, 2009.

Defense Acquisitions: Measuring the Value of DOD's Weapon Programs Requires Starting with Realistic Baselines. GAO-09-543T. Washington, D.C.: April 1, 2009.

Defense Acquisitions: Assessments of Selected Weapon Programs. GAO-09-326SP. Washington, D.C.: March 30, 2009.

Defense Acquisitions: DOD Must Prioritize Its Weapon System Acquisitions and Balance Them with Available Resources. GAO-09-501T. Washington, D.C.: March 18, 2009.

DOD's High Risk Areas: Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes. GAO-09-460T. Washington, D.C.: March 12, 2009.

Defense Acquisitions: Fundamental Changes Are Needed to Improve Weapon Program Outcomes. GAO-08-1159T. Washington, D.C.: September 25, 2008.

Defense Acquisitions: DOD's Requirements Determination Process Has Not Been Effective in Prioritizing Joint Capabilities. GAO-08-1060. Washington, D.C.: September 25, 2008.

Defense Acquisitions: Better Weapon Program Outcomes Require Discipline, Accountability, and Fundamental Changes in the Acquisition Environment. GAO-08-782T. Washington, D.C.: June 3, 2008.

Defense Acquisitions: Assessments of Selected Weapon Programs. GAO-08-467SP. Washington, D.C.: March 31, 2008.

Best Practices: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment. GAO/NSIAD-98-56. Washington, D.C.: February 24, 1998.

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More Efficient Management Could Limit Future Costs of DOD's Spare Parts Inventory

Why GAO Is Focusing on This Area

The military services and the Defense Logistics Agency (DLA) purchase spare parts to keep military equipment ready and operating. At the end of fiscal year 2009, the Department of Defense (DOD) reported that the total value of its inventory of over 4 million spare parts and other support items—not including weapons systems and other primary equipment—was more than $90 billion. GAO has identified weaknesses in DOD's inventory management practices, including problems in accurately forecasting demand for spare parts. At a time when U.S. military forces and materiel are in high demand and the nation and military face long-term fiscal challenges, it is critical that DOD demonstrate good stewardship over the billions of dollars invested in its spare parts inventory while continuing to supply warfighters with the right items at the right time.

What GAO Has Found Indicating Potential for Cost Saving

DOD can enhance efficiencies in the management of its spare parts inventory and potentially achieve significant cost avoidance in the future by aligning inventory levels more closely with current needs and projected demand. DOD has made some improvement in recent years but continues to consistently have higher levels of inventory than needed to meet current needs (called the requirements objective) plus projected demands over the next 2 years. DOD inventory data show that much of the inventory that is beyond current needs and projected demand is either retention stock (stock that is considered inactive but is being held for possible future use or for other reasons) or potential reutilization stock (stock that has been identified as "excess" and may be disposed of). These data include both on-hand inventory and on-order inventory that is not yet in DOD's possession. Some inventory items may be in such low demand that current supplies could last for decades. Acquiring large amounts of inventory for which actual demand is much lower than expected reduces the amount of funding available for other current military needs.

In a series of reports issued from 2007 to 2010, GAO analyzed spare parts inventory managed by the Air Force, the Navy, the Army, and DLA and identified factors contributing to higher-than-needed inventory levels. Most recently, GAO reviewed DLA inventory levels and reported in 2010 that DLA, over a period of 3 fiscal years, averaged $1 billion of inventory annually in potential reutilization stock. DOD policy requires that its components minimize investment in inventory while also providing inventory needed to support requirements, but several factors were causing DLA to order and stock parts that did not align with current needs and projected demand. These factors often occur in the initial stages of the inventory process when acquisition decisions are being made.

- First, DLA's ability to determine how many parts to buy is hindered by inaccurate estimates of customers' future demand for parts—known as demand forecasting—as well as by other challenges such as unresolved problems with accurately estimating lead times needed to acquire parts.

- Second, DLA has initiatives that show promise for reducing the acquisition and retention of unneeded parts, but these initiatives do not appear to be achieving their full potential. DLA continues to face difficulties closing gaps in providing accurate, timely data to inventory managers to better inform purchase decisions, as well as modifying or canceling planned purchases that may no longer be needed.

- Finally, DLA is not tracking the overall cost efficiency of its inventory management processes.

GAO identified similar issues in its prior reviews of spare parts inventory managed by the Air Force, the Navy, and the Army. In all three of those reviews, the predominant reason for mismatches between inventory levels and needs was changes in demand. In addition, Army data revealed substantial amounts of inventory deficits, where quantities of on-hand and on-order spare parts were not sufficient to meet current requirements. In prior reports, GAO also has addressed other aspects of inventory management, including problems with asset visibility, lead times for acquiring parts, and managing retention stocks.

Actions Needed and Potential Savings

GAO has identified a number of areas where DOD could improve the efficiency of its inventory management, while maintaining effective supply support for warfighter requirements. Since GAO's work has consistently shown that the greatest opportunities to minimize investment in unneeded inventory are at the initial stages of the inventory management process when acquisition decisions are being made, DOD could limit future costs by focusing its efforts on better managing on-order inventory, with a view toward reducing on-order inventory levels that are not needed for current needs or projected demand. For example, GAO found in its review of DLA inventory that the agency could benefit from efforts to (1) identify and evaluate planned purchases of spare parts that, if carried out, might result in the potential procurement of unneeded parts, and (2) take action to modify or cancel these planned purchases. Also, GAO has recommended that DOD address systemic weaknesses in demand forecasting, revise management practices to incorporate flexibility needed to minimize the impact of demand fluctuations, and track the cost efficiency of its

inventory management processes. DOD has generally concurred with these recommendations.

Recent legislative action underscores the need for DOD to address inventory management weaknesses. Specifically, Section 328 of the National Defense Authorization Act for Fiscal Year 2010 required the Secretary of Defense to submit a comprehensive plan for improving the inventory management systems of the military departments and DLA, with the objective of reducing the acquisition and storage of inventory that is excess to requirements. The act directed DOD to address eight areas of inventory management. DOD submitted its plan to Congress in November 2010.

DOD states in its plan that it has already reduced unneeded inventory and that further reductions are possible. DOD has reported, for example, that $10.3 billion (11 percent) of its secondary inventory has been designated as excess and categorized for potential reuse or disposal. The plan cites a number of improvement efforts and establishes two broad goals for reducing (1) the value of on-order potential reutilization stock as a percentage of total obligated on-order dollars and (2) the value of on-hand potential reutilization stock as a percentage of total inventory value. DOD's plan is an important step in improving inventory management practices; however, successful implementation will be challenging and will require sustained oversight by DOD as well as collaboration among the services and DLA.

Framework for Analysis

To assess the potential for DOD to achieve cost savings by better aligning inventory levels with requirements, GAO relied on its prior work.

Related GAO Products

DOD's 2010 Comprehensive Inventory Management Improvement Plan Addressed Statutory Requirements, but Faces Implementation Challenges. GAO-11-240R. Washington, D.C.: January 7, 2011.

Defense Inventory: Defense Logistics Agency Needs to Expand on Efforts to More Effectively Manage Spare Parts. GAO-10-469. Washington, D.C.: May 11, 2010.

Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts. GAO-09-199. Washington, D.C.: January 12, 2009.

Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory. GAO-09-103. Washington, D.C.: December 12, 2008.

Defense Inventory: Opportunities Exist to Save Billions by Reducing Air Force's Unneeded Spare Parts Inventory. GAO-07-232. Washington, D.C.: April 27, 2007.

Defense Inventory: Opportunities Exist to Improve the Management of DOD's Acquisition Lead Times for Spare Parts. GAO-07-281. Washington, D.C.: March 2, 2007.

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More Comprehensive and Complete Cost Data Can Help DOD Improve the Cost-Effectiveness of Sustaining Weapon Systems

Why GAO Is Focusing on This Area

The Department of Defense (DOD) spends billions of dollars each year to sustain its weapon systems. After a weapon system is developed, tested, and produced, it enters the operating and support (O&S) phase of its life cycle. O&S costs can account for 70 percent or more of the total ownership costs over a system's lifetime and include the direct and indirect costs for spare parts, fuel, maintenance, personnel, support facilities, and training. GAO's work has shown that weapon systems may experience O&S cost growth after they are acquired due to various factors such as lower than expected reliability, obsolete replacement parts, and increased usage. If agency budgets tighten, the continued burden of O&S cost growth could affect DOD's ability to afford other priorities.

In an effort to improve weapon system support and reduce costs in the late 1990s, DOD began to use a support strategy known as performance-based logistics (PBL). Unlike more traditional support arrangements, which involve the purchase of individual support elements (such as parts), PBL arrangements involve the purchase of performance outcomes such as weapon system availability.

What GAO Has Found Indicating Potential for Cost Saving

DOD can improve the cost-effectiveness of sustaining individual weapon systems, potentially saving billions of dollars, by enhancing its effort to collect, retain, and analyze more comprehensive and accurate O&S cost data, including cost data for PBL arrangements. In the absence of key information on O&S costs for its major weapon systems, DOD may not be well equipped to analyze, manage, and reduce these costs. DOD estimated that costs for supporting its weapon systems amounted to at least $132 billion in fiscal year 2008, but the department does not know total O&S costs associated with its systems.

GAO reviewed seven aviation weapon systems and reported in 2010 that DOD lacked life-cycle O&S cost estimates and complete historical data on actual O&S costs, which are needed to effectively track and analyze the growth of these costs. Life-cycle cost estimates are developed to support decisions at key acquisition milestones and, under GAO's guidance for cost-estimating best practices, the thorough documentation and retention of these estimates are also essential for use in preparing future cost estimates. However, current DOD acquisition and cost-estimating guidance does not specifically address requirements for the retention of life-cycle O&S cost estimates and supporting documentation.

Additionally, GAO found problems with incomplete and inaccurate data in the services' cost visibility data systems designated as the authoritative

sources for historical data on actual O&S costs. DOD has issued guidance that includes a recommendation regarding the types of historical data on actual O&S costs that the services could collect for their weapon systems, but this suggestion is not mandatory. Although O&S costs for the seven systems GAO reviewed had grown, it was unclear how much of the growth was unexpected without more complete cost information.

While DOD has moved toward PBL as its preferred strategy to support weapon systems, GAO reviewed PBL arrangements for selected weapon systems in 2008 and found that the ability of these arrangements to reduce costs remained unclear. According to a department assessment in 2009, about 20 percent of weapon systems were being supported under PBL arrangements. GAO found that many DOD program offices that implemented PBL arrangements lack detailed support cost data. Additionally, various other factors—such as the lack of business case analyses to compare the costs and benefits of PBL against other weapon system support options—further limited an evaluation of the costs of this support strategy. At the time GAO conducted its review, it found that neither DOD nor the services required detailed cost reporting for PBL arrangements. Also, GAO reported that business case analyses were inconsistently used for PBL decision making because DOD did not require that the analyses be conducted and updated or provide specific criteria to guide their development.

Actions Needed and Potential Savings

DOD currently has a number of initiatives to improve weapon system support and better manage and reduce weapon system O&S costs. For example, DOD has indicated its intent to focus more attention on O&S cost requirements and weapon system reliability during the acquisition process. DOD is also working to implement the recommendations made in an internal November 2009 assessment of weapon system product support. The assessment identified weaknesses in O&S cost management and recommended a number of corrective actions, such as (1) establishing an O&S affordability requirement, including linking O&S budgets to readiness; (2) developing and implementing an affordability process with all DOD stakeholders (such as the financial and program management communities); and (3) increasing the visibility of O&S costs and their drivers across the supply chain. Regarding PBL, the Air Force now requires program managers to conduct business case analyses, thereby comparing the costs and benefits of PBL against other support options, and Air Force interim guidance, issued in 2009, also directs detailed cost reporting for contractor logistics support arrangements, which often include PBL arrangements. DOD also included a broad cost reporting

requirement for certain programs in acquisition guidance and is developing additional guidance for the collection of more comprehensive cost data from PBL support providers. However, this guidance and DOD's other initiatives are either not yet implemented or too recent for GAO to evaluate their impact.

While DOD has taken some positive steps, more remains to be done to improve the collection, retention, and analysis of O&S cost data—steps that would significantly enhance DOD's ability to manage and potentially reduce O&S costs. GAO recommended in July 2010 that the department take the following actions:

- Revise guidance to specifically require the retention of life-cycle O&S cost estimates for major weapon systems, as well as the supporting documentation used to develop these estimates. These estimates and supporting documentation, if retained, could provide a benchmark for subsequent cost analysis of the weapon systems, enable identification of major cost drivers, and aid in improving cost estimates for future systems.

- Identify the cost elements needed to track and assess actual O&S costs for effective cost analysis and program management for major weapon systems, and require the collection of these elements in the services' O&S cost visibility data systems. Collecting complete data would put the services in a good position to track costs over time, compare costs with previous estimates, and determine whether and why cost growth is occurring.

- Require the services to periodically update life-cycle O&S cost estimates for major weapon systems after these systems are acquired, which would enhance DOD's ability to compare actual performance to planned or expected results.

DOD concurred or partially concurred with these and other related recommendations, noting that the department is committed to strengthening its O&S data availability as well as its use of O&S estimates in the governance process for major defense acquisition programs.

With regard to PBL, GAO recommended in December 2008 that the department (1) require program offices to collect and report detailed support cost data for their PBL arrangements; (2) revise guidance to require the development of PBL business case analyses to better support the decision-making process on the use of these arrangements; and (3)

define the elements to be included in these analyses so they are comprehensive and sound.

These actions would generate more detailed cost data and improve the analyses of PBL arrangements to determine if they are the most cost-effective approach to supporting weapon systems. DOD concurred or partially concurred with these and other related recommendations but has not yet implemented all corrective actions.

The lack of complete and reliable O&S cost data makes it difficult to determine the full extent of potential savings on weapon system O&S costs. However, based on DOD's estimate that it spent at least $132 billion in fiscal year 2008 on weapon system support alone, for every 1 percent reduction in costs, there would be an annual cost savings of $1.3 billion. As an illustration of the potential for significant cost-savings, a goal of reducing support costs by 5 percent over a period of time would translate to annual cost savings of approximately $6.6 billion. More ambitious O&S cost reduction goals would potentially result in greater cost savings.

Framework for Analysis

To assess the potential for DOD to achieve savings by reducing its O&S costs, GAO relied on the prior work below.

Related GAO Products

Defense Management: DOD Needs Better Information and Guidance to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems. GAO-10-717. Washington, D.C.: July 20, 2010.

Defense Logistics: Improved Analysis and Cost Data Needed to Evaluate the Cost-effectiveness of Performance Based Logistics. GAO-09-41. Washington, D.C.: December 19, 2008.

Defense Management: DOD Needs to Demonstrate That Performance-Based Logistics Contracts Are Achieving Expected Benefits. GAO-05-966. Washington, D.C.: September 9, 2005.

Best Practices: Setting Requirements Differently Could Reduce Weapon Systems' Total Ownership Costs. GAO-03-57. Washington, D.C.: February 11, 2003.

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Improved Corrosion Prevention and Control Practices Could Help DOD Avoid Billions in Unnecessary Costs

Why GAO Is Focusing on This Area

The Department of Defense (DOD) estimates that corrosion costs the department over $23 billion each year. Corrosion—the unintended destruction or deterioration of a material due to interaction with the environment—affects military readiness. According to a 2009 study, corrosion was responsible for taking up to 16 percent of military assets, most notably aircraft, out of action. Corrosion also creates safety hazards. GAO reported in 2007 that the Army attributed over 50 aircraft accidents and 12 fatalities to corrosion since 1985. Corrosion takes such varied forms as rusting; pitting; calcium or other mineral buildup; degradation from exposure to ultraviolet light; and mold, mildew, and other organic decay. It negatively affects all military assets, including equipment and infrastructure. In 2003, DOD created the Office of Corrosion Policy and Oversight (Corrosion Office), which is responsible for the prevention and mitigation of corrosion. Since 2008, the Director of the Corrosion Office reports directly to the Under Secretary of Defense for Acquisition, Technology and Logistics.

What GAO Has Found Indicating Potential for Cost Saving

Corrosion, if left unchecked, can degrade the readiness and safety of equipment and facilities and can result in substantial, sometimes avoidable, costs. The Defense Science Board Task Force estimated in a 2004 report that 30 percent of corrosion costs could be avoided through proper investment in prevention and mitigation of corrosion during design, manufacture, and sustainment. Using fiscal year 2006 data, DOD's Corrosion Office estimated that approximately a quarter of the $80 billion in annual expenses to maintain its ships, aircraft, strategic missiles, and ground combat and tactical vehicles is spent for corrosion-related concerns. DOD also spends about $10 billion annually to maintain about 577,000 buildings and structures, with about $1.9 billion of that amount spent for corrosion-related concerns. According to DOD, increased corrosion prevention and control efforts are needed to adequately address the wide-ranging and expensive effects of corrosion on equipment and infrastructure. However, DOD did not fund about one-third of acceptable corrosion projects for fiscal years 2005 through 2010. Also, military departments have not validated the cost-effectiveness of many of the previously funded corrosion projects.

To target funding toward corrosion prevention and control, DOD established a separate program element and line item within its budget. Among other things, the Corrosion Office uses much of that budget to fund projects designed to develop and test new technologies. To receive Corrosion Office funding, the military departments submit project proposals that are evaluated by a panel of experts assembled by the

Director of the Corrosion Office. The Corrosion Office currently funds up to $500,000 per project, and the military departments pledge complementary funding for each project they propose. The level of military department funding and the estimated return on investment are two of the criteria used to evaluate the projects proposals. For fiscal years 2005 through 2010, the Corrosion Office judged 271 corrosion prevention and control projects to be acceptable for funding. However, DOD funded $129 million (63 percent) of the $206 million that was needed to fund those 271 projects.

During the 6 years that the Corrosion Office has been funding corrosion projects, the average estimated return on investment for those projects has been 50:1. DOD is currently asking the military departments to validate the actual return on investment for the projects funded in fiscal year 2005 compared to the original estimates. To date, validations have been completed for 10 of the 28 corrosion projects funded in that fiscal year. Nine of the 10 projects were facilities projects with a validated return on investment of 11:1. Weapons projects have been estimated to have higher returns on investment (67:1 average), but these estimates have not been validated by the military departments. Also, none of those estimates have been independently validated.

Actions Needed and Potential Savings

If the corrosion prevention and control projects accepted from fiscal years 2005 through 2010 had been fully funded, DOD potentially could have avoided $3.6 billion in corrosion-related costs—assuming those projects achieved the same level of cost-effectiveness as was estimated for all accepted projects in those years. In April 2010, GAO reported that the corrosion requirements for the fiscal year 2011 budget identified $12 million for projects, leaving an unfunded requirement of about $35 million. If fully funded, that $35 million could result in a potential cost avoidance of $418 million. Similarly, by underfunding all of its estimated corrosion prevention and control requirements, DOD may be missing an opportunity for additional cost avoidance totaling $1.4 billion.

However, these calculations are highly contingent on the accuracy of estimated return on investment data provided by the Corrosion Office, much of which have not been validated by the military departments or an independent entity. GAO has recommended that the Corrosion Office ensure that return on investment estimates for funded corrosion prevention and control projects are validated. If the Corrosion Office wishes to convince DOD and congressional decision makers that more fully funding its corrosion prevention programs could provide such a

significant return on investment, the Corrosion Office needs to complete the validation of return on investment estimates in order to demonstrate the costs and benefits of its corrosion prevention and control projects.

Framework for Analysis

GAO is required by law to report annually on DOD's corrosion prevention and control budget submission and on the corrosion report that accompanies defense budget materials. GAO has also done other work on corrosion issues. This analysis is based on GAO's previously published work in that area from 2003 through 2010.

Related GAO Products

Defense Management: DOD Has a Rigorous Process to Select Corrosion Prevention Projects, but Would Benefit from Clearer Guidance and Validation of Returns on Investment. GAO-11-84. Washington, D.C.: December 8, 2010.

Defense Management: Observations on Department of Defense and Military Service Fiscal Year 2011 Requirements for Corrosion Prevention and Control. GAO-10-608R. Washington, D.C.: April 15, 2010.

Defense Management: Observations on the Department of Defense's Fiscal Year 2011 Budget Request for Corrosion Prevention and Control. GAO-10-607R. Washington, D.C.: April 15, 2010.

Defense Management: Observations on DOD's Fiscal Year 2010 Budget Request for Corrosion Prevention and Control. GAO-09-732R. Washington, D.C.: June 1, 2009.

Defense Management: Observations on DOD's Analysis of Options for Improving Corrosion Prevention and Control through Earlier Planning in the Requirements and Acquisition Processes. GAO-09-694R. Washington, D.C.: May 29, 2009.

Defense Management: Observations on DOD's FY 2009 Budget Request for Corrosion Prevention and Control. GAO-08-663R. Washington, D.C.: April 15, 2008.

Defense Management: High-Level Leadership Commitment and Actions Are Needed to Address Corrosion Issues. GAO-07-618. Washington, D.C.: April 30, 2007.

Defense Management: Additional Measures to Reduce Corrosion of Prepositioned Military Assets Could Achieve Cost Savings. GAO-06-709. Washington, D.C.: June 14, 2006.

Defense Management: Opportunities Exist to Improve Implementation of DOD's Long-Term Corrosion Strategy. GAO-04-640. Washington, D.C.: June 23, 2004.

Defense Management: Opportunities to Reduce Corrosion Costs and Increase Readiness. GAO-03-753. Washington, D.C.: July 7, 2003.

Defense Infrastructure: Changes in Funding Priorities and Strategic Planning Needed to Improve the Condition of Military Facilities. GAO-03-274. Washington, D.C.: February 19, 2003.

Area Contact

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Revising the Essential Air Service Program Could Improve Efficiency and Reduce Costs

Why GAO Is Focusing on This Area

Since 1978, the Essential Air Service (EAS) program, administered by the Department of Transportation, has subsidized air service to eligible communities. In 2010, the program supported air service to about 150 communities nationally. The EAS program was originally established as a 10-year transitional program to ease communities into a deregulated aviation environment. The cost of this program has risen as subsidies to air carriers and the number of communities being served have increased. Over the years GAO has expressed concerns that rising costs may jeopardize the EAS program's long-term viability.

What GAO Has Found Indicating Potential for Cost Saving

Revising the EAS program and re-examining the need for air service across the country could increase program efficiency and reduce costs. In fiscal year 2009, Congress appropriated $136.2 million for the EAS program, and in 2010 increased this amount to $200 million.[1] Costs could continue to increase for a number of reasons; for example, some eligible communities may lose existing unsubsidized air service and obtain EAS subsidies. GAO has previously reported on issues related to the EAS program, including the following:

Eligibility criteria are dated and not well targeted. Eligibility for the program was set in 1978 and largely based on communities that had or could have scheduled air service at that time; thus eligibility may bear little relation to current demand for air service. Communities have been added and removed from EAS funding, but the approach to determining EAS eligibility has remained the same and affects the cost of the program. For example, EAS currently uses distance to medium- and large-hub airports as a basis for eligibility. Past GAO analyses have shown that if eligibility criteria considered the distance to small-hub airports, in addition to the current criteria of distance to medium- and large-hub airports, and used a 125 mile distance instead of the current 70 miles, fewer communities would be eligible for EAS. In addition, because communities located near each other are eligible for EAS flights, in some regions duplicate federal subsidies are paid to air carriers when a single subsidy could provide air service. Communities and states have been reticent to select one regional airport to serve needs for a greater region because they do not want to give up the service for which they are eligible.

[1]These amounts include the $50 million EAS receives each year through a permanent, indefinite appropriation.

Operating requirements are inefficient. The program has operating requirements that are inefficient and increase costs. For example, legislation mandates that airlines use larger aircraft when smaller, less expensive to operate, aircraft could in some instances meet passenger demand.[2] In addition, the program requires a certain number of flights, regardless of passenger demand. Past GAO analyses have shown that most EAS flights operate with aircraft that are largely empty—some EAS airports operate with fewer than five passengers per day. In fiscal year 2008, the percentage of available seats filled by passengers was 37 percent on EAS flights.

Alternative transportation options could be more cost-effective in some cases. Some communities have not been able to generate sufficient demand to justify costly air service, resulting in rising per-passenger subsidies. Because potentially cost-effective alternatives, such as bus service to other airports, are not used, subsidies may be higher than necessary to link these communities to the nation's passenger aviation system.

Actions Needed and Potential Savings

Congress may wish to consider fundamentally re-examining the design and efficiency of the EAS program. GAO has reported on several potential solutions to these issues facing the EAS program that Congress and the Department of Transportation may wish to consider. All have drawbacks, but they present the opportunity for the government to target and use funds more efficiently.

- *Updating eligibility criteria and targeting service.* Changing the program criteria to target more remote communities would result in savings. In 2006 GAO found that about $24 million could be saved annually if service were terminated at airports that were within 125 highway miles of a medium- or large-hub airport. Under this approach, more remote communities would have remained eligible for EAS, but less remote communities receiving subsidized service would have been ineligible. In addition, changing program criteria to consolidate subsidized air service to one regional airport could help reduce the number of EAS locations served while maintaining regional connections to the nation's air transportation system. However, this potential solution is controversial at the local level, in part because

[2]Communities currently may waive their guarantee of larger aircraft.

regionalizing service would require some communities to give up their own service for potentially improved service at a less convenient regional facility

- *Revising operating requirements to improve efficiency.* Revising operating requirements to better match capacity with community use could improve efficiency and save federal subsidies. Air carriers could reduce unused capacity by using smaller aircraft, for example, by using 9-seat aircraft in place of the 19-seat aircraft typically used, or reducing the number of flights. This would improve the efficiency of the program, but it would also create challenges, since smaller aircraft may not be suitable for certain routes, such as those in mountainous areas that require pressurized cabins. Similarly, reducing the number of flights would mean passengers have fewer options from which to choose. However, as discussed below, passengers could potentially have additional transportation options if given other means of transportation to alternative airports.

- *Assessing multimodal solutions to provide communities alternatives to EAS.* Other means of transportation might be more cost-effective and practical than EAS subsidies for intercity transportation for small communities that may have limited demand for air service due to the proximity of other airports or limited population. This could include potentially more cost-effective bus service to hub airports or on-demand air service on small aircraft, usually called air taxi service. While communities may be concerned about losing existing scheduled air service, assessing multimodal alternatives could maintain access to the aviation system at a lower cost.

Framework for Analysis

The information contained in this analysis is based on the related products below.

Related GAO Products

National Transportation System: Options and Analytical Tools to Strengthen DOT's Approach to Supporting Communities' Access to the System. GAO-09-753. Washington, D.C.: July 17, 2009.

Commercial Aviation: Programs and Options for Providing Air Service to Small Communities. GAO-07-793T. Washington, D.C.: April 25, 2007.

Commercial Aviation: Programs and Options for the Federal Approach to Providing and Improving Air Service to Small Communities. GAO-06-398T. Washington, D.C.: September 14, 2006.

Federal Aviation Administration: Reauthorization Provides Opportunities to Address Key Agency Challenges. GAO-03-653T. Washington, D.C.: April 10, 2003.

Commercial Aviation: Issues Regarding Federal Assistance for Enhancing Air Service to Small Communities. GAO-03-540T. Washington, D.C.: March 11, 2003.

Commercial Aviation: Factors Affecting Efforts to Improve Air Service at Small Community Airports. GAO-03-330. Washington, D.C.: January 17, 2003.

Options to Enhance the Long-Term Viability of the Essential Air Service Program. GAO-02-997R. Washington, D.C. August 30, 2002.

Area Contact

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Improved Design and Management of the Universal Service Fund As It Expands to Support Broadband Could Help Avoid Cost Increases for Consumers

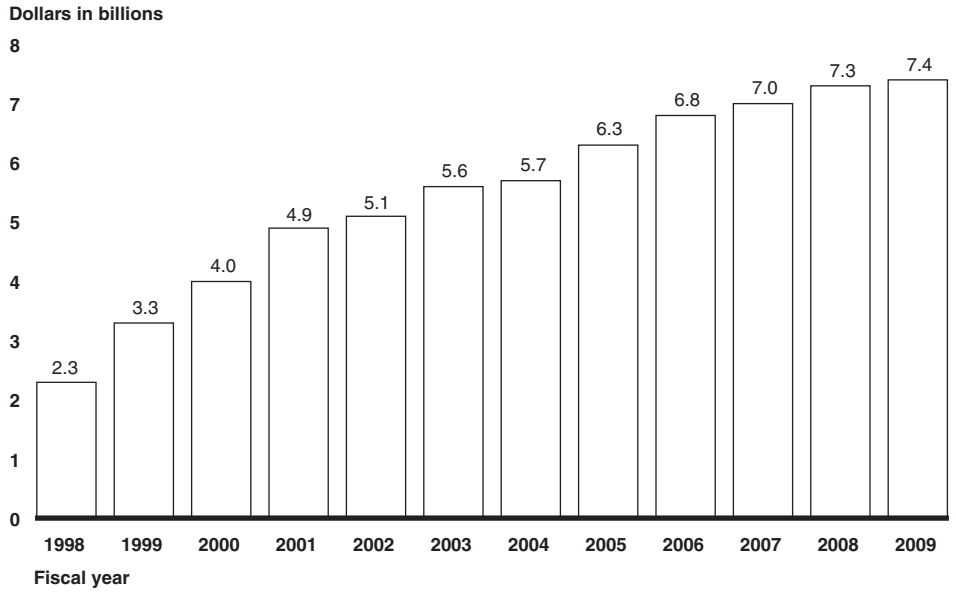
Why GAO Is Focusing on This Area

The policy that Americans should enjoy "universal" access to affordable communications services has existed since the 1930s. In 2009, the nation's Universal Service Fund (Fund), managed by the Federal Communications Commission (FCC), disbursed roughly $7.3 billion to subsidize telephone and other communications services through four programs. The High Cost program subsidizes companies serving rural and high-cost areas. The Low-Income, E-rate, and Rural Health Care programs subsidize telephone bills and communications services for low-income consumers, schools and libraries, and rural health care providers, respectively. The National Broadband Plan, released in March 2010 by an FCC task force, calls for modifying the Fund to support greater deployment of more expensive broadband technologies. Universal Service Fund programs are funded through mandatory payments from companies providing telecommunications services—payments usually passed along to consumers as a line item fee on their telephone bill. Fund disbursements have more than tripled since beginning in 1998. GAO has reported the need for improved management practices in each of the four programs.

What GAO Has Found Indicating Potential for Cost Saving

GAO has examined each of the Fund's programs and concluded that proposals to modify them to support greater deployment of more expensive broadband technologies without re-examining the purpose, design, and management of the programs could increase disbursements from the Fund and the costs borne by consumers. FCC's design of Fund programs, including the High Cost and Low-Income programs having no limits on disbursements, have allowed disbursements to grow significantly over time. For example, due to increased program participation, Low-Income support payments for 2010 are estimated to reach approximately $1.4 billion—a 36 percent single-year increase over 2009. In September 2010, FCC indexed the E-rate program's $2.25 billion annual funding cap to inflation, which will lead to increases in that program's expenditures. Using each program to support greater broadband deployment will further increase the upward pressure on spending.

Total Fiscal Year Disbursements from the Four Universal Service Fund Programs



Source: GAO presentation of FCC data.

In February 2005, GAO raised concerns with the unusual structure that FCC established for the Fund that has caused FCC to struggle over the years with identifying the fiscal and accountability requirements that apply to the Fund. These concerns included the extent to which FCC has delegated some functions to the Universal Service Administrative Company (USAC)—the not-for-profit corporation that FCC appointed as the permanent administrator of the Fund. In response to GAO's concerns that USAC was operating and disbursing funds under less explicit federal ties than many other federal programs, FCC established a memorandum of understanding with USAC in 2007. However, concerns about FCC's design and structure of the Fund remain, including the Fund being outside of Congress' annual appropriations oversight process.

In its management of the Fund, FCC has not undertaken a data-driven approach to overseeing the four programs. For example, GAO found in its November 2010 report on the Rural Health Care program that FCC never conducted a comprehensive needs assessment to learn how the program can best target the telecommunications needs of rural health care providers. Proper needs assessments are crucial to the effective design and assessment of programs. If FCC had obtained data through a needs assessment, it may have been able to articulate a clearer vision for the

program, more accurately ascertain why some rural health care providers do not participate in the program, and better ensure that FCC's programmatic changes achieved the intended results. Using data-based assessments would supplement the information gained through FCC's regulatory procedures and enhance FCC's ability to manage Fund programs.

Finally, GAO has found that FCC lacks performance goals and measures for all four Fund programs. Results-oriented organizations establish a strong foundation for successful program management through setting performance goals to clearly define desired outcomes and developing performance measures that are linked to the program goals. GAO has recommended over the years that FCC establish performance goals and measures for all of the Universal Service Fund programs and FCC has generally agreed with these recommendations. However, FCC has made only partial progress toward implementing performance goals and measures in each of the four programs.

Actions Needed and Potential Savings

The National Broadband Plan recommends shifting Universal Service Fund support from legacy voice technologies to supporting a broadband platform that enables many applications, including voice. However, two of the programs remain uncapped and FCC has not adequately addressed the Fund's continued growth. GAO's work illustrates the need for a broader rethinking of the vision, size, structure, and goals of the Universal Service Fund, coupled with management improvements by FCC that will address GAO's recommendations. For example, FCC conducting comprehensive needs assessments would be a good first step toward designing programs that properly target broadband needs. Establishing clear performance goals and measures for the programs will allow FCC to better determine the proper amount of funding for each program, target the funding to meet the needs of the intended beneficiaries, and conduct needed program evaluations. FCC and USAC have noted they will work together to respond to recent GAO recommendations regarding improving internal controls and other oversight mechanisms. Beyond GAO's previous recommendations, Congress may also wish to give the Fund increased attention since it falls outside of the annual appropriations process. These actions would help ensure stronger governmental accountability over the Fund in the future and help avoid continued cost increases for rate payers.

Framework for Analysis

This analysis is based on the work conducted for the products listed below, as well as a review of the March 2010 National Broadband Plan and FCC's recent proposed rulemakings and orders related to implementation of Universal Service Fund reform.

Related GAO Products

Telecommunications: FCC's Performance Management Weaknesses Could Jeopardize Proposed Reforms of the Rural Health Care Program. GAO-11-27. Washington, D.C.: November 17, 2010.

Telecommunications: Improved Management Can Enhance FCC Decision Making for the Universal Service Fund Low-Income Program. GAO-11-11. Washington, D.C.: October 28, 2010.

Telecommunications: FCC Should Assess the Design of the E-rate Program's Internal Control Structure. GAO-10-908. Washington, D.C.: September 29, 2010.

Telecommunications: Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses. GAO-09-253. Washington, D.C.: March 27, 2009.

Telecommunications: FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program. GAO-08-633. Washington, D.C.: June 13, 2008.

Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program. GAO-05-151. Washington, D.C.: February 9, 2005.

Telecommunications: Federal and State Universal Service Programs and Challenges to Funding. GAO-02-187. Washington, D.C.: February 4, 2002.

Schools and Libraries Program: Actions Taken to Improve Operational Procedures Prior to Committing Funds. GAO/RCED-99-51. Washington, D.C.: March 5, 1999.

Telecommunications: FCC Lacked Authority to Create Corporations to Administer Universal Service Programs. GAO/T-RCED/OGC-98-84. Washington, D.C.: March 31, 1998.

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The Corps of Engineers Should Provide Congress With Project-Level Information on Unobligated Balances

Why GAO Is Focusing on This Area

The U.S. Army Corps of Engineers (Corps) is the world's largest public engineering, design, and construction management agency. The Corps provides vital public engineering services in peace and war to strengthen the nation's security, energize the economy, and reduce risks from disasters.

Congress provides the Corps with "no-year" appropriations—that is, funds that are available for obligation until expended—so funding may be carried over to subsequent fiscal years. For example, if the Corps obligates $40 million of a $50 million appropriation, the $10 million that was not obligated is available for use in subsequent years.

In fiscal year 2010 the Corps' civil works program received about $5.7 billion to plan, construct, operate, and maintain hundreds of water resource projects. However, the budget presentation does not provide information on the amount of unobligated balances that remain available for each project. Such project-level information would help congressional decision makers make appropriations and oversight decisions informed by the availability of existing resources.

What GAO Has Found Indicating Potential for Cost Saving

The budget presentation for the Corps lacks transparency on key elements of the President's budget request. Specifically, it does not include information on how much remains available for specific projects that could potentially offset new funding requests for projects. For example, a Sabine-Neches Waterway project in Texas had about $31 million in unobligated balances from its fiscal year 2009 allocation that remained available to offset its fiscal year 2010 request. Consequently, Congress has not been able to consider the full level of resources available for projects when making its appropriations decisions. Corps review boards routinely review whether projects are meeting financial milestones, so unobligated balance information is available. Although a senior Corps budget official told GAO that detailed project-level information—such as remaining balances—would not be available until after budget materials are submitted to Congress, the Corps would be able to provide timely information before final appropriations decisions are made.

Actions Needed and Potential Savings

To ensure that all relevant information is considered during congressional deliberations, GAO recommended in April 2010—and the Department of Defense agreed—that the Corps provide Congress with information on estimated project-level unobligated balances as a supplement to its budget presentation. GAO expects to follow up at a later date to assess the

implementation of this recommendation. Although GAO cannot quantify the potential savings, this information would enable Congress to consider how much of the previous year's funding remains available to offset new funding requests.

Framework for Analysis

The information contained in this analysis is based on the previously issued report cited below.

Related GAO Product

Army Corps of Engineers: Budget Formulation Process Emphasizes Agencywide Priorities, but Transparency of Budget Presentation Could Be Improved. GAO-10-453. Washington, D.C.: April 2, 2010.

Area Contact

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Ensuring the Federal Government Receives Fair Market Value for Its Oil and Gas Resources Could Enhance Federal Revenues

Why GAO Is Focusing on This Area

The Department of the Interior (Interior) collected approximately $40 billion in oil and gas revenues from company bids for new oil and gas leases, annual rents on existing leases, and royalties paid on oil and gas sold from federal leases in fiscal years 2008 through 2010. Interior's Bureau of Land Management (BLM) manages onshore oil and gas leases, and its Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) manages offshore leases. Interior's Office of Natural Resources and Revenue (ONRR) is responsible for collecting revenues associated with oil and gas produced from onshore and offshore leases.

GAO has reviewed Interior's oil and gas management and revenue collection and found in September 2008 that Interior has not routinely evaluated its federal oil and gas revenue collection system. By not evaluating this system, Interior is unable to state whether current revenue policies ensure that the federal government is receiving a fair return on the production and sale of oil and gas produced from federal leases.

What GAO Has Found Indicating Potential for Enhancing Revenue

Revising Interior's federal oil and gas revenue collection system represents an opportunity to collect substantial additional revenues from the development of federal oil and gas resources. In fiscal year 2010, Interior estimated that increasing both rental rates for non-producing oil and gas leases and onshore oil and gas royalty rates would generate over $1.7 billion over 10 years.

A considerable body of legislation governs Interior's authority and obligations to manage resources on federal lands and within federal waters. For example, under the Outer Continental Shelf Lands Act[1] and the Federal Land Policy and Management Act,[2] Interior must ensure the United States receives fair market value on the development of its oil and gas resources. The federal government receives payment for the development of oil and gas resources on federal lands and waters in potentially three ways. First, to obtain federal leases, companies generally must pay the federal government an amount—called a bonus bid—determined through a competitive auction. Second, after the lease is awarded, companies must pay rent to hold the land. Onshore, for example, the rental rate is generally between $1.50 and $2 per acre per year. Third, after production begins, the companies must accurately measure the oil and gas volumes and pay

[1]Pub. L. No. 83-212, 67 Stat. 462 (1953) (codified as amended at 43 U.S.C. §§ 1331-1356a).

[2]Pub. L. No. 94-579, 90 Stat. 2743 (1976) (codified as amended at 43 U.S.C. §§ 1701-1784).

royalties to Interior based on a percentage of the cash value of oil and gas produced and sold. The royalty rates for onshore leases are generally 12.5 percent, while royalty rates for offshore leases in the Gulf of Mexico generally range from 12.5 percent to 18.75 percent.

In October 2008, GAO reported that Interior does less to encourage development of oil and gas on federal leases than some states and private landowners. Moreover, some of the tools that states and private landowners use may also result in increased revenues. For example, four of the eight states GAO reviewed increase rental rates over time on nonproducing oil and gas leases to (1) encourage faster development of oil and gas resources—on which royalties are due, and (2) increase revenues from nonproducing leases. While Interior officials stated that rental rates for a 10-year onshore federal lease increased from $1.50 per acre per year for the first 5 years to $2 per acre per year for years 6 through 10, states GAO reviewed typically increased rental rates to a greater extent. For example, one state increases the rental rate from $5 per acre per year to $25 per acre per year if the lease is not developed by the end of the third year.

In September 2008, GAO reported that Interior had not conducted a comprehensive evaluation of the oil and gas revenue system in over 25 years and that it did not have a system in place to evaluate whether the federal system is in need of reassessment. At the time, GAO also reported that Interior collected lower levels of revenues for oil and gas production than do some resource owners, including other countries and some U.S. states. For example, GAO reported that federal revenues for oil and gas produced in the Gulf of Mexico were lower than 93 out of 104 resource owners. In addition, the lack of price flexibility in royalty rates—automatic adjustment of these rates to changes in oil and gas prices or other market conditions—and the inability to change fiscal terms on existing leases put pressure on Interior and Congress to change royalty rates in the past on an ad hoc basis with consequences that could amount to billions of dollars of foregone revenue. For example, special lower royalty rates—referred to as royalty relief—granted on leases issued in the deep water areas of the Gulf of Mexico from 1996 to 2000 (a period when oil and gas prices and industry profits were much lower than they are today) could result in $21 billion to $53 billion in lost revenue to the federal government, compared with what it would have received without these provisions. GAO's 2008 User Fee Design Guide also notes the importance of regular fee reviews to determine whether a fee needs to be adjusted. User fees represent a charge to readily identifiable users of a government service or benefit above and beyond what is normally available to the general public. Further, fee reviews can facilitate effective communication and provide

opportunity for stakeholder input. GAO has previously reported that such communication with stakeholders can provide feedback that could affect the outcome of changes in fees and program implementation.

In 2010, GAO issued two reports that found Interior's verification of the volume of oil and gas produced from federal leases—on which royalties are due to the federal government—does not provide reasonable assurance that operators are accurately measuring and reporting these volumes. In March 2010, GAO reported that Interior's measurement regulations and procedures for oil and gas measurement were insufficient for providing reasonable assurance that oil and gas were being measured accurately. As a result, there is a risk that the government is not receiving all the oil and gas royalties it is due. Additionally, GAO reported in October 2010 that Interior's data likely underestimated the amount of natural gas produced on federal leases that is released directly to the atmosphere (vented) or is burned (flared). This vented and flared gas contributes to greenhouse gases and represents lost royalties. It is also important to consider the costs of verification and validation in the context of the benefits likely to be realized. GAO's User Fee Design Guide discusses the importance of striking a balance between ensuring compliance and minimizing the administrative costs of collection.

Interior has begun to address these issues. For example, in January 2007, Interior announced that it was raising the royalty rate for new deep water leases in the Gulf of Mexico from 12.5 percent to 16.7 percent. At that time, Interior estimated that the increased royalty rate of 16.7 percent for new deepwater offshore Gulf of Mexico leases would increase revenue from royalty payments by $4.5 billion over 20 years. Interior also estimated that the increase in royalty rates would decrease the amount companies would bid for the rights to explore for and develop oil and gas on affected leases as well as reduce the amount of oil and gas ultimately produced in affected areas, but that in net, the increase in revenue would be greater than the reductions associated with lower bids and production. Furthermore, in response to GAO's October 2008 report, Interior stated in 2010 that the administration would propose legislation to impose a fee on new nonproducing oil and gas leases to encourage energy development on both onshore and offshore leases. To date, such a fee has not come into effect. However, in an April 12, 2010, press release, Interior stated that it is undertaking a study in response to GAO's September 2008 report, which it expects to complete in 2011. The purpose of the study is to inform decisions about federal lease terms, such as royalties, by consistently comparing the federal oil and gas fiscal systems with such systems of other countries. Specifically, Interior stated that the results of this study

will enable it to ensure that its leasing policies give the public a fair return on federally owned oil and gas resources, while balancing other objectives, including production and environmental quality. The results of the study may reveal the potential for greater revenues to the federal government. Given the significant financial stakes, there may be opposition from the oil and gas industry. Interior may also face significant difficulties designing and implementing an entirely new revenue collection system, given its recent struggles to successfully oversee oil and gas production. Finally, while Interior agreed with the recommendations from both reports issued in 2010 addressing improvements to its oversight of the measurement of oil and gas produced from federal leases, it has not yet implemented these recommendations.

Actions Needed and Potential Revenue

To encourage companies to diligently develop oil and gas leases, ensure that the government obtains a fair return on oil and gas produced from federal leases, and for Interior to have reasonable assurance that oil and gas produced from federal oil and gas leases is being measured accurately:

- Congress may need to take action to authorize or encourage Interior to revise its rental fee structure for nonproducing leases.
- Interior should complete its study examining how other oil and gas resource owners select fiscal parameters for leasing and adjusting oil and gas royalty rates and use that information to adjust, as appropriate, its royalty rates to a level that ensures the government a fair return. In doing so it should ensure opportunities for substantive, two-way communication with program stakeholders.
- Depending on the results of the study, Congress may wish to provide additional guidance or take additional actions to enable Interior to change how it oversees federal lands and waters and the revenues derived from production of oil and gas there.
- Interior should implement GAO's recommendations from prior reports addressing a variety of oil and gas measurement factors.

According to Interior, increasing the rental fee for onshore nonproducing leases to $4 per acre per year would generate $760 million over 10 years. While the total additional revenue generated by adjusting both onshore and offshore royalty rates is uncertain, a 2010 Interior estimate of increasing onshore royalty rates projects additional federal revenues of $1 billion over 10 years.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases. GAO-11-34. Washington, D.C.: October 29, 2010.

Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes. GAO-10-313. Washington, D.C.: March 15, 2010.

Oil and Gas Leasing: Interior Could Do More to Encourage Diligent Development. GAO-09-74. Washington, D.C.: October 3, 2008.

Oil and Gas Royalties: The Federal System for Collecting Oil and Gas Revenues Needs Comprehensive Reassessment. GAO-08-691. Washington, D.C.: September 3, 2008.

Oil and Gas Royalties: Litigation over Royalty Relief Could Cost the Federal Government Billions of Dollars. GAO-08-792R. Washington, D.C.: June 5, 2008.

Federal User Fees: A Design Guide. GAO-08-386SP. Washington, D.C.: May 29, 2008.

Oil and Gas Royalties: A Comparison of the Share of Revenue Received from Oil and Gas Production by the Federal Government and Other Resource Owners. GAO-07-676R. Washington, D.C.: May 1, 2007.

Oil and Gas Royalties: Royalty Relief Will Cost the Government Billions of Dollars but Uncertainty Over Future Energy Prices and Production Levels Make Precise Estimates Impossible at this Time. GAO-07-590R. Washington, D.C.: April 12, 2007.

Area Contact

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Recent Efforts to Address Governmentwide Improper Payments Could Result in Significant Cost Savings

Why GAO Is Focusing on This Area

Reported estimated improper payments governmentwide have steadily increased over the past decade from an estimated $20 billion in 2000 to approximately $125 billion in 2010. An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Reported improper payments also include payments for which insufficient or no documentation was found. GAO's work has demonstrated that improper payments continue to be a long-standing, widespread, and significant problem in the federal government.

What GAO Has Found Indicating Potential for Cost Saving

For fiscal year 2010, about 20 federal agencies reported estimated improper payments for over 70 programs totaling about $125.4 billion, for a governmentwide error rate of about 5.5 percent. According to GAO's analysis of those agencies' fiscal year 2010 Performance and Accountability Reports (PAR) or Agency Financial Reports (AFR), the majority of reported estimated improper payments for fiscal year 2010 is accounted for by the following 10 programs:

Program	Agency	FY 2010 estimated improper payments	Primary cause(s)[a]
Medicare Fee-for-Service	Health and Human Services	$34.3 billion	Medically unnecessary services and insufficient documentation
Medicaid	Health and Human Services	$22.5 billion	Insufficient or no documentation provided for conducting medical review and cases that were either ineligible or their eligibility status could not be determined
Unemployment Insurance	Labor	$17.5 billion	Eligibility errors, errors in handling separation issues, and claimants who have returned to work and continue to claim benefits
Earned Income Tax Credit	Treasury	$16.9 billion	High turnover of eligible claimants, confusion among eligible claimants, complexity of the law, structure of the program, unscrupulous return preparers, and fraud
Medicare Advantage	Health and Human Services	$13.6 billion	Insufficient supporting documentation, and errors in the transfer of data and payment calculations
Supplemental Security Income	Social Security Administration	$4.8 billion	Incorrect computations, misapplication of an income or resource exclusion, and inadequate verification of accounts and wages
Old Age Survivors' and Disability Insurance	Social Security Administration	$3.2 billion	Computation errors; nonverification of earnings, income or work status; and incorrect processing of applications or payments
Supplemental Nutrition Assistance	Agriculture	$2.2 billion	Incomplete or inaccurate reporting of income by participants and incorrect eligibility determination by caseworkers

Program	Agency	FY 2010 estimated improper payments	Primary cause(s)[a]
National School Lunch	Agriculture	$1.5 billion	Verification and authentication errors including inadequate documentation and fraud or misrepresentation by participants
Pell Grants	Education	$1 billion	Verification errors[b]

Source: GAO

[a]As reported by the agencies.

[b]Primary causes were provided by the Department of Education and were not reported in the AFR.

Agencies have made progress in reducing improper payments, and, in some programs, they have reported reducing the rate of improper payments. For example, the Department of Health and Human Services (HHS) reported that the fiscal year 2010 Head Start program's estimated improper payments decreased by $90 million—or 1.3 percent of total program outlays—from the estimated amount reported for fiscal year 2009. HHS reported that it reduced improper payments errors by issuing additional guidance for employees on verifying income eligibility and developing a standard template form to help guide grantees in the enrollment process. In another example, the Department of Agriculture reported reductions from fiscal year 2009 to fiscal year 2010 for seven of its programs, including the Marketing Assistance Loan Program which had a reduction in improper payments of about $50 million—or 1.75 percent of total program outlays. The agency reported actions taken to reduce improper payments, which include providing additional training and instruction on improper payment control procedures, and integrating the employee's individual performance results related to reducing improper payments into annual performance ratings.

Nonetheless, the federal government still faces challenges in determining the full extent to which improper payments occur, and in ensuring appropriate actions are being taken to reduce them. For example, three agencies have not reported on the extent of improper payments for seven risk-susceptible programs with significant amounts of outlays. Most notably, HHS has yet to report a comprehensive improper payment estimate amount for the Medicare Prescription Drug Benefit program, which had about $59 billion in outlays in fiscal year 2010. However, HHS expects to report a comprehensive estimate for this program in fiscal year 2011. In addition, it is not always clear whether agencies are identifying the root cause or the underlying internal control weaknesses that caused the payment error in order to determine the appropriate corrective action.

To help reduce improper payments, the President issued (1) Executive Order 13520, *Reducing Improper Payments*, in November 2009, focused on increasing transparency and accountability for reducing improper payments, and creating incentives to reduce improper payments; (2) a Presidential Memorandum in March 2010 that expands agency efforts to recapture improper overpayments;[1] and (3) a Presidential Memorandum in June 2010, directing that a Do Not Pay List be established to prevent improper payments from being made to ineligible recipients. Moreover, in July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) to enhance reporting and recouping of improper payments. These actions further heightened awareness of the need to reduce improper payments and eliminate waste, fraud, and abuse in federal programs. In addition, the President has set goals, as part of the Accountable Government Initiative, for federal agencies to reduce overall improper payments by $50 billion and recapture at least $2 billion in improper contract payments and overpayments to health providers, by the end of 2012.

Under the Executive Order, the Office of Management and Budget established a Web site (www.paymentaccuracy.gov) to enhance transparency and accountability, and designated 14 high-error programs to focus attention on the programs that significantly contribute to the federal government's improper payments.[2] The Web site contains important information on the programs' senior accountable officials responsible for efforts to reduce improper payments; current, targeted, and historical estimated rates of improper payments; why they occur; and what agencies are doing to reduce and recover them. For example, the Web site reported a current improper payment rate for HHS's Medicare Fee-for-Service program of 10.5 percent for fiscal year 2010 and a reduction target for fiscal year 2013 of 5.8 percent.

[1]Payment recapture audits, also called recovery audits, are conducted to identify and reclaim payments made in error.

[2]The 14 high-error programs designated by the Office of Management and Budget for fiscal year 2010 include: Medicare Fee-for-Service; Medicaid; Unemployment Insurance; Medicare Advantage; Supplemental Security Income; Retirement, Survivors, and Disability Insurance; Supplemental Nutrition Assistance Program; National School Lunch Program; Rental Housing Assistance Programs; Federal-Aid Highway Program, Highway Planning and Construction; Children's Health Insurance Program; Earned Income Tax Credit; High Cost Program of the Universal Service Fund; and Medicare Prescription Drug Benefit. The Children's Health Insurance Program, High Cost Program of the Universal Service Fund, and Medicare Prescription Drug Benefit programs did not report improper payment error rates and amounts for fiscal year 2010.

IPERA established additional requirements related to manager accountability, recovery auditing, compliance and noncompliance determinations and reporting, and an opinion on internal controls over improper payments. For example, IPERA repealed a previous recovery audit requirement and enacted a new, broader requirement for agencies to conduct recovery audits for those programs with at least $1 million in total program outlays, where cost-effective. Final guidance on expanding payment recapture audits is expected to be issued under IPERA implementing guidance, in early 2011.

Actions Needed and Potential Savings

GAO views these efforts as positive steps toward improving transparency over, and reducing, improper payments; however, it is too soon to determine whether the activities called for in Executive Order 13520, the Presidential Memoranda, and IPERA will achieve their goals of reducing improper payments while continuing to ensure that federal programs serve and provide access to intended beneficiaries. Identifying the nature, extent and underlying causes of improper payments is an essential prerequisite to taking action to reduce them. Moreover, corrective actions needed to reduce improper payments vary across specific entities and programs. Until the federal government has implemented effective processes to determine the full extent to which improper payments occur and to reasonably assure that appropriate actions are taken across entities and programs to effectively recover and reduce improper payments, the federal government will not have reasonable assurance that the use of taxpayer funds is adequately safeguarded.

In addition, the level of importance the agencies and the administration place on the efforts to implement the requirements established by IPERA, the Executive Order, and other guidance will be a key factor in determining their overall effectiveness in reducing improper payments and ensuring that federal funds are used efficiently and for their intended purposes. If fully and successfully implemented, the requirements will provide additional transparency, improve oversight and accountability, and should help to reduce the federal government's vulnerability to improper payments in the future. Continuous congressional oversight is key to determining whether these recent efforts are effective in reducing improper payments. Congressional efforts to monitor agencies will be essential to ensure they are taking action to fully implement these legislative requirements to improve accountability, achieve targeted goals, and reduce overall improper payments.

Framework for Analysis

This analysis is based on agency-reported information in their fiscal year 2010 Performance Accountability and Agency Financial Reports, as well as previous GAO reports.

Related GAO Products

Medicare Recovery Audit Contracting: Lessons Learned to Address Improper Payments and Improve Contractor Coordination and Oversight. GAO-10-864T. Washington, D.C.: July 15, 2010.

Medicare Fraud, Waste, and Abuse: Challenges and Strategies for Preventing Improper Payments. GAO-10-844T. Washington, D.C.: June 15, 2010.

U.S. Government Financial Statements: Fiscal Year 2009 Audit Highlights Financial Management Challenges and Unsustainable Long-Term Fiscal Path. GAO-10-483T. Washington, D.C.: April 14, 2010.

Medicare Recovery Audit Contracting: Weaknesses Remain in Addressing Vulnerabilities to Improper Payments, Although Improvements Made to Contractor Oversight. GAO-10-143. Washington, D.C.: March 31, 2010.

Improper Payments: Significant Improvements Needed in DOD's Efforts to Address Improper Payment and Recovery Auditing Requirements. GAO-09-442. Washington, D.C.: July 29, 2009.

Improper Payments: Responses to Posthearing Questions Related to Eliminating Waste and Fraud in Medicare and Medicaid. GAO-09-838R. Washington, D.C.: July 20, 2009.

Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments. GAO-09-628T. Washington, D.C.: April 22, 2009.

Improper Payments: Responses to Posthearing Questions Related to Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements. GAO-08-819R. Washington, D.C.: June 20, 2008.

Improper Payments: Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements. GAO-08-438T. Washington, D.C.: January 31, 2008.

Improper Payments: Federal Executive Branch Agencies' Fiscal Year 2007 Improper Payment Estimate Reporting. GAO-08-377R. Washington, D.C.: January 23, 2008.

Improper Payments: Responses to Posthearing Questions Related to Agencies' Progress in Addressing Improper Payment and Recovery Auditing Requirements. GAO-07-834R. Washington, D.C.: May 30, 2007.

Improper Payments: Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements Continue. GAO-07-635T. Washington, D.C.: March 29, 2007.

Improper Payments: Posthearing Responses on a December 5, 2006, Hearing to Assess the Improper Payments Information Act of 2002. GAO-07-533R. Washington, D.C.: February 27, 2007.

Area Contact

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Promoting Competition for Federal Contracts Can Produce Savings

Why GAO Is Focusing on This Area

Competition is a cornerstone of the federal acquisition system and a critical tool for achieving the best possible return on what has grown to become an annual investment of about $540 billion. The benefits of competition in acquiring goods and services from the private sector are well established. Competitive contracts can save money, improve contractor performance, and promote accountability for results.

Federal agencies generally are required to award contracts competitively, but a substantial amount of federal money is being obligated on noncompetitive contracts annually. Full and open competition, defined as allowing all responsible sources to submit proposals, is the required method for federal agencies to award contracts, unless an exception applies. For example, full and open competition is not required under urgent circumstances, or when the required goods or services are available from only one source. Full and open competition also may not be required for contracts below certain dollar values or some contracts awarded under small business programs, such as the 8(a) small business development program of the Small Business Administration (SBA).

What GAO Has Found Indicating Potential for Cost Saving

Although some agency decisions to forego competition may be justified, GAO has found that when federal agencies decide to open their contracts to competition, they frequently realize savings. For example, the Department of State (State) awarded a noncompetitive contract for installation and maintenance of technical security equipment at U.S. embassies in 2003. In response to a GAO recommendation, State subsequently competed this requirement, and in 2007 it awarded contracts to four small businesses for a total savings of over $218 million. In another case, GAO found in 2006 that the Army had awarded noncompetitive contracts for security guards, but later spent 25 percent less for the same services when the contracts were competed.

Federal agencies obligated approximately $170 billion on noncompetitive contracts in fiscal year 2009 alone. While there has been some fluctuation over the years, the percentage of obligations under noncompetitive contracts recently has been in the range of 31 percent to over 35 percent. GAO reported in July 2010 that circumstances precluding competition included the government's lack of access to a contractor's proprietary data, which may be needed by other contractors in order to compete, or in some cases its reliance on a particular contractor's expertise. In other instances, agencies have used the competition exception allowed for the SBA's section 8(a) business development program, which provides agencies with an easy and fast method to award contracts without using

full and open competition. Congress created the 8(a) program to help small disadvantaged businesses access the federal procurement market and eventually compete successfully in the U.S. economy. But there have been concerns about the lack of competition in the program, such as large, sole-source contracts awarded to 8(a) firms owned by Alaska Native Corporations, which have special advantages in the 8(a) program. In response to those concerns, legislation now requires agencies to provide more scrutiny of noncompetitive contracts over $20 million awarded under SBA's 8(a) program.

Another issue involves the extent of competition actually achieved. Specifically, the government obligates billions of dollars every year on procurements categorized as competitive even though only one offer was received. There is currently no requirement for agencies to assess the reasons why only one offer was received. GAO reported that the government's requirements can influence the number of offers received under competitive solicitations. For example, when existing contracts expire and are opened to competition, the new contract's requirements may be written so restrictively that they are geared toward the holder of the current contract. GAO has recommended that the Office of Federal Procurement Policy (OFPP) determine whether the regulations should be amended to require agencies to evaluate the circumstances leading to only one offer being received and to identify additional steps that can be taken to increase the likelihood that multiple offers will be submitted in the future. The OFPP Administrator agreed with GAO's recommendation.

GAO work also shows that agencies do not always use a competitive process when establishing or using blanket purchase agreements (BPA) under the General Services Administration's schedules program. These are agreements agencies put in place in advance of known requirements, which then may be used to order goods or services quickly when specific needs arise. Agencies have frequently entered into BPAs with just one vendor, even though multiple vendors could satisfy agency needs. And even when agencies entered into BPAs with multiple vendors, GAO has found that agencies have not always held subsequent competitions among those vendors for orders under the BPAs, even though such competitions at the ordering level are required. GAO recommended that OFPP consider amending the regulations to clarify this requirement, and OFPP agreed. By not consistently promoting competition, federal government agencies have not taken advantage of opportunities for significant cost savings.

Actions Needed and Potential Savings

The Office of Management and Budget (OMB), the executive agency that oversees the federal procurement process, has provided additional guidance for agencies to promote competition in contracting, and improve the effectiveness of their competition practices. In July 2009, OMB called for agencies to reduce obligations under new contract actions that are awarded using high-risk contracting authorities by 10 percent in fiscal year 2010. These high-risk contracts include, among other considerations, those that are awarded noncompetitively and those that are structured as competitive but for which only one offer is received. While sufficient data are not yet available to determine whether this goal was met, GAO is currently reviewing the agencies' savings plans to identify steps taken toward that goal, and will continue to monitor the progress agencies make toward achieving this and any subsequent goals set by OMB. Further, OMB has challenged agencies to take immediate action to aggressively seek deeper discounts on BPAs.

In addition to legislation and guidance, promoting competition in contracting to the greatest extent possible requires overcoming conventional thinking. For example, because program officials have an essential role in the acquisition process, it is important that these officials, not just contracting officers, actively promote competition. This means not insisting on retaining incumbent contractors even when competition is possible. Keeping an incumbent contractor in place without competition simply because the contractor is doing a good job, or resisting legitimate suggestions that competition be used even though it may take longer, could result in missed opportunities for savings.

By more consistently promoting competition in contracts, federal agencies would have greater opportunities to take advantage of the effectiveness of the marketplace and potentially achieve billions of dollars in cost savings.

Framework for Analysis

The information contained in this analysis is based on the related products listed below.

Related GAO Products

Federal Contracting: Opportunities Exist to Increase Competition and Assess Reasons When Only One Offer Is Received. GAO-10-833. Washington, D.C.: July 26, 2010.

Recovery Act: Contracting Approaches and Oversight Used by Selected Federal Agencies and States. GAO-10-809. Washington, D.C.: July 10, 2010.

Contract Management: Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements despite Significant Increase in Usage. GAO-09-792. Washington, D.C.: September 9, 2009.

High-Risk Series: An Update. GAO-09-271. Washington, D.C.: January 22, 2009.

Department of State Contract for Security Installation at Embassies. GAO-07-34R. Washington, D.C.: November 8, 2006.

Contract Management: Increased Use of Alaska Native Corporations' Special 8(a) Provisions Calls for Tailored Oversight. GAO-06-399. Washington, D.C.: April 27, 2006.

Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach. GAO-06-284. Washington, D.C.: April 3, 2006.

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Applying Strategic Sourcing Best Practices throughout the Federal Procurement System Could Produce Significant Savings

Why GAO Is Focusing on This Area

Since 2002, spending on federal contracts has more than doubled to about $540 billion in 2009, consuming a significant share of agencies' discretionary budgets. Because procurement at federal departments and agencies generally is decentralized, the federal government is not fully leveraging its aggregate buying power to obtain the most advantageous terms and conditions for its procurements.

In the private sector, however, an approach called strategic sourcing has been used since the 1980s to reduce procurement costs at companies with large supplier bases and high procurement costs. Strategic sourcing is a process sometimes led by a central procurement organization that improves purchasing activities by moving a company away from numerous individual procurements to a broader aggregate approach. Leading companies GAO reviewed in 2002 found they could save billions of dollars and improve the quality of the products and services received by using strategic sourcing.

Bringing about such changes was not easy, but the strategic sourcing best practices of leading companies GAO studied can serve as a framework to guide federal strategic sourcing efforts.

What GAO Has Found Indicating Potential for Cost Saving

The federal government could save billions of dollars annually by leveraging its enormous buying power. Like the federal government, major companies in the private sector rely on products and services from numerous suppliers, and many have struggled with methods to better manage their purchasing. GAO has reported that to reduce costs, improve productivity, and more effectively procure products and services, many companies have adopted a strategic sourcing approach—centralizing and reorganizing their procurement operations to get the best value for the company as a whole. The federal government could do the same and realize significant savings as a result.

The leading companies GAO studied in 2002 made a number of dramatic changes to the way they managed procurement and found that these changes, in turn, resulted in significant cost savings and other improvements. These changes generally began with a corporate decision by top leaders to pursue a strategic procurement approach. This approach involved a range of activities—from developing a better picture of what the company was spending on various types of supplies and services, to taking an enterprisewide approach to procurement, to developing new ways of doing business. Specifically, once top leaders committed to taking a strategic approach, the companies took a hard look at how much they were spending on products and services and from whom. By using this

"spend analysis" to arm themselves with knowledge, the companies identified opportunities to leverage their buying power, reduce costs, and better manage their suppliers. The companies also instituted a series of structural, process, and role changes aimed at moving away from a fragmented procurement process to a more efficient and effective enterprisewide process.

Applying a strategic sourcing approach in the private sector clearly has paid dividends. Studies have reported significant cost savings for some companies of 10 percent to 20 percent of their total procurement costs. For example, GAO identified one 2002 survey of 147 companies in 22 industries that indicated a strategic sourcing approach produced savings of more than $13 billion in the year 2000 alone. Saving even 10 percent of total federal procurement spending would produce more than $50 billion in savings annually.

Since 2005, the Office of Management and Budget (OMB) has encouraged agencies to coordinate their buys through Federal Strategic Sourcing Initiative (FSSI) interagency procurement vehicles[1] awarded by the General Services Administration. In addition, some agencies have awarded agencywide (also referred to as enterprisewide) contracts awarded under strategic sourcing programs within an individual federal department or agency. In July 2010, OMB's congressional testimony on the status of improvements to federal acquisition cited examples of what progress is being achieved under agency strategic sourcing efforts. Under the FSSI effort for example, a team of agencies selected office products in late 2009 as a promising strategic sourcing opportunity to combine buying power for about $250 million in requirements. This office products initiative is expected to reduce costs at these agencies by as much as 20 percent, for a total savings of almost $200 million over the next 4 years. Further, an agencywide initiative at the Department of Homeland Security—which accounted for $14.3 billion in contract spending in 2009—is expected to save $87 million during the next 6 years for a standardized suite of discounted desktop operating systems, e-mail, and office automation products.

[1]The FSSI was launched in 2005 to strategically source across federal agencies and create a strategic sourcing community of practice. The FSSI is led by the General Services Administration, in partnership with the Department of Treasury, with active participation by more than 20 federal agencies. FSSI contracts have been made for office products, domestic delivery services, and wireless device ordering and expense management services.

These results demonstrate the potential to achieve significant savings through the use of strategic sourcing approaches. The starting point for such efforts, however, is having good data on current spending. But according to an April 2010 GAO report, OMB and agencies cannot be sure the government is fully leveraging its buying power because of the lack of comprehensive, reliable data to effectively manage and oversee an important segment of total procurement spending: interagency and agencywide contracts. That is, the total number of and sales volume of these contracts are unknown because the federal government's official procurement database does not fully capture this information. To provide better transparency and a coordinated approach, GAO has recommended that OMB ensure that departments and agencies accurately record these contracts in the procurement data system. The President has called on OMB to issue governmentwide guidance on improving the effectiveness of government acquisition. In response, OMB's 2009 guidance calls on agencies to increase their participation in strategic sourcing initiatives that will leverage federal buying power. Because these types of contracts are now being used as part of the governmentwide strategic sourcing initiative, improved knowledge will help identify additional opportunities for savings and ensure that these contracts are being used in an efficient and effective manner.

Actions Needed and Potential Savings

Acquisition leaders across the government need to more fully embrace the strategic sourcing initiative beginning with collecting, maintaining, and analyzing data on current procurement spending. Then, agencies have to conduct assessments of acquisition and supply chain functions to initiate enterprisewide transformations. Only then will they be able to fully implement strategic sourcing programs that drive immediate and long-term efficiencies.

Framework for Analysis

The information contained in this analysis is based on the related products listed below with updates provided by more recent OMB testimony. GAO determined that the data it used were sufficiently reliable for its purposes.

Related GAO Products

Streamlining Government: Opportunities Exist to Strengthen OMB's Approach to Improving Efficiency. GAO-10-394. Washington, D.C.: May 7, 2010.

Contracting Strategies: Data and Oversight Problems Hamper Opportunities to Leverage Value of Interagency and Enterprisewide Contracts. GAO-10-367. Washington, D.C.: April 29, 2010.

U.S. Postal Service: Purchasing Changes Seem Promising, but Ombudsman Revisions and Continued Oversight Are Needed. GAO-06-190. Washington, D.C.: December 15, 2005.

Amtrak Management: Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability. GAO-06-145. Washington, D.C.: October 4, 2005.

Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization. GAO-05-179. Washington, D.C.: March 29, 2005.

Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement. GAO-04-870. Washington, D.C.: September 16, 2004.

Opportunities for Congressional Oversight and Improved Use of Taxpayer Funds: Budgetary Implications of Selected GAO Work. GAO-04-649. Washington, D.C.: May 7, 2004.

Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition. GAO-03-935. Washington, D.C.: September 10, 2003.

Opportunities for Oversight and Improved Use of Taxpayer Funds: Examples from Selected GAO Work. GAO-03-1006. Washington, D.C.: August 1, 2003.

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings. GAO-03-661. Washington, D.C.: June 9, 2003.

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services. GAO-02-230. Washington, D.C.: January 18, 2002.

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Adherence to New Guidance on Award Fee Contracts Could Improve Agencies' Use of Award Fees and Produce Savings

Why GAO Is Focusing on This Area

GAO has reported that several major agencies spent over $300 billion from fiscal year 2004 through fiscal year 2008 on contracts that included monetary incentives known as award fees. The purpose of these incentives is to motivate enhanced contractor performance. In 2005, however, GAO found that the Department of Defense (DOD) paid billions of dollars in award fees regardless of acquisition outcomes. In 2007, GAO found significant disconnects between program results and fees paid at the National Aeronautics and Space Administration. In 2009, GAO reported that five agencies had paid more than $6 billion in award fees, but were not consistently following award fee guidance and did not have methods for evaluating the effectiveness of an award fee as a tool for improving contractor performance.

What GAO Has Found Indicating Potential for Cost Saving

GAO has identified three primary issues related to the use of award fees that, if addressed, could improve the use of these incentives and produce savings. Specifically, (1) award fees are not always linked to acquisition outcomes, (2) award fee payments are made despite unsatisfactory contract performance, and (3) contractors have been permitted to earn previously unearned award fees in subsequent evaluation periods, a practice known as "rollover," where unearned award fees are transferred from one evaluation period to a subsequent period, thus allowing contractors additional opportunities to earn previously unearned fees. GAO has made recommendations to address these issues, several of which have been reflected in revised Office of Management and Budget (OMB) guidance and in amendments to the Federal Acquisition Regulation, effective October 2010. The key to improving the use of these fees, however, will be whether agencies change their practices to conform to the revised policies.

Although required by OMB guidance since 2007, GAO reported in 2009 that award fees were not always linked to acquisition outcomes. But when efforts are made to do so, savings can be achieved. For example, the Joint Strike Fighter program created metrics for areas such as software performance, warfighter capability, and cost control that were previously assessed using less-defined criteria. By using metrics to assess performance, the Joint Strike Fighter program paid an estimated $29 million less in fees in the 2 years since the policy changed than it might have when applying the former criteria.

As GAO previously reported, OMB guidance directed agencies to ensure that no award fee should be paid for performance that does not meet contract requirements or is judged to be unsatisfactory. GAO found in practice the guidance was not always followed. Specifically, GAO reported

in 2009 that programs across the agencies reviewed used evaluation tools that could allow contractors to earn award fees without performing at a level that is acceptable to the government under the terms of the contract. For example, a Department of Energy research contract allowed the contractor to earn up to 84 percent of the award fee for performance that was defined as not meeting expectations. In addition, GAO found two Department of Health and Human Services contracts, including a contract for Medicare claims processing, in which it was possible for the contractor to receive at least 49 percent of the award fee for unsatisfactory performance. Some programs within DOD, by contrast, have prohibited award fee payments for unsatisfactory performance. For example, GAO found that the Air Force saved $10 million on a contract for a satellite program by not paying an award fee to a contractor with unsatisfactory performance.

DOD guidance on award fees since 2006 has been that the practice of rollover should be limited to exceptional circumstances to avoid compromising the integrity of the award fee process. GAO found that based on contracts reviewed in 2005, DOD rolled over an average of 51 percent of the total unearned fees. For example, the contractor for the F-22 Raptor received over 90 percent of the award fee, including fee paid in subsequent evaluation periods, even though the program's cost and schedule targets had to be revised 14 times. By later limiting rollover, GAO estimated in 2009 that DOD would save over $450 million on 8 programs from April 2006 through October 2010. A DOD Inspector General report in 2010, however, indicates that rollover is still being used. The recent amendments to the Federal Acquisition Regulation now prohibit rollover of unearned award fees.

Actions Needed and Potential Savings

Recent changes to the Federal Acquisition Regulation and practices on award fees are encouraging:

- Amendments to the Federal Acquisition Regulation in 2010 have prohibited the practices of rollover of unearned award fees and awarding fees to contractors that have performed unsatisfactorily. Some agencies are updating and disseminating guidance that could increase the pace and success rate of implementing these new regulations.

- Further, agencies such as DOD are increasing the likelihood that award fees would be better linked to acquisition outcomes by implementing key practices. For example, DOD is implementing a peer review

process for contracts over a certain dollar threshold that includes examining the plan for administering award fees.

- However, sustained progress in the use of award fees will require that contracting agencies adhere to the recent changes to the Federal Acquisition Regulation. Enhanced oversight by OMB and Congress may be useful as well.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Defense Acquisitions: Status of DOD's Implementation of Independent Management Reviews for Services Acquisitions. GAO-10-284. Washington, D.C.: January 28, 2010.

Federal Contracting: Application of OMB Guidance Can Improve Use of Award Fee Contracts. GAO-09-839T. Washington, D.C.: August 3, 2009.

Federal Contracting: Guidance on Award Fees Has Led to Better Practices but Is Not Consistently Applied. GAO-09-630. Washington, D.C.: May 29, 2009.

Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraqi Oil Contract Put Government Interests at Risk. GAO-07-839. Washington, D.C.: July 31, 2007.

NASA Procurement: Use of Award Fees for Achieving Program Outcomes Should Be Improved. GAO-07-58. Washington, D.C.: January 17, 2007.

Defense Acquisitions: DOD Wastes Billions of Dollars through Poorly Structured Incentives. GAO-06-409T. Washington, D.C.: April 5, 2006.

Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes. GAO-06-66. Washington, D.C.: December 19, 2005.

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Agencies Could Realize Cost Savings by Disposal of Unneeded Federal Real Property

Why GAO Is Focusing on This Area

The federal real property portfolio is vast and diverse. In fiscal year 2009, the federal inventory included over 3 billion square feet of building space and over 900,000 assets. The Departments of Defense and Veterans Affairs, the U.S. Postal Service, and General Services Administration (GSA) hold the majority of federally owned and leased space.

The Office of Management and Budget (OMB) is responsible for reviewing agencies' progress on federal real property management and chairs the Federal Real Property Council, which includes representatives from the major property-holding agencies. Congressional committees that provide oversight of this area include the Senate Environment and Public Works, Senate Homeland Security and Governmental Affairs, House Transportation and Infrastructure, House Oversight and Government Reform, and appropriations committees.

GAO designated management of federal real property as a high-risk area in 2003 due to problems with excess and underutilized property, among other things.

What GAO Has Found Indicating Potential for Cost Saving

Many federal agencies hold real property they do not need, including property that is excess or underutilized.[1] Disposing of these properties presents potential governmentwide cost savings by generating sales proceeds, reducing maintenance and operating costs, and avoiding rent costs by ending leases. According to data from the Federal Real Property Profile, a central database, in fiscal year 2009, agencies reported 45,190 underutilized buildings, an increase of 1,830 such buildings from the previous fiscal year. These figures are conservative, as they do not include the U.S. Postal Service, a major property holder that does not report to the Federal Real Property Profile. Excess and underutilized properties present significant potential risks to federal agencies because they are costly to maintain. For example, in fiscal year 2009, agencies reported underutilized buildings accounted for $1.66 billion in annual operating costs. Excess properties also represent a lost opportunity to generate sales revenue for the federal government. Many assets are no longer effectively aligned with, or responsive to, agencies' changing missions. In April 2007 GAO reported

[1]"Excess property" has been determined by the controlling federal agency as not required to meet the agency's needs. "Not utilized property" is property not occupied for the agency's current purposes. "Underutilized property" is property that is used only at irregular periods or is used for purposes that can be satisfied with only a portion of the property.

that technological advances have changed the way the public interacts with the federal government, and this change will have significant implications for the type and location of property needed in the 21st century.

In 2004, Executive Order 13327 established the Federal Real Property Council and required senior real property officers to, among other things, develop and implement an agency asset management plan, identify and categorize all real property owned and leased by their agency, and prioritize actions needed to improve the operational and financial management of the agency's real property inventory.[2] According to OMB officials, a governmentwide initiative started under the executive order focused on disposing of unneeded assets. In a June 2010 Presidential Memorandum to federal agencies, the administration established a new target of saving $3 billion through disposals and other methods by the end of fiscal year 2012. However, federal agencies continue to face obstacles to disposing of unneeded property, such as competing stakeholder interests. For example, the U.S. Postal Service has faced resistance to facility closures and consolidations because of concerns of how these actions might affect jobs, service, and communities as GAO reported in April 2010. Legal and budgetary limitations also have implications for real property decisions. For example, as GAO reported in April 2007, federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs, and in some cases, may exceed the costs of continuing to maintain the excess property in a shut-down status. If the government does not address the issue of excess and underutilized property, the costs to maintain these properties will continue to rise, putting the government at risk for lost dollars and missed opportunities.

Actions Needed and Potential Savings

The recent Presidential Memorandum's targeted $3 billion in savings related to property disposals and other methods represents another step in realigning the federal portfolio to agencies' missions and needs. However, OMB could assist agencies in meeting this target by implementing GAO's April 2007 recommendation of developing an action plan to address key problems associated with disposing of unneeded real property, including

[2]Executive Order 13327 applies to 24 executive branch departments and agencies but not to the U.S. Postal Service, which is an independent establishment in the executive branch.

reducing the effect of competing stakeholder interests on real property decisions. OMB agreed with the recommendation but has yet to fully implement it.

The cost savings for real property disposals are not limited to a one-time savings or income. Once a lease is ended, the government continues to save the rent payments from that property indefinitely. As GAO reported in June 2010, operations and maintenance costs typically represent from 60 percent to 85 percent of the costs of a facility over its lifetime, while design and construction costs represent about 5 percent to 10 percent of these costs. Thus, once the government disposes of an owned property, it avoids costs related to operations and maintenance that would have otherwise continue to accrue, eventually representing approximately 10 times the design and construction costs of the property.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below. In addition, to update existing information on this topic, GAO staff interviewed federal government officials from OMB and real property-holding agencies (Departments of Defense, Homeland Security, Energy, the Interior, State, and Veterans Affairs; U.S. Postal Service; and GSA), and analyzed governmentwide and agency-level real property plans and reports.

Related GAO Products

Federal Real Property: The Government Faces Challenges to Disposing of Unneeded Buildings. GAO-11-370T. Washington, D.C.: February 10, 2011.

Federal Courthouse Construction: Better Planning, Oversight, and Courtroom Sharing Needed to Address Future Costs. GAO-10-417. Washington, D.C.: June 21, 2010.

U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability. GAO-10-455. Washington, D.C.: April 12, 2010.

VA Real Property: VA Emphasizes Enhanced-Use Leases to Manage Its Real Property Portfolio. GAO-09-776T. Washington, D.C.: June 10, 2009.

Federal Real Property: Authorities and Actions Regarding Enhanced Use Leases and Sale of Unneeded Real Property. GAO-09-283R. Washington, D.C.: February 17, 2009.

U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services. GAO-08-41. Washington, D.C.: December 10, 2007.

Federal Real Property: DHS Has Made Progress, but Additional Actions Are Needed to Address Real Property Management and Security Challenges. GAO-07-658. Washington, D.C.: June 22, 2007.

U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation. GAO-07-717. Washington, D.C.: June 21, 2007.

Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform. GAO-07-349. Washington, D.C.: April 13, 2007.

Federal Real Property: Most Public Benefit Conveyances Used as Intended, but Opportunities Exist to Enhance Federal Oversight. GAO-06-511. Washington, D.C.: June 21, 2006.

Federal Real Property: Further Actions Needed to Address Long-standing and Complex Problems. GAO-05-848T. Washington, D.C.: June 22, 2005.

Federal Real Property: Vacant and Underutilized Properties at GSA, VA, and USPS. GAO-03-747. Washington, D.C.: August 19, 2003.

VA Health Care: Improved Planning Needed for Management of Excess Real Property. GAO-03-326. Washington, D.C.: January 29, 2003.

Area Contact

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Improved Cost Analyses Used for Making Federal Facility Ownership and Leasing Decisions Could Lead to Cost Savings Governmentwide

Why GAO Is Focusing on This Area

Federal building ownership is often more cost-effective than leasing to meet long-term space needs, and its increased use could save millions of dollars over the period used. Federal agencies rely extensively on leasing, and leased about 289 million square feet of buildings in 2008. The General Services Administration (GSA), the central leasing agent for most agencies, leases more than 8,000 assets and now leases more space than it owns.

The Office of Management and Budget (OMB) is responsible for reviewing agencies' progress on real property management and chairs the Federal Real Property Council, which includes representatives from major property-holding agencies. Congressional committees that provide oversight of this area include the Senate Committee on Environment and Public Works, Senate Homeland Security and Governmental Affairs, House Transportation and Infrastructure, House Oversight and Government Reform, and appropriations committees.

GAO added managing federal real property to its high-risk list in 2003 due in part to costly leasing.

What GAO Has Found Indicating Potential for Cost Saving

GAO's work over the years has repeatedly shown that building ownership often costs less than operating leases, especially for long-term space needs.

- In December 1989, GAO found that GSA could have saved $12 billion over 30 years by constructing instead of leasing real property in 43 projects.

- In July 1995, GAO found that 55 of 73 GSA proposed operating leases cost $700 million more than construction over 30 years.

- In January 2008, GAO found that decisions to lease selected federal properties were not always driven by cost-effectiveness considerations. Four of seven GSA leases GAO analyzed were more costly than construction by $83.3 million based on 30-year net present value calculations. For example, the decision to lease the Federal Bureau of Investigation's field office in Chicago, Illinois, instead of constructing a building the government would own, was estimated to cost about $40 million more over 30 years. GSA officials stated that limited availability of upfront capital and security considerations, among other reasons, prevented ownership at that time.

While federal ownership is less expensive than leasing in many cases, in certain situations it is not. For example, in 2008, GAO found that for three

of seven GSA leases it analyzed, leasing was less costly than construction by $35 million over 30 years. Agency operational requirements such as immediate space needs, security requirements, or desire for flexibility as well as short-term or small space needs are also situations where leasing is often preferred by agencies and may be economically advantageous over ownership.

Federal budget scorekeeping rules require the full cost of construction to be recorded upfront in the budget, whereas only the annual lease payments plus cancellation costs need to be recorded for operating leases. As a result, leases appear less expensive in any single year when compared to new construction even though they generally are more costly over time. GAO has raised the scorekeeping issue as a challenge that needs to be addressed in several reports and testimonies over the past 20 years. According to GSA officials, constraints on capital funding influence their ability to pursue ownership as a realistic option in many cases. If not addressed, GAO expects continued reliance on leasing at a potentially high cost over the long term.

The Federal Real Property Profile, a real property inventory, is an important tool available to track governmentwide trends on real property management, including leasing. Updated annually, it includes information helpful to measuring overall volume as well as annual operating costs of leased versus owned properties, among other factors.

Actions Needed and Potential Savings

OMB has not yet implemented GAO's recommendation, made in April 2007 and January 2008, to develop a strategy to reduce agencies' reliance on costly leasing where ownership would result in long-term savings. Such a strategy could identify the conditions under which leasing is an acceptable alternative, include an analysis of real property budget scoring issues, and provide an assessment of viable alternatives. This strategy would inform future decision making on this difficult issue. As GAO reported in January 2008, implementation challenges such as obtaining consensus on specific changes to scoring rules are expected. Efforts to resolve the leasing challenge could benefit from input from Federal Real Property Council and stakeholders, including Congress.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below, interviews with federal government officials at OMB and major property holding agencies including GSA, and analysis of governmentwide and agency-level real property plans and reports.

Related GAO Products

Building Security: New Federal Standards Hold Promise, But Could Be Strengthened to Better Protect Leased Space. GAO-10-873. Washington, D.C.: September 22, 2010.

Federal Real Property: An Update on High Risk Issues. GAO-09-801T. Washington, D.C.: July 15, 2009.

Government Printing Office: Issues Faced in Obtaining a New Facility. GAO-09-392R. Washington, D.C.: February 20, 2009.

Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing. GAO-08-197. Washington, D.C.: January 24, 2008.

General Services Administration: Improvements Needed in Managing Delegated Authority of Real Property Activities. GAO-07-1000. Washington, D.C.: September 5, 2007.

Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform. GAO-07-349. Washington, D.C.: April 13, 2007.

GSA Leasing: Initial Implementation of the National Broker Services Contracts Demonstrates Need for Improvements. GAO-07-17. Washington, D.C.: January 31, 2007.

Federal Real Property: NIH Has Improved Its Leasing Process, but Needs to Provide Congress with Information on Some Leases. GAO-06-918. Washington, D.C.: September 8, 2006.

Federal Real Property: Further Actions Needed to Address Long-standing and Complex Problems. GAO-05-848T. Washington, D.C.: June 22, 2005.

General Services Administration: Factors Affecting the Construction and Operating Costs of Federal Buildings. GAO-03-609T. Washington, D.C.: April 2, 2003.

General Services Administration: Opportunities for Cost Savings in the Public Buildings Area. GAO/T-GGD-95-149. Washington, D.C.: July 13, 1995.

Public Buildings: Budget Scorekeeping Prompts Difficult Decisions. GAO/T-AIMD/GGD-94-43. Washington, D.C.: October 28, 1993.

Federal Office Space: Increased Ownership Would Result in Significant Savings. GAO/GGD-90-11. Washington, D.C.: December 22, 1989.

Area Contact

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OMB's IT Dashboard Can Further Help Identify Opportunities to Invest More Efficiently in Information Technology

Why GAO Is Focusing on This Area

Each year the federal government spends billions of dollars on information technology (IT) investments; federal spending on IT has risen to an estimated $79 billion for fiscal year 2011. Over the past several years, GAO has reported and testified on the Office of Management and Budget's (OMB) initiatives to highlight troubled IT projects, justify investments, and use project management tools. Given the importance of transparency, oversight, and management of the government's IT investments, in June 2009 OMB established a public Web site, referred to as the IT Dashboard, that provides detailed information on about 800 investments at 27 federal agencies, including ratings of their performance against cost and schedule targets. The public dissemination of this information is intended to allow OMB; other oversight bodies, including Congress; and the general public to hold agencies accountable for results and performance.

What GAO Has Found Indicating Potential for Cost Saving

In July 2010, GAO reported that OMB's Dashboard had increased transparency and oversight, but that improvements were needed for the Dashboard to more fully realize its potential as a management and cost-savings tool. Specifically, the cost and schedule ratings on the Dashboard were not always accurate for the investments that GAO reviewed. GAO found that four of the eight selected investments had notable discrepancies in either cost or schedule ratings. For example, the Dashboard indicated that one investment had a less-than-5-percent cost variance for every month from July 2009 through January 2010. However, GAO's analysis showed that this investment had a cost performance variance from 10 percent to less than 15 percent in December 2009 through January 2010. In another case, an investment on the Dashboard reported that it has been less than 30 days behind schedule since July 2009. Investment data that GAO examined, however, showed that the investment was behind schedule by 30 days to almost 90 days from September to December 2009.

A primary reason for the data inaccuracies was that while the Dashboard was intended to represent near real-time performance information, the cost and schedule ratings did not take into consideration current performance. As a result, the ratings were based on outdated information. For example, cost ratings for each of the investments were based on data from 2 months to almost 2 years old. Another issue with the ratings stemmed from the wide variation in the number of milestones agencies reported, which was partly because OMB's guidance was too general. Having too many milestones can mask performance problems because the performance of each milestone (dated and recent) was equally averaged into the ratings. This means that investments that performed well during

previously completed milestones can maintain ratings that reflect good performance, even if they begin to perform poorly. Conversely, having too few milestones limits the amount of information available to rate performance, allowing agencies to potentially distort their ratings.

GAO also assessed whether the data on the Dashboard were being used as a tool to improve the management of IT investments. Officials at three of the five agencies in GAO's review stated they were not using the Dashboard to manage their investments because they already had existing means to do so; officials at the other two agencies indicated they were using the Dashboard to supplement their existing management processes. The Federal Chief Information Officer stated that the Dashboard greatly improved oversight capabilities compared to previously used mechanisms and that it has increased the accountability of agencies' chief information officers and established much-needed visibility. OMB officials indicated they had relied on the Dashboard as a management tool, including using investment trend data to identify and address performance issues and to select investments for a TechStat session—a review of selected IT investments between OMB and agency leadership that is led by the Federal Chief Information Officer. According to OMB, as of December 2010, 58 TechStat sessions have been held with federal agencies. Additionally, OMB officials stated that, as a result of these sessions, 11 investments have been reduced in scope and 4 have been cancelled. For example, TechStats on

- the Department of Housing and Urban Development's Transformation Initiative investment resulted in the reduction of projects from 29 to 7 and the limit of fiscal year 2010 funds for these 7 priority projects to $85.7 million (from $138 million); and

- the National Archives and Records Administration's Electronic Records Archives investment resulted in six corrective action steps, including halting fiscal year 2012 development funding pending the completion of a strategic plan.

To better ensure that the Dashboard provides meaningful ratings and accurate investment data, GAO recommended that OMB report on the effect of planned changes to the Dashboard to improve the accuracy of ratings and to provide guidance to agencies to standardize milestone reporting. OMB agreed with these recommendations and initiated work to update the Dashboard to factor the performance of ongoing milestones into cost and schedule ratings.

Finally, GAO has work under way to evaluate the data provided by the Dashboard in order to determine the extent to which agencies may be investing in projects in the same line of business. GAO is also reviewing OMB's current approach to identifying and acting on such duplicative investments.

Actions Needed and Potential Savings

According to the Federal Chief Information Officer, use of the Dashboard as a management and oversight tool has already resulted in a $3 billion budget reduction. OMB's planned improvements to the Dashboard, along with full implementation of GAO's recommendations (as discussed above) and the possible identification of duplicative investments, have the potential to result in further significant savings. Additional opportunities for potential cost savings exist with the use of the Dashboard by executive branch agencies to identify and make decisions about poorly performing investments, as well as its continued use by congressional committees to support critical oversight efforts.

Framework for Analysis

The information above is based on ongoing work on the Dashboard and related GAO products listed below.

Related GAO Products

Information Technology: OMB's Dashboard Has Increased Transparency and Oversight, but Improvements Needed. GAO-10-701. Washington, D.C.: July 16, 2010.

Information Technology: Management and Oversight of Projects Totaling Billions of Dollars Need Attention. GAO-09-624T. Washington, D.C.: April 28, 2009.

Information Technology: OMB and Agencies Need to Improve Planning, Management, and Oversight of Projects Totaling Billions of Dollars. GAO-08-1051T. Washington, D.C.: July 31, 2008.

Information Technology: Further Improvements Needed to Identify and Oversee Poorly Planned and Performing Projects. GAO-07-1211T. Washington, D.C.: September 20, 2007.

Information Technology: Improvements Needed to More Accurately Identify and Better Oversee Risky Projects Totaling Billions of Dollars. GAO-06-1099T. Washington, D.C.: September 7, 2006.

Information Technology: Agencies and OMB Should Strengthen Processes for Identifying and Overseeing High Risk Projects. GAO-06-647. Washington, D.C.: June 15, 2006.

Information Technology: OMB Can Make More Effective Use of Its Investment Reviews. GAO-05-276. Washington, D.C.: April 15, 2005.

Area Contact

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Increasing Electronic Filing of Individual Income Tax Returns Could Reduce IRS's Processing Costs and Ultimately Increase Enforcement Revenue

Why GAO Is Focusing on This Area

The Internal Revenue Service (IRS) received more than 130 million individual income tax returns during the 2010 filing season. The percentage of returns filed electronically has increased from 52 percent in 2005 to 71 percent in 2010. However, in 2010, IRS still processed 40 million tax returns filed on paper—some of which must be filed on paper due to their complexity or required supplemental documentation. Electronic filing benefits taxpayers by reducing processing errors and expediting their refunds. It also benefits IRS because no transcription of tax data is necessary, unlike for returns filed on paper.

What GAO Has Found Indicating Potential for Enhancing Revenue

Increasing electronic filing would reduce IRS's return processing costs and increase revenue by facilitating enforcement. As noted in GAO's December 2010 report, IRS estimated savings of $3.10 per return for returns filed electronically versus paper in fiscal year 2009. Millions of dollars in processing costs could therefore be avoided by encouraging electronic filing. Based on GAO's prior reports from 2007 to 2010, IRS has three opportunities to increase electronic filing of individual income tax returns:

Require tax software identification numbers: As noted in GAO's February 2009 report, having a more complete software identification number would allow IRS to better target its research of ways to promote electronic filing. IRS now requires software identification numbers for returns prepared using software and then printed and submitted on paper, but does not have plans to transcribe this information. More comprehensive information about tax software versions used to prepare both electronically-filed and paper returns would help inform research into how the pricing and attributes of different software products affect taxpayers' willingness to use software and file electronically.

Prevent rejects of electronically filed returns: As noted in GAO's September 2009 report, IRS could also increase electronic filing by working with taxpayers and their representatives to reduce the number of rejected returns. As tax returns are received electronically, IRS begins a series of automated checks to verify basic information (such as Social Security numbers) and then rejects returns containing errors. If a return is rejected, IRS sends an electronic notice with one or more error codes explaining why the return was rejected, and how the error can be corrected and the return resubmitted. However, some codes are very general and cover multiple issues, while others are so narrow that they are rarely used. Frustrated taxpayers may simply print and mail their returns to IRS without making corrections leaving IRS to identify and correct the

errors and process the paper returns, thereby losing the benefits of electronic filing.

Require bar coding: As noted in GAO's November 2007 report, IRS could require that tax software vendors encode relevant information in a bar code that would be embedded on all paper returns printed from tax software and mailed, as several states already do. IRS could then scan the bar code to obtain electronic information such as a taxpayer's Social Security number and address from the return. While not as beneficial as electronic filing, bar coding would still provide efficiencies over data transcription and enable more information to be available electronically. In December 2010, IRS reported that it is reviewing options to enhance current systems with bar code capabilities and developing detailed requirements and timetables.

In keeping with efforts to increase the availability of electronic tax data for enforcement purposes, IRS could also increase the amount of tax data available electronically by increasing the amount of data from paper tax returns it transcribes into its computer databases. Currently, to control data-entry costs, IRS does not transcribe all data from paper tax returns into its computer databases, thus limiting information available electronically for enforcement purposes. As noted in GAO's November 2007 report, transcribing more or all return information, thus having it available electronically, could help IRS target audits on noncompliant taxpayers, avoid burdening compliant taxpayers with unnecessary audits, and make more productive use of IRS's audit resources. For example, in 2007 officials from one of IRS's enforcement programs (Automated Underreporter) estimated that having all tax return information available electronically would increase tax revenue annually by $175 million.

Actions Needed and Potential Revenue

IRS generally agreed with GAO's prior recommendation to require a more complete software identification number, and said that it would do so by the 2010 filing season. IRS has taken some actions such as requiring a software identification number on printed returns but does not plan to transcribe this information. GAO continues to believe that if IRS were to collect more information via expanded software identification numbers on tax returns, such information could support research into how software affects electronic filing. GAO recognizes that there would be some offsetting costs. However, increasing electronic filing could lower total tax return processing costs by switching costly paper filing to more economical electronic filing.

IRS agreed with GAO's prior recommendations to develop a reject prevention strategy, include external stakeholders in its reject working group, develop an action plan for that group, and provide clearer descriptions of why returns are being rejected. IRS has taken significant action to address these recommendations in conjunction with its ongoing research into advancing electronic filing.

IRS agreed with GAO's prior recommendations that it should determine actions needed to require software vendors to include bar codes on printed individual income tax returns and the cost of those actions. While bar coded paper returns are still more expensive to process than electronically filed returns, states that require bar coding of returns report that greater electronic access to return data has allowed them to more easily verify information and improve enforcement. GAO continues to believe that bar coding of printed returns has the potential to reduce processing costs, facilitate access to taxpayer information, and improve compliance. IRS has conducted further research on the burden to IRS and software providers of requiring bar codes on printed returns as part of its ongoing studies to promote electronic filing.

Finally, IRS agreed with GAO's prior recommendation that more comprehensive and easily accessible electronic return information would facilitate enforcement efforts and thus increase revenue collected from noncompliant taxpayers, and IRS is taking steps to study the issue. For example, IRS recently identified options to increase electronic filing, but has yet to define an overall strategy for doing so. As noted above, having more tax return information available electronically could increase revenues by at least hundreds of millions of dollars.

GAO expects to continue assessing IRS's progress in addressing these issues.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below and GAO's work following up on the recommendations from those products.

Related GAO Products

2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others. GAO-11-111. Washington, D.C.: December 16, 2010.

Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season. GAO-09-1026. Washington, D.C.: September 23, 2009.

Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks. GAO-09-297. Washington, D.C.: February 25, 2009.

Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should be Evaluated. GAO-08-38. Washington, D.C.: November 15, 2007.

Area Contact

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Using Return on Investment Information to Better Focus IRS Enforcement Could Increase Tax Compliance and Revenues

Why GAO Is Focusing on This Area

Taxpayers paid more than $2.3 trillion in federal taxes in fiscal year 2009. However, the Internal Revenue Service (IRS) estimates that taxpayers failed to pay an additional $290 billion (based on a 2001 estimate—the most recent available). Experts believe the current tax gap, or the difference between the amount of taxes owed and the amount paid voluntarily and timely, may be larger. IRS seeks to allocate its approximately $12 billion budget over several service and enforcement programs to maximize taxpayer compliance. IRS taxpayer services range from telephone, Web site, and in-person assistance to collaboration with paid tax preparers and tax software companies. Enforcement includes audits, a variety of computerized checks, as well as efforts targeting specific industries or types of taxpayers, such as those with offshore bank accounts. However, IRS has little information about either the relative effectiveness or costs of its service and enforcement programs. IRS has begun to estimate return on investment (ROI), which compares revenues collected as a result of such enforcement actions with the cost of collecting them, but use of ROI has been limited.

What GAO Has Found Indicating Potential for Enhancing Revenue

Increasing IRS's use of ROI and similar information, including developing actual ROI information after an enforcement program is implemented and comparing it to IRS's initial revenue projections, would provide a powerful tool for Congress and other budget decision makers, by identifying both cost savings within IRS and opportunities to cost-effectively reallocate resources to improve compliance and thereby bring in additional revenue for the federal government.

Beginning in fiscal year 2008, IRS has provided ROI information about the projected costs and potential revenues of new enforcement initiatives in its budget justification. For example, in its fiscal year 2011 justification, IRS reported that its proposed new initiatives would cost $237 million and increase revenue collected from noncompliant taxpayers by a projected $2 billion. However, IRS provides projected ROI information for only its new enforcement initiatives—accounting for less than 2 percent of the IRS's fiscal year 2011 budget request. Further, although guidance from the Office of Management and Budget (OMB), GAO, and the Government Performance and Results Act of 1993 suggest the use of ROI information, IRS does not provide projected ROI information for any of its existing enforcement or service programs that would continue to be funded under the budget request. IRS also does not estimate the ROI actually realized by its programs.

Citing GAO's June 2009 ROI recommendation in its fiscal year 2011 committee report, the Senate Committee on Appropriations directed IRS to provide detailed information about actual costs, revenues, and ROI for its new enforcement initiatives. IRS officials have been considering options to collect actual ROI data to compare with projections, however, actual ROI data have as yet to be produced. ROI information is challenging to develop and should be supplemented with information on compliance costs for taxpayers and others. Further, it is difficult to isolate the effects of a particular program on taxpayer compliance and IRS lacks some data needed to make complete ROI estimates. However, even limited ROI information could help identify programs that are not justifying their cost or opportunities to reallocate resources to programs that have larger tax compliance and revenue impact per dollar spent.

Similarly, IRS's fiscal year 2011 budget justification included 24 legislative proposals from the Department of the Treasury aimed at reducing the tax gap and generating nearly $26 billion in additional revenue over the next 10 years. For example, two legislative proposals suggest increased information reporting requirements, which are estimated to result in more than $12 million in revenues, but there were no estimates of the upfront costs of these proposals, such as the cost of purchasing or modernizing information technology or training staff or increased costs to the private sector. OMB guidance suggest that agencies should provide estimates of the implementation costs associated with any proposed legislation in their budget justifications, but IRS has provided no such estimates for its proposals. As a result, it is difficult to determine whether the potential benefits of IRS's legislative proposals are worth the costs, or how long it will take for the agency to recoup any initial investments.

Actions Needed and Potential Revenue

To help Congress and other budget decision makers better determine whether IRS's resources could be reallocated to collect more revenue and identify possible cost savings, and building on earlier recommendations, GAO believes that IRS should continue to increase its use of ROI information. IRS recognizes that this will require additional research to identify the impacts of specific programs including the effect on voluntary compliance by taxpayers. Once actual ROI statistics are developed for programs, and supplemented with compliance cost information, IRS could then compare results across programs. Actual ROI information could also be compared to initial ROI projections for a program to determine whether the anticipated results were actually achieved. The potential for cost savings and increased revenue that could result from more use of ROI information is significant. For example, if more effective utilization of

IRS's existing resources reduced the tax gap by 1 percent, the additional tax revenue would be about $3 billion.

Also, as GAO has previously recommended, IRS should also coordinate with the Department of the Treasury to provide Congress with preliminary cost estimates or descriptions of resource needs for legislative proposals in future budget justifications. Even though many of the 24 legislative proposals IRS submitted to Congress in its fiscal year 2011 budget justification are conceptual—and therefore developing precise cost estimates for them may be difficult—providing approximate costs or other information such as whether the proposal would involve significant systems, staff, or training expenses could help Congress evaluate the proposals. Without such information, Congress is left at a disadvantage when weighing the costs and benefits of competing proposals aimed at increasing the amount of federal tax revenue collected.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below and additional work following up on the recommendations from those products.

Related GAO Products

Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency. GAO-10-687R. Washington, D.C.: May 26, 2010.

Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season. GAO-09-1026. Washington, D.C.: September 23, 2009.

Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request. GAO-09-754. Washington, D.C.: June 3, 2009.

Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season. GAO-08-567. Washington, D.C.: March 13, 2008.

Area Contact

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Better Management of IRS Debt Collection May Reduce Costs and Increase the Amount of Tax Revenue Collected from Individuals

Why GAO Is Focusing on This Area

The Internal Revenue Service (IRS) has recognized that each year individuals do not pay billions of dollars of their acknowledged tax debts, which include tax assessments as well as related penalty and interest charges that build up over the years. It is important for the IRS to pursue collection of unpaid tax debt to help ensure compliance and confidence in the tax system as well as to provide needed revenue for government operations.

IRS has a three-phase strategy for resolving billions of dollars of individuals' unpaid tax debt. The first phase—referred to as the notice phase—involves mailing tax due notices to the taxpayers. The second and third phases—the telephone and in-person contact phases—are more labor intensive and expensive.

Used well, notices can help IRS collect or otherwise resolve many tax debts at relatively low cost while generating significant revenue. IRS generally sends up to four notices to solicit payment before taking other collection steps.

What GAO Has Found Indicating Potential for Enhancing Revenue

The notice phase of IRS's three-phase tax collection approach is the least costly, and achieves billions in results annually but many billions more remain uncollected at the end of the phase. During fiscal year 2008, IRS sent approximately 22 million notices to individuals to try to collect around $129 billion in tax debts that had accumulated over the years. Through the use of notices, IRS obtained full or partial payments of close to $6 billion and moved about $41 billion of unpaid debts to the other, more costly collection phases during fiscal year 2008.

Having clear program objectives linked with performance measures can help agencies identify risks to achieving a program's purpose and, if possible, improve program performance. Given that IRS relies on individual taxpayers to respond to its notices, being clear about what IRS expects and what outcomes are being achieved is especially important in order to gain insights on how to maximize performance.

However, whether the notice phase is achieving optimum results is unclear because of the lack of objectives and performance measures for gauging its effectiveness. IRS has not documented its objectives or developed related measures to indicate how well the notice phase is performing. Nor has IRS documented clear responsibility for reviewing this performance compared to targets. IRS also lacks information on the full costs of collection notices.

To make the best use of collection resources, IRS has developed business rules to dictate actions to be taken on individual tax debts. Based on certain dollar thresholds and other characteristics of individual tax debt cases, the business rules can vary the number and types of notices sent to taxpayers and determine whether unresolved cases will be sent for further collection action or further action will be deferred. However, IRS has not documented the business rules that govern notices sent to individuals. For its major rules, IRS lacks basic information on the rationale when the rules were established, how the rules are to work, and whether the rules work as intended.

Without such information, IRS does not know whether its business rules are working as originally designed or achieve IRS's desired collection results at the least cost. With such controls over the notices sent to individuals that have federal tax debts, IRS would be better able to assure Congress and the taxpayers that it is using this collection phase to the greatest benefit.

Actions Needed and Potential Revenue

As GAO recommended in September 2009, IRS needs to establish objectives and performance measures for the notice phase of its collection process for individual taxpayers as well as management responsibility for reviewing the performance of the notice phase. In addition, IRS needs to better document the business rules and their rationales, and periodically evaluate how well they are working.

IRS has started to implement all of these actions. IRS has made the most progress in assigning responsibility for reviewing performance and documenting rationales for the business rules for some of the frequently issued collection notices. However, IRS must ensure that those with the responsibility for reviewing performance of the collection notice phase use outcome-focused performance measures that are clearly linked to documented objectives. Further, as GAO previously recommended, IRS must ensure that the business rules are not only better documented but are also periodically evaluated on how well they are doing what they were intended to do. GAO expects to evaluate IRS's progress in implementing all these actions.

Better data and a more justifiable basis for sending notices or deciding to implement other enforcement actions will produce better decisions that avoid waste and possibly collect more tax debts sooner. Although data are not now readily available to estimate the revenue to be gained from taking these steps, improved performance in collecting more tax debts sooner

could help reduce the tens of billions of dollars that are annually sent to the two more expensive tax debt collection phases; this amount was about $41 billion for fiscal year 2008.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals. GAO-09-976. Washington, D.C.: September 30, 2009.

Tax Debt Collection: IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts. GAO-08-728. Washington, D.C.: June 13, 2008.

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Broadening IRS's Authority to Correct Simple Tax Return Errors Could Facilitate Correct Tax Payments and Help IRS Avoid Costly, Burdensome Audits

Why GAO Is Focusing on This Area

In 2009, IRS sent out more than 12 million math error notices. Math error notices result from cases of mathematical or other simple tax return errors where Congress has granted the Internal Revenue Service (IRS) math error authority (MEA), or the ability to assess tax or take other actions to correct such errors in limited circumstances. For example, when a taxpayer claims a credit amount exceeding a statutory limit, IRS uses MEA to fix the error during return processing.

For almost a century, Congress has been expanding IRS's MEA on a case-by-case basis. However, because IRS can use MEA only in specifically authorized situations, it has been unable to timely use MEA in several notable instances where substantial numbers of taxpayers made similar easily correctable errors.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS's use of recent additions to MEA have efficiently corrected hundreds of thousands of taxpayer errors and ensured proper payments of tax. For example, in September 2009, GAO suggested that Congress consider providing IRS with additional MEA to help IRS enforce compliance with the First-Time Homebuyer Credit (FTHBC). In November 2009, after learning about compliance problems with this tax credit that froze refunds and prompted civil and criminal investigations, Congress extended MEA to cover certain eligibility requirements for the FTHBC. As of July 2010, more than 3 million taxpayers have made more than $23 billion in FTHBC claims. Broader MEA has given IRS the ability to automatically verify those claims, correct errors where necessary, and deny approximately 350,000 erroneous claims in 2010 alone, thus saving tax revenue and enabling IRS to use resources elsewhere.

Similarly, in 2009, after finding more than $600 million of inappropriately claimed Hope credits for higher education (currently called the American Opportunity tax credit), both GAO and the Treasury Inspector General for Tax Administration suggested that Congress give IRS broader MEA. Specifically, GAO suggested that broader MEA be provided so IRS could use prior years' tax return information to automatically verify taxpayers' compliance with the limit on the number of years the Hope credit can be claimed. In the absence of this authority, IRS relies on audits to ensure compliance. However, audits may not be effective because they are labor-intensive, costly, and often do not yield high revenues. Consequently, IRS does relatively few audits on the millions of credits claimed.

When using MEA, IRS need not follow its standard deficiency procedures, which allow taxpayers an appeal and petition to the Tax Court. Instead,

IRS must only notify the taxpayer that it has identified the error and has made a change. While MEA helps IRS avoid costly audits, which are burdensome to taxpayers, the National Taxpayer Advocate and some in Congress are concerned that not following standard deficiency procedures might undermine taxpayer rights because IRS might use broad authority in situations where it does not know with a high degree of certainty that the taxpayer made an error. However, as discussed below, other steps could be taken to address this concern.

Actions Needed and Potential Revenue

To ensure the proper amount of taxes are paid and help IRS avoid costly, burdensome audits, Congress many want to consider granting IRS broader math error authority, with appropriate safeguards against misuse of that authority, to correct errors during tax return processing. With broader MEA granted by Congress, IRS could take the steps necessary to ensure proper payment of taxes in many situations. Although the amount of increased revenues would depend on the nature of future MEA use, revenue increases could be substantial based on past uses. Such authority could also reduce taxpayers' burdens by giving IRS an alternative to more intrusive enforcement actions. Broader authority could take several forms. For instance, it could be granted for newly created or revised refundable credits. Refundable credits, which provide cash payments to taxpayers irrespective of the amount of their tax liabilities, are growing in popularity, and automatic authority could enable IRS to monitor low-dollar amounts on individual returns that would be too labor intensive and costly to audit. Or, authority could be granted for any situation where IRS could check for obvious noncompliance. Had such authority existed, IRS could have addressed FTHBC compliance issues more quickly.

Controls may be needed to ensure MEA is properly used. For example, as GAO has previously reported, Congress could require IRS to submit a report on each proposed new use of MEA. The report could include how such use would meet Congress's standards or criteria for MEA use. The report could also describe IRS's or the National Taxpayer Advocate's assessment of any potential effect on taxpayer rights. Or, Congress could require a more informal procedure whereby IRS simply notifies a committee, such as the Joint Committee on Taxation, of its proposed MEA use and submits a report after such use is under way.

Authorizing the use of MEA on a broader basis could have several benefits for IRS and taxpayers. It could

- enable IRS to correct all or nearly all returns with types of noncompliance for which IRS identifies with virtual certainty the noncompliance and the needed correction, not just those it can address through other enforcement means;
- be low cost and less intrusive and burdensome to taxpayers than audits;
- ensure that taxpayers who are noncompliant on a particular issue are more often treated alike, that is, that a greater portion of them are brought into compliance, not just those that IRS could otherwise address;
- provide a taxpayer service as it would generally allow noncompliant taxpayers to receive their refunds faster than if IRS had to address the error through some other compliance mechanism, have their returns corrected without penalty and before interest is accrued, and avoid time-consuming interaction with IRS under its other programs for resolving noncompliance;
- help ensure taxpayers receive the tax benefits for which they are eligible by identifying taxpayers underclaiming a tax benefit;
- free up IRS resources to pursue other forms of noncompliance; and
- allow IRS to quickly address provisions arising from new and quickly moving initiatives, such as the American Recovery and Reinvestment Act of 2009, without waiting for new MEA to go through the legislative process.

Framework for Analysis

The information contained in this analysis is based on the related products listed below and additional work following up on the recommendations from those products.

Related GAO Products

Tax Administration: Usage and Selected Analyses of the First-Time Homebuyer Credit. GAO-10-1025R. Washington, D.C.: September 2, 2010.

Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed. GAO-10-349. Washington, D.C.: February 10, 2010.

2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low and Taxpayer Service and Enforcement Could Be Improved. GAO-10-225. Washington, D.C.: December 10, 2009.

First-Time Homebuyer Tax Credit: Taxpayers' Use of the Credit and Implementation and Compliance Challenges. GAO-10-166T. Washington, D.C.: October 22, 2009.

Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season. GAO-09-1026. Washington, D.C.: September 23, 2009.

Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing. GAO-09-146. Washington, D.C.: December 12, 2008.

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Enhancing Mortgage Interest Information Reporting Could Improve Tax Compliance

Why GAO Is Focusing on This Area

The Joint Committee on Taxation estimated that individual taxpayers' deductions of home mortgage interest reduced federal revenue by about $80 billion in 2009. Also, in its most recently completed comprehensive study of individual taxpayer compliance for 2001, the Internal Revenue Service (IRS) found that 12 percent to 14 percent of individual taxpayers deducting mortgage interest misreported deducted amounts. About half of taxpayers underreported the deduction while about half overreported.

Subject to various limitations, taxpayers may deduct interest on home mortgages or mortgage refinancings. Additionally, taxpayers with rental real estate are ordinarily allowed to deduct mortgage interest expenses for their rental properties from their rental income.

Lending institutions and other third parties are required to report to taxpayers and IRS on a Form 1098 Mortgage Interest Statement the amount of mortgage interest taxpayers paid during the year, if more than $600.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS has the opportunity to collect additional information about taxpayers' mortgages to help it determine whether taxpayers are deducting correct amounts of mortgage interest and identify the most productive cases to examine. Requiring expanded information on mortgage interest could also improve voluntary compliance, as taxpayers tend to more accurately report items that third parties report on information returns, such as Form 1098.

Lending institutions are generally required to report on Form 1098 the amounts of mortgage interest taxpayers paid during the year, but the form does not include other items, such as (1) the address of the property secured by the mortgage to which the interest on the form relates, (2) outstanding mortgage debt balances on the property, and (3) an indicator of whether the mortgage interest is for a loan that was refinanced during the current year.

Because a property address is not currently required on Form 1098, IRS cannot use an automated process to determine whether a taxpayer's deducted mortgage interest corresponds to a residence that is eligible for the deduction. For example, IRS cannot automatically determine if addresses reported on Form 1098 match the addresses that taxpayers list on their tax returns. Also, IRS is less able to determine if the interest reported on Form 1098 is for a property used for rental or personal purposes.

Because Form 1098 shows the dollar amount of interest a taxpayer paid in a year but not the mortgage balance, IRS's computer-matching program comparing Form 1098 to tax returns cannot be used by itself to determine whether taxpayers claimed interest on mortgages in excess of the legal limitations. For example, taxpayers generally cannot deduct interest on mortgage debt exceeding $1.1 million. Also, because Form 1098 does not show whether interest paid is from a refinanced mortgage, IRS cannot readily tell whether taxpayers are complying with rules specific to refinancing, such as the rule to amortize certain types of prepaid interest, or points.

Actions Needed and Potential Revenue

To provide additional information that could further IRS efforts to identify taxpayers improperly deducting mortgage interest, GAO recommended in July 2009 that IRS revise Form 1098 to include information on the address of a property securing a mortgage, mortgage balances, and an indicator of whether the mortgage is for a current year refinancing. GAO also recommended, in August 2010, requiring mortgage-secured property addresses to be reported on other forms to help IRS detect taxpayers who fail to pay taxes on certain forgiven mortgage debt. With this additional information, IRS could check for noncompliance through its automated document-matching process, which is generally a less expensive enforcement action than conducting examinations. Additional information would also help IRS better select returns to examine. IRS agreed to study collecting additional information on Form 1098, stating it currently does not have enough data to support revisions. Because IRS has acknowledged it does not have information about taxpayers' mortgage debts to easily detect noncompliance, GAO believes that the recommended revisions to Form 1098 would be cost-effective ways to provide IRS with additional useful information to help it detect noncompliance.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt. GAO-10-997. Washington, D.C.: August 31, 2010.

Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance. GAO-09-769. Washington, D.C.: July 29, 2009.

Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance. GAO-08-956. Washington, D.C.: August 28, 2008.

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More Information on the Types and Uses of Canceled Debt Could Help IRS Limit Revenue Losses on Forgiven Mortgage Debt

Why GAO Is Focusing on This Area

The housing market downturn is resulting in billions of dollars of forgiven mortgage debt. In tax year 2008 (the most current data available), the Internal Revenue Service (IRS) estimates that individual taxpayers excluded $6.4 billion to $11.8 billion in forgiven mortgage debts on principal residences. While most forgiven debt is treated as a financial gain and included in taxable income, forgiven mortgage debt is, according to complex rules, sometimes excluded from taxable income.

Through 2012, taxpayers may exclude forgiven mortgage debts from taxable income if the mortgage proceeds were used to buy, build, or substantially improve a principal residence. Forgiven mortgage amounts used for other purposes, including purchases of vacation or investment properties, would generally still be considered taxable income unless the taxpayer is bankrupt or insolvent.

What GAO Has Found Indicating Potential for Enhancing Revenue

Housing market data show the potential for significant revenue losses from failure to pay taxes on certain forgiven mortgage debt, but IRS is not collecting enough information to assess compliance. Complex rules governing forgiven mortgage debt may lead individual taxpayers to exclude such debt erroneously from taxable income. For example, only forgiven mortgage debts that were used to buy, build, or substantially improve a principal residence may be excluded from taxable income. However, in recent years many taxpayers cashed out equity from their primary residences and used the proceeds for personal consumption or to consolidate other debts—not to buy, build, or improve the home. In addition, taxpayers losing investment or vacation homes through foreclosure are still liable for taxes on forgiven mortgages secured by these properties. Vacation home and investment property purchases are estimated to be well over a quarter of all house purchases in recent years. Despite the financial hardship that leads to forgiven debt, recent housing market analyses suggest that thousands of taxpayers with forgiven mortgage debt not eligible for exclusion (debt forgiven on second homes or investment property) may be able to pay the taxes legally due on such debt.

Current forms used to collect information from lenders and taxpayers on forgiven debts do not provide adequate information for IRS to assess compliance with the mortgage debt forgiveness provision. For example, neither lenders nor taxpayers are required to disclose the address of the secured property—potentially a key source of information for determining whether the property is the taxpayer's principal residence. Also, taxpayers with multiple forgiven debts only need to indicate the types of forgiven debts and the total amount to be excluded from income, but not the

individual amounts of each forgiven debt. Without this information, it is difficult for the IRS to estimate the extent of noncompliance and determine whether additional resources for compliance are needed.

Actions Needed and Potential Revenue

GAO, in its August 2010 report cited the need to obtain better information to determine the revenue losses due to incorrectly excluded mortgage debts, and recommended that IRS modify existing forms to capture more information from taxpayers and lenders about forgiven debt and any securing property. IRS initially agreed with most of GAO's recommendations but, after further analysis, indicated that making changes to the forms would not generate benefits that exceed the costs of doing so. However, GAO continues to believe that without first revising the associated forms, any review of a sample of tax returns using only currently available data risks understating the benefits of additional information reporting. GAO continues to recommend that by taking some relatively low-cost steps, including revising the associated forms, collecting more information from taxpayers and lenders, and using third-party data to determine whether taxpayers are correctly excluding mortgage debt from taxable income, IRS could determine how much additional revenue could be gained from refocusing its enforcement efforts. Since lenders already maintain property address records, reporting this additional information to IRS is not expected to impose significant burdens on lenders. Further, as GAO previously recommended, IRS should also determine if other available data would allow it to identify taxpayers with multiple homes.

The potential for increased revenue from increased IRS enforcement related to forgiven mortgage debt is uncertain because IRS does not know the extent of noncompliance with the complex rules. Nonetheless, given the billions in forgiven mortgage debt annually, if only a small portion of the excluded amount is improperly avoiding taxation, the impact on revenue could be significant.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Tax Administration: Expanded Information Reporting Could Help IRS Address Compliance Challenges with Forgiven Mortgage Debt. GAO-10-997. Washington, D.C.: August 31, 2010.

Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance. GAO-09-769. Washington, D.C.: July 29, 2009.

Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance. GAO-08-956. Washington, D.C.: August 28, 2008.

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Better Information and Outreach Could Help Reduce Revenue Losses Due to Overstated Real Estate Tax Deductions

Why GAO Is Focusing on This Area

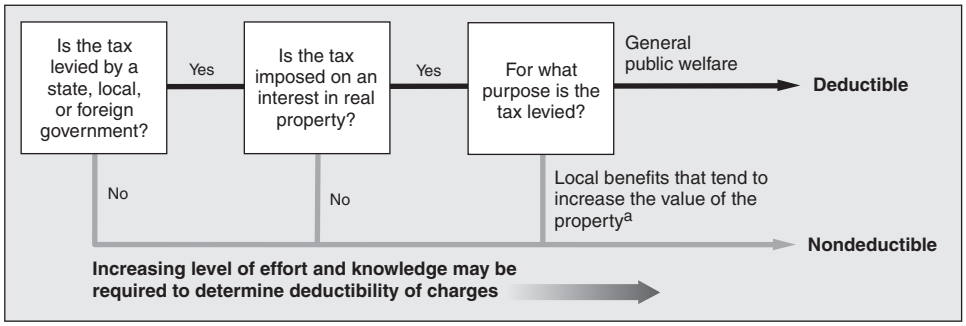
The Internal Revenue Service (IRS) estimated most recently for tax year 2001 that 9 million taxpayers misreported their federal deductions for local real estate taxes paid. Average overstated real estate tax deductions are small—$85 per overstatement in 2001—but the net overstatement, which generally would reduce taxes owed, was about $2.5 billion. IRS has not estimated how much these overstated deductions improperly reduced tax liabilities, but the annual total loss could be substantial.

GAO first reported 17 years ago that taxpayers overstated the real estate tax deduction because real estate tax bills did not distinguish between deductible taxes and nondeductible user fees, and IRS education and enforcement activities were inadequate. GAO conducted a follow-up study in 2009 to determine whether taxpayers were continuing to overstate the deduction.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS can take several steps to help improve individual taxpayer compliance with the itemized deduction for real estate taxes and thus reduce associated revenue losses. Individuals who wish to comply in claiming a real estate tax deduction face challenges. The rules for deductibility can be complex as illustrated below.

Determining What Qualifies As Deductible Is Complex



Source: GAO analysis of Internal Revenue Code provisions.

[a]Charges for the repair or maintenance of local benefits and associated interest are deductible.

GAO estimated in 2009 that almost half of local governments nationwide included charges in 2007 on their real estate tax bills that were generally nondeductible (e.g., fees for trash and garbage pickup). About 78 percent of those local governments did not label such charges in a way that would alert individuals that their real estate tax bill might have nondeductible charges. GAO also estimated that taxpayers in Alameda, California, and

Hennepin, Minnesota, counties[1] collectively overstated their 2006 real estate tax deductions between $23 million and $46 million depending on the assumptions used in the estimation methodology.

Local governments generally do not identify for taxpayers which charges on real estate tax bills are deductible because local collectors lack the expertise to identify which charges are federally deductible. Further, taxpayers with mortgages may receive information on real estate tax payments made on their behalf by mortgage servicers, but it does not identify deductible amounts.

Tax preparation software and assistance from paid return preparers may not be sufficient to help taxpayers deduct qualified real estate taxes. Two of the three most frequently used tax preparation software programs for 2008 did not alert taxpayers that some charges on real estate tax bills may not be deductible.[2] Paid tax return preparers invested limited time ensuring that taxpayers deducted qualified real estate taxes.

IRS instructions and guidance for taxpayers on claiming the real estate tax deduction had explained the types of charges that can be deducted. However, they had not adequately informed taxpayers that they should check both real estate tax bills and local government resources to collect information about specific bill charges, which is needed to determine deductibility.

When IRS examiners do audit the real estate tax deduction they usually do not focus on deductibility because they believe the effort required does not justify the likely small changes to taxes that may be due. Rather, they focus on whether the amounts deducted were actually paid. IRS's guidance to examiners does not require them to verify that the entire real estate tax deduction amount is deductible. Examiners are authorized to review many documents, but most of these documents verify whether payment was made rather than whether all of a payment is deductible.

[1]GAO initially selected 5 of the 41 counties with the largest property revenue for its review based on criteria such as the presence of generally nondeductible items on their tax bills. However, GAO limited its analysis to 2 of the 5 counties due to practical limitations with the data from the counties.

[2]These software firms did make changes to their programs to better inform taxpayers what qualifies as deductible real estate taxes in response to discussions with GAO for its May 2009 report.

Finally, IRS does not know which local governments have large nondeductible charges on their real estate tax bills.

Actions Needed and Potential Revenue

To help individual taxpayers comply in claiming the real estate tax deduction, GAO recommended in May 2009 that IRS instructions and guidance need to be strengthened and spotlight for taxpayers that the real estate tax bill may include nondeductible charges and that taxpayers need to check for such charges. GAO also recommended that IRS provide guidance on how to get information about which charges are nondeductible. IRS took steps in 2009 to improve its guidance in response to the recommendations, but the effects of the changes remain to be seen.

To help individual taxpayers get the best information and assistance from third parties, GAO recommended that IRS reach out to local governments, mortgage servicers, and the tax preparation industry about clarifying information they provide to individual taxpayers on what is deductible, and/or providing alerts and disclaimers about nondeductible charges that are or may be on their real estate tax bill. In response to GAO's recommendations, IRS created a brochure in 2010 for distribution to such third parties with information on what they can do to help clarify for taxpayers what is and is not deductible.

As of December 2010, IRS still needs to take actions on other recommendations included in GAO's May 2009 report. For example:

- To improve IRS examinations of the real estate tax deduction, examination guidance needs to clarify the type of evidence for verifying deductibility and to require examiners to ask taxpayers to substantiate deductions that appear to include nondeductible charges that are large, unusual, or questionable.

- To support targeted efforts to improve compliance, IRS needs to develop a cost-effective means of identifying local governments with potentially large nondeductible charges on their real estate tax bills. IRS then should work with these local governments to identify charges that are nondeductible and work with the localities and other third parties to help taxpayers correctly claim the deduction. IRS should also use the information to target examinations covering the real estate tax deduction.

Although no precise estimate is available of the potential increased revenues these actions might generate, a relatively modest reduction in

total overstated deductions could generate tens or hundreds of millions of dollars annually.[3]

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Real Estate Tax Deduction: Taxpayers Face Challenges in Determining What Qualifies; Better Information Could Improve Compliance. GAO-09-521. Washington, D.C.: May 13, 2009.

Tax Administration: Overstated Real Estate Tax Deductions Need to Be Reduced. GAO/GGD-93-43. Washington, D.C.: January 19, 1993.

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[3]For example, IRS's most recent estimate for 2001 indicated that 5.5 million taxpayers overstated their deductions collectively by $5 billion. A 1-percent to 10-percent reduction in this amount would have reduced overstatements by $50 million to $500 million. The resulting actual tax revenue savings would be much less depending on factors such as the tax rate for these noncompliant taxpayers.

Revisions to Content and Use of Form 1098-T Could Help IRS Enforce Higher Education Requirements and Increase Revenues

Why GAO Is Focusing on This Area

The Internal Revenue Service (IRS) faces challenges ensuring compliance with the eligibility requirements of the Hope and Lifetime Learning tax credits. Millions of taxpayers claim the credits to offset qualified postsecondary education expenses. For fiscal years 2009 through 2013, taxpayers are estimated to claim Hope and Lifetime Learning credits totaling $27 billion and $13 billion respectively. These tax provisions are complicated and may lead taxpayers to claim either more or fewer benefits than they are entitled.

IRS requires educational institutions to report on Form 1098-T information about qualifying educational expenses to taxpayers and IRS. However, the information reported by educational institutions and sent to the IRS and taxpayers (on Form 1098-T) is not easily comprehensible to taxpayers, nor is this information fully used by IRS in its compliance programs.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS does not make full use of information reported by educational institutions to taxpayers and IRS on Form 1098-T to identify and correct noncompliance with higher education tax benefits. In addition, revising the form to provide more complete information on qualified expenses could make it easier for taxpayers to use, which could also reduce noncompliance. IRS requires institutions to report on Form 1098-T either (1) the amount of payments received or (2) the amount billed for qualified expenses. Many institutions report the amount billed and do not report payments, but the amount billed may not equal the amount that can be claimed as a credit. For example, the amount billed may not account for all scholarships or grants the student received. In such cases, the Form 1098-T may overstate the amount that can be claimed as a credit, confusing taxpayers. Conversely, if institutions are not providing information on other eligible items, such as books or equipment, taxpayers might be understating their claims.

Because the amount billed may not be the amount taxpayers are eligible to claim as a credit, IRS does not compare tuition statement information to information reported on a tax return. However, IRS is missing opportunities to use some of the more basic information (for example, a student's Social Security number and a school's location) to verify eligibility for the credit. Using IRS's compliance computer-matching systems to automatically compare information on statements to taxpayers' claims could be a low-cost enforcement tool for IRS to verify certain aspects of taxpayers' eligibility for higher education credits. While changing the requirements for how higher educational institutions report qualified expenses on tuition statements would likely impose some burden

on those institutions, the additional burden could be low because the institutions are already required to complete Form 1098-T.

Actions Needed and Potential Revenue

Given that every year millions of taxpayers claim billions of dollars of credits for post-secondary education tuition expenses, even a small increase in compliance could increase revenue. To reduce taxpayer confusion and enhance compliance with the eligibility requirements for higher education benefits, GAO recommended in December 2009 that IRS (1) determine the feasibility of using current information reported on Form 1098-T in its compliance computer matching systems; and (2) revise Form 1098-T to improve the usefulness of information on qualifying education expenses. IRS agreed to consider the feasibility of using current information on Form 1098-T in its compliance programs, and develop a plan to address possible changes to that form but these actions have yet to be completed. GAO continues to believe these actions are needed since automatically matching readily available information has been a proven, low-cost way to improve compliance.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below and GAO's work following up on the recommendations from that product.

Related GAO Product

2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved. GAO-10-225. Washington, D.C.: December 10, 2009.

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Many Options Could Improve the Tax Compliance of Sole Proprietors and Increase Revenues

Why GAO Is Focusing on This Area

The Internal Revenue Service (IRS) estimates that $68 billion of the $345 billion gross tax gap for 2001 was due to underreporting of federal income tax liabilities by self-employed owners of unincorporated businesses—also known as sole proprietors. An additional part of the tax gap was due to the noncompliance of some sole proprietors with employment tax laws. The federal tax gap is the difference between the amount of income and other federal taxes owed and the amount that is voluntarily and timely paid. The gap arises from taxpayers underreporting taxable income, underpaying known tax liabilities, and not filing required tax returns.

Unlike wage and some investment income, sole proprietors' income is not subject to tax withholding and only a portion is subject to independent verification through third-party information reporting, such as those who pay sole proprietors for services rendered.

What GAO Has Found Indicating Potential for Enhancing Revenue

Because the sole proprietor tax gap is so large, successful efforts to reduce it could result in significant revenue increases. Key reasons for the sole proprietor tax gap are well known. Their income is not subject to withholding, and only a portion of it is subject to third-party information reporting. When used, third-party reports on payments made give IRS a powerful tool for verifying the tax compliance of payment recipients.

A principal IRS compliance program—the Automated Underreporter Program (AUR)—has limited reach over sole proprietors. Under AUR, IRS computers match these third-party reports on payments made to taxpayers with the taxpayer's tax return in order to verify taxpayer compliance in reporting those payments as income. Currently, information reporting covers only about a quarter of sole proprietors' business gross receipts and very little of their expenses because of limited information reporting by third parties. Expanding information returns coverage would require IRS to identify other types of third parties who could file information reports about payments made to sole proprietors without imposing unacceptable burdens.

IRS's other compliance program for a sole proprietor—the examination (audit) program—also has limited reach. Because most of sole proprietors' understated tax was in small amounts—half of the understatements were for about $900 or less—IRS examinations of their tax returns generally have yielded less revenue per IRS staff hour than those covering other categories of taxpayers, such as larger businesses. IRS spent substantial time on sole proprietor examinations in 2008, but examined about only 1 percent of the estimated noncompliant population.

Without either examinations or AUR, IRS can not easily tell whether sole proprietors are reporting legitimate business losses that can be used to offset other taxable income. In a study for tax year 2001 only, IRS estimated that 25 percent of all sole proprietors reported losses with an estimated 70 percent of those losses being fully or partially noncompliant with tax laws. Since examinations of sole proprietor tax returns are costly for IRS, require experienced IRS examiners to conduct, and are burdensome for the businesses, additional options need to be considered to improve sole proprietor tax compliance.

Actions Needed and Potential Revenue

Because of the variety of challenges to addressing the sole proprietor tax gap, there is no single solution. However, a variety of actions are likely to help reduce that tax gap.

GAO recommended in July 2007 that the Department of the Treasury's tax gap strategy cover sole proprietor compliance in detail while coordinating it with broader tax gap reduction efforts. Such a strategy could include a mix of numerous options. These options recognize that some solutions, such as a large increase in audits, are not likely to be cost-effective given the large number of sole proprietors and the relatively small amounts of noncompliance on average. Also, many of the options involve tradeoffs, both for sole proprietors and for IRS. The list of options includes helping:

- sole proprietors keep better records of their income and expenses by, for example, requiring business bank accounts to be separated from personal accounts or targeting tax assistance on new businesses;
- third parties comply with current information return filing requirements by, for example, providing an online portal for submissions or exempting first-time filers from penalties for being late;
- IRS identify more unreported income and more overstated expense deductions through more detailed reporting of gross receipts on tax returns or matching of expense deductions claimed by a business with the information returns filed by the same business;
- IRS collect unpaid taxes from sole proprietors through expanded withholding or denial of federal benefits to delinquent sole proprietors; and
- IRS more efficiently manage its limited resources through more automated audit selection processes, assessing additional data sharing

with states, more targeted use of notices to taxpayers about compliance issues, and clearer policies on when to apply penalties.

Furthermore, as GAO also recommended in September 2009, IRS should use its ongoing research efforts to develop a better understanding of the nature of sole proprietor noncompliance, including sole proprietors improperly claiming business losses. The high rate of noncompliance associated with claims of sole proprietor business losses suggests that limiting the ability of sole proprietors to use losses to offset tax on other income could present another option for reducing the sole proprietor tax gap. However, an indicator to target noncompliant losses without including compliant losses has not been identified. Absent such targeting, any policy change to limit all business losses would inevitably limit some legitimate businesses losses.

IRS has taken actions to implement some of these options. As of January 2011, IRS has initiated, but not completed, studies on: compliance with third-party information reporting requirements, additional data sharing with the states, and identifying the extent of noncompliant sole proprietor losses. These studies are scheduled for completion through 2015. Following completion, IRS will assess the study results and identify whether changes should be recommended and made. GAO expects to assess IRS's progress in completing these actions.

Because sole proprietors are responsible for almost one-fifth of the tax gap, the potential for raising substantial amounts of revenue by taking such incremental actions to improve sole proprietor tax compliance is significant. However, the revenue potential related to any of these actions has not been estimated.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses. GAO-09-815. Washington, D.C.: September 10, 2009.

Tax Compliance: Opportunities Exist to Improve Tax Compliance of Applicants for State Business Licenses. GAO-09-569. Washington, D.C.: June 15, 2009.

Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements. GAO-09-238. Washington, D.C.: January 28, 2009.

Tax Gap: A Strategy for Reducing the Gap Should Include Options for Addressing Sole Proprietor Noncompliance. GAO-07-1014. Washington, D.C.: July 13, 2007.

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IRS Should Do More Evaluation and Use More Third-Party Data to Find Businesses Not Filing Tax Returns

Why GAO Is Focusing on This Area

Historically, the Internal Revenue Service (IRS) has identified several million businesses each year that may have failed to file tax returns—more than it can thoroughly investigate. IRS has had difficulty determining if these businesses that IRS identified are still active and thus required to file a tax return. As a result, IRS has pursued many inactive businesses, which has not been a productive use of its resources. In addition, IRS has had no estimate of the nonfiler population. Given the lack of data, IRS has neither a clear estimate of the revenue loss from businesses not filing required tax returns nor a clear basis for allocating resources to addressing this type of noncompliance.

Recently, IRS has begun to use third-party information about payments between businesses and other available data as indicators of business activity. The intent is to prioritize cases with the most revenue potential, using just the third-party information that IRS already possesses.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS has the potential to increase the revenue it collects from noncompliant taxpayers by increasing the effectiveness of its business nonfiler program, but the efficiency and productivity of IRS's efforts to ensure compliance by business nonfilers have been hampered by a lack of data. IRS cannot develop a comprehensive estimate of the business nonfiling rate and associated revenue loss because it lacks sufficient data on the population of businesses. Absent such an estimate, IRS will have no basis to know what priority to give its business nonfiler program and whether resources should be reallocated from other enforcement efforts.

IRS has not used private sector data that it could obtain to verify taxpayer statements about whether a business is active and a tax return should have been filed. A number of private companies maintain business activity data, such as data on a business's gross sales and number of employees, which could aid IRS in making these determinations. Dun and Bradstreet is one provider of such data. Its databases include information on business name, address, amount of sales, and number of employees. GAO's analysis of Dun and Bradstreet data showed they could be used to identify business activity that IRS was not aware of. For two states, GAO analyzed 2007 data on the businesses that IRS initially identified as potential nonfilers but later determined were not liable to file returns. Of these, GAO found 7,688 businesses where IRS data indicated little or no business activity, but Dun and Bradstreet data showed business activity as measured by sales totaling $4.1 billion.

GAO also performed a similar analysis using data on federal contractors. GAO found 13,852 businesses listed on the federal contractor registry—indicating likely business activity—even though IRS had determined they had no filing obligation. GAO did not determine which non-IRS data would be most useful nor did it examine the capacity of IRS's systems to use such data on a large scale.

Until recently IRS also has not had a way to prioritize cases in its inventory. IRS modernized its business nonfiler program in 2009 by incorporating income and other data in its records indicating business activity. Active businesses, for example those with sales or employees, generally have an obligation to file a return. IRS's Business Master File Case Creation Nonfiler Identification Process now assigns each case a code based on these data. IRS uses the code to select cases to work with the goal of securing tax returns from nonfilers and collecting additional revenue. This is a significant modernization, but IRS lacks a formal plan to evaluate how well the codes are working. Absent evaluation, IRS will not know to what extent the initiative is successful and whether it has resulted in a better allocation of enforcement resources.

Actions Needed and Potential Revenue

While potentially significant, the revenue gains that may be available through IRS actions to identify and pursue more business nonfilers cannot be quantified due to the lack of data on the size of the business nonfiler problem and the effectiveness of IRS's new process. As GAO recommended in its August 2010 report, to better allocate and use its enforcement resources, IRS should develop at least a partial estimate for the business nonfiler rate based on its existing inventory of cases. In addition, IRS should

- set a deadline for developing performance data on its business nonfiler efforts;
- develop a plan for evaluating its new initiative including codes for selecting nonfiler cases to pursue;
- better use income data and selection codes in verifying taxpayer statements about their filing requirements; and
- study the feasibility and cost-effectiveness of using non-IRS, private data to verify taxpayer statements.

IRS has agreed to start reviewing or implementing these actions. As of December 2010, IRS has laid out planned implementation steps up through January 2013. The scope of GAO's recent work did not extend to analyzing IRS's capability to meet these implementation plans. The potential revenue significance merits GAO tracking of IRS's progress over the next few years.

Framework for Analysis

The information contained in this analysis is based on the related GAO product below.

Related GAO Product

Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data. GAO-10-950. Washington, D.C.: August 31, 2010.

Area Contact

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Congress and IRS Can Help S Corporations and Their Shareholders Be More Tax Compliant

Why GAO Is Focusing on This Area

The number of S corporations—corporations with no more than 100 shareholders that meet certain other requirements—has grown steadily in recent years, reaching around 4 million with over $400 billion in total net income. S corporation status provides liability protection to shareholders.

S corporations' income gains and losses "pass through" to shareholders who are to report these passed-through amounts on their individual income tax returns. Shareholders are allowed to claim S corporation pass-through losses up to the amount of their basis in an S corporation (value of their investment). Shareholders are to track basis changes, which can arise from their actions, like new investments in the corporation, or S corporation actions, like reinvesting profits.

S corporations can pay shareholders wages and make nonwage distributions, like dividends, but employment taxation only applies to the wages. The Internal Revenue Service (IRS) requires S corporations to pay reasonable wages to shareholders who perform services, and if they do not, employment taxes can be improperly avoided.

What GAO Has Found Indicating Potential for Enhancing Revenue

According to IRS's most recent research, for tax years 2003 and 2004, 68 percent of S corporation returns misreported net income. As a result, S corporations passed through an estimated $85 billion less taxable income to their shareholders than should have occurred. IRS's research did not cover how the shareholders treated this misreported S corporation income on their individual tax returns. However, applying the lowest individual income tax rate of 10 percent to this S corporation misreported amount suggests that S corporation shareholders could have underpaid their income taxes by $8.5 billion over those 2 years. IRS does not know the reasons for this misreporting, which could be intentional attempts to improperly lower tax liability for individual shareholders or unintentional errors due to confusion over what to report.

Shareholders of S corporations are required to track their basis, but have made mistakes in that area. For fiscal years 2006 through 2008, IRS examiners found that shareholders, on average, claimed about $21,600 in losses that exceeded their basis in the S corporation. These overclaimed losses could reduce taxes on the taxpayers' other income. IRS views basis as a common issue on shareholder returns. In particular, shareholders of new S corporations are less likely to understand the requirement to track and calculate basis. One factor contributing to basis noncompliance is that S corporations are not required to calculate shareholder basis and report it to shareholders and IRS, even though S corporations have information that

shareholders could use to calculate basis. In addition, IRS does not send new S corporations and their shareholders information alerting them to the necessary record-keeping requirements

Unlike other businesses, S corporations can improperly lower employment tax liabilities by paying shareholders who perform services less in wages and more through other means, like profit distributions. For tax years 2003 and 2004, IRS estimated that 13 percent of S corporations underpaid a net of $23.6 billion in wages. To illustrate the potential loss of revenue to the government, applying the maximum Federal Insurance Contributions Act tax rate of 15.3 percent to the net underpayment amount roughly equates to $3 billion in employment tax losses. The vagueness of federal tax law as well as IRS and Department of the Treasury guidance on determining adequate shareholder wages make employment tax evasion difficult to control. Nearly all of the stakeholder representatives GAO interviewed indicated that having clear and specific IRS guidance would be helpful for taxpayers and preparers. IRS has some training materials for its examiners that go beyond published guidance, but those materials are not available for S corporations.

IRS examinations of S corporations' wage payments could be more effective. In the sample that GAO reviewed, when IRS examiners used tools like Bureau of Labor Statistics data on compensation, they tended to more frequently identify underpayment of wage income. IRS does not require use of such tools nor does IRS require its examiners to document the analysis done to support their compensation determinations or why an analysis was not done.

Paid preparers had little impact on S corporation compliance as the overall misreporting rate was about the same whether or not an S corporation used a paid preparer. Some stakeholders GAO interviewed thought some preparers lacked the expertise needed to address S corporation tax issues. IRS has begun regulating all paid tax return preparers and could begin requiring preparers to pass competency examinations. This may be a way to improve preparers' ability to adequately handle S corporation returns.

Actions Needed and Potential Revenue

As GAO reported in December 2009, to improve basis compliance, Congress could require S corporations to use information already available to them to calculate shareholders' basis as completely as possible and report it to shareholders and IRS.

Furthermore, GAO recommended in December 2009 that IRS require examiners to document their compensation analyses and their use of comparable salary data when determining adequate shareholder compensation. IRS took steps by publishing an article in August 2010 reminding examiners of the importance of addressing adequate shareholder compensation and the need to document such analysis.

As of December 2010, IRS is considering or taking action on other recommendations included in GAO's December 2009 report, but none of them have been implemented. GAO recommended that IRS should evaluate options for improving paid tax return preparer performance, send additional guidance on S corporation requirements such as on basis calculations and adequate wage determinations to new S corporations, and provide more guidance to shareholders and tax preparers on determining adequate shareholder compensation. The effect of implementations should be improved tax compliance by S corporations and their shareholders. Although an estimate of potential revenue increases from improved compliance is not available, a small decrease in the billions of dollars of income and wage underreporting could increase tax revenues by hundreds of millions of dollars each year.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules. GAO-10-195. Washington, D.C.: December 15, 2009.

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IRS Needs an Agencywide Approach for Addressing Tax Evasion by Networks of Businesses and Related Entities

Why GAO Is Focusing on This Area

At least 1 million networks involving partnerships, trusts, corporations, and similar entities existed in the United States in tax year 2008. These networks can serve a variety of legitimate business purposes. However, transactions made among related entities within networks also can be used in tax evasion schemes to hide taxable income or shift expenses. Such schemes—such as the one described in the text box below—result in lost tax revenue and are difficult for the Internal Revenue Service (IRS) to identify, due to data limitations.

IRS recognizes the risk from network-related tax evasion and is developing new tools and programs to better identify such evasion. These IRS efforts are in various stages of development, but their potential effectiveness in terms of cost savings or added revenue, is not known. However, GAO has identified the need for additional efforts to strengthen enforcement in the networks area and to assess progress.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS knows that many questionable tax shelters and abusive transactions rely on the links among commonly owned entities in a network, but it does not have estimates of the associated revenue loss in part because data do not exist on the population of networks. IRS generally addresses network-related tax evasion through its examination (audit) programs. These programs traditionally involve identifying a single return from a single tax year and routing the return to the IRS division that specializes in auditing that type of return. From a single return, examiners may branch out to review other entities if information on the original return appears suspicious. However, this traditional approach does not align well with how network tax evasion schemes work. Such schemes can cross multiple IRS divisions or require time and expertise that IRS may not have allocated at the start of an examination. A case of network tax evasion also may not be evident without looking at multiple tax years.

Network Scheme Example: Installment Sale Bogus Optional Basis Transaction (iBOB)

An iBOB is an example of a network-related tax evasion scheme that shows how networks pose enforcement challenges for IRS. In an iBOB, a taxpayer uses multiple entities, all owned or controlled by the taxpayer, to artificially adjust the basis of an asset to evade capital gains taxes. The scheme can involve multiple transactions and take place over many tax years, making it difficult for IRS to detect. A short video illustrating the iBOB is available at http://www.gao.gov/products/GAO-10-968.

IRS is developing programs and tools that more directly address network tax evasion. One, called Global High Wealth Industry, selects certain high-income individuals and examines their network of entities as a whole to look for tax evasion. Another, yK-1, is a computerized visualization tool that shows the links between entities in a network. These efforts show promise. They represent new analytical approaches, have upper-management support, and cut across divisions and database boundaries. However, there are opportunities for more progress. For example, IRS has no agencywide strategy or goals for coordinating its network efforts. A strategy would include assessing of IRS's network tools and determining the value of incorporating more data into its network programs and tools—neither of which IRS has done. Without a strategy and assessments, IRS risks duplicating efforts and managers will not have information about the effectiveness of the new programs and tools that could inform resource allocation decisions.

Actions Needed and Potential Revenue

GAO recommended in its September 2010 report that IRS create an agencywide strategy with goals to coordinate and plan its enforcement efforts on network tax evasion. The strategy should include assessing the effectiveness of network analysis tools to ensure that resources are being devoted to those that provide the largest return on investment; determining whether to increase access to IRS data or collect new data for network analysis; developing network analysis tools on a specific time schedule; and deciding how to manage network efforts across IRS. IRS should ensure that its staff understand the network tools and establish formal ways for users to interact with tool programmers and analysts to ensure that the network tools are easy to use and achieve goals. IRS agreed with GAO's recommendations and said it would make plans to take actions on them but it is too early to determine IRS's progress.

Estimates are not available on the potential for increased tax revenues because IRS has not measured the potential impact of its network efforts on reducing tax noncompliance due to data limitations, but these efforts have significant potential, based on the number of networks that exist.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

Tax Gap: IRS Could Improve Efforts to Address Tax Evasion by Networks of Business and Related Entities. GAO-10-968. Washington, D.C.: September 24, 2010.

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Opportunities Exist to Improve the Targeting of the Research Tax Credit and Make It More Cost-Effective

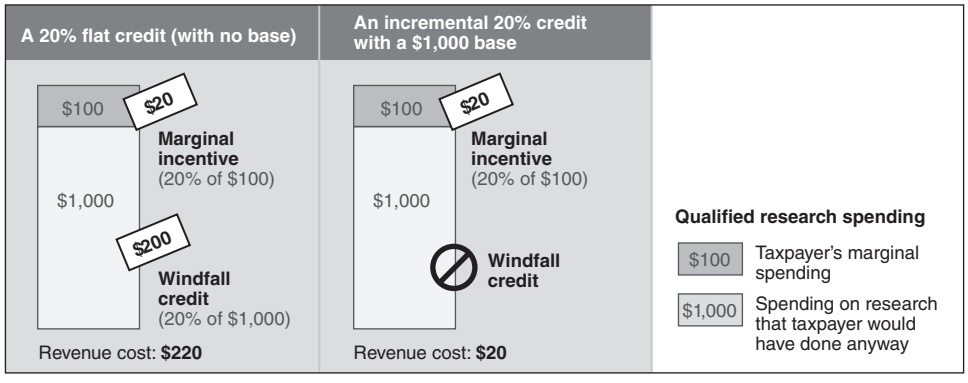
Why GAO Is Focusing on This Area

Since 1981, the research tax credit has provided significant subsidies (an estimated $6 billion for fiscal year 2011) to encourage business to invest in research and development. The credit, which has been a temporary provision since its inception, was most recently renewed at the end of 2010 and is scheduled to expire after December 31, 2011. The Department of the Treasury and the Internal Revenue Service play key roles in issuing guidance to clarify what types of spending qualify and ensuring that taxpayers adequately support their credit claims.

Two factors—the definition of research expenses that qualify for the credit and the credit's design—are important in targeting the subsidy in a manner that increases the social benefits stimulated per dollar of tax revenue foregone. (This ratio of benefits to forgone revenue is a key measure of credit's cost-effectiveness.) The research credit has always been an incremental subsidy, meaning that taxpayers earn the credit only for qualified spending that exceeds a defined threshold, known as the base spending amount. The credit's design is most cost-effective when the base spending amount accurately reflects the amount of spending that a taxpayer would have done anyway (in the absence of the credit).

The figure below compares the effects of a hypothetical incremental credit with a perfectly accurate base to a flat credit, which has no base spending amount. The flat credit gives the taxpayer 20 cents for every research dollar spent, while the incremental credit gives 20 percent for only the amount of spending above what the taxpayer would have done anyway.

A Comparison of an Incremental Credit with a Flat Credit



Source: GAO.

Both types of tax credit provide the same 20 percent reward for each additional dollar of qualified spending (referred to as "marginal incentive"). In each case that incentive encourages the taxpayer to increase spending for research by $100. However, the flat credit is less cost-effective for the government because it also gives the taxpayer a $200 windfall for conducting research that would have been done anyway.

The difficulty in designing an incremental credit to be as cost-effective as the one in the figure is to develop rules for computing the base spending amount so that the base accurately represents what the taxpayer would have spent anyway. GAO testified as early as 1995 that the computation method in place at that time had grown inaccurate and should be updated. An alternative approach for computing base spending (the alternative simplified credit) has been added but, the older computation option—commonly known as the regular credit—still has not been updated.

What GAO Has Found Indicating Potential Cost Saving

The research tax credit, as currently designed, distributes incentives unevenly across taxpayers and provides many recipients with windfall benefits, earned for spending that they would have done anyway. The disparities in incentives can lead to an inefficient allocation of investment resources across businesses and the windfall benefits represent foregone tax revenue that does not contribute to the credit's objective.

In November 2009 GAO estimated that, due to shortcomings in the computation of base spending, the research tax credit has provided some taxpayers with more than a 10 percent reduction in the cost of additional research, while providing other research-performing taxpayers with a disincentive to increase their research in the current year. Moreover, some taxpayers earned credits on as much as 50 percent of their total research spending, even though the most favorable empirical estimates of the credit's stimulative effects suggest that less than 15 percent of that spending was actually new spending that they would not have done in the absence of the credit.

An important cause of these problems is that, as GAO has previously reported, the base spending amount for the regular version of the credit is extrapolated from the amount of research spending that taxpayers did as long ago as the early 1980s. That base is a poor measure of the spending that a taxpayer would be doing now in the absence of the credit. The alternative credit option uses a more current spending history for computing the incremental credit, but it provides lower incentives for new

research, even as some taxpayers can receive larger windfalls than they would get from the regular credit.[1]

Actions Needed and Potential Savings

Based on analyses of numerous design alternatives in its 2009 study, GAO found that the targeting of the research tax credit could be improved by eliminating the regular credit and adding a minimum base amount (equal to 50 percent of a taxpayer's current spending) to the method for computing the alternative credit. GAO found that an alternative simplified credit with this modification could provide the same average incentive to taxpayers as the current version of that credit, but at a lower revenue cost by reducing windfalls. Cost reductions exceeded 3 percent under most of the alternative assumptions GAO used in its 2009 analyses and exceeded 1.4 percent under all assumptions that GAO considered likely.

The elimination of the regular credit not only would improve targeting, it would also significantly reduce compliance and administrative costs by eliminating the need for taxpayers to keep (and for IRS to review) records dating back to the 1980s.

Framework for Analysis

The information contained in this analysis is based on the related products below.

Related GAO Products

Tax Policy: The Research Tax Credit's Design and Administration Can Be Improved. GAO-10-136. Washington, D.C.: November 6, 2009.

Tax Policy: Additional Information on the Research Tax Credit. GAO/T-GGD-95-161. Washington, D.C.: May 10, 1995.

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[1]As the figure comparing basic hypothetical credit designs above illustrates, the rate of incentive and the amount of windfall a credit provides are independent of each other.

Converting the New Markets Tax Credit to a Grant Program May Increase Program Efficiency and Reduce the Overall Cost of the Program

Why GAO Is Focusing on This Area

Federal tax revenue losses for the New Markets Tax Credit (NMTC) were over $700 million for 2010 according to the Department of the Treasury. Congress enacted the NMTC in 2000 as part of an ongoing effort to revitalize impoverished, low-income communities. The Treasury Department's Community Development Financial Institutions (CDFI) Fund awards tax credits to Community Development Entities (CDE), who sell the credits to investors to raise funds. Investors can claim a tax credit over 7 years totaling 39 percent of their investment in a CDE. Through fiscal year 2008, CDE reported investing about $12 billion in 2,111 projects located in all 50 states, the District of Columbia, and Puerto Rico. In December 2010, Congress extended the NMTC for tax year 2010 and 2011. However, the complexity of NMTC transaction structures appears to make it difficult to complete smaller projects and often results in less equity ending up in low-income community businesses—the beneficiaries of NMTC financing—than would be the case if the program were simplified.

An alternative to the NMTC could be the use of a grant program, recognizing that Congress has turned to grant programs in similar cases. Such grants would eliminate the program's dependence on the market for tax credits and could reduce transaction costs.

What GAO Has Found Indicating Potential for Cost Saving and Increasing Revenue

Replacing the tax credit with a grant likely would increase the equity that could be placed in low-income businesses and make the federal subsidy more cost-effective. When CDE sell credits to investors to raise additional funds, the price investors pay for the credits reflects market conditions and the investors' attitudes toward risk. According to CDE representatives GAO interviewed in 2009, when the demand for NMTCs was highest, before the housing market collapse and 2008 credit crisis, the tax credits sold for $0.75 to $0.80 per dollar. Therefore, the federal subsidy intended to assist low-income businesses was reduced by 20 percent to 25 percent before any funds were made available to CDE. Representatives from CDE GAO interviewed also noted that with low demand for the tax credits, as was the case when GAO conducted its work during 2009, the credits generally sold for about $0.65 to $0.70 and have sold for as little as $0.50 or less. After accounting for CDE and other third-party fees, such as asset management and legal fees, about 50 percent to 65 percent of the federal subsidy generally reaches low-income businesses.

In a grant program, these up-front reductions in the federal subsidy could be largely avoided. If the grant program is well designed and at least as effective as the credit in attracting private investment, it could save a

significant portion of the estimated $3.8 billion five-year revenue cost of the current program.

Congress has turned to grant programs in other cases where tax credits had formerly been used. For example, to fill funding gaps in Low-Income Housing Tax Credit projects, under the American Recovery and Reinvestment Act of 2009, Congress offered the option of allowing state housing finance agencies to exchange Low-Income Housing Tax Credits for federal grants to subsidize low-income rental housing.

However, CDFI officials were concerned that a grant may not channel a greater portion of the federal subsidy to intended recipients than the tax credit and a grant program could have administrative costs or other effects that would reduce its desirability.

Actions Needed and Potential Savings and Revenue

As stated in its January 2010 report, GAO continues to believe that Congress should consider offering grants in lieu of credits to CDE if it extends the program again. Doing so would help ensure that the maximum amount of capital ends up in low-income community businesses. If it does so, Congress should require Treasury to gather appropriate data to assess whether and to what extent the grant program increases the amount of federal subsidy provided to low-income community businesses compared to the NMTC; how costs for administering the program incurred by the CDFI Fund, CDE, and investors would change; and whether the grant program otherwise affects the success of efforts to assist low-income communities. One option would be for Congress to set aside a portion of funds to be used as grants and a portion to be used as tax credit allocation authority under the current structure of the program to facilitate comparison of the two program structures. Such a study could help resolve uncertainties about the relative effectiveness of grants and the tax credit in promoting economic development. Although eliminating the tax credit would increase federal revenues, replacing the NMTC with a grant would introduce outlay costs. However, given that the federal subsidy to low-income community businesses was reduced by 20 percent to 25 percent up front even when the price paid by investors to claim NMTC was at its highest and transaction costs due to the credit's structure can be substantial, the grant could result in a similar amount of investment in low-income communities at a lower overall cost to the federal government.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified. GAO-10-334. Washington, D.C.: January 29, 2010.

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Limiting the Tax-Exempt Status of Certain Governmental Bonds Could Yield Revenue

Why GAO Is Focusing on This Area

Federal tax revenue losses for state and local tax-exempt bonds were about $28 billion in 2010, according to GAO's analysis of the Department of the Treasury's estimates. The loss occurs because taxpayers can exclude the bond interest from their federal taxable income.

For federal tax purposes, tax-exempt bonds are classified as either governmental bonds or private activity bonds. In general, governmental bonds are used to build public capital facilities like roads and serve the general public interest. Private activity bonds, which can be either taxable or nontaxable depending on their purpose, provide financing to private businesses and are subject to restrictions that do not apply to governmental bonds. State and local governments have issued governmental bonds for facilities, such as sports stadiums, that are generally considered to be for private use but may serve some broader public purpose.

What GAO Has Found Indicating Potential for Enhancing Revenue

Tax-exempt bonds are sometimes used to fund facilities or activities that are private in nature, costing the federal government revenue losses for purposes that may not merit federal subsidies. State and local governments have broad discretion in deciding which activities and facilities to finance using tax-exempt bonds. When they issue governmental bonds for facilities and activities that are essentially private, such as for hotels and golf courses, they may indicate that the bonds serve a broader public purpose. For example, they may indicate there are benefits to the community that extend beyond the purpose of the facility being financed by the bonds or that the facilities provide certain services to those who would not otherwise be able to use them. GAO was asked to identify hotels and municipal golf courses funded with tax-exempt bonds and found 18 hotels financed from 2002 through 2006 and six golf courses that opened in 2005 that GAO could confirm had some tax-exempt bond financing. However, it is not clear whether facilities like hotels and golf courses always provide public benefits to federal taxpayers that extend beyond the purposes of the facilities. Since GAO's 2008 report, applicable laws that would limit the use of tax-exempt bond financing have not been changed.

Members of Congress have recently shown interest in whether certain facilities providing benefits that are essentially private in nature, such as stadiums, should be financed with tax-exempt governmental bonds. However, similar attention has not been given to other types of facilities.

Actions Needed and Potential Revenue

GAO continues to believe, as indicated in its February 2008 report, that as Congress considers whether tax-exempt governmental bonds should be used for professional sports stadiums that are generally privately used, it also should consider whether other privately used facilities, including hotels and golf courses, should continue to be financed with such bonds. How much additional federal revenue would be gained would depend on how broadly Congress applies new limitations. For instance, because wider-ranging limitations on governmental bonds would reduce the purposes for which such bonds may be issued, limitations that applied only to sports stadiums would raise less revenue than limitations that applied more broadly to include additional types of facilities, such as hotels and golf courses.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below and updated data on the amount of lost federal revenue each year.

Related GAO Product

Tax Policy: Tax-Exempt Status of Certain Bonds Merits Reconsideration, and Apparent Noncompliance with Issuance Cost Limitations Should Be Addressed. GAO-08-364. Washington, D.C.: February 15, 2008.

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Adjusting Civil Tax Penalties for Inflation Could Help Increase Collections and Deter Noncompliance

Why GAO Is Focusing on This Area

The Internal Revenue Code has over 150 civil penalties that potentially deter taxpayer noncompliance. A number of civil tax penalties have fixed dollar amounts—either a specific dollar amount, or a minimum or maximum amount—that are not indexed for inflation. Over time, the lack of indexing can decrease the real value of Internal Revenue Service (IRS) assessments and collections significantly. Further, not adjusting the fixed penalties also means they are not maintained at the level Congress initially believed was appropriate to deter noncompliance. Finally, not adjusting these penalties for inflation may lead to inconsistent treatment of otherwise equal taxpayers over time because taxpayers who were penalized when the amounts were originally set could effectively pay a higher penalty than taxpayers who were penalized many years later.

What GAO Has Found Indicating Potential for Enhancing Revenue

GAO has long recommended the periodic adjustment of civil tax penalties for inflation and previously identified that almost all of the increased revenues from inflation-adjusting penalties would have come from 4 of the 22 penalties it reviewed. In recent years Congress has adjusted some penalties, but has not inflation-adjusted the majority of penalties GAO studied and has rarely required IRS to inflation-adjust penalties going forward. In resetting penalties since GAO's report, Congress has generally fully restored their value but one fell well below a full adjustment. GAO continues to believe that adjusting civil penalties for inflation could increase collections, help deter noncompliance, and better ensure consistent treatment of taxpayers over time.

GAO found in August 2007 that adjusting civil tax penalty fixed-dollar amounts for inflation from 2000 to 2005 would have increased IRS collections by an estimated $38 million to $61 million per year based on a limited number of penalties GAO reviewed (see table below). Almost all of the estimated increase in collections would have been generated by four penalties:

- failure to file tax returns,
- failure to file correct information returns,
- various penalties on returns by exempt organizations and by certain trusts, and
- failure to file partnership returns.

Estimated Increase in IRS Collections from Inflation-Adjusting of Penalties Assessed, 2000-2005

Dollars in millions

Assessment year	Increased collections after penalty adjustment
2000	$38.2
2001	42.1
2002	47.9
2003	53.2
2004	61.0
2005	60.3

Source: GAO analysis of IRS data.

These increases would have resulted because some of the penalties were set decades earlier and had decreased significantly in real value—in some cases by over one-half. For example, by 2007, the failure-to-file-tax-returns penalty decreased in real value by 53 percent since it had been set in 1982, and the failure-to-file-partnership-returns penalty decreased in real value by 64 percent since it had been set in 1979.

Since August 2007, Congress has increased the amount of five fixed penalties, three of which—failure to file correct information returns, failure to file partnership returns, and failure to file tax returns—were among the four penalties GAO had previously found would increase IRS collections the most if they were inflation-adjusted. The adjustment to one of the five—failure to file tax returns—was about two-thirds short of the level needed to fully adjust for inflation since the penalty was set in 1982. The 2008 adjustment to the failure-to-file-tax-returns penalty moved it from $100 to $135 whereas a full adjustment would have been to $225. Recently, in 2010, Congress did act to require IRS to periodically inflation-adjust two penalties—one of which—the failure to file correct information returns—Congress had increased since 2007 and one—intentional failure to file a certain information return form—it had not. Those more recent requirements for inflation-adjusting were consistent with the intent of GAO's previously stated position that Congress should consider requiring IRS to periodically adjust fixed-penalty amounts for inflation. However, many fixed penalties have not been adjusted at all and only the two will be periodically inflation-adjusted in the future.

According to GAO interviews with officials in the IRS offices that would be involved, the likely administrative burden associated with adjusting the

fixed-dollar amounts of civil tax penalties for inflation on a regular basis would not be significant for IRS. Officials from the Office of Penalties, which has only a few staff, thought some additional staff might be needed to coordinate the necessary changes to forms, training materials, computer systems, and guidance, but not a significant increase. According to interviews with 28 tax practitioners associated with four professional organizations, periodic inflation adjustments to civil penalties likely would not place a significant burden on practitioners.

Actions Needed and Potential Revenue

In its August 2007 report, GAO said that Congress may want to consider requiring IRS to periodically adjust for inflation, and round appropriately, the fixed-dollar amounts of the civil penalties to account for the decrease in real value over time and so that penalties for the same infraction are consistent over time. Although Congress has increased the amount of some fixed penalties since GAO's report, only two penalties are to be adjusted for inflation on a periodic basis. Consequently, GAO continues to believe Congress should consider requiring IRS to periodically adjust all fixed penalties for inflation. Increased revenues potentially could be in the tens of millions of dollars per year, not counting any revenues that may result from maintaining the penalties' deterrent effect.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below and additional GAO work from January 2008 through January 2011 to follow up on any actions taken pursuant to that report.

Related GAO Product

Tax Compliance: Inflation Has Significantly Decreased the Real Value of Some Penalties. GAO-07-1062. Washington, D.C.: August 23, 2007.

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IRS May Be Able to Systematically Identify Nonresident Aliens Reporting Unallowed Deductions or Credits

Why GAO Is Focusing on This Area

Every year, the United States receives millions of legal visits by foreign individuals, some of whom have income from a U.S. source or are engaged in a U.S. trade or business. Individuals who are neither U.S. citizens nor residents are known as nonresident aliens for tax purposes and may be required to file federal income tax returns to report their U.S.-source income. For 2007, individuals filed about 634,000 nonresident alien income tax returns, reporting about $12.8 billion in income and $2.5 billion in tax.

Nonresident aliens' failure to comply with their tax requirements can contribute to the tax gap, which is the difference between the amount of taxes owed and the amount paid voluntarily and timely and was last estimated to be $345 billion. As it is for U.S. citizens and residents, the Internal Revenue Service (IRS) is responsible for ensuring that nonresident aliens comply with their tax obligations. IRS has not developed estimates for the extent of nonresident alien tax noncompliance because it often lacks information to distinguish between nonresident aliens and other filers.

What GAO Has Found Indicating Potential for Enhancing Revenue

IRS may be missing an opportunity to identify more potentially noncompliant nonresident alien taxpayers because it does not systematically identify nonresidents filing the incorrect type of tax return. Nonresidents who file the individual tax return for U.S. citizens and residents (Form 1040) instead of the return for nonresidents (Form 1040NR) may claim credits or take deductions to which they are not entitled, such as the earned income credit, which may lead to reduced tax revenue. IRS has generally conducted face-to-face examinations of nonresident aliens through special projects that focus on particular types of taxpayers, such as individuals employed by foreign embassies or consulates and international organizations in the United States. Through its examinations, IRS has found that some nonresidents improperly file Form 1040 instead of Form 1040NR. However, IRS does not have a program to automatically identify taxpayers who may have made this type of error.

IRS may be able to systematically identify nonresidents who improperly file Form 1040 instead of 1040NR. As with U.S. citizens and residents, nonresidents must have a taxpayer identification number in order to file a tax return. Nonresidents who do not qualify for a Social Security number but have a valid filing requirement may apply to IRS for a 9-digit individual tax identification number to use in lieu of a Social Security number in filing a tax return and are to indicate if they are resident or nonresident aliens, or a spouse or dependent of either, on their applications.

If IRS were able to identify taxpayers who should have filed Form 1040NR instead of Form 1040 by identifying tax returns filed with an individual tax identification number and using information from individual tax identification number applications, it may be able to cost-effectively address this form of noncompliance for some taxpayers and increase tax revenue. For example, IRS may be able to examine potentially noncompliant taxpayers through correspondence, which would be less time consuming, complex, and costly than the face-to-face examinations IRS has traditionally conducted for nonresident aliens. Without further study, IRS cannot know if systematically identifying and addressing nonresidents who filed an incorrect type of tax return would be cost-effective.

Actions Needed and Potential Revenue

GAO recommended in April 2010 that IRS determine if creating an automated program to identify nonresident aliens who may have improperly filed Form 1040 instead of Form 1040NR would be a cost-effective means to improve compliance. IRS has formed a team to study the feasibility of such a program, which it plans to complete by December 2011. GAO plans to follow up on this issue to assess progress in completing the study as well as to identify potential revenue increases.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

Tax Compliance: IRS May Be Able to Improve Compliance for Nonresident Aliens and Updating Requirements Could Reduce Their Compliance Burden. GAO-10-429. Washington, D.C.: April 14, 2010.

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Tracking Undisbursed Balances in Expired Grant Accounts Could Facilitate the Reallocation of Scarce Resources or the Return of Funding to the Treasury

Why GAO Is Focusing on This Area

According to Office of Management and Budget (OMB) estimates, federal grant awards to nonfederal entities, such as states and nonprofit organizations, increased from $300 billion in 2000 to over $500 billion in 2009. If even a small fraction of the federal government's total grant funding is not spent in a prudent and timely fashion, it can prevent the reallocation of scarce resources or the return of funding to the United States Treasury.

Undisbursed funding is funding the federal government has obligated through a grant agreement, but which the grantee has not entirely spent. An expired grant account is an agency-level account for which the period of availability to the grantee has ended.

What GAO Has Found Indicating Potential for Cost Saving

The existence of unspent funds can hinder the achievement of national objectives in various ways, such as leaving projects incomplete or making federal funds more susceptible to improper spending or accounting as monitoring diminishes over time. Closeout procedures help ensure grantees have met all financial requirements, provided final reports, and that unused funds are de-obligated. However, past audits of federal agencies by GAO and Inspectors General, and agencies' annual performance reports have suggested grant management challenges, including failure to conduct grant closeouts and undisbursed balances, are a long-standing problem. The audits generally attributed the problems to inadequacies in awarding agencies' grant management processes, including regarding closeouts as a low management priority, inconsistent closeout procedures, poorly timed communications with grantees, or insufficient compliance or enforcement.

GAO found that when federal agencies took corrective actions, there were improvements in grant closeouts and resolution of undisbursed funding. Using federal payment systems to track undisbursed funding in expired grant accounts and including the status of grant closeouts in annual performance reports could raise the visibility of the problem both within the agency and governmentwide, and lead to improvements in grant closeouts and reduce undisbursed balances.

In August 2008, GAO reported that during calendar year 2006, about $1 billion in undisbursed funding remained in expired grant accounts in the Department of Health and Human Services' Payment Management System (PMS)—the largest civilian grant payment system. In 2006, PMS made payments for about 70 percent of all federal grants awarded by nine federal departments and three other federal entities. The expired but still

open grant accounts found in PMS were associated with thousands of grantees and over 325 different federal programs. While GAO has not updated this figure, it illustrates the potential financial benefits to be gained by improving oversight of undisbursed grant funding. Better tracking of grant accounts maintained in all federal payment systems could identify the expired grants with undisbursed balances and make funds available for other assistance projects or facilitate the return of these funds to the Treasury. GAO recommended that the Director of OMB instruct executive departments and independent agencies to annually track the amount of undisbursed grant funding remaining in expired grant accounts and report on the status and resolution of such funding in their annual performance plans and Performance and Accountability Reports (PAR). As of January 13, 2011, OMB had not issued governmentwide guidance regarding undisbursed balances in expired grant accounts.

As an example of how agencies could be instructed to provide this information, section 537 of the Consolidated Appropriations Act of 2010 (Public Law 111-117), signed into law on December 16, 2009, required that the Director of OMB instruct departments, agencies, and other entities receiving funds under the Commerce, Justice, Science and Related Agencies Act of 2010 to track undisbursed balances in expired grant accounts and include in its annual PARs details on the (1) actions the department, agency, or instrumentality will take to resolve such balances; (2) methods used to track such balances; (3) identification of balances that may be returned to the U.S. Treasury; and (4) the number of such accounts for the preceding 3 years. In October 2010, OMB issued the instructions to the federal entities funded by this appropriations act, as required. GAO reviewed available fiscal year 2010 PARs and found three entities reported they had undisbursed and/or unobligated balances remaining in expired grant accounts over the last 3 or 4 years. The most recent balances that these agencies reported were as follows: Department of Justice, fiscal year 2010—$2.9 million; National Aeronautics and Space Administration (NASA), fiscal year 2009—$58 million; and National Science Foundation, fiscal year 2010—$1.7 billion. Of these three agencies, only NASA grant accounts were included in the total undisbursed balances GAO reported in 2008.

In a recent example of how to identify, resolve, and quantify the savings resulting from resolving undisbursed funding in expired grant accounts, the U.S. Department of Agriculture's Office of Inspector General reported in 2009 that the Agricultural Research Service (ARS) did not timely de-obligate unused funds from 32 of 121 cooperative agreements that expired in fiscal years 2005 and 2006. The inspector general cited GAO in recommending that the ARS de-obligate the $2.75 million remaining on the

32 expired agreements to make the funds available for other research projects and prevent the potential misuse of funds. The ARS reported to the inspector general, in April 2009, that it had de-obligated the $2.75 million, as recommended.

Actions Needed and Potential Savings

Better tracking of grant accounts maintained in all federal payment systems could identify the expired grants with undisbursed balances. Ongoing, systematic resolution of these undisbursed grant balances could potentially make these funds available for other assistance programs or facilitate the return of these funds to the Treasury. In August 2008, GAO recommended that OMB instruct all executive departments and independent agencies to track undisbursed balances in expired grant accounts and report on the resolution of this funding in their annual performance plan and PARs. While OMB has not issued governmentwide guidance regarding undisbursed balances in expired grant accounts, GAO continues to believe its recommendations should be implemented.

Framework for Analysis

The analysis above was based on a prior GAO product, GAO-08-432, listed below.

Related GAO Products

Telecommunications: Long-Term Strategic Vision Would Help Ensure Targeting of E-rate Funds to Highest-Priority Uses. GAO-09-253. Washington, D.C.: March 27, 2009.

Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts. GAO-08-432. Washington, D.C.: August 29, 2008.

Area Contact

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Preventing Billions in Medicaid Improper Payments Requires Sustained Attention and Action by the Centers for Medicare & Medicaid Services

Why GAO Is Focusing on This Area

In fiscal year 2009, the Medicaid program covered over 65 million people at a cost to the federal government and states, which share the cost of the program, of an estimated $381 billion. Medicaid is a federal-state program that consists of more than 50 distinct state-based programs that cover acute health care and long-term care services for certain low-income individuals, including children and persons who are aged or disabled. The Congressional Budget Office has estimated that, under the Patient Protection and Affordable Care Act, enacted in 2010, the cost of the Medicaid expansion will exceed $430 billion from 2010 to 2019, with the federal government responsible for paying over 90 percent of these increased costs.

The Centers for Medicare & Medicaid Services (CMS) in the Department of Health and Human Services (HHS) is responsible for overseeing the program at the federal level. States administer their respective programs' day-to-day operations, including processing and paying claims submitted by health care providers for services provided to Medicaid beneficiaries. Due to the size, growth, and diversity of the Medicaid program, rigorous fiscal oversight is necessary to prevent improper payments.

What GAO Has Found Indicating Potential for Cost Saving

Improper payments to Medicaid providers that submit inappropriate claims can result in substantial financial losses to states and the federal government. The amount of improper payments in the Medicaid program is among the largest of all government programs. For fiscal year 2010, HHS estimated that 9.4 percent of Medicaid payments were improper, representing $22.5 billion in federal expenditures. Medicaid payments can be improper for various reasons, including payments made for which required documentation is missing or inadequate or payments on claims with errors. Improper payments also include payments for people who are not eligible for Medicaid or to providers who are barred from participating in the program. For example, in 2009, GAO found that Medicaid beneficiaries and providers were involved in potentially wasteful or abusive purchases of controlled substances in five selected states. For example, GAO found that Medicaid paid over $2 million in controlled substance prescriptions during fiscal years 2006 and 2007 that were written or filled by 65 medical practitioners and pharmacies that were barred, excluded, or both from federal health care programs, including Medicaid.

State efforts to maximize federal reimbursement also can increase the risk of improper federal payments to states, to the extent states' efforts may inappropriately shift state costs to the federal government. In 2005, GAO reported that a growing number of states were using contingency-fee consultants—consultants employed under contracts whereby payments

were contingent upon the consultant's performance—to maximize federal Medicaid reimbursement. States may employ consultants to serve valid Medicaid-related roles, such as adding needed staff or a particular expertise. However, in two states reviewed, GAO identified certain claims for federal funding from contingency-fee projects in five categories of Medicaid services that were problematic because they appeared to be inconsistent with CMS policy, were inconsistent with federal law, or undermined Medicaid fiscal integrity. GAO also found that CMS and state oversight of claims associated with contingency-fee projects was limited and recommended that CMS routinely require states to identify claims or projects developed by contingency-fee consultants. CMS recognizes that claims resulting from consultant revenue maximization projects are at higher risk of being inconsistent with certain federal Medicaid requirements, but as of the end of 2010 it had not established processes to routinely collect information enabling it to identify claims or projects developed by contingency-fee consultants to maximize federal reimbursement. Without adequate controls over improper payments and state maximization efforts, tens of billions of additional federal dollars are at risk as program expenditures grow.

Actions Needed and Potential Savings

Sustained agency attention is needed to implement and oversee processes to prevent, identify, and recover improper payments and to reduce the billions of dollars that are annually lost to improper Medicaid payments. Both the executive branch and Congress have acted to curtail improper Medicaid payments, but challenges in preventing such payments remain. The issuance of Presidential Memoranda and a 2009 Executive Order, Reducing Improper Payments, along with enactment of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), are positive steps toward improving transparency and reducing improper payments. However, it is too soon to determine whether the activities called for in the Presidential Memoranda, Executive Order, and IPERA will achieve their goals of reducing improper payments. Further, the magnitude of the program's payment errors indicates that CMS and the states face significant challenges to address the program's vulnerabilities. In its 2009 report on top management and performance challenges facing HHS, the HHS Office of Inspector General reported multiple priorities related to Medicaid, including the need to ensure the integrity of payments to providers by ensuring they are appropriately enrolled and eligible to receive payments. CMS has taken steps to strengthen its financial oversight of Medicaid, but the agency can do more to address gaps in its oversight and financial management.

GAO recommended in 2009 that CMS issue guidance to states to implement processes that better prevent payment of improper claims for controlled substances in Medicaid. CMS generally agreed with GAO's recommendations; however, guidance had not been issued as of the end of 2010. With regard to Medicaid claims related to state efforts to maximize federal reimbursements, GAO recommended that CMS improve its oversight of projects developed by consultants on a contingency-fee basis, in part by routinely requesting information on these projects and associated claims. CMS stated in 2010 that it was committed to fully assessing the basis for all claims, but indicated it did not plan to routinely request this information. GAO maintains that the high-risk nature of consultant-led maximization projects to shift state costs to the federal government by submitting claims for federal matching funds that are inconsistent with federal law or CMS policy, warrants their identification and close oversight.

Framework for Analysis

The information contained in this analysis is based on work GAO has conducted over the past 5 years, ongoing work examining the federal government efforts to curtail improper payments, and recent work to update the status of recommendations.

Related GAO Products

Medicaid: Fraud and Abuse Related to Controlled Substances Identified in Selected States. GAO-09-957. Washington, D.C.: September 9, 2009.

Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments. GAO-09-628T. Washington, D.C.: April 22, 2009.

Improper Payments: Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements. GAO-08-438T. Washington, D.C.: January 31, 2008.

I*mproper Payments: Federal Executive Branch Agencies' Fiscal Year 2007 Improper Payment Estimate Reporting.* GAO-08-377R. Washington, D.C.: January 23, 2008.

Medicaid Financial Management: Steps Taken to Improve Federal Oversight but Other Actions Needed to Sustain Efforts. GAO-06-705. Washington, D.C.: June 22, 2006.

Preventing Billions in Medicaid Improper Payments Requires Sustained Attention and Action by the Centers for Medicare & Medicaid Services

Medicaid Financing: States' Use of Contingency-Fee Consultants to Maximize Federal Reimbursements Highlights Need for Improved Federal Oversight. GAO-05-748. Washington, D.C.: June 28, 2005.

Area Contact

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Federal Oversight over Medicaid Supplemental Payments Needs Improvement

Why GAO Is Focusing on This Area

Strong federal oversight of Medicaid is warranted as the program continues to grow in size and cost, and GAO has had long-standing concern with the adequacy of federal oversight of state Medicaid supplemental payments. Each state administers a Medicaid program and covers a variety of health care services for low-income individuals. The federal government oversees states' Medicaid programs and, by a formula established in law, pays from half to more than three-fourths of each state's Medicaid expenditures. Subject to certain requirements, states establish Medicaid payment rates for providers and may make supplemental payments to providers, which are separate from and in addition to standard state Medicaid payment rates. States make two general types of supplemental payments. First, Disproportionate Share Hospital (DSH) payments are required under federal law to be made to hospitals that serve a large number of low-income individuals and are designed to help offset hospitals' uncompensated costs for serving Medicaid and uninsured low-income individuals. Second, states often make non-DSH Medicaid supplemental payments, which are also funded in part with federal dollars, for example to help offset the costs of care provided to individuals covered by Medicaid.

What GAO Has Found Indicating Potential for Cost Saving

Varied financing arrangements that states use to make Medicaid supplemental payments can inappropriately increase federal Medicaid matching payments. GAO found that, under certain financing arrangements, some states paid state or local government providers supplemental payments that greatly exceeded standard Medicaid rates, resulting in large matching payments from the federal government. Some states required providers to return most, or all, of the large supplemental payments to the state, which the states then used for other purposes. Such financing arrangements threaten the fiscal integrity of Medicaid's federal and state partnership because they effectively increase the federal Medicaid share above what is established by law, and there is no assurance that federal Medicaid funds are used for Medicaid purposes.

The Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services—the agency that oversees Medicaid at the federal level—has taken action to curb inappropriate payments, but gaps in oversight remain. For example, in 2003, CMS began an initiative to closely review supplemental payment arrangements and required states to end those it found inappropriate; however, in 2008, GAO reported that CMS had not reviewed all arrangements to ensure that payments were appropriate and used for Medicaid purposes. In 2009, GAO found that ongoing federal oversight of supplemental payments was

warranted, in part because in two of the four states reviewed the states did not comply with federal requirements to account for all Medicaid payments when calculating DSH payment limits for uncompensated hospital care. States calculate these limits to provide assurances that DSH payments to hospitals do not exceed individual hospitals' actual costs of providing services. For a small number of hospitals, the state calculation errors resulted in payments in excess of hospital limits. In two states, a state-operated hospital received combined Medicaid supplemental and standard Medicaid payments that exceeded the hospital's total operating costs by 3 percent in one case and 6 percent in another.

In 2011, under federal regulations, improved transparency and accountability requirements will become effective for state DSH payments, including standards for state calculations of DSH payment limits. Also, states will be required to report DSH payments on a facility basis and to obtain independent audits for their DSH payment reports and calculations. Under the Patient Protection and Affordable Care Act, reductions in federal DSH expenditures will occur in future years. At the same time, similar requirements are not in place for non-DSH payments, which appear to be increasing. In 2006 states reported making $6.3 billion in non-DSH supplemental Medicaid payments, of which the federal share was $3.7 billion, but not all states were reporting their payments. By 2010, this amount had grown to $14 billion, with a federal share $9.6 billion, however, according to CMS officials reporting was likely incomplete. Requirements for DSH supplemental payments, such as standards for calculating the amount of the payments and reporting of payments on a facility specific basis, do not apply to non-DSH supplemental payments. Further, processes have not been implemented to ensure that all supplemental payment arrangements are reviewed.

Actions Needed and Potential Savings

In light of the magnitude of Medicaid supplemental payments and recent reported growth of non-DSH supplemental payments, along with past concerns about the inappropriateness of some supplemental payments, further action by CMS is warranted to ensure that these payments are appropriate and used for Medicaid purposes. Some key prior GAO recommendations aimed at improving federal oversight of supplemental payments have not been implemented. In particular, GAO has recommended that CMS establish uniform guidance for states that sets acceptable methods for calculating non-DSH payment amounts, require facility specific reporting of non-DSH supplemental payments, and develop a strategy to ensure all state supplemental payment arrangements have been reviewed by CMS.

Given concerns associated with Medicaid supplemental payments, strong and sustained CMS oversight is necessary. Ensuring that the federal government provides matching funds only for appropriate supplemental payments could result in substantial costs savings.

Framework for Analysis

The information contained in this analysis is based on work GAO has conducted over the past 15 years and recent work to update the status of prior recommendations and payment amounts.

Related GAO Products

Medicaid: Ongoing Federal Oversight of Payments to Offset Uncompensated Hospital Care Costs Is Warranted. GAO-10-69. Washington D.C.: November 20, 2009.

Medicaid: CMS Needs More Information on the Billions of Dollars Spent on Supplemental Payments. GAO-08-614. Washington, D.C.: May 30, 2008.

Medicaid Financing: Long-standing Concerns about Inappropriate State Arrangements Support Need for Improved Federal Oversight. GAO-08-650T. Washington D.C.: April 3, 2008.

Medicaid Financing: Long-standing Concerns about Inappropriate State Arrangements Support Need for Improved Federal Oversight. GAO-08-255T. Washington D.C.: November 1, 2007.

Medicaid Financing: Federal Oversight Initiative Is Consistent with Medicaid Payment Principles but Needs Greater Transparency. GAO-07-214. Washington, D.C.: March 30, 2007.

Medicaid: State Financing Schemes Again Drive Up Federal Payments. GAO/T-HEHS-00-193. Washington D.C.: September 6, 2000.

Medicaid: States Use Illusory Approaches to Shift Program Costs to Federal Government. GAO/HEHS-94-133. Washington D.C.: August 1, 1994.

Area Contact

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Better Targeting of Medicare's Claims Review Could Reduce Improper Payments

Why GAO Is Focusing on This Area

The Centers for Medicare & Medicaid Services (CMS)—the agency that administers Medicare—has estimated that improper payments for Medicare fee-for-service (FFS) were $34.3 billion in fiscal year 2010. Because the program's complexity and size make it vulnerable to billions of dollars in improper payments—over- and underpayments that should not have been made—GAO has designated it as a high-risk program. CMS and its contractors conduct activities to identify improper payments, including reviewing claims before and after payment. CMS contractors are also responsible for processing and paying approximately 4.5 million claims per work day, which makes the volume and cost to review the claims challenging.

What GAO Has Found Indicating Potential for Cost Saving

Aspects of the Medicare program's design make it susceptible to improper payments and effective use of payment controls can help ensure that these improper payments are minimized. GAO found that improving automated review and better targeting of claims to review manually could help prevent improper payments.

Medicare is designed to pay claims promptly and the number of claims it receives limits the amount of possible review. CMS is generally required to pay electronic claims between 14 and 30 days from the date of receipt and the program now pays 4.5 million claims each work day. The amount of program payments that are made with minimal review has made Medicare a target for fraud, waste, and abuse that can result in improper payments. Medicare requires that covered services be reasonable and medically necessary—and of course, be provided as claimed. Since it was first estimated in 1996, Medicare's improper payment rate has been in the billions of dollars each year, although efforts to improve the methodology used for the estimate have made current year estimates noncomparable to any made before 2009. Prior to 1996, CMS had controls in place to try to minimize improper payments and beginning in fiscal year 1997, Congress provided funds specifically for CMS activities designed to ensure that claims are paid correctly. CMS allocates these funds to contractors that conduct a number of activities, including a limited amount of claims review, to help prevent or identify and address improper payments.

Despite agency efforts, CMS still faces challenges in designing and implementing internal controls to effectively prevent or recoup improper payments and to prevent fraud, waste, and abuse. Previous GAO products identified some specific weaknesses in the area of claims review and made recommendations to implement key strategies related to automating and targeting claims review that are particularly important to helping prevent

fraud, waste, and abuse, and ultimately, to reducing improper payments. The claims review weaknesses identified include:

Prepayment review of claims did not identify atypical billing associated with fraud. Overall, less than 1 percent of Medicare's claims are subject to a medical record review by trained personnel—so having robust automated payment controls in place that can deny inappropriate claims or flag them for further review is critical. However, GAO has found weaknesses in this area. Specifically, in 2007, GAO found that contractors responsible for reviewing claims from suppliers of durable medical equipment, prosthetics, orthotics, and supplies did not have automated prepayment controls in place to identify questionable claims that might suggest fraud, such as those associated with atypically rapid increases in billing or for items unlikely to be prescribed in the course of routine quality medical care.

Postpayment claims review was not focused on most vulnerable areas. Postpayment reviews are critical to identifying payment errors, recouping overpayments, or repaying underpayments. CMS's contractors have conducted limited postpayment reviews—for example, GAO reported in 2009 that the contractors paying claims for home health care conducted postpayment reviews on fewer than 700 of the more than 8.7 million claims that they paid in fiscal year 2007. Further, GAO found they were not using evidence, such as findings from prepayment review, to target their postpayment review resources on providers with a demonstrated high risk of improper payments.

Regular cross-checking of claims for home health services with the physicians listed as prescribing them was not always done. CMS does not routinely provide physicians responsible for authorizing home health care with information that would enable them to determine whether a home health agency (HHA) was billing for unauthorized care. In one instance, a CMS contractor identified overpayments in excess of $9 million after interviewing physicians whose names and signatures appeared on referrals for beneficiaries with high home health costs. Some physicians indicated their signatures had been forged or they had not realized the amount of care they had authorized.

CMS's new national recovery audit contracting program, begun in March 2009, added to postpayment efforts; but not for fraud-prone claims. Recovery audit contractors (RAC) review claims after payment, with reimbursement to them contingent on the improper over- and underpayments identified. According to CMS, because RACs are paid fees contingent on the dollar value of the improper payments identified, RACs

have focused on high-dollar claims from inpatient hospital stays, not other services prone to improper payment, such as home health services.

Actions Needed and Potential Savings

More targeted claims review could help reduce improper payments. While the potential for savings exists, the extent of savings realized would depend on the efforts taken to address weaknesses in the review process.

GAO continues to believe that CMS should address these previously made recommendations:

- In 2007, GAO recommended that CMS require its contractors to develop thresholds for unexplained increases in billing and use them to develop automated prepayment controls. CMS agreed with this recommendation in its comments on the report, but has not implemented it. The agency has added other prepayment controls to flag claims for services that were unlikely to be provided in the normal course of medical care. However, implementing GAO's recommendation and adding additional prepayment controls could enhance identification of improper claims before they are paid.

- In 2009, GAO's report on home health services recommended that postpayment reviews be conducted on claims submitted by HHAs with high rates of improper billing identified through prepayment review. CMS did not indicate that it agreed or disagreed with this recommendation and has not implemented it. The agency stated that its contractors conduct pre- and postpayment reviews for HHAs with high utilization as resources allow. However, this might not lead to postpayment review of claims by HHAs with high rates of improper prepayment billing and GAO continues to believe that such reviews would be valuable.

- The 2009 home health report also recommended that CMS require that physicians receive a statement of home health services beneficiaries received based on the physicians' certification. The agency agreed to consider this recommendation, but has not taken action. Such action could also be beneficial for other items and services susceptible to fraud and abuse that are often not directly billed by physicians, such as high-cost durable medical equipment, prosthetics, orthotics, and supplies. CMS indicated in 2010 that the Affordable Care Act included a section requiring a physician (or nonphysician working for or in collaboration with a physician) to document that a face-to-face encounter with the physician occurred before home health services can be implemented.

However, the actual services provided could differ from what the initial ordering physician intended, and the initial documentation of a face-to-face encounter would not address that issue.

In addition, as GAO pointed out in 2010 testimony on Medicare fraud, waste, and abuse, because the RACs are focusing on review of hospitals, other contractors' postpayment review activities could be more valuable if CMS directed these contractors to focus on services where RACs are not expected to focus their reviews, and where improper payments are known to be high, specifically home health services.

The amount that could be saved from taking these actions has not been estimated and would depend on how they were implemented.

Framework for Analysis

The information contained in this analysis is based on findings from the GAO reports listed below.

Related GAO Products

Medicare Fraud, Waste, and Abuse: Challenges and Strategies for Preventing Improper Payments. GAO-10-844T. Washington, D.C.: June 15, 2010.

Medicare Recovery Audit Contracting: Weaknesses Remain in Addressing Vulnerabilities to Improper Payments, Although Improvements Made to Contractor Oversight. GAO-10-143. Washington, D.C.: March 31, 2010.

Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments. GAO-09-628T. Washington, D.C.: April 22, 2009.

Medicare: Improvements Needed to Address Improper Payments in Home Health. GAO-09-185. Washington, D.C.: February 27, 2009.

Medicare: Improvements Needed to Address Improper Payments for Medical Equipment and Supplies. GAO-07-59. Washington, D.C.: January 31, 2007.

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Potential Savings in Medicare's Payments for Health Care

Why GAO Is Focusing on This Area

Medicare expenditures are growing faster than the overall economy and are expected to continue to do so, leading to concerns about the program's long-term sustainability. Furthermore, it is widely recognized that Medicare's contribution to the nation's long-term fiscal shortfall is considerable.

The primary drivers of increased Medicare spending are growth in the volume of services (the number of services provided per beneficiary) and the intensity of services (services' complexity and costliness). The behavior of physicians is particularly critical to attempts to control these increases, because physicians not only provide services, but also order services such as imaging studies and home oxygen.

Medicare, which is administered by the Centers for Medicare & Medicaid Services (CMS), an agency of the Department of Health and Human Services (HHS), helps pay for hospital, physician, and other inpatient and outpatient services for about 38.7 million aged and 7.6 million disabled beneficiaries. According to the 2010 Medicare Trustees Report, about $336 billion was spent on health care (excluding Medicare's managed care and prescription drug spending for beneficiaries in those programs) in 2009. Medicare is funded primarily by tax revenues and beneficiaries' premiums.

What GAO Has Found Indicating Potential for Cost Saving

Some Medicare spending for services provided and ordered by physicians may not be warranted, and Medicare's review of claims is not always sufficiently targeted and systematic. For example, the wide geographic variation in Medicare spending per beneficiary—unrelated to health status or outcomes—suggests that health needs alone do not determine spending. In other cases, such as home oxygen, Medicare simply overpays. Additionally, Medicare pays for portions of some services twice because it fails to take into account the extent to which services that are commonly furnished together overlap.

GAO has reviewed four specific areas in which a potential for savings exists:

- *Physician practice patterns.* Some private and public health care purchasers have initiated programs to identify inefficient physicians—that is, physicians who provide and order a level of services that is excessive, given the patient's health status—and to encourage patients to receive their care from other, more efficient physicians. GAO profiled Medicare generalist physicians and identified those whose practices included a higher proportion of overly expensive patients

(after adjusting for health status) than would occur by chance. GAO concluded that these physicians were likely to practice medicine inefficiently. GAO also profiled Medicare physicians in four specialties—cardiology, diagnostic radiology, internal medicine, and orthopedic surgery—and showed that expenditures for institutional services grew as the level of resource use increased.

- *Imaging services.* From 2000 through 2006, expenditures for imaging services paid under the Medicare physician fee schedule more than doubled in nominal terms, increasing to about $14 billion. Spending on advanced imaging services such as CT scans, MRIs, and nuclear medicine, rose faster—17 percent per year—than spending on less complex services, such as ultrasound or X-ray. Although overall spending on imaging declined to $12.1 billion in 2007—primarily due to a cap imposed on certain imaging fees by the Deficit Reduction Act of 2005—utilization continued to increase. While much of this growth may be appropriate, several other trends—including a shift toward provision of imaging services in physicians' offices where there is less oversight, broader use of imaging by nonradiologists, and an almost eight-fold geographic variation in spending on in-office imaging in 2006—raise concerns that imaging services may be over utilized.

- *Home oxygen.* In 2009, Medicare spent $2.15 billion to provide home oxygen for beneficiaries with conditions such as chronic pulmonary disease. GAO reported more than a decade ago that Medicare payment rates for home oxygen were significantly higher than those of the Department of Veterans Affairs, and the HHS Office of Inspector General has reported several times that oxygen payment rates were excessive. Congress has reduced or limited payments several times—most recently in 2009. However, according to GAO's analysis, payment rates remain higher than those of some other national payers. Additionally, the average monthly Medicare payment for home oxygen per beneficiary in 2009 was up to 44 percent higher than suppliers' overall costs. Nearly all beneficiaries who receive home oxygen use a stationary oxygen concentrator and about two-thirds also use portable oxygen equipment. Although portable oxygen equipment typically requires refills, stationary concentrators do not.[1] However, Medicare's bundled payment for stationary concentrators includes a payment for

[1]Stationary oxygen concentrators are electrically powered machines that extract oxygen from the air.

oxygen refills. Consequently, in 2008, in about one-third of instances in which Medicare paid for a stationary concentrator, it was also paying for oxygen refills that were not provided.

- *Physician payments.* Medicare's physician fees may not always reflect efficiencies that occur when services are commonly furnished together. For example, certain portions of practice expenses such as a nurse's time preparing a patient for a medical procedure or a technician's time setting up the required equipment are incurred only once when services are provided together; and certain portions of physician work activities—such as reviewing the patient's medical record—occur only once when services are provided together, yet payment for these overlapping portions is generally included in the fee for each service, resulting in excessive payments by Medicare. CMS has implemented a multiple procedure payment reduction (MPPR) for certain imaging and surgical services when two or more related services are furnished together. Under the MPPR, the full fee is paid for the highest-price service and a reduced fee is paid for each subsequent service, but the policy has not been systematically applied to services commonly furnished together. Looking only at those services that had the greatest impact on Medicare expenditures, GAO identified areas, such as physical therapy, in which efficiencies for services commonly furnished together were not taken into account.

Actions Needed and Potential Savings

GAO has reported that significant potential for savings exists by profiling physician practice patterns to encourage more efficient provision of health care services, introducing prior approval requirements and other front-end approaches to better manage the use of imaging services, reducing and restructuring payments for home oxygen, and reforming payments for physician services so that when two services overlap, only one payment is made for the overlapping portion.

- *Profiling physicians' practice patterns.* GAO recommended in April 2007 that CMS develop a profiling system to identify individual physicians with inefficient practice patterns and use the results to improve the efficiency of care financed by Medicare. Physicians play a central role in the generation of health care expenditures. About 20 percent of services are provided by physicians. However, they influence up to 90 percent of spending by, for instance, referring patients to other physicians; admitting patients to hospitals, skilled nursing facilities, and hospices; and ordering services delivered by other health care providers, such as imaging studies, laboratory tests,

and home health services. GAO found that providing feedback to physicians on their practice patterns is a promising step toward encouraging efficiency in Medicare. However, GAO noted that CMS would likely have to seek legislative changes to maximize the usefulness of profiling—for example, changes that would allow CMS to incentivize beneficiaries to select efficient providers. The Medicare Improvements for Patients and Providers Act of 2008 directed the Secretary of HHS to establish a confidential physician feedback program. The Patient Protection and Affordable Care Act[2] expanded the program and also requires the Secretary of HHS to adjust payments to those physicians whose practice patterns promote both high-quality and the efficient use of health care services. The feedback program is in its early stages and potential savings to the $336 billion Medicare program will depend on implementation details.

- *Better management of imaging services.* GAO recommended in June 2008 that CMS examine the feasibility of adding more front-end management approaches, such as prior authorization, for imaging services. In this way, CMS might be able to improve its efforts to be a prudent purchaser of imaging services, which cost Medicare over $12 billion in 2008. However, the Secretary of HHS has not implemented or examined the feasibility of these practices, saying in 2008 that it is concerned about administrative burden as well as the advisability of prior authorization for the Medicare program. It also questioned how prior authorization would fit within its current postpayment review program. Specific savings estimates are not available and would depend on the number of Medicare imaging services deemed inappropriate by additional front-end approaches. However, GAO continues to believe that additional front-end management would help Medicare become a more prudent purchaser of imaging services and could generate savings.

- *Reducing payments for home oxygen.* GAO suggested in January 2011 that Congress consider reducing Medicare home oxygen rates to align them more closely with the costs of supplying home oxygen. Congress has required the Secretary of HHS to institute competitive bidding for home oxygen and other durable medical equipment. Prices from the first round of competitive bidding took effect in nine geographic areas

[2]The Patient Protection and Affordable Care Act was signed by the President in March 2010.

in January 2011. According to CMS, the bid prices for home oxygen and other durable medical equipment for 2011 are 32 percent less than Medicare paid in 2010. However, this payment reduction will result in a payment reduction only in the nine geographic areas. In 2011, the process to expand competitive bidding to an additional 91 areas is expected to begin. Eventually competitive bidding is expected to expand beyond these first 100 areas. Certain geographic areas, such as rural areas, are exempt from competitive bidding until 2015. It will be several years before competitive bids affect Medicare payments for home oxygen nationwide. Therefore, GAO continues to believe it would be appropriate for Congress to consider reducing Medicare home oxygen payment rates.

- *Reducing payments for overlapping physician services.* In a July 2009 report, GAO recommended that CMS systematically review services commonly furnished together and implement a MPPR to capture efficiencies, where appropriate, for these services, focusing on those services that have the greatest impact on Medicare spending. GAO identified several areas, including physical therapy, where an MPPR could be applied to reflect efficiencies in overlapping services. GAO also recommended in this report that CMS expand the scope of its MPPR by applying it to nonsurgical and nonimaging services, such as physical therapy, thereby saving an estimated $500 million. Further, GAO recommended that the MPPR be applied to the part of the payment that covers a physician's work; according to GAO's estimates, if that were done only for imaging it would result in savings of $175 million. CMS has taken some steps to implement GAO's recommendations, but GAO cannot estimate the full extent of savings if CMS were to systematically review services commonly furnished together and eliminate duplicate payments. Under a Medicare budget neutrality provision, savings obtained from any significant change in physician payments for a particular service or set of services are added to the total amount available for paying physicians and are redistributed. Therefore, GAO also suggested in this report that Congress exempt savings attributable to the implementation of policies that reflect efficiencies occurring when services are furnished together from the budget neutrality requirement.

In summary, GAO has identified numerous opportunities for savings in Medicare, and CMS has taken actions to address several of them. However, many actions remain to be taken, which could increase efficiencies and reduce Medicare's spending. Increased congressional attention may be warranted in these areas.

Framework for Analysis

The information contained in this analysis is based primarily on the following related GAO products, supplemented by the 2010 Medicare Trustees Report, the 2011 Proposed Rule for Medicare Physician Payment, the Patient Protection and Affordable Care Act, and data from CMS's Web site.

Related GAO Products

Medicare Home Oxygen: Refining Payment Methodology Has Potential to Lower Program and Beneficiary Spending. GAO-11-56. Washington, D.C.: January 21, 2011.

Medicare: Per Capita Method Can Be Used to Profile Physicians and Provide Feedback on Resource Use. GAO-09-802. Washington, D.C.: September 25, 2009.

Medicare Physician Payments: Fees Could Better Reflect Efficiencies Achieved When Services Are Provided Together. GAO-09-647. Washington, D.C.: July 31, 2009.

Medicare: Trends in Fees, Utilization, and Expenditures for Imaging Services before and after Implementation of the Deficit Reduction Act of 2005. GAO-08-1102R. Washington, D.C.: September 26, 2008.

Medicare Part B Imaging Services: Rapid Spending Growth and Shift to Physician Offices Indicate Need for CMS to Consider Additional Management Practices. GAO-08-452. Washington, D.C.: June 13, 2008.

Medicare: Providing Systematic Feedback to Physicians on their Practice Patterns is a Promising Step Toward Encouraging Program Efficiency. GAO-07-862T. Washington, D.C.: May 10, 2007.

Medicare: Focus on Physician Practice Patterns Can Lead to Greater Program Efficiency. GAO-07-307. Washington, D.C.: April 30, 2007.

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Department of Homeland Security's Management of Acquisitions Could Be Strengthened to Reduce Cost Overruns and Schedule and Performance Shortfalls

Why GAO Is Focusing on This Area

The Department of Homeland Security (DHS), established in 2003 through the consolidation of 22 agencies with disparate missions, has obligated billions of dollars annually to meet its expansive homeland security mission. DHS acquisitions represent hundreds of billions of dollars in lifecycle costs and support a wide range of missions and investments including Coast Guard ships and aircraft, border surveillance and screening equipment, nuclear detection equipment, and systems to track the department's financial and human resources. DHS has not effectively developed, acquired, and provided oversight of its complex investments, such as programs for securing the border and the nation's transportation systems, with many programs experiencing cost overruns and schedule and performance shortfalls.

What GAO Has Found Indicating Potential for Cost Saving

DHS faces significant challenges in managing its acquisitions, including programs not meeting their cost, schedule, and performance expectations. Strengthening its acquisition management process would help DHS to deliver critical mission capabilities that meet identified needs on time and within budget, including helping to reduce the cost overruns and schedule delays that DHS continues to experience in many of the major acquisition programs GAO has reviewed.

DHS acquisition spending has increased by 66 percent since fiscal year 2004—from $8.5 billion in fiscal year 2004 to $14.2 billion in fiscal year 2009—and DHS's portfolio of complex acquisitions continues to expand. DHS has made progress in strengthening its acquisition management by, for example, implementing a revised acquisition management directive that includes more detailed guidance for programs to use in informing component and departmental decision making. However, most acquisition programs GAO has reviewed at the department have not met cost, schedule, and performance expectations.[1] In particular, most DHS acquisition programs reported cost growth from initial estimates. Further, most programs GAO reviewed experienced estimated or actual schedule delays in delivery of initial operating capability of an average of 12 months. As GAO reported in June 2010, weaknesses in the department's acquisition management process continue to hinder the department's ability to provide needed capabilities on time and within budget. For example:

[1]GAO reviewed 15 DHS major acquisition programs for which cost, schedule, and performance data were available.

- DHS's senior-level Acquisition Review Board had not reviewed most of its major acquisition programs by the end of fiscal year 2009 and programs that had been reviewed had not consistently implemented action items identified as part of the review by established deadlines. GAO's prior work has shown that when these types of reviews are skipped or not fully implemented, programs move forward with little, if any, early department-level assessment of the programs' costs and feasibility, which contributes to poor cost, schedule, and performance outcomes. DHS acquisition oversight officials said that funding and staffing levels have limited the number of programs they can review. GAO recommended that DHS identify and align sufficient management resources to implement oversight reviews in a timely manner. DHS generally concurred with the recommendation, and, as of January 2011, has reported taking action to address it. For example, DHS reported that it has increased its acquisition management staffing, and plans to hire more staff to develop cost estimates. DHS also reported that it held 35 Acquisition Review Board meetings in fiscal year 2010 and plans to hold between 36 and 40 in fiscal year 2011. In addition, DHS reported making progress in tracking and closing action items. These planned actions are positive steps and, if implemented effectively, could help strengthen DHS's acquisition review process. However, it is too early to tell what impact these planned actions will have on the department's review process.

- DHS's acquisition review process has not informed DHS's annual budget process for funding major programs, and many major programs received funding without validation of mission needs and requirements, largely because department-level reviews were seldom conducted. DHS's Joint Requirements Council, which was responsible for validating program requirements, stopped meeting in 2006. GAO recommended that the department ensure that budget decisions are informed by the results of investment reviews including approved acquisition information and cost estimates and reinstate the Joint Requirements Council or establish another departmental oversight board to perform this function. DHS concurred with this recommendation and, as of January 2011, was planning to establish a council to analyze DHS mission and strategic requirements. DHS also reported it plans to better link the development of requirements to resource allocation and program management. Until these efforts are fully and effectively implemented, DHS may continue to experience difficulties in ensuring that resources are allocated to acquisition programs commensurate with their requirements.

- DHS has not developed accurate cost estimates for most of its major acquisition programs. For example, the Coast Guard's Rescue 21 search and rescue system has experienced significant cost growth—by 131 percent since the department's initial cost estimate in 2003—due to, among other things, underestimation of costs for program management, deployment, and operations and maintenance. GAO's work has shown that accurate cost estimates are critical to making funding decisions, evaluating resource requirements, and developing performance measurement baselines. DHS has reported that the department is working to address this concern by assisting programs in developing cost estimates and obtaining independent cost estimates for some high-risk programs. While these are positive steps, until accurate cost estimates are in place, DHS will be challenged in making informed funding decisions and assessing program performance.

- Over half of the 15 programs GAO reviewed awarded contracts to initiate acquisition activities without component or department approval of documents essential to planning acquisitions, setting operational requirements, and establishing acquisition program baselines. For example, the Secure Flight program for comparing air passengers' information to terrorist watch lists did not have an approved program baseline until over 4 years after initiation of the acquisition, and U.S. Customs and Border Protection's program to modernize its computer application for disseminating data to support port-of-entry inspections did not have a component or department-approved baseline after more than 6 years. Further, the Federal Emergency Management Agency has not yet approved an acquisition program baseline or other key program documents for its Integrated Public Alert and Warning System, which was initiated in 2004, and DHS did not develop its lifecycle cost estimates until 2009. GAO's prior work has noted that without the development, review, and approval of these key documents, agencies are at risk of having poorly defined requirements that can negatively affect program performance and contribute to increased costs. In January 2011, DHS reported that it has begun to implement an initiative to assist programs with completing departmental approval of acquisition program baselines. However, it is too early to fully assess the impact of this planned initiative.

Actions Needed and Potential Savings

GAO's work has highlighted the need for the department to improve its acquisition portfolio management and adhere to key acquisition management processes to help improve the department's ability to deliver major acquisition programs to meet critical mission needs on time and

within budget. Ensuring that requirements and cost estimates are well defined upfront could help DHS make sure there is a more accurate picture of the total costs and needs for a program. Further, establishing and measuring performance against department-approved baselines and indicators would help ensure that the acquisition program is on track with regard to performance, schedule, and cost. As GAO has recommended, DHS needs to ensure that its investment decisions are transparent and documented; ensure that budget decisions are informed by the results of acquisition investment reviews, including acquisition information and cost estimates; identify and align sufficient management resources, such as acquisition staff, to implement oversight reviews in a timely manner; and review and validate acquisition programs' requirements. These actions, if implemented effectively, should help DHS identify and avoid the cost overruns and schedule delays that DHS acquisition programs have experienced.

DHS is planning to address these challenges by, among other things, establishing an Investment Review Board to oversee activities of the Acquisition Review Board and the status of all acquisition investments; expanding its Acquisition Corps to provide trained procurement and program management professionals to manage DHS's most critical acquisition programs; and developing a tool to track programs' cost, schedule, and performance indicators. However, it is too early to tell what effect these planned changes will have on DHS's acquisition management. In addition, due to previously mentioned concerns about the accuracy of current cost estimates and DHS challenges in measuring against cost, schedule, and performance baselines, GAO is unable to quantify future savings at this time. Success in reducing acquisition cost overruns will depend on DHS's further implementation of key actions GAO has recommended for strengthening the department's acquisition management.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Department of Homeland Security: Assessments of Selected Complex Acquisitions. GAO-10-588SP. Washington, D.C.: June 30, 2010.

Aviation Security: TSA Is Increasing Procurement and Deployment of the Advanced Imaging Technology, but Challenges to This Effort and

Other Areas of Aviation Security Remain. GAO-10-484T. Washington, D.C.: March 17, 2010.

Homeland Security: Despite Progress, DHS Continues to Be Challenged in Managing Its Multi-Billion Dollar Annual Investment in Large-Scale Information Technology Systems. GAO-09-1002T. Washington, D.C.: September 15, 2009.

Department of Homeland Security: A Strategic Approach Is Needed to Better Ensure the Acquisition Workforce Can Meet Mission Needs. GAO-09-30. Washington, D.C.: November 19, 2008.

Department of Homeland Security: Billions Invested in Major Programs Lack Appropriate Oversight. GAO-09-29. Washington, D.C.: November 18, 2008.

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Improvements in Managing Research and Development Could Help Reduce Inefficiencies and Costs for Homeland Security

Why GAO Is Focusing on This Area

The federal government allocates billions of dollars for researching, developing, and testing technologies and other countermeasures to address chemical, biological, radiological, nuclear, and other threats facing the nation. The Department of Homeland Security's (DHS) Science and Technology Directorate (S&T) conducts research and development efforts to improve homeland security by, among other things, providing its federal, state, local, tribal, and territorial emergency responder customers with technology to help them achieve their missions. DHS's Domestic Nuclear Detection Office (DNDO) is charged with developing, acquiring, and deploying equipment to detect nuclear and radiological materials, supporting the efforts of DHS and other federal agencies. According to DHS documents, the total budget authority for S&T and DNDO was over $5.8 billion for fiscal years 2007 through 2010.[1] DHS has experienced challenges in managing its multibillion dollar research and development efforts, and GAO has identified problems with its testing and cost-benefit analyses efforts in this area.

What GAO Has Found Indicating Potential for Cost Saving

In managing its multibillion dollar research and development efforts, DHS has experienced cost overruns and delays in the procurement and deployment of technologies and systems needed to meet critical homeland security needs. DHS could help reduce inefficiencies and costs in its research and development program by completing testing efforts before making acquisition decisions and including cost-benefit analyses in its research and development efforts.

DHS has made acquisition decisions without completing testing efforts to ensure that the systems purchased met program requirements. GAO's prior work has shown that failure to resolve problems discovered during testing can sometimes lead to costly redesign and rework at a later date. Addressing such problems during the testing phase before moving to the acquisition phase can help agencies avoid future cost overruns.

- In September 2010, GAO reported that DNDO was simultaneously engaged in the research and development phase while planning for the acquisition phase of its cargo advanced automated radiography system to detect certain nuclear materials in vehicles and containers at ports.

[1]GAO determined total budget authority for S&T and DNDO based on DHS's Monthly Budget Execution Reports for fiscal years 2007 through 2010. GAO has not independently verified amounts in the reports.

DNDO pursued the deployment of the cargo advanced automated radiography system without fully understanding that it would not fit within existing inspection lanes at ports of entry and would slow down the flow of commerce through these lanes, causing significant delays. DHS spent $113 million on the program since 2005. DHS cancelled the acquisition phase of the program in 2007.

- In June 2010, GAO reported that three Coast Guard programs—the Maritime Patrol Aircraft, Response Boat-Medium, and Sentinel Class Patrol Boat—placed orders for or received significant numbers of units prior to completing testing, placing the Coast Guard at risk for needing to make expensive changes to the design of these vessels after production had begun if significant problems were identified during testing. Acquisition cost estimates for these three programs together totaled about $6.8 billion, according to Coast Guard data.

- In October 2009, GAO reported that the Transportation Security Administration (TSA), within DHS, deployed explosives trace portals, a technology for detecting traces of explosives on passengers at airport checkpoints, even though TSA officials were aware that tests conducted during 2004 and 2005 on earlier models of the portals suggested the portals did not demonstrate reliable performance in an airport environment. TSA also lacked assurance that the portals would meet functional requirements in airports within estimated costs. In June 2006, TSA halted deployment of the explosives trace portals because of performance problems, and the machines were more expensive to install and maintain than expected. GAO recommended that TSA ensure that tests are completed before deploying checkpoint screening technologies to airports. The agency concurred with the recommendation and has taken action to address it. For example, TSA has required more recent passenger checkpoint technologies to complete both laboratory tests and operational tests prior to their deployment.

In addition, GAO's prior work has shown that cost-benefit analyses help congressional and agency decision makers assess and prioritize resource investments and consider potentially more cost-effective alternatives. However, DHS has not included cost-benefit analyses in its testing efforts and acquisition decision making.

- In 2006, GAO recommended that DHS's decision to deploy next generation radiation detection equipment, or advanced spectroscopic portals, used to detect smuggled nuclear or radiological materials, be

based on an analysis of both the benefits and costs—which GAO later estimated at over $2 billion—and a determination of whether any additional detection capability provided by the portals was worth their additional cost. DHS subsequently issued a cost-benefit analysis, but GAO reported that this analysis did not provide a sound analytical basis for DHS's decision to deploy the portals. In June 2009 GAO reported that an updated cost-benefit analysis might show that DNDO's plan to replace existing equipment with advanced spectroscopic portals was not justified, particularly given the marginal improvement in detection of certain nuclear materials required of advanced spectroscopic portals and the potential to improve the current-generation portal monitors' sensitivity to nuclear materials, most likely at a lower cost. After spending more than $200 million on the program, in February 2010 DHS announced that it was scaling back its plans for development and use of the portals technology.

- In October 2009 GAO reported that TSA had not yet completed a cost-benefit analysis to prioritize and fund its technology investments for screening passengers at airport checkpoints. One reason that TSA had difficulty developing a cost-benefit analysis was that it had not yet developed lifecycle cost estimates for its various screening technologies. GAO reported that this information was important because it would help decision makers determine, given the cost of various technologies, which technology provided the greatest mitigation of risk for the resources that were available. GAO recommended that TSA develop a cost-benefit analysis. The agency has completed a lifecycle cost estimate and collected information for its checkpoint technologies, but has not yet completed any cost-benefit analysis.

In January 2011, DHS reported that it plans to take additional actions to strengthen its research and development efforts. For example, DHS reported that it plans to establish a new model for managing departmentwide investments across their life cycles. DHS reported that S&T will be involved in each phase of the investment life cycle and will participate in new entities DHS is planning to create to help ensure that test and evaluation methods are appropriately considered as part of DHS's overall research and development investment strategies. According to DHS, S&T will help ensure that new technologies are properly scoped, developed, and tested before being implemented. In addition, DHS reported that the new entities it is planning to establish to strengthen management of the department's acquisition and investment review process will be responsible for, among other things, making decisions on

research and development initiatives based on factors such as viability and affordability, and overseeing key acquisition decisions for major programs using baseline and actual data.

Actions Needed and Potential Savings

GAO's work has highlighted the need for the department to strengthen its research and development efforts by ensuring that (1) testing efforts are completed before making acquisition decisions and (2) cost-benefit analyses are conducted to reduce research and development inefficiencies and costs. The planned actions DHS reports it is taking or has under way to address management of its research and development programs are positive steps and, if implemented effectively, could help the department address many of these challenges. However, it is too early to fully assess the impact of these actions.

GAO has reported that DHS could take further actions to improve its management of research and development efforts and reduce costs in procuring and deploying programs that have not been fully tested. For example, rigorously testing devices using actual agency operational tactics before making decisions on acquisition would help DHS reduce inefficiencies and costs. Further, conducting cost-benefit analyses as part of research, development, and testing efforts would help DHS and congressional decision makers better assess and prioritize investment decisions, including assessing possible program alternatives that could be more cost-effective.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below. GAO has ongoing work for the Senate Committee on Homeland Security and Governmental Affairs reviewing the role that S&T has in conducting testing and evaluation of major acquisitions programs prior to implementation.

Related GAO Products

Combating Nuclear Smuggling: Inadequate Communication and Oversight Hampered DHS Efforts to Develop an Advanced Radiography System to Detect Nuclear Materials. GAO-10-1041T. Washington D.C.: September 15, 2010.

Combating Nuclear Smuggling: DHS Has Made Some Progress but Not Yet Completed a Strategic Plan for Its Global Nuclear Detection Efforts or Closed Identified Gaps. GAO-10-883T. Washington D.C.: June 30, 2010.

Department of Homeland Security: Assessments of Selected Complex Acquisitions. GAO-10-588SP. Washington, D.C.: June 30, 2010.

Aviation Security: DHS and TSA Have Researched, Developed, and Begun Deploying Passenger Checkpoint Screening Technologies, but Continue to Face Challenges. GAO-10-128. Washington, D.C.: October 7, 2009.

Combating Nuclear Smuggling: Lessons Learned from DHS Testing of Advanced Radiation Detection Portal Monitors. GAO-09-804T. Washington, D.C.: June 25, 2009.

Combating Nuclear Smuggling: DHS Improved Testing of Advanced Radiation Detection Portal Monitors, but Preliminary Results Show Limits of the New Technology. GAO-09-655. Washington D.C.: May 21, 2009.

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Validation of TSA's Behavior-Based Screening Program Is Needed to Justify Funding or Expansion

Why GAO Is Focusing on this Area

The terrorist attacks of September 11, 2001, highlighted the need to improve security within the nation's civil aviation system to deter persons seeking to repeat similar attacks on the nation's critical infrastructure. To enhance aviation security, the Department of Homeland Security's (DHS) Transportation Security Administration (TSA) began testing in October 2003 of its Screening of Passengers by Observation Techniques (SPOT) program to identify persons who may pose a risk to aviation security. In fiscal year 2010, about 3,000 Behavior Detection Officers were deployed to 161 airports at an annual cost of over $200 million. As highlighted in GAO's May 2010 report, TSA did not validate the science supporting the program or determine if behavior detection techniques could be successfully used across the aviation system to detect threats before deploying the SPOT program.

What GAO Has Found Indicating Potential for Cost Saving

TSA has implemented and now seeks to expand a behavior screening program, which has not yet been validated. A validation study is underway, but questions exist regarding whether the study's methodology is sufficiently comprehensive to validate the SPOT program. The results of an independent assessment are needed to determine whether current validation efforts are sufficiently comprehensive to validate the program.

After operationally testing behavioral detection screening started in October 2003, TSA created separate Behavior Detection Officer positions as part of the SPOT program beginning in fiscal year 2007. TSA designed SPOT to provide these officers with a means of identifying persons who may pose a potential security risk at TSA-regulated airports by focusing on behaviors and appearances that deviate from an established baseline, and that may be indicative of stress, fear, or deception. Behavior Detection Officers have been selectively deployed to 161 of the 462 TSA-regulated airports in the United States. The conference report accompanying the fiscal year 2010 DHS appropriations act provided that $211.9 million was for the SPOT program.[1] The administration has requested $232 million for SPOT for fiscal year 2011, a $20.2 million (9.5 percent) increase over the current funding level. This increase would support a workforce increase from about 3,000 to 3,350 Behavior Detection Officers.

As discussed in GAO's May 2010 report, TSA deployed SPOT nationwide before first determining whether there was a scientifically valid basis for

[1]H.R. Rep. 111-298, at 77 (2009) (Conf. Rep.).

using behavior and appearance indicators as a means for reliably identifying passengers who may pose a risk to the U.S. aviation system. According to TSA, SPOT was deployed before a scientific validation of the program was completed in response to the need to address potential threats, but was based upon scientific research available at the time regarding human behaviors. TSA officials also stated that no other large-scale U.S. or international screening program incorporating behavior- and appearance-based indicators has ever been rigorously scientifically validated.

However, a 2008 report issued by the National Research Council of the National Academy of Sciences noted that an information-based program, such as a behavior detection program, should first determine if a scientific foundation exists and use scientifically valid criteria to evaluate its effectiveness before going forward. The report added that programs should have a sound experimental basis and that the documentation on the program's effectiveness should be reviewed by an independent entity capable of evaluating the supporting scientific evidence.[2] Thus, and as recommended in GAO's May 2010 report, an independent panel of experts could help DHS develop a comprehensive methodology to determine if the SPOT program is based on valid scientific principles that can be effectively applied in an airport environment for counterterrorism purposes. Specifically, GAO's May 2010 report recommended that the Secretary of Homeland Security convene an independent panel of experts to review the methodology of a validation study on the SPOT program being conducted by DHS's Science and Technology Directorate to determine whether the study's methodology is sufficiently comprehensive to validate the SPOT program. GAO recommended that this assessment include appropriate input from other federal agencies with expertise in behavior detection and relevant subject matter experts. DHS concurred and stated that its current validation study includes an independent review of the program that will include input from other federal agencies and relevant experts. According to DHS, this independent review is expected to be completed in February 2011.

[2]A study performed by the JASON program office raised similar concerns. The JASON program office is an independent scientific advisory group that provides consulting services to the U.S. government on matters of defense science and technology.

Actions Needed and Potential Savings

As discussed in GAO's May 2010 report, DHS has contracted with the American Institutes for Research to conduct its validation study. However, DHS's response to GAO's report did not describe how the review currently planned is designed to determine whether the study's methodology is sufficiently comprehensive to validate the SPOT program. As GAO noted in its report, research on other issues, such as determining the number of individuals needed to observe a given number of passengers moving at a given rate per day in an airport environment or the duration that such observation can be conducted by Behavior Detection Officers before observation fatigue affects effectiveness, could provide additional information on the extent to which SPOT can be effectively implemented in airports. Additional research could also help determine the need for periodic refresher training since research has not yet determined whether behavior detection is easily forgotten or can be potentially degraded with time or lack of use. Because such questions exist, using an independent panel of experts to assess the methodology of the study could provide DHS with additional assurance regarding whether the study's methodology is sufficiently comprehensive to validate the SPOT program. DHS stated that the ongoing independent review is being conducted by an independent panel of experts that includes a broad range of operational agencies and academia and will include, among other things, recommended additional studies that should be undertaken to more fully validate the science underlying the SPOT screening process. Moreover, DHS stated that its current effort to validate the science underlying SPOT includes three years of operational SPOT referral data and preliminary results indicate that it is supportive of SPOT. However, in May 2010, GAO reported weaknesses in TSA's process for maintaining operational data from the SPOT program database. Because of these data-related issues, GAO reported that meaningful analyses could not be conducted to determine if there is an association between certain behaviors and the likelihood that a person displaying certain behaviors would be referred to a law enforcement officer or whether any behavior or combination of behaviors could be used to distinguish deceptive from nondeceptive individuals.

Congress may wish to consider limiting program funding pending receipt of an independent assessment of TSA's SPOT program. GAO identified potential budget savings of about $20 million per year if funding were frozen at current levels until validation efforts are complete. Specifically, in the near term, Congress could consider freezing appropriation levels for the SPOT program at the 2010 level until the validation effort is completed. Assuming that TSA is planning to expand the program at a similar rate each year, this action could result in possible savings of about $20 million

per year, since TSA is seeking about a $20 million increase for SPOT in fiscal year 2011. Upon completion of the validation effort, Congress may also wish to consider the study's results—including the program's effectiveness in using behavior-based screening techniques to detect terrorists in the aviation environment—in making future funding decisions regarding the program.

Framework for Analysis

The information contained in this analysis is based on the related GAO product listed below.

Related GAO Product

Aviation Security: Efforts to Validate TSA's Passenger Screening Behavior Detection Program Underway, but Opportunities Exist to Strengthen Validation and Addresses Operational Challenges. GAO-10-763. Washington, D.C.: May 2010.

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More Efficient Baggage Screening Systems Could Result in Substantial Reduction in Personnel Costs

Why GAO Is Focusing on This Area

The Transportation Security Administration's (TSA) Electronic Baggage Screening Program—which facilitates the development and deployment of checked baggage screening systems—is one of the largest acquisition programs in the Department of Homeland Security. According to TSA, over $8 billion has been made available for enhancing the screening of checked baggage transported on passenger aircraft since fiscal year 2001. In fiscal year 2010, over $1 billion was made available to procure and install screening equipment. The Department of Homeland Security's fiscal year 2011 request amounts to $624 million for procurement and installation in fiscal year 2011.[1]

Through the Electronic Baggage Screening Program, TSA deploys baggage screening systems to best fit security needs and infrastructure at the 462 airports at which TSA performs or oversees screening activities. TSA generally deploys equipment for screening checked baggage in one of two ways: (1) in-line baggage screening systems, which are integrated into the conveyor systems that sort and transport baggage for loading onto an aircraft and (2) stand-alone machines that are typically situated in airport lobbies.

What GAO Has Found Indicating Potential for Cost Saving

GAO estimates that TSA could achieve up to $470 million in net savings based on reduced TSA staffing costs through the replacement or modification of existing systems with more efficient baggage screening systems at airports over the next 5 years, assuming that funding for procurement and installation under the Electronic Baggage Screening Program continues at TSA-projected levels.[2]

In March 2005, GAO reported that airports benefit from the installation of more efficient systems, such as in-line baggage screening systems, because these systems reduce the time needed for baggage screening and allow airports and TSA to streamline their operations. Moreover, a 2006 Aviation Security Advisory Committee study reported that modifying or replacing existing systems with more efficient systems could reduce the number of

[1]From this amount, TSA also plans to support its Security Technology Integrated Program, Advanced Surveillance Program, and other programs related to the operation and integration of security technologies.

[2]Net savings account for differences in acquisition, modification, installation, and operation and maintenance costs between existing systems replaced with more efficient systems at airports.

screener personnel required to operate these systems.[3] In 2005, GAO also reported that TSA had not conducted a systematic, prospective analysis to determine at which airports it could achieve long-term savings and enhance efficiencies and security by installing more efficient in-line systems. GAO recommended, among other things, that TSA identify and prioritize the airports where the cost-savings benefits of optimizing baggage screening operations by replacing existing baggage screening systems with more efficient in-line systems are likely to exceed the estimated up-front investment costs of installing the systems, or where the systems are needed to address security risks. TSA concurred with this recommendation and published a plan to deploy more efficient systems for 250 airports. As of January 2011, TSA plans to complete its efforts to replace or modify systems at these airports by 2024. TSA officials have not provided GAO with information on its plans at the remaining airports.

Replacing or modifying existing systems with more efficient systems results in net personnel cost savings to the extent all other costs, except for personnel—acquisition, installation, modification, and operations and maintenance costs—are relatively equal over time. Using TSA data on its planned average annual program budget rate of $448 million and estimated screener personnel costs, GAO estimates that if TSA continues to replace or modify older systems with more efficient systems, including in-line screening systems, it could reduce full-time equivalent baggage screener positions as a result of investments made in fiscal years 2011 through 2015. This reduction in personnel could result in up to $470 million in estimated

[3]The committee, comprised of government and private sector representatives, examines areas of civil aviation security to develop recommendations for improving aviation security methods, equipment, and procedures.

net cost savings.[4] These estimates are based on airport planning and acquisition costs for 250 airports provided by TSA that are subject to change but are illustrative of the potential magnitude of federal cost savings that could be achieved. More precise estimates could be developed as these plans are further developed and refined.

Actions Needed and Potential Savings

By continuing to replace or modify older systems with more efficient solutions, including in-line screening systems, at its planned average annual program budget rate of $448 million,[5] TSA could continue to eliminate baggage screener positions achieving up to $470 million in estimated net costs savings over the next 5 years.[6] TSA agreed that the deployment of more efficient systems offers potential cost savings to the federal government. GAO will continue to assess these issues as part of its ongoing work examining more efficient checked baggage screening systems for the

[4]GAO estimates that these cost savings are equivalent to up to approximately 10,400 cumulative full-time equivalent screener positions resulting from investments for fiscal years 2011 through 2015. To calculate these estimated cost savings, GAO computed an average return on investment by determining the projected 5-year savings TSA could realize by replacing or modifying baggage systems at individual airports in 2009 and comparing the savings to funding made available to TSA in fiscal year 2009 for procurement and installation of the systems. First, GAO calculated the present value of estimated full-time equivalent savings across a 5-year period (i.e., fiscal years 2009 through 2013) which totaled about $117 million in fiscal year 2009. The $117 million assumes differences in acquisition, modification, installation, and operation and maintenance costs between existing systems, and more efficient systems at airports continue to be relatively equal. This assumption is based on TSA's analysis conducted in 2004 and 2005, which was the most recent analysis available. GAO reviewed and reported on this analysis in its March 2005 report. Second, GAO divided the cost savings by the $544 million in funding made available for procurement and installation in fiscal year 2009 (excluding any carry-over balances from prior fiscal years and funds appropriated through the American Recovery and Reinvestment Act). Thus, the average return on TSA's investment or the ratio of cost savings as a share of investment is $117/$544 million, or about 0.21. GAO multiplied this ratio (0.21) by TSA's planned future program budget for replacing or modifying baggage systems for fiscal year 2011 through fiscal year 2015 (assuming TSA receives funding at anticipated levels) to estimate the resulting net cost savings. However, the 0.21 ratio may not necessarily continue into the future depending on changing costs and circumstances. To calculate the average annual program budget, GAO used information TSA provided on its planned annual program budget on acquisition and planning costs for fiscal years 2011 through 2014. GAO did not have information on TSA's planned annual program budget for fiscal year 2015.

[5]TSA's Office of Security Technology, Acquisition Review Board presentation, November 5, 2009.

[6]Anticipated cost savings may be reduced as TSA diverts funding to, for example, recapitalize existing baggage screening systems for sustained operations.

Senate Committee on Commerce, Science and Transportation. GAO plans to report on the final results of this review in 2011.

Framework for Analysis

This analysis is based on GAO's preliminary observations from its ongoing work as well as information contained in the related GAO products listed below. To develop GAO's preliminary observations, GAO reviewed available documentation on TSA's checked baggage screening program, including TSA's estimated cost data for full-time equivalent screeners from fiscal year 2009 to fiscal year 2013; TSA's planned program budget data for continued installation of more efficient systems; and modification costs from fiscal years 2009 to fiscal years 2010. GAO could not independently verify the reliability of all of this information, but it compared this information with other supporting documents, when available, to determine data consistency and reasonableness. On the basis of these efforts, GAO concluded that the data were sufficiently reliable for its purposes.

Related GAO Products

Department of Homeland Security: Assessments of Selected Complex Acquisitions. GAO-10-588SP. Washington, D.C.: June 30, 2010.

Airport Finance: Observations on Planned Airport Development Costs and Funding Levels and the Administration's Proposed Changes in the Airport Improvement Program. GAO-07-885. Washington, D.C.: June 29, 2007.

Aviation Security: Cost Estimates Related to TSA Funding of Checked Baggage Screening Systems at Los Angeles and Ontario Airports. GAO-07-445. Washington, D.C.: March 30, 2007.

Aviation Security: TSA Has Strengthened Efforts to Plan for the Optimal Deployment of Checked Baggage Screening Systems, but Funding Uncertainties Remain. GAO-06-875T. Washington, D.C.: June 29, 2006.

Aviation Security: Enhancements Made in Passenger and Checked Baggage Screening, but Challenges Remain. GAO-06-371T. Washington, D.C.: April 4, 2006.

Aviation Security: Systematic Planning Needed to Optimize the Deployment of Checked Baggage Screening Systems. GAO-05-365. Washington, D.C.: March 15, 2005.

Area Contact

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Clarifying Availability of Certain Customs Fee Collections Could Produce Savings

Why GAO Is Focusing on This Area

The U.S. Customs and Border Protection (CBP) collects user fees to recover certain costs incurred for processing, among other things, air and sea passengers; and various private and commercial land, sea, air, and rail carriers and shipments. These fees were created by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and are deposited into the Customs User Fee Account. CBP also receives appropriations, including a Salaries and Expenses appropriation. To pay for certain expenses, it reimburses its salaries and expenses appropriation from its COBRA collections.

GAO discovered that CBP has a $639.4 million unobligated balance in its Customs User Fee Account as a result of excess collections from a temporary fee increase and elimination of North American Free Trade Agreement (NAFTA) country exemptions from January 1, 1994, to September 30, 1997.

What GAO Has Found Indicating Potential for Enhancing Revenue

Clarifying the availability of unobligated balances in CBP's Customs User Fee Account could enable Congress to revise the agency's future appropriations, thereby producing a one-time savings of up to $640 million. When the NAFTA Implementation Act was amended in 1993, in addition to authorizing a temporary increase in the COBRA user fees charged to passengers arriving in the United States from abroad on commercial vessels or aircraft from $5 to $6.50, the amendment also temporarily lifted the exemption for passengers arriving from Mexico, Canada and adjacent islands, and U.S. territories (other than Puerto Rico). The additional amounts collected due to these temporary adjustments, which expired in 1997, were deposited in the Customs User Fee Account and were available for reimbursement of inspection costs, including those related to passenger processing. These funds, which accumulated from January 1, 1994, to September 30, 1997, remain unobligated in the account.

GAO first identified these unobligated balances in 2008. CBP officials stated at that time that although they formerly believed they needed additional authorization to spend these balances, it later appeared that the funds may be used as authorized by law. However, when GAO discussed these unobligated balances again in 2009 and 2010, CBP officials said they provided information on the excess collections to the Office of Management and Budget (OMB) and requested OMB's assistance multiple times to clarify the availability of these funds. They said OMB has not responded to their request.

Actions Needed and Potential Revenue

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

Framework for Analysis

This analysis is based on reviews of CBP's user fee accounts, which were provided to Congress as technical advice in a Budget Justification Review in the context of GAO's annual review of the President's annual budget request. GAO conducted that work in accordance with all sections of GAO's Quality Assurance Framework that were relevant to its objectives. The framework requires that GAO plan and perform the engagement to obtain sufficient and appropriate evidence to meet its stated objectives and to discuss any limitations in its work. GAO believes that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Related GAO Products

There are no publicly available products related to this analysis.

Area Contact

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Social Security Needs Data on Pensions from Noncovered Earnings to Better Enforce Offsets and Ensure Benefit Fairness

Why GAO Is Focusing on This Area

The Social Security Administration (SSA) needs accurate information from state and local governments on retirees who receive pensions from employment not covered under Social Security. SSA needs this information to fairly and accurately apply the Government Pension Offset (GPO), which generally applies to spouse and survivor benefits, and the Windfall Elimination Provision (WEP), which applies to retired worker benefits. Information on receipt of pensions from noncovered employment is not available to SSA for many state and local pension benefits, even though it is for federal pension benefits from the federal Office of Personnel Management. The resulting disparity in the application of the provisions is a continuing source of confusion and frustration for affected workers. Providing information on the receipt of state and local noncovered pension benefits to SSA via tax data could help the agency more accurately and fairly administer the GPO and WEP and could save nearly $3 billion over 10 years, according to estimates by the Office of Management and Budget.

Social Security covers about 96 percent of all U.S. workers; the vast majority of the remaining 4 percent are public employees who work for federal, state, and local government. In the case of state and local government employees, about one-fourth, or about 7 million, have jobs that are not covered by Social Security. Although these workers do not pay Social Security taxes on their noncovered government earnings, they may still be eligible for Social Security benefits through their spouses' or their own earnings from other jobs that Social Security does cover. Social Security's GPO and WEP provisions attempt to take noncovered employment into account when calculating the Social Security benefits. However, these provisions have been difficult to administer because SSA does not have the pension data it needs to perform these calculations accurately.

One of Social Security's most fundamental principles is that benefits reflect the earnings on which workers have paid Social Security taxes. At the same time, Social Security helps ensure that its beneficiaries have adequate incomes. Social Security's benefit provisions redistribute income in a variety of ways—from those with higher lifetime earnings to those with lower ones and from those without dependents to those with dependents. Such distributional effects depend, to a great extent, on the universal and compulsory nature of the program. Noncovered employment has unintended effects on these distributional outcomes. Accordingly, Social Security uses the GPO and WEP to take noncovered employment into account.

The GPO provides an offset for spouses with noncovered earnings that is similar to an offset that applies, in effect, to spouses with covered earnings. Under Social Security's benefit provisions, workers may be entitled to (1) retired worker benefits based on their own covered earnings or to (2) spouse or survivor benefits based on their spouses' covered earnings. However, they are not entitled to receive both, only the higher of the two. In effect, spouses with covered earnings are subject to an offset equal to 100 percent of their spouse or survivor benefits if their retired worker benefits are higher. Similarly, the GPO reduces the Social Security spousal benefit for workers who also receive a worker's pension from noncovered employment.

The WEP provides an offset to retired worker benefits and accounts for the fact that workers with noncovered pensions have higher lifetime earnings than the covered earnings on which their benefits are calculated. Social Security's benefit formula replaces a relatively higher proportion of wages for low earners than for high earners, which helps ensure adequate retirement incomes. Workers with lengthy careers in noncovered employment appear on SSA's records as low earners even when they are not because those records do not reflect noncovered earnings. Without the WEP, Congress was concerned that the design of the Social Security benefit formula provided unintended windfall benefits to workers who had spent most of their careers in noncovered employment.

What GAO Has Found Indicating Potential for Cost Saving

In an April 1998 report, GAO found that SSA did not have the information it needed on beneficiaries' receipt of state and local noncovered pensions, even though it did have such information for federal pension benefits. As a result, a disparity in the application of the provisions existed. GAO recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension information on IRS Form 1099R, so that SSA would be able to identify people receiving a pension from noncovered employment, especially in state and local governments. However, IRS did not believe it could make the recommended change without new legislative authority. In May 2003, June 2005, and November 2007, GAO suggested that Congress consider giving IRS the authority to collect the information that SSA needs on government pension income. The Senate Finance Committee proposed a version of the Social Security Protection Act of 2004 that contained such a provision, but this provision was not included when the final version of the bill was passed and signed into law.

Critics of the GPO and WEP contend that the provisions are inaccurate and often unfair. For example, critics of the GPO contend that the

reduction is imprecise and could be based on a more rigorous formula. According to an analysis conducted by the Congressional Research Service, the GPO formula slightly overestimates the benefit reduction that some individuals (particularly higher earners) would otherwise receive if they worked in Social Security-covered employment, and greatly underestimates the reduction that others (particularly lower earners) would receive. In the case of the WEP, opponents argue that the formula adjustment is an arbitrary and inaccurate way to estimate the value of the windfall and causes a relatively larger benefit reduction for lower-paid workers. However, accounting for such effects of differences in lifetime earnings would involve having complete records of noncovered earnings, which SSA does not have. In contrast, to implement the current provisions, SSA only needs to determine whether a beneficiary is receiving a pension based on noncovered earnings.

Extending mandatory coverage for all state and local workers has been proposed among other options for addressing Social Security's long-term financial deficit. While this would eventually make the GPO and WEP offsets obsolete, they would still be needed for many years to come for existing employees and beneficiaries.

Actions Needed and Potential Savings

GAO continues to believe that it is important to apply these laws consistently and equitably. Specifically, GAO continues to suggest that Congress consider giving IRS the authority to collect the information that SSA needs on government pension income to administer the GPO and WEP provisions accurately and fairly.

The President's 2011 budget's proposals for terminations, reductions, and savings contains a provision that would address the need for more complete and accurate information on noncovered state and local pensions, and it estimates savings of $2.9 billion over 10 years. The Congressional Budget Office's 2009 Budget Options, Volume 2, has a similar provision and estimates savings of $2.4 billion over 10 years.

Framework for Analysis

The information contained in this analysis is based on the related GAO products listed below.

Related GAO Products

Social Security Administration: Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees. GAO-10-938. Washington, D.C.: September 29, 2010.

Social Security: Issues Regarding the Coverage of Public Employees. GAO-08-248T. Washington, D.C.: November 6, 2007.

Social Security: Coverage of Public Employees and Implications for Reform. GAO-05-786T. Washington, D.C.: June 9, 2005.

Social Security Reform: Answers to Key Questions. GAO-05-193SP. Washington, D.C.: May 2, 2005.

Social Security: Issues Relating to Noncoverage of Public Employees. GAO-03-710T. Washington, D.C.: May 1, 2003.

Social Security: Congress Should Consider Revising the Government Pension Offset "Loophole." GAO-03-498T. Washington, D.C.: February 27, 2003.

Social Security: Implications of Extending Mandatory Coverage to State and Local Employees. GAO/HEHS-98-196. Washington, D.C.: August 18, 1998.

Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions. GAO/HEHS-98-76. Washington, D.C.: April 30, 1998.

Federal Workforce: Effects of Public Pension Offset on Social Security Benefits of Federal Retirees. GAO/GGD-88-73. Washington, D.C.: April 27, 1988.

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Congress Could Pursue Several Options to Improve Collection of Antidumping and Countervailing Duties

Why GAO Is Focusing on This Area

In March 2008 GAO reported that, as of September 2007, U.S. Customs and Border Protection (CBP) has been unable to collect more than $600 million owed in antidumping and countervailing duties imposed to remedy injurious unfair foreign trade practices. These include duties imposed on products exported to the United States at unfairly low prices (i.e., dumped) and duties on products exported to the United States that were subsidized by foreign governments. In addition to the substantial amount of lost revenue, the uncollected duties cause concern that the U.S. government has not fully remedied the unfair trade practices.

What GAO Has Found Indicating Potential for Enhancing Revenue

Since 2005 GAO has reported several times on the U.S. government's inability to collect substantial amounts of antidumping and countervailing duties and in 2008 proposed a variety of options for improving the system for collecting these duties. Two key components of the antidumping and countervailing duty system have received particular attention. One key component of the system is its retrospective nature, which means that—though importers pay estimated duties at the time of importation—final duties are not assessed until after products enter the country. Another component is the "new shipper" review process that allows new manufacturers or exporters to petition for their own separate antidumping and countervailing duty rate. Despite other efforts by Congress and CBP, these components of the system have not been addressed and the collection of antidumping and countervailing duties remains a problem. While there are a variety of factors that affect the amount of antidumping and countervailing duties assessed, in 2008 GAO comprehensively reviewed the $613 million in uncollected antidumping and countervailing duties and identified the key factors contributing to the collections problems, including:

- *Retrospective component of the antidumping and countervailing duty system.* Under the current retrospective system, importers pay the estimated amount of antidumping and countervailing duties when products enter the United States, but the final amount of duties owed is not determined until later. This creates a risk that the government will be unable to collect the full amount owed, which can be substantially more than the original estimate. In 2008 GAO reported that when they increased—because of some large increases—duty rates rose an average of 62 percentage points, and some increases exceeded 200 percentage points. The long time lags between the initial entry of a product and the final assessment of duties heightens the risk that the government will be unable to collect the full amount owed. In 2008 GAO found that, on average, this process took more than 3 years,

though in one instance it took more than 18 years. During this time, importers may disappear, cease business operations, or declare bankruptcy, which creates challenges to the government's ability to collect antidumping and countervailing duties owed.

- *"New shipper" reviews.* Under current law, "new shippers" (manufacturers/exporters whose costs were not previously reviewed) can request that the government conduct a review to establish an individual antidumping and countervailing duty rate. However, U.S. law does not specify a minimum amount of exports or number of transactions that a company must make to be eligible for a new shipper review, and according to Department of Commerce (Commerce) officials, they do not have the legislative authority to create any such requirement. As a result, a shipper can be assigned an individual duty rate based on a very minimal amount of exports, and can intentionally set a high price for this small amount of initial exports. This creates the possibility that companies may be able to get a low (or 0 percent) initial antidumping duty rate, which will subsequently rise when the exporter lowers its price, and puts the government in the position of having to collect additional duties. In 2008 GAO found that importers purchasing from companies undergoing "new shipper reviews" accounted for approximately 40 percent of the uncollected antidumping and countervailing duties as of fiscal year 2007.

Actions Needed and Potential Revenue

In March 2008 GAO identified several options for Congress to consider for improving the collection of antidumping and countervailing duties. GAO also indicated that these options have both potential advantages and disadvantages. By adjusting features of the antidumping or countervailing duty system that create the risk that companies can evade paying duties, Congress could further protect government revenue, while also minimizing incentives for companies to pursue unfair trade practices. For example, Congress could:

- *Eliminate the retrospective component of the U.S. antidumping and countervailing duty system.* U.S. law could be changed to eliminate the retrospective component of the U.S. antidumping and countervailing duty system and, instead, treat the antidumping and countervailing duties assessed at the time the product enters the country as final. If the antidumping or countervailing duty rate is changed, it is applied only to future imports and has no effect on the amount of duties owed for previous imports. Other countries GAO reviewed did not determine their final antidumping and countervailing

duties by calculating actual amount of duties owed after products enter the country. In 2008 GAO found that while each country's antidumping and countervailing duty system operates differently, major U.S. trading partners such as Canada, Australia, and the European Union have antidumping and countervailing duty systems that are not retrospective.

- *Adjust requirements for new shipper reviews.* Congress could choose to provide Commerce the discretion to require companies applying for a new shipper review to have a greater volume of imports before establishing an individual antidumping and countervailing duty rate. According to Commerce officials, this could help mitigate the risks posed by establishing an antidumping and countervailing duty rate based on one shipment.

Following GAO's 2008 report, Congress mandated that the Department of Commerce review the relative advantages and disadvantages of prospective and retrospective antidumping and countervailing duty systems. In November 2010 Commerce released its report which, in addition to discussing the likely effects of each type of system on duty collection, also highlighted the administrative burden the current retrospective system places on both Commerce and CBP. This suggests the continuing need for action to reform the system for the collection of antidumping and countervailing duties.

Framework for Analysis

The information contained in this analysis is based on findings from the GAO reports listed below.

Related GAO Products

Agencies Believe Strengthening International Agreements to Improve Collection of Antidumping and Countervailing Duties Would Be Difficult and Ineffective. GAO-08-876R. Washington, D.C.: July 24, 2008.

Antidumping and Countervailing Duties: Congress and Agencies Should Take Additional Steps to Reduce Substantial Shortfalls in Duty Collection. GAO-08-391. Washington, D.C.: March 26, 2008.

International Trade: Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain. GAO-07-50. Washington, D.C.: Oct.18, 2006.

International Trade: Issues and Effects of Implementing the Continued Dumping and Subsidy Offset Act. GAO-05-979. Washington, D.C.: Sept. 26, 2005.

Area Contact

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Appendix I: List of Congressional Addressees

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Kent Conrad
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable Harold Rogers
Chairman
The Honorable Norman D. Dicks
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Darrell Issa
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight
and Government Reform
House of Representatives

The Honorable Scott Brown
United States Senate

The Honorable Tom Coburn
United States Senate

The Honorable Claire McCaskill
United States Senate

The Honorable Mark R. Warner
United States Senate

Appendix II: Objectives, Scope, and Methodology

Section 21 of Public Law 111-139, enacted in February 2010, requires GAO to conduct routine investigations to identify federal programs, agencies, offices, and initiatives with duplicative goals and activities within departments and governmentwide. This provision also requires GAO to report annually to Congress on its findings, including the cost of such duplication, and recommendations for consolidation and elimination to reduce duplication and specific rescissions (legislation canceling previously enacted budget authority) that Congress may wish to consider. As agreed with the key congressional committees, our objectives in this report are to (1) identify federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, the actions needed to address such conditions, and the potential financial and other benefits of doing so; and (2) highlight opportunities for additional potential savings or increased revenues.[1]

For the purposes of our analysis, we considered "duplication" to occur when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries. We used the term "overlap" when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. We used the term "fragmentation" to refer to those circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need. The presence of fragmentation and overlap can suggest the need to look closer at the potential for unnecessary duplication. However, determining whether and to what extent programs are actually duplicative requires programmatic information that is often not readily available. In certain instances in this report, we use the term "potential duplication" to include duplication, overlap, or fragmentation.

To identify federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, we reviewed GAO's ongoing and previously completed work. In some instances, issues related to potential for duplication, overlap, or fragmentation were identified from GAO's body of work[2] specifically examining these issues across

[1]To date, this work has not identified a basis for proposing specific funding rescissions.

[2]For example, see GAO, *Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap*, GAO-AIMD-97-146 (Washington, D.C.: Aug. 29, 1997); *Managing for Results: Barriers to Interagency Coordination*, GAO/GGD-00-106 (Washington, D.C.: Mar. 29, 2000); and *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

government. This body of work included GAO's reviews of a variety of federal programs, such as those related to training, employment, and education and social services. In other instances, we drew examples of potential duplication, overlap, or fragmentation from our ongoing audits and evaluations not specifically focused on these issues but where they were identified as challenges to the efficient and effective operation of certain federal programs or activities we reviewed. While our report includes examples where duplication, overlap, or fragmentation can hinder program performance and cause inefficiencies, we recognize that there could be instances where some degree of program duplication, overlap, or fragmentation may be warranted due to the nature or magnitude of the federal effort.

We also considered the work of other agencies such as the Office of Management and Budget and the Congressional Budget Office. While the work of other agencies informed our selection of specific areas for this year's report, we only included issues where we had current work or could update prior work within our reporting time frames. Therefore, this report is not a comprehensive survey of all government programs where unnecessary duplication, overlap, or fragmentation may exist. Rather, this report highlights a number of federal programs and activities where GAO's work indicates these issues exist. Each issue area contained in Sections I and II of this report lists the relevant GAO reports and publications upon which it is based. Those prior reports contain additional information on GAO's supporting work and methodologies. For issues based on GAO work that has not yet been published or those that update prior GAO work, we provide additional information on the methodologies used in that ongoing work or update in the Framework for Analysis section of the issue area.

To identify the actions needed to address unnecessary duplication, overlap, or fragmentation, we reviewed and updated prior GAO work and recommendations and in some cases completed ongoing work or conducted new work to identify what additional actions agencies may need to take and Congress may wish to consider. In some instances, the long-standing nature or significance of certain issues, especially those that transcended more than one agency, led us to suggest the potential need for heightened congressional oversight. To identify the potential financial and other benefits that might result from actions addressing duplication, overlap, or fragmentation, we reviewed and updated prior GAO work and conducted ongoing work with a specific focus on the potential for cost savings. In some cases, we had sufficient information to show that if actions are taken to address the individual issues summarized in this

report, opportunities for financial benefits ranging from the tens of millions to several billion dollars annually might be realized. Estimating the benefits that could result from eliminating unnecessary duplication, overlap, or fragmentation was not possible in some cases because information about the extent of unnecessary duplication among certain programs is not available. Further, the financial benefits that can be achieved from eliminating duplication, overlap, or fragmentation were not always quantifiable in advance of congressional and executive branch decision making, and information was not readily available on program performance, the level of funding devoted to overlapping programs, or the implementation costs and time frames that might be associated with program consolidations or terminations.

In light of the long-term fiscal imbalances that the federal government faces, we highlighted other opportunities for potential cost saving or revenue enhancements in addition to those associated with duplication, overlap, or fragmentation. Specifically, we reviewed and updated the existing groupings of major cost-saving opportunities that had previously been identified and summarized on GAO's Web site,[3] drawn from our past reviews of government programs at high risk of fraud, waste, abuse, and mismanagement or in need of restructuring. Similar to the duplication, overlap, and fragmentation work, we also reviewed our ongoing and recently completed work to determine whether the existing areas could be updated within the reporting time frames for this report, and we identified additional opportunities for consideration in areas where we had updated information available. We provided estimates of the cost savings or revenue enhancements, where available. At the beginning of each section, we include tables listing the areas for consideration, including information on the agencies and programs[4] involved and cost savings or revenue enhancements, if available.

We will continue to examine issues related to duplication, overlap, and fragmentation in our ongoing work. In our future mandated annual reports, we will look at additional federal programs to identify further instances of duplication, overlap, or fragmentation as well as highlight additional opportunities to reduce the cost of government operations or increase revenues to the government. Likewise, we will continue to

[3]See http://www.gao.gov/highrisk/opportunities/.

[4]To provide the most current information, we cited only those programs that were identified in GAO reports published in 2008 or later.

monitor developments in the areas we have already identified. Issues of duplication, overlap, or fragmentation also may be addressed in our routine audit work during the year and will be summarized in our mandated annual reports as appropriate.

This report is based substantially upon ongoing audits and previously completed GAO products, which were conducted in accordance with generally accepted government auditing standards (GAGAS), or with GAO's Quality Assurance Framework, as appropriate. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In one instance GAGAS did not apply to the work we did to identify the revenue enhancement opportunity pertaining to unobligated balances in the U.S. Customs and Border Protection's Customs User Fee Account. This work reviewed the agency's justification for certain estimates in the President's annual budget request to Congress rather than an audit and was performed in accordance with all relevant sections of GAO's Quality Assurance Framework. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product. For issues being reported on for the first time, GAO sought comments from the agencies involved and incorporated their comments, as appropriate. We briefed the Office of Management and Budget on a draft of this report. We conducted the work for the overall report from February 2010 through February 2011.

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