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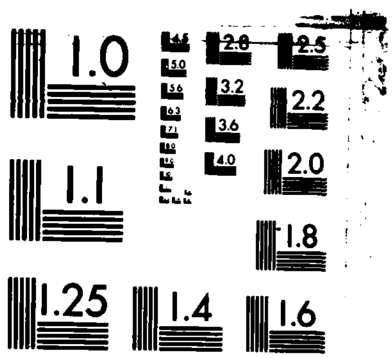

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BY THE COMPTROLLER GENERAL

Report To The Chairman, Senate Committee On Governmental Affairs

OF THE UNITED STATES

Compendium Of GAO's Views On The Cost Saving Proposals Of The Grace Commission

Vol. I - Summary of Findings

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/OCG-85-1
FEBRUARY 19, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-216875

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

This 2-volume report discusses GAO's views on 581 individual issues and associated recommendations made in the 47-volume Grace Commission report. It does not comment on the merits of about 190 other issues presented by the Commission because we had not conducted sufficient previous audit work to offer an informed opinion.

The report is organized in two volumes. Volume I summarizes our findings while Volume II sets forth our detailed views on each individual issue and the associated recommendations. As agreed, we placed primary emphasis on assessing the issues' merits and, while we assessed the Commission's savings estimates, we did not attempt to prepare our own estimates of savings that could be achieved by implementing the associated recommendations.

As requested, we are withholding public release of this report for 30 days from the date of issuance or until it is publicly released by you. At that time, we will send copies to each member of the Congress as well as each committee and subcommittee. We will also send copies to the Director, Office of Management and Budget; the Assistant to the President for Cabinet Affairs; and the Executive Secretary, Cabinet Council on Management and Administration.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

EXECUTIVE SUMMARY

Reducing the huge federal budget deficit has become the most critical challenge facing the Congress and the President. To achieve any appreciable reduction in the deficit, a host of tough policy choices will have to be made regarding the level and composition of government services and the sources and distribution of the revenues necessary to finance those services. Moreover, those operations and programs that are continued will have to be conducted more efficiently and economically.

As one step in the deficit reduction process, the President, in June 1982, created the President's Private Sector Survey on Cost Control. Better known as the Grace Commission, the Commission identified 784 issues and developed 2,478 associated recommendations which it estimated would save or increase revenues by almost $425 billion over a 3-year period. At the request of the Senate Governmental Affairs Committee, GAO examined these issues and recommendations to determine whether (1) the issues and recommendations had merit, (2) legislation would be necessary to implement the recommendations, (3) implementation efforts were completed or underway, and (4) the Commission's savings estimates were realistic.

BACKGROUND

The Commission's report consists of 47 volumes addressing federal programs and operations government-wide. Of these, 36 were developed by separate task forces assigned responsibility for studying specific agency programs or cross-cutting functions such as personnel and automated data processing. The Commission management office produced another 11 reports on selected issues that covered many of the same program and management areas included in the 36 task force reports.

The Commission organized its findings into subject areas which it termed "issues." For each issue, the Commission developed one or more recommendations. The Commission then estimated the dollar savings that could be expected from implementing the recommendations within each issue.

In February 1984, GAO teamed with the Congressional Budget Office to issue a joint report that evaluated the merits of those issues estimated by the Commission to save a billion dollars or more.

In developing this report, on the other hand, GAO examined all of the Commission's issues regardless of the estimated savings potential. The report is divided into two volumes. Volume I summarizes GAO's findings while Volume II provides detailed views on each of the individual issues.

RESULTS IN BRIEF

Many of the issues and associated recommendations on which GAO expresses an opinion, particularly those related to improving management, have overall merit. A good number of these recommendations have already been implemented by either legislative or administrative action. Many more require additional legislative action to fully implement.

Although many of the issues and recommendations reviewed have merit, GAO questions the accuracy of many of the Commission's associated savings estimates. In a number of cases, GAO found flaws in the methodology the Commission used to develop its estimates and in many others it found the description of the methodology insufficient to allow an assessment of its validity. In most of the instances where GAO questions the Commission's estimating methodology, it believes the savings were overstated.

GAO'S ANALYSIS

Merits of the Issues

GAO had conducted sufficient previous work to express its views on 581 of the issues presented by the Commission. Of these, GAO found overall merit in 441, questioned the merits of 104, and offers information but expresses no position on 36. In general, GAO supports the Commission's management improvement issues more frequently than the policy-oriented issues. However, the policy-oriented issues make up a large portion of the Commission's total estimated savings. For example, two issues GAO does not support--restructuring federal subsidy programs and fixing federal health care costs to a percentage of the gross national product--represent nearly $88 billion of the Commission's total estimated savings. GAO also disagrees with selected aspects of the Commission's recommendations to reduce civilian and military retirement benefits--estimated to save another $58 billion by the Commission--although it also sees a need for reforms in this area.

GAO's overall support for the Commission's issues is consistent across all subject areas but is most extensive in the areas aimed at strengthening federal management systems, federal ADP operations, federal credit and cash management efforts, and civilian procurement and property management activities. Proportionately, GAO questions more issues dealing with human services programs and civilian personnel management.

Of the 2,478 specific recommendations presented by the Commission, GAO had sufficient information to offer an opinion on 1,436. Of these, GAO generally agrees with 1,158. In nearly half of these cases, GAO had made similar or related recommendations in past reports and testimony.

Implementation Authority and Status

For the 581 issues analyzed, additional legislative action would be necessary to fully implement the associated recommendations in 259 cases. Of these, GAO supports the issues' overall merits nearly 75 percent of the time. GAO will be working with the Senate Governmental Affairs Committee during the coming weeks in support of its efforts to develop a legislative proposal to implement many of the recommendations.

Contents

TABLES

ABBREVIATIONS

ADP	automated data processing
AID	Agency for International Development
AIP	Acquisition Improvement Program
BLM	Bureau of Land Management
CBO	Congressional Budget Office
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CPI	Consumer Price Index
DOD	Department of Defense
DOT	Department of Transportation
EDA	Economic Development Administration
EPA	Environmental Protection Agency
FCC	Federal Communications Commission
FFB	Federal Financing Bank
FMS	foreign military sales

GAO	General Accounting Office
GNMA	Government National Mortgage Association
GSA	General Services Administration
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
OA	Office Automation
OFM	Office of Federal Management
OIRA	Office of Information and Regulatory Affairs
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBGC	Pension Benefit Guaranty Board
PMAs	Power Marketing Administrations
PPSSCC	President's Private Sector Survey on Cost Control
REA	Rural Electrification Administration
RRB	Railroad Retirement Board
SAR	Selected Acquisition Report
SBA	Small Business Administration
SPR	Strategic Petroleum Reserve
SSA	Social Security Administration
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The federal government has had a budget deficit in every fiscal year since 1970. Although the size of the deficit has fluctuated from year to year, the clear trend over the last quarter of the century has been toward ever larger deficits. If that trend continues, there is a broad consensus that it will present ever-increasing risks to the U.S. economy.

Reducing the deficit is the most critical challenge now facing the Congress and the President. To achieve any appreciable reduction of the deficit, a host of tough policy choices will have to be made regarding the level and composition of government services that can be afforded. Moreover, those government operations and programs ultimately continued will have to be conducted more efficiently and economically.

BACKGROUND

As one step in the process to reduce the deficit, the President, on June 30, 1982, signed Executive Order 12369 establishing the President's Private Sector Survey on Cost Control (PPSSCC). Frequently called the Grace Commission in recognition of its chairman, J. Peter Grace, the PPSSCC was to identify opportunities for increased efficiency and reduced costs in federal government operations. The PPSSCC was organized into 36 task forces, 22 of which were assigned to study specific departments and agencies and 14 to study cross-cutting functions, such as personnel, data processing, and procurement practices. Each task force produced a separate report to the President. In addition, the PPSSCC Management Office staff, which helped to coordinate the task forces, prepared another 11 reports on selected issues.

The PPSSCC organized its findings into subject areas which it termed "issues." In most cases, the PPSSCC developed a number of specific recommendations within each issue. In all, the 47 PPSSCC reports contain 2,478 specific recommendations on 784[1] different issues. These recommendations were aimed at improving government efficiency, reducing waste, increasing revenue collections, and just as significantly, making structural revisions to many federal programs. Following an 18-month effort, the PPSSCC concluded its efforts with a final two-volume summary report to the President in January 1984.

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[1]We examined 761 of the 784 issues. The remaining 23 issues were actually restatements or summaries of issues individually identified elsewhere in the PPSSCC reports.

The PPSSCC estimated that implementing all of its recommendations could result in net savings and revenue increases of \$424.4 billion over 3 years. It also estimated that accelerations of tax collections, debt repayments, and other receipts could amount to another \$65.5 billion in cash-flow savings over 3 years. The PPSSCC, however, characterized its estimates as being of a "planning" nature and not of "budget" quality. The estimates were to represent potential savings during the first 3 years of implementation, not specific fiscal years.[2] The PPSSCC projections of cost savings and revenue increases were based on the assumptions that the annual inflation rate and the average interest rate would be 10 percent.

The overlapping nature of the work assignments given to the 36 task forces led to several instances of double counting of possible savings. The 11 Management Office reports also cover many of the same program and management areas included in the task force reports, thereby adding to the duplication of the PPSSCC savings estimates. In its final report to the President, the PPSSCC estimated that these duplications amounted to \$120.6 billion. The sum of the savings estimates for the issues contained in the 47 volumes is therefore \$120.6 billion higher than the net savings estimate of \$424.4 cited by the PPSSCC.

Since the report's issuance in January 1984, the PPSSCC's work has been repeatedly cited by the President as a major component in his strategy to reduce the deficit. The Congress has also recognized the report's significance by incorporating provisions in the Deficit Reduction Act that require (1) the President to report on the administration's progress in implementing the PPSSCC recommendations and (2) each authorizing committee to make recommendations to the budget committees on legislative changes necessary to implement the recommendations identified in the President's report.

To help it compile the information necessary to prepare its mandated report and to ensure that each recommendation was thoroughly reviewed, the administration initiated a rigorous recommendation assessment and tracking process. Office of Management and Budget (OMB) Bulletin No. 84-18, issued in September 1984, requires each agency with implementation responsibility to identify the actions taken or being taken to implement each PPSSCC recommendation and the associated savings expected to be achieved in fiscal years 1985, 1986, and 1987. The agency submissions have been incorporated in an OMB automated data base. The administration did not release the comprehensive results of its

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[2]Throughout this report, any identified estimates of savings or revenue generated are for a 3-year period following implementation unless otherwise noted.

tracking efforts in time to be addressed in this report. However, a preliminary administration report involving about half of the PPSSCC's issues stated that 118 recommendations involving about $41 billion had already been implemented and were incorporated into the fiscal year 1985 budget baseline. The report noted that another 562 recommendations, representing an additional $63 billion, were included in the President's fiscal year 1985 budget or had been accepted and were pending implementation.

Much of the continuing momentum behind implementing the PPSSCC's recommendations can be attributed to an intensive public awareness and technical assistance campaign conducted by the PPSSCC and its spin-off organizations. At least three organizations--the President's Private Sector Survey Foundation, Citizens Against Waste, and the Private Sector Council--are actively involved in either mobilizing public support for implementing the PPSSCC's recommendations or in arranging for technical assistance from the private sector to assist agencies in implementing the recommendations. These activities have kept the PPSSCC's findings alive in the public mind and, accordingly, have ensured that the PPSSCC's recommendations are actively considered as part of congressional and administration budget-cutting activities.

PREVIOUS GAO WORK RELATED TO THE PPSSCC

We have devoted a great deal of attention to the PPSSCC from the outset of its efforts. During the data-collection activities of many PPSSCC task forces, we responded to requests for assistance and provided literally hundreds of previous GAO reports identifying cost saving and management improvement opportunities. Since the draft PPSSCC task force reports were released in May 1983, we have also been involved with assessing the merits of the PPSSCC's issues and recommendations.

In this regard, we teamed with the Congressional Budget Office (CBO) to issue a joint report in February 1984 that evaluated the merits and cost saving potential of 90 sets of PPSSCC issues (involving about 400 recommendations) with PPSSCC-estimated savings of a billion dollars or more. In that joint report, developed for the Senate and House Budget Committees, and in subsequent testimony, we concluded that about two-thirds of the recommendations evaluated had overall merit. We also noted, however, that the recommendations we disagreed with involved broad public policy questions and, according to the PPSSCC, had the highest dollar-saving potential. While noting that the savings estimates the PPSSCC prepared were in large measure too high, we agreed that regardless of the actual savings potential, recommendations having merit should be vigorously pursued and implemented.

In addition to the joint report with CBO, we have issued several other products dealing with PPSSCC activities. In

June 1984, we issued a report entitled Comparison of Retirement Benefits for W.R. Grace and Company and Civil Service Employees (GAO/OCG-84-1, June 12, 1984) in response to a request by the House Committee on Post Office and Civil Service. In that report, we found that the Grace retirement program offered potentially greater benefits than those most federal employees receive under the current federal system. We cautioned, however, that this comparison should not be the sole basis for reaching conclusions about the overall generosity of the federal system. We followed the June 1984 report up with another to the same committee on February 13, 1985, entitled, Analysis of Grace Commission Proposals to Change the Civil Service Retirement System (GAO/GGD-85-31). That report lays out the same views on those issues as are contained in this report.

We also testified on two occasions before a subcommittee of the House Post Office and Civil Service Committee on PPSSCC activities. In September 1982, soon after the PPSSCC was formed, we testified on the applicability of Federal Advisory Committee Act requirements to the PPSSCC. In this testimony, we concluded that PPSSCC task forces were advisory committee subcommittees as defined in the act and were therefore governed by its standards and requirements. In May 1983, we testified on the PPSSCC's draft task force report on personnel management. In this testimony, we expressed concern about the basis for the task force's savings estimates and recommendations calling for major cuts in federal employee benefit programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our previous assessments focused on only a portion of PPSSCC activities. Our most extensive previous work, culminating in the joint CBO/GAO report issued to the House and Senate Budget Committees, addressed only about 15 percent of the PPSSCC's recommendations. Following completion of that report, we realized that the Congress would need a more comprehensive review to assist it in its deliberations on the issues presented by the PPSSCC. In June 1984, we began a review on all the remaining PPSSCC issues and recommendations. On July 3, 1984, the Senate Governmental Affairs Committee endorsed this review and requested that our assessment address the merits and implementation feasibility of each recommendation and the validity of the associated PPSSCC savings estimates.

In conducting our review, we examined each of the PPSSCC's issues and recommendations, including those assessed previously as part of the joint CBO/GAO report. We included previously assessed issues within the scope of this effort to update our views where necessary and to present in one document a complete package of our views on the PPSSCC issues. On the basis of an initial examination, we concluded that we had insufficient information to offer an informed opinion on about 190 issues. For the remaining issues, we evaluated the merits of the issue and the associated recommendations, determined whether legislation was necessary to implement the recommendations, measured the status of implementation efforts, and commented on the validity of the PPSSCC's savings estimates. Although we analyzed the PPSSCC's savings estimates, our emphasis was on determining whether the issues had merit. Our assessment of each individual issue and its associated recommendations is presented in Volume II.

In conducting our review, we did not undertake any new audit work. Instead, we relied on past work that related directly to the issues or on broad institutional knowledge obtained through long-term involvement with the subject. We also did not attempt to develop alternative savings estimates for each issue, but rather reviewed the methodology and basis used by the PPSSCC to prepare its estimates and, where available, cited estimates we or CBO prepared in previous reports.

Finally, in evaluating the implementation status of the PPSSCC's recommendations, we attempted to obtain comprehensive information through OMB's PPSSCC recommendation tracking system. OMB staff told us, however, that this information could not be made available prior to release of the fiscal year 1986 budget and therefore not in time for us to include in our analysis. Consequently, we relied on information collected directly from individual agencies or developed during our previous work. Where such information was available, we have incorporated it into the individual issue assessments in Volume II.

STRUCTURE OF REPORT

Our report is composed of two volumes. ~~Volume I~~ (Summary of Findings) sets forth the highlights of ~~our~~ views on all the PPSSCC issues reviewed. These issues span federal programs, management systems, and activities virtually government-wide. For purposes of presentation, we organized the issues into 10 broad subject areas. These are

--federal management and administrative systems;

--federal cash and credit management;

--defense and international affairs programs;

--human services and wage protection programs;

--natural resource and community development programs;

--commerce and banking programs;

--federal civilian personnel management;

--federal property, printing, travel and transportation management, and civilian procurement;

11 federal automated data processing/office automation; and

10) revenue matters.

Volume I addresses each of these areas in a separate chapter and contains ~~our~~ GAO's conclusions and overall observations on the PPSSCC's issues. When discussing examples of individual issues, this volume also identifies the PPSSCC task force code for the issue being discussed so that more information on that issue can be obtained in Volume II.

Volume II presents our more detailed assessment of each individual issue reviewed. These issues are organized in the same broad subject areas as presented in the summary. For ease of reference, Volume II also includes a cross-referenced index organized by PPSSCC task force code for each issue.

CHAPTER 2

FEDERAL MANAGEMENT AND ADMINISTRATIVE SYSTEMS

After 18 months of study, the PPSSCC concluded that the most fundamental problem hampering successful federal government operations was the lack of effective overall management systems, including accounting, budgeting, monitoring, and oversight. It stated that these system weaknesses were the root cause of most of the specific program and other inefficiencies identified in its various task force reports and hence were the source of most of the savings potential. It further noted that federal program waste would be substantially reduced if proper management systems were in place.

The PPSSCC found that no single department or agency is responsible for overall executive branch administrative direction and policy setting. Responsibilities for property, financial management, human resources, and automated data processing (ADP) management are distributed among many agencies. The impact of this fragmentation, in the PPSSCC's view, is a "lack of attention focused on significant opportunities for cost reduction and management improvements."

As one of its most important recommendations, PPSSCC urged the establishment of an Office of Federal Management (OFM) in the Executive Office of the President. This top-management office would be responsible for policy development and direction in the areas of financial management, budgeting and planning, human resources, administration, and management improvement. OFM also would carry out the budget functions of OMB and provide policy direction for the General Services Administration (GSA) and the Office of Personnel Management (OPM).

In addition, the PPSSCC noted that the increasing size and complexity of the federal government require that the Congress and executive branch managers have timely, reliable, and useful information upon which to make effective policy and operational decisions. Advances in management and accounting have enhanced the government's ability to plan, execute, and report on its activities and to institute management improvements. However, the absence of a sound financial management structure has inhibited management improvements aimed at providing the information upon which effective policy and operational decisions can be made.

The PPSSCC recognized the need for improved financial information and presented 26 sets of issues and associated recommendations to improve accounting systems, budgeting processes, and the management of such government-wide administrative functions as planning. Most of the issues do not lend themselves to quantifying savings so the PPSSCC did not estimate savings for those issues. We believe that many of the issues have merit, as shown in the following table. But, improvements in the way the government is managed should be based on a common foundation that links the planning/programming, budgeting, execution, and evaluation phases of the financial management process. An integrated financial management process will facilitate actions to strengthen the management of government functions.

Summary Of GAO Positions On PPSSCC Financial Management Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	23	88	13
Disagree with merits	3	12	3
Total	26	100	16

In this chapter, we summarize our views on the recommendations contained in the PPSSCC's federal management systems, financial asset management, and financial management reports. Later chapters of this report cover related cross-cutting management issues involving cash and credit management, personnel, procurement, and information systems.

OVERALL MANAGEMENT OF GOVERNMENT-WIDE ADMINISTRATIVE FUNCTIONS

The PPSSCC identified "serious structural and procedural problems in Executive Branch management processes, organization, information flow, budgeting, planning and evaluation procedures, continuity of management, and communication practices." The PPSSCC's federal management systems task force report called for a businesslike approach to federal management and noted that current activities had evolved with little recognition of the need to provide central guidance and direction to achieve a well-coordinated overall management process.

The PPSSCC found that reporting relationships among the central management agencies (OMB, GSA, OPM and the Treasury) and other agencies for administrative functions are generally ill-defined and that management information provided to central agencies is incomplete. In addition, the PPSSCC found that tenure in key management positions is short, resulting in a lack of management continuity.

To provide more coherent policy development and direction, the PPSSCC made six recommendations related to establishing an OFM within the Executive Office of the President that would consolidate currently fragmented and overlapping management responsibilities (FMS 1). Although we have not yet taken a position on the need to establish OFM because sufficient information is not yet available on the outcome of current administration management reforms, we believe that most of the associated PPSSCC recommendations merit further consideration.

For many years, efforts to strengthen federal management have centered on solving problems through the powers of the central management agencies. Despite the efforts of many able people, however, this approach has not been as successful as anticipated.

We looked closely at the history of centrally directed management improvement programs in the decade since 1970 when OMB was established and found a record of periodic initiatives, few of which made a lasting impact. We reported in a staff study entitled Selected Government-Wide Management Improvement Efforts--1970 to 1980 (GAO/GGD-83-69, Aug. 8, 1983) that the overall results of these initiatives were sufficiently discouraging to lead various experts to suggest that the problem of sustaining broad management improvement needs urgent attention. In addition, the National Academy of Public Administration, in its 1983 report Revitalizing Federal Management pointed out that, at least in some areas, central management agencies have impeded, rather than promoted, effective management.

Since 1981, the administration has begun several management initiatives through the Cabinet Council on Management and Administration, including Reform '88,[1] and other mechanisms. Although recent history suggests that not all these initiatives will be successful, it is too early to forecast their outcome.

Drawing on suggestions made by others and on discussions with knowledgeable observers, our staff study provided several options that ranged from accepting the current management improvement initiatives to establishing a separate, central organization for addressing management issues. Although our staff study did not endorse any specific option, we are concerned about the poor track record of centrally directed management reform initiatives. We therefore believe greater responsibility should be placed on individual agencies for improving their managerial capacities.

The President and the central agencies nevertheless have a responsibility to provide guidance and support in cross-cutting areas, such as procurement, information management, and financial management. Consistency among agencies is also necessary to provide government-wide financial data for the President's budget. In addition, central agencies should encourage and support operating agencies' management improvement efforts and ensure that agencies share experiences with each other.

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[1]Reform '88 is the administration's management and administrative systems improvement program initiated in 1982.

The PPSSCC recommendations raise important institutional issues about the central agencies' capabilities to provide leadership for needed cross-cutting management improvements. We agree that greater continuity is needed to sustain management reforms, and we believe that the PPSSCC recommendation that OFM (or OMB) officials be appointed for specific terms of office under contractual agreements deserves consideration. OMB has had eight deputy directors since its establishment in 1970 and has had two associate directors for management since 1981. This turnover exemplifies the need for greater continuity in key management positions.

The administration has not acted to establish OFM. However, Reform '88 has laid out a long-term agenda to reduce waste, fraud, and abuse and to restructure federal management and administrative systems. In addition, annual OMB management reviews for the fiscal year 1985 and 1986 budgets have established agency-specific agendas. Agencies have also prepared 5-year ADP plans and individual management improvement plans.

The PPSSCC did not provide an estimate of either the costs or the savings that would result from implementing its federal management system report recommendations. Substantial additional resources may be required for OFM's (or OMB's) augmented responsibilities. The cost of these resources could be offset, at least in part, by savings from improved performance. We agree with the PPSSCC, however, that these net savings cannot be quantified.

INTEGRATED GOVERNMENT FINANCIAL MANAGEMENT

The PPSSCC reported opportunities to improve executive branch accounting and budgeting systems and thereby improve the quality of information available to the Congress for authorizing executive branch programs and to agency managers for instituting management improvements, reducing costs, and minimizing agency exposure to fraud, waste, and abuse. We agree that accounting and budgeting system improvements are needed, but we believe they must be part of a comprehensive effort to develop a government-wide integrated financial management structure. Such an effort must have a solid base of fundamental concepts to guide it and to present the baseline assumptions from which changes can be made. We have prepared a two volume report, Managing the Cost of Government: Building an Effective Financial Management Structure, (GAO/AFMD-85-35, February 1985) that provides a comprehensive framework for building a sound financial management structure.

Accounting system improvements

The PPSSCC made several recommendations to improve the government's accounting systems and financial reporting. The most prominent recommendations (FMS 3, FINANCE 2) include directing

(1) the Treasury to assume leadership in developing a standard, government-wide accounting system; (2) GAO to revise the Comptroller General's accounting principles, standards, and related requirements prescribed for executive agencies; and (3) individual executive agencies to gain our approval for their accounting systems. The PPSSCC also recommended that the government prepare a comprehensive annual financial report. We agree that assigning responsibility to develop a standard accounting system could foster improved accounting and financial reporting by individual agencies as well as contribute to consolidated financial reporting by the government.

The issue of GAO revising the Comptroller General's accounting principles, standards, and related requirements (FMS 3) has already been resolved. In November 1984, the Comptroller General issued a revised title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies, that updates the accounting principles and standards of the federal government to reflect the many recent advances in accounting theory and practice.

The PPSSCC recommendation that legislation be introduced to require agencies to gain Comptroller General approval of their accounting systems (FINANCE 2) is already addressed by the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3512). Each agency head is required to establish and maintain adequate systems of accounting and internal control that conform to the Comptroller General's requirements. Additionally, the Federal Managers' Financial Integrity Act of 1982 requires each agency head to report annually to the President and the Congress on whether the agency accounting system complies with those requirements. We believe that such annual reporting will spur agencies to improve their accounting systems, thus precluding the need for additional legislation.

We agree with the PPSSCC recommendation for comprehensive annual reporting by the government (FINANCE 2). From both a policy and a control perspective, it is important to have as complete a picture as possible of total government activities. Yet, control can best be exercised when the whole is broken down so that its component parts can be analyzed in some detail. However, if reporting is restricted to low levels of detail, we can reasonably expect a proportionate loss of the policy perspective that reporting on the whole can provide.

The government operates many independent, but often interrelated, programs through numerous departments and agencies. In this environment, assets are acquired and maintained and liabilities are incurred. Only through auditing and consolidating departmental operating results and financial positions can the complete picture of government activities be portrayed reliably. Information that compares the expenses of operations with the revenue available to fund those operations is important for effective cost analysis of government activities. Also, the total value of government-owned property and the amounts owed for unpaid goods and services can be compared to reveal the financial position of the federal government as a whole. This type of summary financial information is important to an informed electorate and to government officials who are concerned with effective admininstration.

The PPSSCC's issues are designed to improve the government's financial management, but such initiatives will not produce the full range of improvements needed in federal financial management. We believe that the federal government also needs a conceptual framework for the financial management structure to enable the government to provide reliable, consistent information for policy formulation and management control. A conceptual framework should be designed to improve the foundation of the financial management process: financial information and feedback on results. A conceptual framework for financial management should include underlying concepts such as the following:

--Use a structured planning and programming process for evaluating and choosing alternatives to achieve desired objectives. This process would assist policymakers in focusing on what government should be doing, how best to accomplish this, and how to measure performance based on expectations.

--Make resource allocation decisions within a unified budget. Policymakers at all levels are aided in making informed resource allocation decisions when total requirements are known and deficits are fully disclosed.

--Budget and account on the same basis. Provide a common set of rules so managers can make valid comparisons between planned (budgeted) and actual (accounting) results.

--Use accounting principles that match the delivery of services with associated cost. Use accrual accounting principles to provide policymakers and managers consistent information to compare costs between periods or agencies, with minimal interperiod distortions.

--Encourage financial accountability. Provide detailed and summary management reports that identify costs and accomplishments by the managers and organizations assigned responsibility for controlling costs.

--Measure outputs as well as inputs. Incorporate performance measurements that relate costs with outputs to determine if objectives are achieved at an acceptable cost.

--Prepare consolidated reports. Provide an overall picture of the government's financial condition to help policymakers make decisions and analyze resources and commitments.

Implementing financial management improvements will require active congressional and executive branch support. Congressional hearings covering the full breadth of current and future issues surrounding federal financial management could foster consensus on the general outline for financial management reform. Hearings might culminate in the passage of a bill or resolution setting forth the objectives of the long-term rebuilding effort for federal financial management. Executive branch support would involve a commitment of resources dedicated to financial management improvement projects.

Budget development and presentation improvements

The PPSSCC identified specific instances where the federal budget could be revised to disclose more fully the magnitude of government operations and make the budget a more comprehensive document (FINANCE 1, ASSET 31, FMS 5). The federal budget is purported to be the financial plan for a given fiscal year. As stated in the previous section discussing the conceptual framework for financial management, the budget should encompass all governmental activities and provide information in a useful form.

The PPSSCC recommended that (1) the budget be expanded in scope to include federal entities that are now "off-budget" (FINANCE 1); (2) the practice of offsetting certain revenues and outlays be discontinued (FINANCE 1); (3) a federal capital budgeting process be instituted that is integrated with overall resource planning and allocation systems (FMS 5); and (4) the budget include the full cost to fund the liabilities of federal pension, retirement, and disability plans (FINANCE 1).

Conceptually, we agree with the concept of the PPSSCC recommendations, which is to improve the federal budget presentations (FINANCE 1). For example, we have previously advocated a unified federal budget, which would include the Federal Financing Bank (FFB) and other "off-budget" agencies. The current practice of excluding FFB from budget totals, for example, significantly understates the amount of the reported budget deficit. FFB was created to reduce the cost of federal debt. Consequently, many agencies borrow funds through FFB, which then obtains funds from the Treasury. Since FFB is an "off-budget" entity, the budget does not report such outlays in its totals.

We have also recommended that the budget include all outlays on a gross basis and on a net basis (gross outlays less receipts) (FINANCE 1). The practice of offsetting understates the level of federal activity since revenues and outlays are netted. We believe that presenting gross as well as net amounts will improve congressional consideration of the President's budget.

We have also been concerned about how the government plans and budgets for the nation's capital investments (FMS 5). We believe capital investment decisions need greater visibility and a better framework than the budget currently provides. The Public Works Improvement Act of 1984 provides for the establishment of a council to assess the nation's infrastructure and identify program priorities. This act is a positive step in improving the management of the capital investment process, although greater disclosure of capital items within the budget is still needed.

The recommendation to include the full cost of federal benefit plans in the budget merits consideration (FINANCE 1). This issue, however, involves complex presentation issues that would have to be resolved, such as the effect on the federal deficit of including the full cost of pension plans.

CHAPTER 3

FEDERAL CREDIT AND CASH MANAGEMENT

The federal government has historically experienced problems in conducting its credit and cash management operations. Recognizing these problems, we have recommended numerous actions to improve these operations; however, agencies have not always implemented our recommendations. Recently, with Congress' and OMB's increased emphasis on credit and cash management, agencies have made improvements. As the PPSSCC points out, however, more needs to be done.

The PPSSCC presented 34 issues affecting federal credit and cash management. Many of the PPSSCC issues required legislative action to be implemented. However, with the enactment of the Debt Collection Act of 1982 and the Deficit Reduction Act of 1984, a number of the PPSSCC's issues have been addressed. Our analysis of the merits of the 34 PPSSCC issues on federal credit and cash management is discussed below.

Summary Of GAO Positions On PPSSCC
Federal Credit And Cash Management Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	29	85	10
Disagree with merits	3	9	
No position on merits	2	6	2
Total	34	100	12

For the 34 issues, the PPSSCC estimated that the government could save about $38 billion. We are unable to affirm whether this estimate could actually be attained. We believe, however, that most of the PPSSCC recommendations in these areas should be implemented and that substantial savings would undoubtedly result.

To facilitate consideration of the individual issues in this category, we grouped the PPSSCC's credit and cash management issues into three broad areas: (1) debt collection, (2) cash management, and (3) federal loan management.

DEBT COLLECTION

Debts owed the government are enormous and growing each year. Billions of dollars in debts are delinquent. Federal agencies reported that at the start of fiscal year 1984 total receivables from U.S. citizens and organizations totaled approximately $312 billion, with delinquencies amounting to $38 billion. Of this amount, nontax[1] delinquencies totaled about $13 billion. Further, in fiscal year 1983, over $3.1 billion in uncollectible receivables were written off. Another $24 billion in receivables is currently in a rescheduled status because the borrowers are unable to repay their debts under the terms originally specified in the agreement.

The PPSSCC presented numerous issues to improve credit management--which includes debt collection--in the federal government (ASSET 11, 12, 26, 27, 28, 29 and FINANCE 4). The issues and associated recommendations, call for such actions as

--assessing interest and penalties on delinquent debt,

--using credit bureaus and private collection agencies to supplement collection efforts,

--improving the government's accounting and reporting of debts,

--using Internal Revenue Service (IRS) offset of tax refunds as a means to collect nontax delinquent debts, and

--developing and using private-sector loan models as a means of reducing future delinquencies.

Overall, we believe the PPSSCC's recommendations are feasible and are consistent in concept with our previous recommendations. The framework for implementing the recommendations is in place; however, continued emphasis is necessary to correct the longstanding problems in this area. Implementing the recommendations should provide a business-type environment and improve the government's credit management and debt-collection activities.

Previous GAO debt collection recommendations

We have long called for strengthened government debt collection. In October 1978, we reported on the results of a government-wide review which pointed out that the government was not effectively accounting for and collecting its debts (The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public (FGMSD-78-61, Oct. 20, 1978)). This review identified federal agencies' lack of prompt and aggressive collection action on delinquent debts and inaccuracies in accounting for and reporting accounts receivable. In a 1979 report, we noted that the government's collection methods were slow, expensive, and ineffective when compared with commercial practices

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[1]Nontax debts are delinquent receivables owed the government that arise from various loan and/or benefit programs. They are not debts owed the Internal Revenue Service for delinquent taxes.

(The Government Can Be More Productive in Collecting its Debts by Following Commercial Practices (FGMSD-78-59, Feb. 23, 1979)). Recommendations resulting from these studies included instituting better financial reporting and adopting certain private-sector collection practices. In a March 1981 report to the House Budget Committee, we estimated that billions of dollars in budget savings were possible through strengthened debt collection. We noted then that achieving these savings would require a "sustained high-priority, high-intensity effort to put in place much stronger policies, procedures, and systems and to operate them aggressively once they are installed (Improved Administrative Practices Can Result in Further Budget Reductions (PAD-81-69, Mar. 30, 1981)).

Further, as discussed in a 1983 report, Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (AFMD-83-57, Apr. 28, 1983), many agency debt collection improvements are long-term efforts, such as developing improved accounting systems. We believe that continued oversight to ensure that debt collection receives sustained, high-priority attention is imperative. The framework and momentum are in place, and continuing the current emphasis is important.

Recent legislation and OMB initiatives address many PPSSCC debt collection concerns

The PPSSCC recommendations basically parallel our prior recommendations and ongoing OMB initiatives regarding debt collection. Many of the recommendations required legislative and administrative action to be implemented. In this regard, the Congress has enacted two significant laws--the Debt Collection Act of 1982 and the Deficit Reduction Act of 1984. These laws provide agencies with authority to use many of the credit management techniques needed to improve debt collection that PPSSCC recommended. In addition, OMB has initiatives underway which, when implemented, will address some of the PPSSCC's concerns.

On October 25, 1982, the President signed into law the Debt Collection Act of 1982. Among other things, the act

--allows agencies, except the IRS and the Social Security Administration (SSA), to disclose information about an individual's debt to credit bureaus;

--authorizes agencies to contract for debt-collection services;

--permits agencies to disclose to debt collection contractors current addresses of individuals owing money to the government when the addresses were obtained from the IRS; and

--requires agencies to charge a minimum rate of interest, as well as penalties and administrative charges, on delinquent nontax debts.

The act will undoubtedly increase debt collections by giving federal agencies management tools already widely used in the private sector. In March 1984, we and the Department of Justice issued revisions to the "Federal Claims Collection Standards" to reflect changes set forth in the act.

The PPSSCC also recommended that offsetting of IRS tax refunds be used as a means to collect nontax delinquent debt owed the government (ASSET 27). In two reports (The Government Can Collect Many Delinquent Debts by Keeping Federal Tax Refunds as Offsets (FGMSD-79-19, Mar. 9, 1979) and Oregon's Offset Program For Collecting Delinquent Debts Has Been Highly Effective (FGMSD-80-68, July 17, 1980)) and numerous testimonies, we have recommended using an IRS tax offset. The Deficit Reduction Act of 1984 provides new and specific statutory authority concerning offsets against income tax refunds. For example, section 2653 of the act requires federal agencies to refer debts owed to the United States to IRS so that it may take offset action against any income tax refunds owed to the debtor. Specific procedural requirements are set out in the act. The Secretary of the Treasury is required to issue regulations to implement this section and is authorized to test the offset procedures with selected programs before proceeding to full implementation.

We support the IRS offset with two important qualifiers. First, our support should not be interpreted as a recommendation that the IRS become a debt collection "clearinghouse." Debt collection is the primary responsibility of each federal agency. It is incumbent upon top management of each agency to establish debt collection as a priority and to ensure that the debt collection initiatives underway and planned are successfully implemented. We believe effective arrangements for using IRS offset to collect nontax debts can be worked out on the basis of interagency agreements between IRS and the federal agencies wishing to refer debts for offset. Second, we are concerned that little quantifiable evidence is available to indicate how IRS' involvement in non-tax administration activities could affect voluntary compliance with the tax system--a system that produced more than $600 billion in revenue for 1984. The most current evidence, a recent IRS study, indicated that the refund offset program for delinquent child support payments resulted in a significant increase in nonfilers and thus had a measurable adverse impact on taxpayer compliance. Thus, in testing the program, the Treasury should attempt to analyze the effects of offsets on compliance with the tax system.

Prior to the PPSSCC report, OMB had also identified credit management as a problem and had initiated a program to deal with this issue. Credit management is the overall process by which the federal government grants credit approval and collects what it is owed through its debt collection activities. OMB has divided the credit management area into five projects, which are:

--Credit standards, write-off policy, and risk analysis. The project includes the development of uniform standards for extending credit and writing off bad debts as well as innovative risk analysis and credit-scoring procedures.

--Credit approval. This project requires the development of systems and procedures for

--applying credit standards to credit decisionmaking,

--ensuring that credit managers have access to accurate and reliable information on credit applicants, and

--preventing overpayments by the federal government.

--Account management. The objective of this project is to develop automated systems and procedures for handling

--billing,

--remittances,

--aging accounts,

--escrow, and

--management reporting.

--Collections. This project covers

--automating collection systems;

--contracting for collections, litigation, and liquidation; and

--referring cases to credit bureaus.

--Loan sales. This project's objective is to develop standards and procedures for selling selected loan and related assets.

These various projects, if successful, will largely address the concerns the PPSSCC raised regarding the federal government credit management process.

CASH MANAGEMENT

The federal government is the largest single spender and recipient of money in the United States. The PPSSCC offered a series of issues and associated recommendations to improve the federal government's cash management practices (ASSET 4, 6, 9, and AG 41). The recommendations are feasible, and their implementation should improve the cash management practices of the federal government.

The PPSSCC recommended the use of electronic funds transfer, invoice payment due dates, and delayed draw down of funds by grantees as ways to improve the government's cash management operations. In addition, the PPSSCC made recommendations to accelerate receipts from the sale of such natural resources as timber.

Using electronic funds transfer

The PPSSCC stated that additional incentives for direct deposit/electronic funds transfer of payroll and benefit disbursements, such as those for Social Security, should be established by the Treasury (ASSET 6). We have previously reported on the merits of using electronic funds transfer (Millions Paid Out in Duplicate and Forged Government Checks (AFMD-81-68, Oct. 1, 1981)). Under the electronic funds transfer program, the Treasury issues payments on magnetic tapes and sends the tapes to financial institutions, which make the funds available to the recipients on the payment date. This program, which is entirely voluntary, has many benefits, including the following.

- --Reduced costs (for the government) in the issuance, mailing, and clearance of checks.
- --Improved service (to the beneficiaries) through the elimination of check loss, theft, and forgery; the elimination of check-cashing problems; and the convenience of regular deposits.
- --Reduced operating costs (for the financial community) as well as earlier deposits.

According to a Treasury official, legislation is being considered within the Department to give the Treasury the authority to require federal employees to receive payroll payments through electronic funds transfer, with various exceptions. However, the Department is opposed to the PPSSCC's recommendation concerning benefit checks because of perceived congressional opposition to making these types of payments mandatory. The Treasury would prefer, at this point, to keep the benefit program voluntary. Making electronic funds transfer mandatory or creating disincentives for receiving checks will not, in our view, be a simple undertaking. Broad support has existed in the past for preserving an individual's freedom to choose among available benefit payment methods. In addition, some individuals do not use financial institutions.

Although there may be some practical obstacles to implementing the recommendations, their primary objectives are to use more efficient payment mechanisms in disbursing government funds. In our opinion, the recommendations are generally consistent with the principles of sound cash management.

Making timely federal payments

The PPSSCC made three recommendations regarding federal expenditures for procurement and grants (ASSET 4). First, purchase vouchers should all be marked with a due date before being submitted to the Treasury, which should pay bills on that date, not earlier or later. Second, the Treasury should implement a system to ensure that grant funds are not being invested by state governments before disbursement for grant purposes. The PPSSCC recommends contracting for such a system until the Treasury is able to implement its own. Third, the Congress should amend section 203 of the Intergovernmental Cooperation Act of 1968 to allow the Treasury to impose penalties and interest charges on states that misuse federal grant funds.

In regard to the first recommendation, the Prompt Payment Act of 1982 has significantly modified agencies' payment practices. The act was intended to discourage agencies from making tardy payments by requiring them either to pay bills on time (with a 15-day grace period) or pay interest penalties if payments are late. To assist agencies in implementing the act, OMB issued Circular A-125, which requires agencies to pay their bills on time, not late or early. Further, all agencies are required to attach due dates to their vendor payment vouchers submitted to the Treasury. In addition, the Treasury has been stressing to agencies the need to avoid early payments. The Prompt Payment Act and OMB's and the Treasury's continued emphasis on this issue have addressed the PPSSCC's concerns in this area.

Concerning the PPSSCC's second recommendation, the Treasury is implementing a system--Letter of Credit-Treasury Financial Communication System (wire transfer of funds)--for grant programs that would not release federal grant money until a check for grant-related activities is actually cashed. The Treasury has estimated that the system should be in place by the end of 1985. According to the Treasury, grant programs currently operate on a letter-of-credit system and states can receive advance payment for 3 days of monetary needs. This results in a "float" period between the time the money is advanced and the time it is spent, during which the Treasury could be earning interest. Instead, State governments that routinely invest federal grant funds prior to disbursment are able to earn interest on the federal government's money. Agencies that use the system should be able to monitor grant payments and ensure that funds are not drawn until needed. Successful implementation of wire transfer of funds should correct this situation and address the PPSSCC's concerns. However, some state constitutions require that federal money be in a state account before the state can issue checks for federally supported programs. Thus, delaying draw-downs could create some problems for these states if they cannot satisfy their timing requirements for transferring federal funds to state accounts for check-cashing purposes.

In regard to the last recommendation, congressional action would be necessary to amend section 203 of the Intergovernmental Cooperation Act to allow the federal government to charge interest to states that draw grant funds prematurely. Amending section 203 would help alleviate the early draw-down of federal funds by states. Although we have not reviewed this issue, such an amendment seems feasible.

Accelerating timber sale receipts

The PPSSCC recommended the Forest Service impose a flat payment schedule on future timber contracts (AG 41). In the past, under most existing timber contracts, purchasers have been required to pay for timber only as it was being removed from the forest. However, the average duration of a timber contract is 3 to 4 years, and purchasers typically wait as long as possible to harvest. Therefore, the federal government does not receive payment for most of the timber sold until 3 to 4 years after the expenses of the sales preparation have been incurred. The effect of the PPSSCC recommendation would be to accelerate Forest Service receipts; complete payment for a timber contract, however, would continue to take 3 to 4 years.

Although we have not reviewed the issue of accelerating timber sale receipts, we generally concur with the concept of improving the flow of the Treasury's timber receipts to put the timber sales program on a more businesslike basis. Nevertheless, because of numerous other initiatives in this area, which are discussed below, implementing the PPSSCC's recommendation may not be appropriate at this time.

The Forest Service has taken several steps over the past served years to improve cash flow management of timber sales, including:

--placing on a payment schedule all sales included under the 5-year timber sale extension program authorized in August 1983 and

--requiring an up-front deposit of 10 percent of the bid value of a timber sale.

The Forest Service states that after evaluating the results of the actions already initiated, it will consider further steps, such as a flat payment schedule. In our view, it does not seem appropriate to make further changes before the results of the Forest Service's revised payment regulations are evaluated.

FEDERAL LOAN MANAGEMENT

The PPSSCC made several recommendations to modify the operation of the federal government's loan programs (ASSET 13, 15, 18, 23, and 24). They include:

--charging interest rates that more closely approximate market rates on loan programs and

--establishing more loan guarantees as opposed to direct loans.

To implement most of the PPSSCC recommendations in this area would require legislative action. Although we agree with most of the PPSSCC recommendations, we were unable to formulate an opinion for some issues.

Charging nigher interest rates

The PPSSCC recommended that the interest rate for federal credit programs be (1) raised when market interest rates rise and (2) reviewed to ensure that actual subsidies are consistent with program objectives (ASSET 15, 23, and 24). Authority to implement the first recommendation varies by program. In some cases, the interest rate the government charges is set by the Congress. In those instances, the Congress would have to amend the authorizing legislation to provide for charging a higher interest rate to the borrower. In other cases, the Congress has allowed the respective Secretary or program administrator to set the rate. In these instances, administrative action would be necessary to implement the PPSSCC recommendation. The second recommendation can be implemented through administrative action. The executive branch could, on its own authority, present to the Congress an analysis of the subsidy costs in different programs and recommendations for program changes based on that analysis.

For many federal credit programs, the portion of the loan interest rate subsidized by the government generally was set at a time when interest rates were lower. As interest rates have risen, the government has also increased its subsidy, with the loan interest rate paid by the program beneficiaries remaining fairly constant. Reducing the government's subsidy would result in program beneficiaries paying a larger portion of the interest rate on subsidized loans.

OMB has recently attempted to implement the first recommendation, without legislative action, and has moved in a direction that is consistent with the second recommendation. On August 24, 1984, OMB issued revised Circular A-70 to require that (1) interest rates on new direct-loan programs be related to market interest rates and vary with market conditions and (2) proposed legislation to establish a new or amend an existing credit program contain an explicit statement of any subsidies in the program. If an existing program requires legislative action to allow for charging higher interest rates, the agency, as part of its annual budget submission, must either submit to OMB proposed legislative changes or submit a separate justification for nonconformity.

Increasing use of loan guarantees

The PPSSCC recommended that the government, where possible, move from direct lending to a well-controlled, guaranteed loan program (ASSET 13 and 18). Under the guaranteed loan program, a private investor makes the loan--rather than the federal government--and the government guarantees repayment of the loan if the borrower should default. We support efforts to seek the least costly way of financing appropriate federal credit program objectives, but we believe this is best done on a case-by-case basis.

We believe that, when taken in isolation, the PPSSCC recommendation to move from direct lending to guaranteed lending would not necessarily lead to better control of federal credit programs. In terms of both applicant screening and qualification, as well as in terms of budget process, control over programs could be diminished by moving from federally originated on-budget direct loan programs to privately originated off-budget guarantee programs.

Further, we believe the PPSSCC raised a policy question that needs to be resolved by the Congress. The Congress generally has viewed direct-lending programs as a means of assisting small businesses, farmers, and rural residents and communities that are unable to obtain private financing--with or without federal guarantees--at reasonable interest rates or terms. By nature, these borrowers and the related direct loans they receive are more risky. Without a direct-lending program, certain groups might not be able to obtain credit. Therefore, the viability of the recommendation will rest on a congressional decision to forego direct lending as a means of financially assisting these groups.

CHAPTER 4

DEFENSE AND INTERNATIONAL AFFAIRS PROGRAMS

The defense and international affairs areas encompass domestic and international programs concerned with protecting the population and advancing the international, political, economic, and military interests of the United States. Administration plans are to build up U.S. military forces in response to Soviet threats by investing between $1.5 and $2 trillion in defense during a 5-year period ending in 1988. Not surprisingly, therefore, the PPSSCC focused considerable attention on this area. The PPSSCC defense and international affairs issues are diverse, ranging from general subjects such as the defense acquisition process, which encompasses procurements of major weapon systems to office supplies, to specific issues such as government loans to cover traveling expenses of refugees coming to the United States.

In the defense and international affairs areas, the PPSSCC identified 130 issues within which it made 316 recommendations. The PPSSCC estimated that savings of about $115 billion could be achieved if all its recommendations were implemented. It should be noted that some of the larger dollar savings were associated with recommendations that called for policy changes, including many personnel issues such as military health care and retirement, as contrasted with improved government operations. Moreover, although a majority of the issues have merit, we agree with only a small percentage of the savings estimates.

We concluded that 101 of the 130 PPSSCC issues examined had overall merit and should be considered. We disagreed with 19 issues and had insufficient information on which to develop a position on 10 issues. The agency or department could implement 97 of the issues without authorizing legislation. Thirty-three issues require enabling legislation. For example, legislation would be required to ensure more consistent and widespread compliance with the government's policy that encourages procuring goods and services from the private sector when it is more economical than providing the same goods and services in-house with government employees. Finally, we had previously made recommendations related to 68 of the 130 PPSSCC issues.

Summary of GAO Positions on PPSSCC
Defense and International Affairs Issues

	Number	Percent	Number requiring congressional action
Agree with merits	101	78	28
Disagree with merits	19	14	4
No position on merits	10	8	1
Total	130	100	33

We could not agree with the savings estimates associated with 42 issues, or 27 percent of the projected savings. Much of our disagreement stems from the way the PPSSCC handled inflation in its estimates. The PPSSCC did not provide sufficient information on 67 issues to enable us to assess the estimated savings. One example is the uncertain and unanalyzed recruitment and retention implications of the PPSSCC recommendation to increase the retirement age for military personnel. We agreed with PPSSCC's projected savings for 21 issues, or 4 percent of the projected savings.

PPSSCC defense and international affairs issues generally fell into the broad categories of acquisition, logistics, personnel, contracting out, and international affairs. A miscellaneous category includes three issues. To illustrate the nature of PPSSCC concerns and GAO's analysis, examples are discussed under each major category. Except for the possibility of deficit reduction through decreased spending, there is no common thread linking the issues which came from 22 PPSSCC task force reports. Therefore, issues presented as examples were selected on the basis of projected savings, need for enabling legislation, and our analysis of the merits of the issue.

ACQUISITION

PPSSCC acquisition issues dealt with improvements to DOD's and the military services' procurement processes. We examined 31 acquisition issues including internal auditing, dual-source contracting, cost estimating, multiyear contracting, production of nuclear materials, the acquisition process, and careers in acquisition. We found that 29 of the 31 issues had merit, 2 did not. The following issues are illustrative of the thrust of PPSSCC's acquisition issues and our analysis.

The PPSSCC recommended that DOD rank its Acquisition Improvement Program (AIP) initiatives and concentrate on six main issues (PROC 3). DOD ranked the AIP initiatives, although its categories were not identical to those recommended, and consolidated its efforts in seven areas: (1) program stability,

(2) multiyear procurement, (3) economic production rates, (4) realistic budgeting, (5) improved readiness and support, (6) encouragement of competition, and (7) industrial base responsiveness. We recognize the benefits of AIP and encourage DOD to continue implementing the initiatives.

The PPSSCC estimated that $17 billion could be saved if DOD adopted a stable spending plan and economical production rates for acquiring new weapon systems (ARMY 11, NAVY 1, OSD 23). We agree with the PPSSCC's recommendation that priorities must be established in order to optimize the procurement of weapon systems. (Too many weapon systems proposed for the limited funding available results in program stretch out and uneconomical production rates.) However, we also believe that improving DOD's planning and budgeting is not only a necessary part of any effort to improve DOD's acquisition process, but is part of a larger requirement to streamline and strengthen financial management throughout the federal government. Legislation would be required to authorize biennial budgeting, an important recommendation of the PPSSCC acquisition improvement issue. We do not recommend adoption of a biennial budget cycle at this time because problems go well beyond biennial budgeting. The entire financial management system of the government should be reexamined (see ch 2). The accuracy of the PPSSCC's $8 billion cost savings estimate for biennial budgeting could not be assessed because the PPSSCC did not provide a basis for its underlying assumptions.

The PPSSCC estimated that the Army could save $2.6 billion in weapon system acquisition costs if it improved its management and development of major weapon programs (ARMY 10). We generally agree with the PPSSCC's conclusion that the acquisition process could be improved, but we do not agree with all the recommendations. For example, while we support the thrust of PPSSCC's recommendation to improve cost estimates, improved cost estimates will not result in real cost savings unless the scope of some weapon system programs are reduced.

LOGISTICS

PPSSCC logistics issues affect processes essential to supportability, maintainability, sustainability, and readiness of the U.S. military fighting force. We examined 34 issues affecting military logistics, including consolidation of base-support services, supply management, war reserves, aircraft overhaul, ammunition management, and others. We concluded that 31 of the 34 issues had merit. The following logistics issues dealing with (1) inventory management, (2) common weapon system parts and standards, and (3) vehicle maintenance are illustrative of the thrust of PPSSCC concerns and our analysis.

The PPSSCC made numerous recommendations designed to improve DOD's asset management, including the need to expedite modernization of ADP systems to process inventory data more accurately and promptly (ADP 16, OSD 2, PROC 10, PROC 11). The PPSSCC estimated that savings of $6 billion would result from a one-time reduction in spare parts inventory levels, with corresponding reductions in support and procurement costs. We generally agree with the PPSSCC recommendations that deal with improvements to asset management and have previously reported on these needs. However, concerning the PPSSCC recommendations to expedite modernization of ADP systems, we believe that implementation of the recommendations should be in conjunction and consideration of related problems. For example, in recent reports we pointed out that inaccurate and outdated information and the lack of adequately trained personnel were primary contributors to insufficient inventory management and control.

The PPSSCC recommended that DOD reduce both the number of inventory items maintained and the cost of major weapon systems by increasing the use of common hardware components, subsystems, and other parts at an estimated savings of $7.3 billion (OSD 20). We generally agree with the PPSSCC recommendation but have no basis to assess the validity of estimated savings.

The PPSSCC estimated that improved management of combat vehicle maintenance practices could save $26 million (ARMY 20). It also projected savings of $15 million annually at one naval air rework facility if aircraft engine maintenance management practices and processes were improved (NAVY 13). Finally, annual savings of $105 million were projected if more cost-effective overhaul service patterns were adopted to provide for less frequent airframe overhauls (NAVY 10). The thrust of these recommendations is that performance monitoring, rather than specific overhaul intervals, should be the basis for determining the need for equipment maintenance. We have advocated the merits of actual condition assessment, rather than strict adherence to maintenance schedules, in determining the need for equipment maintenance.

PERSONNEL

The 31 PPSSCC personnel issues examined included permanent change-of-station moves, recruiting, military hospitals, troop feeding, accrued-leave pay, cost-of-living adjustments, and pensions. We concluded that 21 of the 31 issues examined had overall merit, 6 did not, and we had no basis to judge the merits of 4. The following issues dealing with the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), retirement age, and cost-of-living adjustments to military pensions are illustrative of personnel issues examined by the PPSSCC.

The PPSSCC estimated that DOD could save $1.2 billion if it modified CHAMPUS to reduce steadily increasing costs (OSD 28). The PPSSCC recommended that DOD hospitals provide medical attention to all military dependents and retirees who request it, with few exceptions. Currently, dependents who are turned away from military hospitals, due to inadequate facilities or lack of professional staff, obtain treatment from private-sector health care facilities that are reimbursed by CHAMPUS. We question whether it is appropriate to make such a blanket recommendation until it is conclusively demonstrated that military hospitals can absorb the additional workload. Our work has shown that military hospitals often have neither the proper mix of physician specialties nor adequate facilities to meet all demands. The PPSSCC's savings estimate was not reduced to reflect additional costs, such as drugs, supplies, and other services, that DOD's direct-care system would incur as a result of treating more patients.

In the case of the second example, the PPSSCC projected that significant savings would result if federal retirement costs were reduced by increasing the age at which military members could retire with full pension benefits (FRS 1). Currently, military personnel can retire as early as age 37, compared with the typical private-sector retirement age of 62. While we believe the thrust of the PPSSCC issue has merit, this action could result in increased compensation costs if recruiting and maintenance of required manning levels were adversely affected. Accordingly, this issue deserves considerably more analysis before retirement changes are made. Prior studies have shown that implementation of recommendations similar to the PPSSCC's would reduce overall personnel costs. However, our analysis indicates that the PPSSCC's savings estimate is overstated. Accrued costs could be reduced, but expenditures would not be reduced for 11 years because military members with 10 years of service or more would be grandfathered. Near term expenditures could increase to achieve recruiting and retention goals.

Concerning the third example, the PPSSCC projected significant savings if cost-of-living adjustments of the military retirement system were more consistent with prevailing private sector practices (FRS 5). As a general rule, military retirement pay is fully indexed to the Consumer Price Index (CPI). The PPSSCC maintained that, on average, private sector pension plan adjustments only offset about 33 percent of the increase in the CPI. We agree that reducing the inflation protection that the miltary retirement system provides would substantially reduce costs. However, if reductions in retention levels resulted, increases in current pay to maintain manning goals would have to be considered as offsets against projected savings.

CONTRACTING OUT

PPSSCC contracting out issues deal with government efforts to rely more heavily on the private sector for commercial-type supplies and services when it is deemed more economical than providing the services or products in-house with government employees. PPSSCC issues in this area include contractor services, contracting for highly skilled personnel, contractor modernization/productivity enhancement, and the National Space Transportation System. We concluded that 11 issues in this category have merit; we have no basis to judge 2. The following issue is illustrative of the PPSSCC concerns in this category.

The PPSSCC estimated that the government could save more than $7 billion if it fully implemented the provisions of OMB Circular A-76 (PROC 18 and others). Circular A-76 directs government agencies to rely on the private sector for commercial products and services when it is more economical than providing the same service in-house with government employees. We agree with the PPSSCC recommendations and further agree that legislation would be required to ensure more consistent and widespread compliance with the government's policy that encourages procurement of goods and services from the private sector when it is more economical than providing the same goods and services in-house with government employees.

INTERNATIONAL AFFAIRS

PPSSCC international affairs issues included Agency for International Development (AID) assistance projects, purchases of foreign currencies, Export-Import Bank interest rate management, foreign military sales (FMS), and refugee transportation loans, to name a few. Of the 18 issues examined, we concluded that 8 had merit, 9 did not, and there was no recent GAO work on which to formulate a position on 1. The following issues dealing with management of real property, AID projects, and agriculture export promotion are illustrative of the thrust of PPSSCC concerns and our analysis.

The PPSSCC predicted that significant savings would result if the Department of State (1) developed a real property management system, (2) expanded its cost accumulation system, (3) consolidated fiscal authority for all real estate expenditures in its Office of Foreign Buildings, (4) developed procedures to identify excess property, and (5) allocated all operating and maintenance costs to using agencies (STATE 3). We believe the PPSSCC recommendations have merit. Further, the Department of State is implementing the PPSSCC recommendations.

Regarding AID assistance projects, the PPSSCC estimated that $33 million could be saved if AID reduced the amount of time its personnel spent planning, monitoring, and approving AID projects (STATE 6). We and AID generally agree with the PPSSCC recommendations designed to accomplish these objectives and, in most cases, action is being taken to implement them. For example, AID is currently pursuing ways to reduce congressional reporting requirements. However, significant reductions in reporting requirements are questionable because the Congress desires to closely monitor AID activities.

The PPSSCC projected that $37 million could be saved over 4 years if the Foreign Agricultural Service's Cooperator Funding Program were phased out (AG 24). The PPSSCC believes that the beneficiaries of export market development--namely, private sector commodity promotion organizations, producers, and exporters--should bear export promotion costs, not the government. The PPSSCC recognized the merits of using federal funds as "seed money" to assist new groups in developing foreign markets but concluded that as the program matured, it would be inappropriate to continue open-ended federal funding. We agree and have expressed similar views in prior recommendations to the Secretary of Agriculture. We believe the PPSSCC savings estimate is reasonable.

CHAPTER 5

HUMAN SERVICES AND WAGE PROTECTION PROGRAMS

The federal government operates and/or finances a wide variety of human services programs that provide millions of people such benefits as health care, education and training, and retirement and disability income. According to the President's fiscal year 1986 budget, federal outlays for human services programs will be over $400 billion, or about half of total federal outlays, excluding interest costs. The PPSSCC estimated that the amount of federal or federally funded contracts covered by the wage protection laws also discussed in this chapter is over $120 billion a year.

We examined 82 PPSSCC issues dealing primarily with human services and wage protection programs. The PPSSCC estimated that the total savings from implementing its recommendations relating to the 82 issues would be about $168 billion. The $168 billion includes some duplication because different PPSSCC reports addressed some of the same issues.

While potential savings from improved program administration are significant, the greatest potential savings from changes the PPSSCC recommended would involve policy changes that are relatively controversial. These controversial areas include changing the approaches used to contain the rising costs of medical care, changing eligibility requirements as to who should receive means-tested benefits and to what extent, and changing the government's role in setting private sector wages for people working on government-sponsored projects.

As shown below, we generally agree with the merits of the PPSSCC's proposals on most of the issues. However, included among the issues with which we disagree are two issues for which the PPSSCC estimated savings of about $88 billion. The two issues involve approaches to containing health care costs and limiting eligibility for benefits from means-tested programs.

Summary of GAO Positions on PPSSCC
Human Services and Wage Protection Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	57	69	41
Disagree with merits	17	21	9
No position on merits	8	10	4
Total	82	100	54

Nearly every issue merits consideration. Often, we disagree with some of the recommendations in an issue but believe that other recommendations discussed in that issue have merit. In many cases, including cases where we agree with the PPSSCC recommendations, we believe the PPSSCC's savings estimates are overstated. However, even if the savings are much less than the PPSSCC estimates, they are often substantial. Also, the savings usually would continue well beyond the 3 years the PPSSCC used in its estimates.

For purposes of discussion, we categorized the 82 PPSSCC issues into six areas--health care, education, retirement and disability, means-tested programs, wage-protection laws, and "other." The distinction among these areas is not always precise; some programs could fit in different categories. For example, Medicaid is included under health care although it is also a means-tested program. A discussion of each of the categories, except "other," which involves seven issues with PPSSCC-estimated savings of $175 million, is presented below.

HEALTH CARE

We reviewed 24 health care issues covering federally operated health care programs, such as the Veterans Administration's (VA's) hospitals, and the health financing programs: Medicare and Medicaid. The PPSSCC estimated that about $53.4 billion could be saved by such actions as constructing fewer new facilities, obtaining reimbursement from beneficiaries and their insurers, developing reimbursement systems designed to hold down costs, and more efficient management.

We generally agree with the PPSSCC recommendations on 16 issues with PPSSCC-estimated savings of $21.2 billion, disagree on 6 issues involving PPSSCC-estimated savings of about $30.6 billion, and have no position on 2 issues involving PPSSCC-estimated savings of about $1.6 billion. For example, two PPSSCC issues dealt with having insurance companies pay the cost of care for beneficiaries who have private health insurance. The PPSSCC stated that about $1.2 billion could be recovered by DOD for care provided to insured, inactive military beneficiaries (HOSP 11). It also estimated that VA could recover about $1.4 billion for care provided to insured veterans (HOSP 13). We agree with the PPSSCC recommendations, which would require legislation to implement.

We agree with the PPSSCC's position on sharing of health care resources by VA and DOD (HOSP 2). However, while we agree with many of the recommendations in issues dealing with the construction and use of VA medical facilities, we are not sure that savings of the magnitude envisioned by the PPSSCC will materialize. Much of the savings in three issues (HOSP 4, HOSP 5, PRIV 4) would result from reducing the number of acute-care hospital beds, converting acute-care beds to nursing beds, building smaller replacement facilities, and ceasing construction of nursing homes. We believe that the PPSSCC has overestimated both the number of excess VA acute-care beds and the savings to be achieved by eliminating excess beds. Even more important, future needs for medical facilities depend on the number of veterans without service-connected disabilities that VA will serve. The Congress needs to decide to what extent VA will serve such veterans before changes of the nature proposed by the PPSSCC are made.

Several PPSSCC recommendations were to improve administration. For example, the PPSSCC estimated savings of $23.9 million if the Health Care Financing Administration's contractors processed Medicare physicians' claims for beneficiaries of the Railroad Retirement Board (RRB) (BANK 16). It also estimated savings of about $447 million in Medicare costs if better audits and medical reviews were performed (HEALTH 2). We generally agree with the PPSSCC's recommendations and have made similar ones in our previous reports.

We disagree with the PPSSCC's recommendations to limit the increase in federal health expenditures to the growth rate in the Gross National Product, allocate Medicare and Medicaid funds to geographic areas on a per-capita basis, and obtain medical services competitively (MEDIC 1). The PPSSCC-estimated savings for these recommendations is $28.9 billion.

Although rising federal health expenditures are a serious problem, we believe the above recommendations should not be implemented because there are numerous uncertainties about the outcome of the PPSSCC's recommendations. For example, the PPSSCC makes no provision for cost increases associated with the increasing use and intensity of services and applications of costly technology. To the extent these costs could not be offset by efficiencies in other areas, they would have to be paid for by beneficiaries or offset by reductions in service quality. Although the PPSSCC apparently assumes competitive bidding would increase efficiency, it does not present convincing evidence that efficiency would in fact increase. The outcome of its recommendations could be lower levels of health care and/or shifting costs to beneficiaries. Also, although the PPSSCC's proposals include programs other than Medicare and Medicaid, such as DOD and VA programs, how the PPSSCC's recommendations would affect these other programs is unclear.

We also question the PPSSCC's recommendation to institute system-wide, fixed-priced competitive contracting for processing Medicare claims (HEALTH 1), which the PPSSCC estimates would save $54 million. We have not found sufficient bases for completely changing to fixed-price contracting. Poor controls over benefit payments that resulted from administrative cost-cutting initiatives could result in benefit cost increases that greatly exceed administrative cost savings.

EDUCATION

Five PPSSCC education issues involve PPSSCC-estimated savings of about $3.5 billion. We generally agree with the PPSSCC on four issues for which the PPSSCC estimated savings of about $1.9 billion and have no position on one issue involving about $1.6 billion.

The PPSSCC estimated savings of about $1.2 billion by consolidating the Department of Education's student loan programs and disbursing loans over an academic year rather than once a year (ED 1). We believe that these recommendations have merit and that the savings, although less than the PPSSCC estimated, would be substantial.

We believe that the recommendations to improve collections on student loans (ED 3), estimated by the PPSSCC to save about $500 million, have merit. Although we did not evaluate the reasonableness of the PPSSCC's savings estimate, the Department of Education estimated that implementing the PPSSCC's recommendations would save about $550 million.

We have no position on the PPSSCC's recommendation to increase educational loan origination fees, which are deducted from loan proceeds, from 5 percent to 10 percent, resulting in savings of about $1.6 billion (ASSET 19). We agree that the recommendation would result in substantial savings because origination fees are deducted from the interest subsidies paid by the Department under the program. However, while some students could borrow more to offset the higher fees, those at the loan limit would experience a reduction in money available to them.

RETIREMENT AND DISABILITY PROGRAMS

We reviewed 19 issues in this category involving PPSSCC-estimated savings of about $17.4 billion in programs of the Pension Benefit Guaranty Corporation (PBGC), RRB, SSA, and VA. We generally (1) agree with the PPSSCC on 13 issues involving PPSSCC-estimated savings of $5.9 billion, (2) question 4 issues with PPSSCC-estimated savings of $10.9 billion, and (3) have no position on 2 issues involving PPSSCC-estimated savings of about $0.6 billion.

We agree, for example, with the PPSSCC's recommendations to increase insurance premiums (BANK 1) and amend the Employee Retirement Income Security Act to minimize such abuses as terminating pension plans and transferring liabilities to the insurance program administered by PBGC (BANK 2). The total savings in these issues, about $350 million, appear reasonable.

The PPSSCC estimated that about $1.2 billion would be saved if the Congress no longer provided general revenue funding for "windfall benefits," benefits received by retirees from both the railroad retirement and social security systems that are higher than what retirees would receive if their benefits were earned under only one of those systems (BANK 12). The PPSSCC's estimated savings from eliminating general revenue funding of windfall benefits appear reasonable. While we do not have a position on how windfall benefits should be funded, we have recommended that the Congress reevaluate how to fund windfall benefits and presented several alternatives.

Two of the four issues we question involve PBGC's premium rate structure and SSA's disability claims system. The PPSSCC recommended that the rate structure for premiums PBGC charges for insuring pension plans be improved and that special assessments be considered for underfunded plans (BANK 5). It estimated that PBGC could collect $3.2 billion through special assessments on unfunded liabilities. We agree that the premium structure, under which all plans now pay the same rate, could be improved by relating premiums to risk. However, we believe that the concept of charging a special assessment requires additional study and the 5-percent assessment on unfunded liabilities proposed by the PPSSCC would exceed PBGC's funding requirements over the next 3 years. Also, major uncertainties are connected with the key elements, such as the amount of unfunded liabilities, used by the PPSSCC in its $3.2 billion estimate.

The PPSSCC made 36 specific recommendations for modifying SSA's system for handling disability claims (SSA 10). It estimated that implementing these recommendations would save $3.6 billion. Although some of the recommendations appear to have merit, we question the recommendations' overall focus, which is to limit the role of administrative law judges to that of decision reviewers who may not accept evidence or consider issues not previously introduced in the administrative process.

MEANS-TESTED PROGRAMS

We reviewed 17 PPSSCC issues, involving PPSSCC-estimated savings of $73.3 billion, in this category, which involves programs that provide cash and other assistance based on beneficiaries' incomes and assets.

We generally agree with the PPSSCC on nine issues involving PPSSCC-estimated savings of about $10.8 billion, disagree with the PPSSCC on six issues where it estimated about $61.5 billion could be saved, and have no position on two issues involving PPSSCC-estimated savings of about $1 billion.

The PPSSCC recommended that benefits from other nutritional programs, such as the School Lunch Program, be considered in determining food stamp benefits (AG 13, AG 14). We agree. In 1978, we recommended that the Department of Agriculture study the feasibility of considering benefits from child nutrition programs for determining food stamp eligibility and that the Congress consider eliminating the overlap in benefits if the study showed such a change was feasible.

Several PPSSCC issues addressed improved verification of the income of means-tested program recipients through the interchange and computer matching of income data. In a summary issue on computer matching (INFO 4), the PPSSCC did not develop a savings estimate but stated that savings related to computer matching recommendations in other PPSSCC issues were $11.3 billion. We agree with most of the PPSSCC recommendations for computer matching but believe that appropriate safeguards are needed to protect personal privacy when managing the data. While we have not evaluated some of the savings estimates that make up the $11.3 billion and believe that others are too high, the potential savings from computer matching are substantial. In 1982, we reported that improved verification of welfare recipients' income and assets could save hundreds of millions of dollars annually.

The Deficit Reduction Act of 1984 provided for computer matching with appropriate privacy safeguards in several welfare programs. However, further legislative action is needed to expand computer matching opportunities. For example, the Congress should consider providing the Department of Housing and Urban Development legislative authority, with appropriate privacy safeguards, to require social security numbers and obtain access to federal and state wage data files.

We disagree with the PPSSCC on an issue which represents about 80 percent of the PPSSCC-estimated savings in the means-tested area (SUBS 1). The PPSSCC discussed four subsidy areas--means-tested programs, subsidies for the elderly, farm subsidies, and user charges--and recommended that (1) each federal agency issue a W-2-type form to each subsidy beneficiary with a copy to the IRS, (2) the concept of consolidating benefit programs be pursued, (3) federal agencies provide more accurate data on the administrative costs of subsidies, and (4) poverty statistics include in-kind (noncash) benefits. The PPSSCC estimated savings of $58.9 billion in means-tested programs but made no estimate for the other three subsidy areas.

Our prior reports have supported the need to consolidate programs and recognize benefits provided by other programs in determining benefit levels and to improve agency accounting systems. However, we are concerned with the underlying concepts which relate to the PPSSCC's conclusions.

The PPSSCC believes that retargeting means-tested programs is necessary because these programs have not closed the poverty gap. We believe that all the expenditures of these programs cannot be expected to close the poverty gap because many means-tested programs were not designed to close the poverty gap and are not limited to the poor. Also, not all costs or benefits are used in computing the poverty level. For example, Medicaid, the largest means-tested program, pays for services to meet health needs that otherwise would be unmet. These needs are not considered in determining who is poor, nor are the benefits, paid to providers of health services, counted as beneficiary income.

The PPSSCC noted that, to achieve savings, means-tested programs would have to be refocused so that

> "all funds are geared to the truly needy at the low end of the income spectrum rather than those lower-budget, lower-middle income and middle-income households which now also receive means-tested benefits."

The PPSSCC's estimated savings would not be achieved by only improving administration or ensuring that benefits went to intended recipients. Instead, the Congress would need to make major changes in many programs that were developed and refined over the last two decades to exclude persons who are now entitled to benefits.

Other issues we question include a number of recommendations to simplify and automate means-tested programs. We generally agree with the desirability of program simplification and automation. However, we believe that a number of issues and problems need to be addressed before many of the PPSSCC's recommendations can or should be implemented. For example, standardizing eligibility requirements and forms, addressed in two PPSSCC issues (LISAB 5, LISAB 6), would require major efforts to reach consensus on definitions of such items as what constitutes income and assets at the federal and state level. Different programs have different purposes, and the most appropriate definition for any one program depends on its particular objective. Also, the PPSSCC recommends the use of untested model automated systems in these two issues.

WAGE PROTECTION LAWS

The PPSSCC estimated savings of about $20 billion in 10 issues dealing primarily with the repeal or modification of three laws designed to protect the wages of certain workers.

In three issues, the PPSSCC estimated savings of $11.65 billion from (1) repealing the Davis-Bacon Act (WAGE 1), which regulates wages to workers on federal or federally assisted construction projects ($4.97 billion); (2) repealing the Walsh-Healey Act (WAGE 2), which regulates wages of workers on federal contracts for materials, supplies, articles, and equipment, or eliminating the act's daily overtime requirement ($3.37 billion); and (3) repealing the Service Contract Act (WAGE 3), which regulates the wages paid to employees of contractors who provide services to the government ($3.31 billion).

The recommendations in seven other issues were similar except that three dealt only with Air Force contracts and one dealt with the impact of the Service Contract Act on federal contracts for custodial services. The $8.3 billion in PPSSCC-estimated savings for the seven issues duplicates the savings for the three issues discussed above.

We generally agree with the PPSSCC's recommendations on all 10 issues. We previously reviewed the activities that are the subject of the PPSSCC recommendations regarding these wage protection laws and have, in prior reports, proposed that the Congress consider repealing the Davis-Bacon and Service Contract Acts and modifying the daily overtime provisions of the Walsh-Healey Act. While savings estimates would vary considerably depending on the assumptions used in preparing them, we believe that the savings from implementing the PPSSCC's recommendations would be substantial. We have previously reported that the Davis-Bacon Act and Service Contract Act each could be adding hundreds of millions of dollars annually to government contract costs.

CHAPTER 6

NATURAL RESOURCES AND COMMUNITY DEVELOPMENT PROGRAMS

Federal programs relating to natural resources and community development encompass such diverse operations as environmental protection, agriculture and food assistance, energy research and development, federal land and water management, housing and community development, and transportation systems and policies. In total, 29 different PPSSCC task forces prepared 233 issues relating to these program areas. They estimated that the federal government could generate savings or additional revenues totaling $82 billion by improving management operations, charging or increasing fees for federal program assistance, eliminating unneeded facilities and governmental functions, and/or selling certain power-generating facilities and public lands. Of these 233 issues, we had sufficient information to comment on 153, representing about $75 billion of the estimated $81 billion savings for the 233 issues.

This chapter discusses 79 of the 153 issues on which we commented, representing about $43 billion of the estimated PPSSCC dollar savings. The remaining 74 issues, while relating to natural resources and community development programs, deal with the operations of regulatory agencies, ways to increase federal revenues through user fees, improved cash management, specific federal entitlement programs, or additional matters discussed in other chapters of this report.

For 63 of the 79 issues, we generally agree that the issues have merit, although we often question the feasibility of implementing the PPSSCC's associated recommendations or have no basis for judging the reasonableness of the PPSSCC savings estimates. These 63 issues represent about $37 billion in PPSSCC savings estimates. For the remaining 16 issues, we disagree with the merits of 14 and provide some information on 2 without taking a position on their merits. We also found that 43 of the 79 issues would require some type of legislative action to implement fully. The following chart summarizes our positions on the 79 issues.

Summary of GAO Positions on PPSSCC
Natural Resources and Community Development Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	63	80	33
Disagree with merits	14	18	10
No position on merits	2	2	0
Total	79	100	43

The PPSSCC issues discussed in this chapter generally fall within six general program areas--agriculture, energy, environmental protection, housing, interior, and transportation--and deal primarily with suggestions to improve or streamline the management operations of the applicable federal agencies.

AGRICULTURE

We analyzed 16 PPSSCC issues relating to specific Department of Agriculture activities. Associated PPSSCC savings estimates total \$3.8 billion. In addition, the PPSSCC estimated that \$13 billion could be saved by restructuring the government's farm price-support programs. Because it recognized that this recommendation needs further study, however, the PPSSCC did not include the \$13 billion estimate in its savings totals.

We believe that 11 of the 16 issues, representing about \$1.3 billion in PPSSCC-estimated savings, have overall merit. In most of these cases, we have no basis for assessing the appropriateness of the PPSSCC savings estimates. On the remaining five issues, we disagree with the merits of three (\$2.2 billion in PPSSCC savings estimates) and take no position on the other two (\$264.7 million in PPSSCC savings estimates). In terms of potential savings, some of the more significant PPSSCC proposals are to reduce federal involvement in financing rural electrification activities, restructure farm price-support programs, and reduce commodity inventories.

Financing rural electrification activities

The PPSSCC estimated that the Department of Agriculture's Rural Electrification Administration (REA)[1] could shift \$3 billion to \$4 billion in government borrowing to the private sector, save \$99 million in interest costs, and generate fee revenues of \$43 million (AG 56 and AG 57). The PPSSCC believed this would occur if REA loan guarantees for rural electric generation and transmission cooperatives were reduced to an annual level of \$3 billion in 1986 (from \$4.7 billion in 1983); electric distribution cooperatives were required to obtain 50 percent, instead of 30 percent, of their loan funds from non-REA sources; and REA charged fees for both loans and loan guarantees to offset administrative costs. Legislation would be needed to fully implement these recommendations.

We generally agree with the objective of reducing rural electric cooperatives' reliance on federal assistance but caution

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[1]REA, a credit agency of the Department of Agriculture, provides loans to eligible utilities to extend electric and telephone service to rural areas.

that all cooperatives are not equally strong financially. On loan guarantees, we have advocated in previous reports that REA encourage greater private sector participation, require generation and transmission cooperatives to study all reasonable alternatives to new or expanded construction for meeting power requirements, and charge a loan guarantee fee. Also, we have recommended that REA (1) develop criteria to determine which distribution cooperatives qualify for private sector financing and (2) establish a minimum equity level goal for borrowers with low equities and require them to develop plans to achieve the goal. We also believe the Congress needs to reexamine the objectives of providing low-interest rate loans to distribution cooperatives and in light of these objectives, establish criteria to better tailor assistance on the basis of borrower needs.

Restructuring farm price-support programs

The PPSSCC recommended that the government's role in the farm economy be redirected from maintaining farm income to providing a "safety net" to protect producers from disastrously low prices in the event of substantial, sharp, short-term market declines (AG 21). According to the PPSSCC, current farm legislation is intended to maintain farmers' income at a modestly comfortable level, well above subsistence. The PPSSCC also said that U.S. efforts to support crop prices may have provided a price umbrella that has encouraged foreign competitors to increase their crop output and capture a greater share of world agricultural trade. The PPSSCC, therefore, believed that an opportunity existed to reduce federal farm subsidies while maintaining adequate food supplies at reasonable prices. While suggesting such actions as eliminating target prices and reducing farm price-support levels, which, it said, would require congressional approval, the PPSSCC recommended further study of the entire issue of restructuring the Department of Agriculture's farm programs. We believe that, in principle, this issue has merit and that a study is warranted.

The PPSSCC estimated that $13 billion (not included in its savings estimate total) in anticipated outlays under existing programs could be saved by restructuring federal farm programs. We agree that budget outlays would be reduced if the suggested actions were implemented but the savings amount would depend on a number of unpredictable variables, such as crop yield estimates, weather, and domestic and worldwide demand. These variables would influence crop prices and the resulting federal outlays that would be needed to provide farmers a base level of support.

Reducing commodity inventories

The PPSSCC estimated that savings of $1.2 billion could be achieved if other government agencies were required to reimburse Agriculture's Commodity Credit Corporation for commodities that the Corporation acquires under price-support programs and donates to the other agencies for use by schools, veterans' hospitals, and others (AG 22). The PPSSCC recognized that the cost of the commodities would merely be shifted from the Corporation to the other agencies but assumed that when the true cost of donations is known, the Congress will reduce donations in half. We believe the recommendation would improve accountability but that it would not result in savings unless it spurred action to reduce purchases of surplus products. According to Agriculture officials, however, Agriculture and OMB plan no action on the PPSSCC recommendation because, in their opinion, it is "legislatively infeasible."

ENERGY

We provided comments on 16 PPSSCC energy-related issues, totaling $28.5 billion in PPSSCC-estimated savings. The bulk of these savings estimates, $26.5 billion, relate to the generation of additional revenue by either improving the management operations and pricing policies of the Power Marketing Administrations (PMAs) or selling their power generation and transmission facilities to private sources. The remaining issues suggest additional savings or management improvements at the Tennessee Valley Authority, Nuclear Regulatory Commission, and Department of Energy.

Of the 16 issues, we believe that 14, representing practically all of the estimated savings, have overall merit. As shown in the following two examples, however, most of the PPSSCC-estimated savings may either be difficult to achieve or were realized prior to the issuance of the PPSSCC's report. In the first example, legislation on politically sensitive issues would be required to obtain much of the $26.5 billion in PPSSCC-estimated savings from PMA-related recommendations. In the second example regarding the Strategic Petroleum Reserve (SPR), some of the recommended actions had already been taken by the Department of Energy prior to the PPSSCC's report.

Power Marketing Administrations

The PPSSCC recommended either selling the PMAs' facilities or adjusting the PMAs' user fees, ratemaking process, and pricing structure. In total, the PPSSCC estimated savings for these activities at about $26.5 billion.

The largest portion of the PPSSCC savings ($18.5 billion) would come from selling the PMAs' facilities (PRIV 2). We believe that a decision to implement this recommendation would be premature before several questions are addressed. For example, these facilities, besides producing electricity, are operated for such purposes as irrigation, navigation, flood control, and fish and wildlife protection. Detailed negotiations and comprehensive contracts would be needed to ensure that these interests are adequately protected. Additionally, to sell the PMAs, the administration would have to seek legislative authority, find qualified buyers, and overcome resistance from public bodies and electric cooperatives who stand to lose their preference rights to purchase the relatively inexpensive power, which is provided for by current law.

The PPSSCC also recommended that PMAs (1) increase electricity rates sufficiently to provide for a fixed annual repayment of the federal investment that would raise about $1.3 billion and (2) impose a user fee to provide $3.2 billion in additional revenue (profit) to the U.S. Treasury (USER 5). We agree that the electricity rates should be increased to sufficiently cover all the PMAs' costs. However, the current legislative mandate of the PMAs is to recover costs and not make a profit. We question whether a revenue-generating fee should be established until a study is performed to assess the impact and need for such a change in the pricing structure.

In this regard, the PPSSCC recommended repealing appropriations legislation which prohibits PMAs from using funds to study the potential for changing their electricity pricing structures to reflect "market" prices (CONG 3-2). As required by law, PMAs currently set rates to recover their operating costs. We believe that such a study appears reasonable and could address the costs and benefits of revising PMAs' current method of establishing electricity rates and provide options for the Congress to evaluate. In order to change PMAs' electricity pricing structure for achieving the PPSSCC's $785 million savings estimate, the Congress and the executive branch would need to change their long standing policy and regulatory decisions that have supported PMA's current method of setting electricity rates.

<u>Improving Strategic Petroleum Reserve operations</u>

Beginning in 1976, the government began implementing a plan to store oil for use in the event of an oil emergency. To date, about 450 million barrels of oil have been stored in underground salt caverns, each generally holding about 10 million barrels of oil, at five different locations in Louisiana and Texas. The Department of Energy, which is responsible for the program, is currently developing additional storage space to eventually store 750 million barrels and is filling the SPR at about 159,000 barrels per day during fiscal year 1985.

The PPSSCC identified almost $1.3 billion in savings from operating the SPR more cost-effectively (ENERGY 7). Almost all of the savings would come from (1) reducing the SPR fill rate from 300,000 to 220,000 barrels per day and consequently avoiding costs associated with short-term leasing of private facilities to store the oil prior to putting it in salt caverns ($923 million), (2) deferring installation of oil measurement meters on individual SPR storage caverns ($124 million), and (3) exempting the SPR oil shipments from Cargo Preference Act requirements ($213 million).

While we generally agree with the PPSSCC that improvements in SPR operations are possible, most of the savings estimates had been achieved by the Department of Energy prior to issuance of the PPSSCC's report. For example, the administration and the Congress had already reached agreement on the fiscal year 1984 and 1985 SPR oil fill rates that were below the 220,000 barrels-per-day rate recommended by the PPSSCC. Also, the Department of Energy never requested, and the Congress never appropriated, funds for the oil measurement meters. In addition, to realize the PPSSCC's estimated savings by exempting SPR oil shipments from the Cargo Preference Act (which requires that at least one-half of all SPR oil shipments be carried by U.S. flag tankers), the Congress would have to reverse its longstanding support for the act. The PPSSCC study did not determine what effect exempting SPR shipments would have on the national security need for a U.S. merchant fleet.

ENVIRONMENTAL PROTECTION

We analyzed and provided comments on 15 PPSSCC issues relating primarily to programs and activities at the Environmental Protection Agency (EPA). These issues represent about $851 million in PPSSCC-estimated savings and deal primarily with opportunities to either improve EPA's program management or transfer current EPA program responsibilities to the states and/or private sector. In total, we agree that 11 of the 15 issues, representing $647 million in PPSSCC-estimated savings, have overall merit, although we often question, or take no position, on the savings estimate and believe that many of the recommendations may be difficult to implement. We disagree with the merits of the remaining four issues, representing $204 million in PPSSCC savings estimates. The following examples describe the PPSSCC's recommendation to delegate environmental programs to the states and consolidate EPA facilities and activities.

Delegating programs to states

The PPSSCC estimated that $64 million could be saved by delegating certain environmental programs to the states, leaving EPA with primarily an oversight role. In one issue for example, the PPSSCC suggested that EPA accelerate the delegation of environmental programs--primarily EPA's oversight of the water program--to the states (EPA 2). Once this occurs, the PPSSCC believed that EPA's oversight of the water pollution control programs could be significantly reduced, potentially eliminating 118 full-time employees.

We agree with the merits of this issue and point out that EPA's delegation actions in three national air pollution control programs have already resulted in state and local government agencies assuming from 65 to 96 percent of the operational responsibilities for these programs. We caution, however, that some state agencies (based on our preliminary work in the air pollution area) do not have the technical capabilities at this time to administer national environmental programs. Thus, it may not be possible for EPA to fully realize the magnitude of the savings the PPSSCC envisioned.

Consolidating facilities and activities

For the most part, we agree with the issues which pertain to consolidating facilities and activities to improve EPA's efficiency (EPA 4, 6, 7 and 8).

We agree, for example, with the PPSSCC's recommendation to use class permits for certain hazardous waste treatment or storage facilities (EPA 4). Currently, each treatment or storage facility must submit a detailed permit application. EPA or an EPA-authorized state then must review the application and, if appropriate, develop a permit. In commenting on this recommendation, EPA said that using class permits for certain low-risk facilities, such as above-ground storage tanks, would consolidate the application process and result in reduced paperwork because a standardized application form could be used. The standardized form would require less facility-specific information and would also entail a streamlined EPA or state review process. The PPSSCC's estimate that such class permits would save $48.7 million appears to be reasonable and achievable.

Further, we agree that closing and consolidating some under-used regional laboratories could make more effective use of personnel and equipment (EPA 6 and 8). Although we have no basis to judge the reasonableness of the savings estimate and have not done any work to determine which laboratories should be closed, the PPSSCC estimated that closing or consolidating eight laboratories would result in savings of $27.8 million. EPA, however, does not plan to carry out these consolidations, concluding that "decisions to close or consolidate laboratories have been politically difficult and will likely remain so."

We question the PPSSCC's recommendations to consolidate EPA's grant programs into a block grant program and reduce the federal funding level for state program grants to 25 percent of the total project costs (EPA 3). These actions could have a detrimental effect on EPA's overall environmental goals and mandates. Under a block grant, for example, some air and water programs could be penalized if the states decided to use their grant funds primarily for other environmental programs such as hazardous waste. In addition, if federal funding levels for state program grants are reduced to 25 percent of the total project costs (as compared with the current 45 to 50 percent), EPA may find that some states are unable to maintain their environmental programs. Thus, these states may have no choice but to return the programs to EPA, which is their option under current environmental regulations.

HOUSING

We commented on seven PPSSCC housing-related issues totaling $508 million in PPSSCC-estimated savings. Our analysis shows that all seven issues generally have merit, but in many instances the cost savings appeared to be overstated. These issues deal primarily with recommendations to improve management policies, procedures, and practices at the Department of Housing and Urban Development (HUD). The PPSSCC believes most of its recommendations can be implemented within existing administrative authority. The following examples describe our views on the PPSSCC recommendations to improve the overall organization and administrative functions of HUD and to sell HUD-owned mortgages to the Federal Financing Bank (FFB).

Improving HUD organization and administration

The PPSSCC estimated that HUD could save $69.6 million by eliminating overlap, duplication, and unnecessary management layering and by implementing a more effective organizational structure (HUD 2). Key recommendations were that HUD (1) review all major organizational units to identify and eliminate duplication and overlap of administrative efforts, (2) hold agency managers accountable for proper organizational management, and (3) proceed with its proposed field reorganization plan. We agree that this issue has merit, and in a 1984 report, Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management (GAO/RCED-84-9, Jan. 10, 1984), made a number of related recommendations regarding organizational matters. These recommendations included the need to determine and allocate work force requirements, to assess productivity, and to consider various alternatives for enhancing managerial accountability. Although these changes can be implemented under existing HUD authority, informal restrictions by the Congress require the Secretary of HUD to clear major reorganizations with the House and Senate Appropriation Committees and perform a cost-benefit analysis if the reorganization involves a field office.

Although we did not conduct a detailed analysis of the PPSSCC's estimated savings, the approach and methodology used to develop the estimated savings appear reasonable. HUD, however, believes the savings are overstated by about $15 million because, according to HUD, the PPSSCC overestimated staff and space savings.

Selling HUD-owned mortgages to the Federal Financing Bank

Controversy exists over whether HUD and the Government National Mortgage Association (GNMA) should hold their acquired mortgages or sell them to the private market. While sales to the private market have been undertaken to increase revenues and thus offset budget costs, HUD personnel have raised concerns that such sales create the possibility of undue enrichment for purchasers and are extremely costly to the government (i.e., most sales to the private market are made at huge discounts). The PPSSCC believes that the FFB could be substituted for the private market (HUD 6), thereby accomplishing the administration's budgetary goals while retaining the mortgages for the government's long-term benefit, curbing potential abuses arising from sales to the private market, and possibly capturing significant profits from the difference between the government's cost of capital and the yield on GNMA and HUD mortgages.

We agree that if the choice is between the sale of mortgages to the private sector or to FFB, then FFB is preferable. The Treasury can borrow funds and relend them to FFB to finance a mortgage portfolio at less cost than HUD and GNMA can raise funds through the sales of mortgages in the private market. In terms of current budgetary accounting, HUD and GNMA could continue to meet their budgetary goals by selling to the off-budget FFB just as if they were selling to the private market. On several occasions, however, we have recommended against continuing the off-budget status of the FFB because it leads to understating the budget totals (see discussion on p. 14).

Budgetary considerations aside, we believe that the same objectives could be realized whether HUD and GNMA sell the mortgages to FFB or hold them themselves. In either case, the Treasury would provide the financing, the assets would be held by the government, and the overall federal deficit would remain the same.

We believe that the approach and methodology the PPSSCC used to estimate its savings are reasonable. However, it appears that the PPSSCC overestimated HUD and GNMA loan sales in developing its savings estimate. On the basis of actual and projected loan sales, we estimated that the revenues would be $73 million, rather than the $109.2 million the PPSSCC estimated.

INTERIOR

We focused on 11 PPSSCC issues relating to the Department of the Interior, representing $4.7 billion in PPSSCC-estimated savings or increased revenue. These issues included actions such as selling unneeded public lands, improving land management activities, and integrating certain required environmental reviews with the Environmental Impact Statement process under the National Environmental Policy Act.

We agree, in principle, with the merits of 8 of the 11 interior-related issues, representing $1.6 billion in estimated savings. We disagree with the remaining three issues, totaling

$3.1 billion in estimated savings. The following are examples of the PPSSCC issues relating to the sale of unneeded public lands and improved land management, including a PPSSCC recommendation that the Minerals Management Service become an off-budget, independently funded entity.

Selling unneeded public lands

The PPSSCC estimates that $900 million in net revenues can be achieved from the sale of excess public lands--about 0.5 percent of all public domain lands. This new revenue would reduce debt service costs by $146 million. The PPSSCC recommended that current laws be changed so that land sales revenues could be placed in the Treasury's general fund, rather than special-purpose funds for federal land purchases and other purposes. According to the PPSSCC, this legislation is needed to permit such increased revenues to be used to reduce the government's debt.

We generally agree that the federal government could be doing a better job of selling unneeded public lands. However, changing existing law to place the revenues in the general fund instead of the land acquisition funds of the Interior Department (as the PPSSCC suggests) would do little to reduce the federal debt. For example, without land acquisition funds, the Department of the Interior would have to seek congressional appropriations from other sources for future land purchases. Thus, there would continue to be some offset of the benefit received from the land sales, even if the sales revenues were transferred to the general fund. Further, in light of continuing federal budget deficits, it is unlikely that sales of unneeded public lands would make a significant dent in the national debt. Although we did not estimate the revenue that would result from a large-scale Bureau of Land Management (BLM) land sale program, enough information is available to cast doubt on the PPSSCC's $900 million estimate. For example, the PPSSCC noted that its estimate was based on highly speculative assumptions about the acreage that BLM would sell; the land's market value; and buyer demand for BLM land, most of which is remote desert without roads, utilities, or water.

Improving minerals management

The PPSSCC estimated that $410.4 million could be saved by improving the management of the Minerals Management Service (LAND 1). The PPSSCC also assumed that $1.5 billion could be saved by making the Minerals Management Service an off-budget, independently funded entity and eliminating congressional oversight. However, this $1.5 billion was not included in the PPSSCC's final estimate of savings because it was based on subjective revenue estimates by the Department of the Interior.

We support the PPSSCC's recommendations aimed at improving the management of the Minerals Management Service, particularly those relating to the continued analysis and use of alternative bidding systems in leasing offshore lands. These alternative systems are designed to reduce the amount of up-front money required from companies to obtain an offshore lease, in return for a greater share of the revenues to the government from any follow-on production.

We do not believe, however, that the Minerals Management Service should be made an off-budget entity. We have consistently taken the position that the public interest is best served when congressional control over federal agencies is exercised through the annual appropriation process. We note, however, that the Congress, in exercising its oversight responsibilities, would still have the opportunity to assure that offshore exploration meets congressional goals even if the Minerals Management Service became an off-budget agency. This oversight is provided for by the 1953 Outer Continental Shelf Lands Act and the 1978 amendments to the act.

TRANSPORTATION

We analyzed and commented on nine transportation-related issues representing about $3.2 billion in PPSSCC-estimated cost savings. With two exceptions--totaling about $121 million in estimated savings--we believe that these issues have overall merit, although we generally lacked sufficient information to assess the associated cost savings. These issues relate primarily to streamlining the management operations of various DOT agencies, including suggestions to close existing facilities, make current operations more efficient, and prevent overlap or duplication of activities. The following examples describe the PPSSCC's recommendations to set priorities among certain Coast Guard activities and to consolidate certain federal highway programs.

Privatizing selected Coast Guard services

The PPSSCC recommended privatizing certain Coast Guard activities, including non-life threatening search and rescue operations, short-range aids to navigation, and commercial vessel safety programs (PRIV 8). The PPSSCC estimated that privatizing these services would produce savings of $1.3 billion. The Coast Guard, under existing authority, can contract with the private sector to perform these types of functions on behalf of the Coast Guard.

We believe that using private-sector assistance for certain Coast Guard services could permit direct savings through cost avoidance and a redistribution of existing Coast Guard resources. For this reason, we recommended in 1980 (The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (GAO/RCED-80-76, Apr. 3, 1980)) that the Coast Guard consider private-sector performance for certain aspects of some of its programs. While we agree that privatizing certain Coast Guard functions could result in savings, we do not have enough information to determine if the PPSSCC savings estimates are valid.

Consolidating federal highway programs

The PPSSCC estimated that $983.1 million can be saved if DOT used better resource allocation techniques (TRANS 6). According to the PPSSCC, the savings would be achieved by consolidating highway programs and allowing the states to determine which programs to fund. The PPSSCC believed this would lead to the states eliminating funding for many highway programs. While we have not specifically evaluated consolidating highway programs, we have been in favor of consolidating closely related programs within a functional area to improve administration efficiency and reduce the potential for duplication in other programs. However, we have no basis for an opinion on this particular savings estimate because the PPSSCC does not explain why the states would choose to eliminate funding for certain highway programs.

CHAPTER 7

COMMERCE AND BANKING PROGRAMS

The PPSSCC issues dealing with commerce and banking range from streamlining the banking industry regulatory structure to transferring certain of the Small Business Administration's (SBA's) loan responsibilities to the private sector and reforming certain U.S. Postal Service administrative operations. These issues could affect the regulation of financial institutions, the level of mail service given to postal patrons, and the amount of credit available to small business persons.

As the table below shows, we agree with the merits of 52 issues, disagree with the merits of 10, and have no position on the merits of the 9 remaining issues.

Summary of GAO Positions
on PPSSCC Commerce and Banking Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	52	73	16
Disagree with merits	10	14	7
No position on merits	9	13	6
Total	71	100	29

Although we generally agree with the merits of most of the issues, we do not agree with many of the PPSSCC's savings estimates, which total about $4.5 billion.

BANKING

We analyzed 11 PPSSCC issues aimed at improving the functioning of the bank regulatory agencies or banking-related matters. We generally agree with three of the issues, disagree with two, and have taken no position on the remaining six. Of the 11 issues, we believe that 2 could be accomplished by executive action and 9 would require congressional action to fully implement.

Among the most significant PPSSCC issues in this area were those that would require congressional action to eliminate or consolidate bank regulatory agency functions to reduce administrative and/or examination costs (BANK 27 and 29). The PPSSCC recommends transferring the Federal Reserve System's examination function to the Office of the Comptroller of the Currency (BANK 29). While we have previously supported streamlining the bank supervision process, we have not taken a position on the specifics of the PPSSCC's recommendations in this regard.

Numerous studies and recommendations have been made concerning the structure of the bank regulatory agencies. Arguments for consolidation center on concerns over how responsibility should be divided in such areas as supervision of failing banks by more than one agency and supervision of bank holding companies. Arguments against consolidation center on concerns about excessive centralization of power in one agency. We do not believe that the PPSSCC has clearly demonstrated that consolidation would result in significant savings or provide for more effective supervision of depository institutions. Furthermore, any savings realized from such consolidation would accrue to the industry and would not reduce taxpayer funding of government operations, since the regulatory agencies are funded by the institutions they regulate.

Moreover, the regulatory structure should be appropriate for the industry that is being regulated. The PPSSCC mentions, but does not analyze, the many changes taking place in the financial services industry. The Congress is now debating these changes, which include allowing previously segregated lines of business, such as deposit-taking and securities underwriting, to be conducted by the same business organizations. Such changes may, of necessity, affect the regulatory structure. We believe it is not advisable to undergo a major reorganization until the broader issues have been resolved to the point where it is known how the regulatory structure may be influenced by them.

We agree with the PPSSCC that the financial institutions' examination processes should be made more efficient. The PPSSCC cites possible improvements, such as more reliance on state examinations, modifications of the examination process, and improved training, as potential enhancements (BANK 28). We and the regulators have supported these concepts for several years. We disagree with the PPSSCC's assessment that the Federal Financial Institutions Examination Council, an interagency body intended to better coordinate the process, need not continue operating (BANK 30). Unless the Congress decides to consolidate the federal regulatory agencies, we believe that some form of structured coordination is needed for the agencies to deal with common problems and promote uniform supervision.

Two of the PPSSCC's issues involve levying charges in an attempt to put a price on the value of the agency status enjoyed by the Federal Home Loan Bank Board (BANK 19) and Farm Credit System (BANK 39). By virtue of having agency status, these entities are able to borrow funds at lower rates than would exist in the absence of such status. They, in turn, are able to pass the savings along to users of the system, in this case, housing and agricultural borrowers.

We believe that the proposals to charge the Farm Credit System a user fee for agency status and to require the System to invest only in U.S. government securities are questionable as long as the System has the responsibility to provide a flexible flow of credit to the nation's agriculture sector. While the agency status of the System results in lower borrowing costs, the subsidy conveyed to farmers and fishermen was intended by the Congress as a means of promoting investment in these particular activities.

On the other hand, we have no position on the PPSSCC's recommendation to have the Treasury charge the Bank Board a user fee for use of agency status. It has long been federal policy to promote investment in the housing sector through various subsidies. The diversion of thrift industry activities away from housing finance would tend to argue for eliminating the Bank Board's agency status. However, this movement is a very recent phenomenon whose outcome is uncertain. Furthermore, the current condition of the thrift industry is sufficiently precarious to make questionable any congressional action that would further weaken its condition.

Finally, the PPSSCC proposed that the Treasury monitor use of government banking and account management in order to manage interest on funds more aggressively (ASSET 7). Through its suggested procedures, the PPSSCC asserted that savings would accrue by accelerating the government's cash receipts, thereby reducing interest costs because levels of borrowing would be reduced. One recommendation would eliminate placing the Treasury's cash balances in noninterest-bearing accounts in exchange for banking services and, instead, place such funds in interest-bearing accounts with payment for banking services on a fee basis. While we believe this issue has merit, executive action to implement it should only be taken after the Treasury acts to ensure that the government's banking operations would not be unduly disrupted.

POSTAL SERVICE

We analyzed 31 PPSSCC issues affecting the U.S. Postal Service. These issues concerned potential improvements in the way the Service finances its operations, processes and delivers mail, procures real property and equipment, and deals with its workforce and customers. The PPSSCC quantified savings for 19 of the 31 issues. Of the 19 issues, some would not produce net savings to the federal government, others call for action that would be difficult to take, and still others call for increased emphasis on actions currently being taken by the Service. We believe 27 of the 31 issues we analyzed have merit, and we disagree with the merits of the 4 remaining issues. Of the 31 issues, we believe that 24 could be accomplished by executive action and 7 would require congressional action to fully implement.

We question the PPSSCC's assumption that savings associated with several issues could be translated easily into reductions in the federal deficit. These issues concern Service investments (BUS-USPS 2), interest income (BUS-USPS 3), and check processing or disbursement costs (BUS-USPS 5). For these issues, the actions the PPSSCC proposed would increase the Treasury's cost of financing the government's operations. For example, the PPSSCC recommended that the Service acquire authority to invest in commercial securities (BUS-USPS 2). The Service must invest in Treasury securities unless the Treasury agrees otherwise or the law changes. If the Service would invest in commercial securities, the cash invested would not be available to the Treasury (via Treasury securities). As a result, the Treasury would need to increase its borrowing from the private capital markets, which would increase its interest costs.

The PPSSCC recognized that the Treasury's costs would increase and offered a remedy. It believed the Congress should reduce the Service's operating appropriation by the amount of the expenditure savings or additional income realized from the recommendation. Otherwise, the savings would accrue to future postal patrons in the form of lower mailing charges and not to the government as a whole in the form of lower total expenditures. (BUS-USPS 2, 3, and 5 each include the same belief.) Until recently, the Service received two appropriations annually, one to help provide service everywhere in the nation and the other to subsidize certain preferred mail categories. Since fiscal year 1983, the Service has received only the latter appropriation. Reducing it may, therefore, have the affect of forcing up rates for the categories of users that the Congress intended to subsidize.

The actions the PPSSCC proposed for several other issues would be difficult to fully accomplish because the Congress, the Service, or both oppose the actions. The issues are concerned with increasing centralized mail delivery (BUS-USPS 13), replacing post offices with alternative services (BUS-USPS 17), reducing mail delivery days (BUS-USPS 18), and increasing the number of contract postal stations (BUS-USPS 36). The Congress has opposed implementation of the central delivery program to older delivery areas and has prohibited (until the end of fiscal year 1987) the Service from conducting any study which could lead to reduced delivery days. The Service opposes the wholesale conversion of postal stations and branches to contract stations. And, both the Congress and the Service oppose replacing rural post offices with alternative services.

For several issues, the PPSSCC recommended that the Service increase the emphasis on actions it had already begun or planned to begin. All of the issues in this category have merit. Four concern mail processing and delivery. The PPSSCC recommended that the Service implement its ZIP + 4 and automation programs (BUS-USPS 6); these have been implemented. It recommended that the Service continue to mechanize "flat" mail sorting and process more letter mail on existing sorting equipment (BUS-USPS 8). According to the Service, installation of mechanized equipment to sort flat mail and efforts to process all machinable, letter-size mail on letter sorting machines should be completed during fiscal year 1985. The PPSSCC encouraged growth in the Service's "presort" mail programs (BUS-USPS 9); growth has surpassed the PPSSCC's estimate. Finally, many of the programs the PPSSCC recommended to reduce nondelivery of correctly addressed third-class mail (BUS-USPS 7) have been or are being implemented, according to the Service.

Two other issues in the increased emphasis category concern payments to postal employees: employee overtime (BUS-USPS 31) and sick leave and leave without pay (BUS-USPS 37). We reported on these issues in 1983 and 1982, respectively, and believe the issues are still valid. The Service continues to pursue ways to reduce overtime, sick leave, and leave-without-pay usage.

SMALL BUSINESS ADMINISTRATION AND DEPARTMENT OF COMMERCE

We analyzed seven issues dealing with operations of SBA and the Department of Commerce. We believe six issues have merit and disagree with one issue. We have no basis for verifying the PPSSCC savings estimates for the six issues that we support. Of the seven issues, we believe that five could be accomplished by executive branch action, with the other two requiring congressional action.

One of the PPSSCC's issues suggests that businesses and individuals who are able to obtain disaster loans from commercial lending sources not be eligible for SBA's disaster loan programs (SBA 5). It further recommends that farmers not be eligible for SBA disaster assistance. We agree with these legislative proposals and have recommended previously that farmers be excluded from SBA disaster loan programs.

The PPSSCC also recommends that SBA transfer more of its loan responsibility to the private sector (SBA 1). We believe that legislatively reducing SBA's maximum guarantee percentages on guaranteed loans has merit. Reducing the percentage of SBA's guarantee would affect (1) the number of loans banks approve, (2) the maturity period of the loans, and (3) the size of the loans because of the increase in risk borne by banks under the proposal. We do not agree with the recommendation to transfer greater loan application analysis and approval authority to the private sector. We have found previously that (1) lenders often submitted incomplete loan application packages, (2) lenders frequently prepared inaccurate or unreliable credit analyses, and (3) SBA had not realized any material resource savings as a result of transferring loan-making responsibility to the private sector. We also believe that one drawback of the PPSSCC's recommendation to eliminate SBA direct lending would be the possible conflict with current congressional policy objectives to assist applicants that are unable to obtain private financing, with or without federal guarantees at reasonable terms. Finally, the PPSSCC recommendation that SBA transfer the responsibility of liquidating troubled loans to banks is logical and practical to the extent that banks are willing and capable of performing this function and it is demonstrably cost-beneficial to the government.

The PPSSCC's issue involving administratively terminating Economic Development Administration (EDA) grants for projects that are delayed or inactive (COMM 4) seems to have merit. Such terminations would be especially applicable in instances where local conditions may have changed to the extent that EDA cannot be assured that the long-delayed projects would accomplish their original objectives if they were completed.

CHAPTER 8

FEDERAL CIVILIAN PERSONNEL MANAGEMENT

About 2.2 million civilian employees are employed by the federal government, not including about 660,000 postal workers, and their pay and benefits cost about $76 billion annually. Another 1.9 million retirees and survivors received about $21 billion from the civil service retirement system in 1983.

The PPSSCC made recommendations about the practices and policies governing federal employee pay and benefits, productivity, and personnel management. We examined 45 of these issues and support most, as shown in the table below.

Summary of GAO Positions on PPSSCC Federal Civilian Personnel Management Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	27	60	9
Disagree with merits	14	31	11
No position on merits	4	9	2
Total	45	100	22

The major issues that we support call for changing the process for setting federal pay rates, improving productivity, improving the accounting for and funding of the civil service retirement system, and bringing the Foreign Service retirement system in line with the civil service system.

Of the 27 issues we support, the PPSSCC estimated cost savings of about $20.8 billion. While we believe these issues have merit, they would not produce the level of savings estimated by the PPSSCC.

The following sections of this chapter discuss our position on the PPSSCC's proposals and savings estimates in the areas of (1) pay and position classification, (2) civilian retirement, (3) other employee benefits, (4) productivity, and (5) personnel management.

PAY AND POSITION CLASSIFICATION

We examined nine issues directed at federal pay, incentives, and position classification. We generally agree with six (PER 6 through 8, ASSET 10, LABOR 7, and CONG 2-10), have no position on two (BUS-FTC 6, and PER 5), and disagree with one (ENERGY 2). For the six issues that we support, the PPSSCC estimated that savings would amount to $8.4 billion. While we agree with the recommendations, we do not agree that they would save money, at least in the near future.

Issues PER 6 and PER 7, which we support, recommend modifications in the processes for determining general schedule and blue-collar pay rates. The modifications would include establishing locality-based pay systems for certain employees and expanding the pay surveys to include state and local governments, additional occupations, and smaller firms. The PPSSCC's savings estimates are based on the assumption that federal employees are already receiving pay rates as determined by the current pay-setting system. However, limitations on pay increases in the past several years have caused federal pay rates to lag behind the rates called for by the pay surveys. If the PPSSCC's estimates for its recommendations are correct (we have not verified the accuracy of the surveys), this only means that the lag would be reduced, and the changes would produce no savings. We believe that making these changes to the pay systems would require legislation.

While we agree with the PPSSCC that overgrading in the federal government should be minimized, we are not certain of the extent of the problem. The PPSSCC also did not consider that downgraded employees have protections against pay cuts, which would significantly reduce the estimated savings from reducing overgrading.

RETIREMENT (CIVILIAN)

We addressed 10 issues in the areas of retirement for federal civilian employees. We disagree with seven, (FRS 1 through 6 and 8) agree with two, (FRS 7 and STATE 2), and have no position on the merits of one (FRS 9).

The PPSSCC's major recommendations call for sweeping changes in the civil service retirement system based on the PPSSCC's view that the system is much more costly and generous than private sector retirement programs.

We agree with the PPSSCC that certain features of the civil service retirement system are superior to those in retirement programs typically available in the private sector. Long-term employees (those with 30 or more years of service) can retire without a benefit reduction at age 55. In most private sector pension plans, benefits are reduced when employees retire before age 62. Similarly, civil service benefits are adjusted for increases in the cost of living, whereas, full inflation protection is generally not available to private sector retirees.

The civil service retirement system has historically been the only source of retirement income earned by covered employees during their government employment. Federal employees hired after December 31, 1983, are covered by social security. However, a private sector retirement program generally consists of three parts--social security, a pension plan, and a capital accumulation plan (employee stock-ownership plan, profit-sharing plan, thrift plan, deferred compensation plan, etc.).

In our opinion, private sector retirement practices are one standard that can be used in evaluating the federal retirement system. We found the PPSSCC's recommendations, in many respects, to be representative of private sector pension plan features. However, the PPSSCC's proposals did not include a capital accumulation plan which is a major element of private sector retirement programs. Adopting the PPSSCC's recommendations could result in lower benefits for federal employees than those generally available to private sector employees. Moreover, some of the recommendations would reduce the amounts now being paid to retirees and the benefits that active employees have already earned. We question the equity of such retroactive cuts and believe they could be subject to question in the courts.

We agree with the PPSSCC's recommendation that congressional action is needed to improve accounting practices in the civil service retirement system (FRS 7). The practices currently used to calculate and allocate retirement costs to agencies cause accruing costs to be understated. Accruing costs are determined on a "static" basis, using the assumptions that covered employees will receive no pay raises to increase their future retirement benefits and that retirees' annuities will not be adjusted for inflation. Consequently, because of these unrealistic assumptions, the true costs of government programs are understated and an unfunded liability has been created in the retirement system.

The PPSSCC did not estimate any savings from this recommendation. We agree with the PPSSCC that increasing agency contributions to fully fund accruing retirement costs would not result in any direct savings to the retirement system. However, it would result in increased federal revenues through greater contributions from off-budget agencies (those whose operations are not funded by appropriated funds, such as the U.S. Postal Service). Many such agencies have been established to operate on a self-supporting basis. To the extent that they would be required to contribute more to the retirement fund, federal revenues would increase. For example, the Postal Service could be required to increase its retirement contribution by over $3 billion a year if it were charged the full accruing retirement costs for its employees. As the PPSSCC recognized, implementing this recommendation would require legislation.

The PPSSCC also recommended that the unfunded liability of the retirement system be funded (FRS 7). Because the civil service retirement fund is required by law to be invested in federal securities, the government would fund the liability by writing itself an IOU, which would have no effect on total government expenditures or revenues. We agree with the PPSSCC, however, that funding the unfunded liability would be consistent with the legal requirement that private sector pension plans fund their unfunded liabilities.

We also agree with the PPSSCC recommendation to bring benefits under the Foreign Service retirement system in line with those of the civil service system (STATE 2). The PPSSCC maintained that the more generous retirement age and benefit formula provisions in the Foreign Service system were not needed or justified. We believe the special circumstances on which the separate system is based could be accommodated by existing provisions in the civil service retirement system.

The PPSSCC estimated that this recommendation would save $4.9 million if it were phased in for new employees. This estimate had assumed that the current Foreign Service system will not otherwise be changed. However, Foreign Service hires after December 31, 1983, are under social security, and the Congress is designing a new system to supplement the social security benefits. Therefore, the savings estimate will need modification. Implementing this recommendation would require legislation.

OTHER EMPLOYEE BENEFITS

We examined two PPSSCC issues involving revising the federal employee sick and annual leave programs (PER 3 and PER 4). The PPSSCC estimated that the annual leave changes would save $3.8 billion and the sick leave changes would save $3.7 billion. The associated recommendations are based on the PPSSCC's view that the government's sick and annual leave programs are more generous than those in the private sector. We found, however, that the PPSSCC tended to understate the amount of paid leave in the private sector. Other studies have shown no significant difference in paid time off between the government and private firms.

The PPSSCC's savings estimates for these issues also appear to be overstated. They assume that each day of leave cut would save a day's worth of payroll. However, having fewer days of leave accrue each year would not directly reduce outlays unless staffing levels were also reduced. The PPSSCC did not address the extent to which staffing levels would be affected. In addition, the PPSSCC recommended a ceiling on the amount of sick leave employees could accumulate. If employees are unable to save sick leave beyond a ceiling amount, some may tend to use it, which could cause sick leave use to increase rather than decrease.

We examined two PPSSCC issues on minimizing abuses (or fraud) in the federal workers' compensation program for on-the-job injuries (LABOR 1 and 2). The PPSSCC estimated that savings of $189 million could be achieved upon implementing additional reporting and investigative procedures to help ensure that only eligible employees are receiving benefits. The estimate was based on reducing, by 25 to 30 percent, increased costs that have occurred in the program since 1966. We believe the estimate is unrealistic because legislation liberalized the program during that period, thus contributing to the increased cost, and the Department of Labor has already acted to tighten its administration of the program. Nonetheless, we agree that a more effective system can help detect abuses and that most of the recommendations have merit. In our opinion, the recommendations can be implemented administratively.

PRODUCTIVITY

We reviewed four issues on increasing government productivity (PER 16, ARMY 16, LABOR 4, and EX 4) and believe that they all have merit. The PPSSCC estimated that, if implemented, these recommendations would save about $11.7 billion.

The major issue calls for establishing a central office for promoting and coordinating formal, visible programs for productivity improvement throughout the federal government (PER 16). We agree that a central focus on productivity improvement is needed in federal operations.

With the recent elimination of government-wide productivity programs, there is little central support or encouragement of the subject. We have found that federal productivity is improving at a much slower pace than in private and public organizations that have focused on improving productivity. We have issued several reports on productivity in the federal sector and elsewhere and made recommendations that would support the PPSSCC's recommendations.

The PPSSCC's savings estimate is based on assumed increases in productivity and cannot be supported with hard data. Nevertheless, the estimate follows logically from the assumptions. We and the PPSSCC share the view that productivity improvement offers a significant opportunity for cost reduction that is not being adequately addressed. Some central management assistance and support--at OMB or elsewhere--is clearly needed. We agree with the PPSSCC that the issue could be implemented administratively.

The remaining three productivity issues contain specific recommendations about cost containment and productivity improvement programs in certain agencies. We generally agree with the the recommendations because they would focus top management attention on productivity improvement.

PERSONNEL MANAGEMENT

We addressed a wide variety of PPSSCC issues in the broad area of personnel management, including training, promotions, work force planning, reduction-in-force, personnel ceilings, and other areas. Of 17 issues we generally support 13 (TREAS 2; FMS 8 and 9; PER 13, 14, and 18; CONG 4-6; ADP 7; LABOR 10; USAF 6 and 22; PER 17; and STATE 1) and disagree with 4 (PER 11 and 15; ED 8; and BUS-TVA 3).

For the 13 issues that we generally support, the PPSSCC estimated savings of about $562 million. We were unable to evaluate much of the savings estimates because the PPSSCC did not support its estimates or use assumptions that would offer a basis for judging. For example, the PPSSCC estimated that maximizing competition for consulting services contracts in the Air Force would save 20 percent, or $227.7 million. While we agree that agencies need to obtain more competition when procuring these services, we have not estimated the savings that could result, and the PPSSCC did not indicate how it arrived at its 20 percent estimate.

Four of the 13 issues concern the control of civilian staff levels either at specific locations or across the government. We agree that personnel ceilings should not be used to determine the size of the work force and that cost/benefit analyses and other work force planning methods should be used to determine staffing needs. Neither we nor the PPSSCC have estimated the savings from proper work force planning. Two of the 13 issues would require congressional action.

CHAPTER 9

PROPERTY, PRINTING, TRAVEL AND TRANSPORTATION MANAGEMENT, AND CIVILIAN PROCUREMENT

Federal civilian agencies spend an estimated $35 billion annually to procure property and support services, $2 billion annually for travel and transportation of things, and $1 billion for printing and reproduction. These agencies also occupy and manage almost 1 billion square feet of building space. The PPSSCC made many recommendations for management improvements in these areas.

We examined 37 PPSSCC issues involving a wide variety of procurement, property management, printing, records management, and travel and transportation management matters. We generally agree with 35 issues, on the basis of their conceptual merits, and have no position on the merits of 2. In many cases, we believe savings can be achieved through the management improvements recommended. However, the PPSSCC's reports frequently do not provide sufficient information for us to express an opinion on the reasonableness of the estimated savings.

The table below summarizes our position on the 37 PPSSCC issues we examined.

Summary of GAO Positions on PPSSCC Property, Printing, Travel and Transportation Management, and Civilian Procurement Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	35	95	12
Disagree with merits	0	0	0
No position on merits	2	5	2
Total	37	100	14

As shown in the table, 12 of the PPSSCC issues with which we generally agree would require some legislative action. These issues include such matters as establishing a threshold for applying socioeconomic programs to the procurement process, making changes to the congressional approval process for leasing and repairing buildings, and establishing a flat-rate per diem system for federal employee travel. In certain other cases, although legislative action would be required to implement the PPSSCC's recommendations, we do not necessarily support such action. For example, the PPSSCC recommended legislation to allow agencies to retain a portion of the proceeds from the sale of excess real property. The objective of this recommendation was to provide an incentive to dispose of unneeded property in a timely manner. We have reservations about this action because it could circumvent the congressional authorization and appropriation process.

The two issues on which we take no position would also require congressional action to approve proposals for consolidating office space within two executive agencies. The remaining 23 issues could be implemented by executive branch action alone. We believe most of the PPSSCC issues would yield some savings but, in many cases, we are not confident that the amount of savings the PPSSCC projected can be achieved.

The following sections of this chapter summarize our views on the 37 PPSSCC issues we examined.

CIVILIAN PROCUREMENT

We examined 10 issues directed toward improving various aspects of federal procurement. The PPSSCC estimated savings of about $2.6 billion. Three of the 10 have government-wide applicability; 7 are directed to specific civilian agencies. We agree that all 10 issues have overall merit.

One of the most significant government-wide PPSSCC procurement issues calls for the administration to continue its actions to implement basic procurement reforms required by Executive Order 12352 (PROC 1). In December 1983, the Congress enacted Public Law 98-191, which largely incorporated the reforms called for by the executive order and made them specific responsibilities of agency heads. The basic thrust of these reforms, which we support, calls for upgrading key features of agency procurement systems and reversing the excessive reliance on regulations. Although some progress has been made, we believe continued congressional oversight will be needed to ensure the timely and effective implementation of these needed reforms.

Four of the PPSSCC's issues were directed specifically to GSA. These issues called for improving the organization of GSA's Federal Supply Service, which carries out central procurement for other federal agencies (PROC 15); increasing competitive procurements (PROC 22); tightening controls over the award of multiple contracts for similar items (PROC 21); and increasing centralized procurement of common-use items (PROC 20). We have made similar recommendations and agree that their implementation would yield savings, although we are uncertain of the amount.

For example, the PPSSCC estimated savings totaling $312 million from increased centralization of the procurement of common-use items by GSA. We support this proposal and believe that savings can be obtained through increasing the amount of common-use items procured by GSA. The PPSSCC concluded that further study was needed to completely identify the magnitude of the opportunity for increased centralization of civilian agency procurement. We agree that additional work is needed to accurately estimate the amount of savings in this area.

Three of the 10 procurement issues addressed by the PPSSCC required legislation, and the Congress has already acted in these cases. The PPSSCC issues calling for continued efforts to implement procurement system reform (PROC 1) and transfer government-wide procurement policy responsibility from GSA to the Office of Federal Procurement Policy (PROC 14) were addressed by Public Law 98-191, enacted in December 1983. Also, Public Law 98-369, enacted in July 1984, established the dollar threshold for the use of simplified small-purchase procedures by civilian agencies at $25,000 as the PPSSCC recommended (PROC 2). A closely related PPSSCC recommendation has not, however, been acted on by the Congress. The PPSSCC called for legislation to tie the thresholds for major socioeconomic programs to the threshold for simplified small-purchase procedures. We support this recommendation.

The seven remaining procurement issues addressed by the PPSSCC could be implemented by executive branch action.

REAL PROPERTY MANAGEMENT AND CONSTRUCTION

We examined 12 PPSSCC issues on real property management and 4 issues dealing with federal construction activities. The PPSSCC estimated savings of about $4.9 billion. We generally agree that 14 issues have overall merit. However, we have reservations about several specific recommendations related to three of the four issues dealing with construction.

We take no position on the merits of two issues calling for consolidating office space within two executive agencies (TREAS 23, BUS-FTC 2). Although space consolidation usually results in savings, we have no basis to assess if these two cases should take precedence over other space needs.

Most of the PPSSCC's $4.9 billion estimated savings in this area are related to three issues. These issues call for (1) improving the productivity of government employees who perform maintenance on the federal government's real property (PROP 6), (2) increasing the use of performance specifications on federal construction projects (CONST 18), and (3) making wider use of value engineering on federal and federally sponsored construction and facilities projects (CONST 19).

The PPSSCC's findings and recommendations for improving the productivity of federal maintenance personnel are generally consistent with our prior work in the area, and we support the PPSSCC issue and its related recommendations (PROP 6). These include establishing a comprehensive maintenance productivity program; fixing central responsibility for productivity improvement in each agency; developing performance indices for property maintenance; increasing the use of performance standards and variance analysis; and, if needed, employing outside consultants to help start the program. We agree with the PPSSCC that substantial cost savings can be attained through increased productivity of maintenance personnel, although the savings are not likely to be as great as the $1.1 billion the PPSSCC estimated.

The second PPSSCC issue calls for the increased use of performance specifications on federal construction projects (CONST 18). The PPSSCC estimates that $1.3 billion could be saved by this action. Performance specifications identify the level or degree of performance required for a building system, subsystem, or other component in contrast to prescriptive specifications that define the materials and components to be used in the project. We agree that savings can be realized through increased use of performance specifications in federal construction; however, we do not fully support the PPSSCC recommendations. Performance specifications cannot be applied to all construction projects--or even to all portions of construction projects as the PPSSCC apparently assumed. Much remains to be learned about how to develop and use performance specifications before they can be broadly applied. Also, estimating the potential savings from using performance specifications would be difficult even if the universe of projects to which they are applicable were well defined.

The third PPSSCC issue calls for increased use of value engineering--a systematic process for achieving cost savings--on federal construction projects (CONST 19). The PPSSCC estimated savings of $662 million for this issue.

Value engineering, as applied in the construction industry, involves a multidisciplined study team that systematically evaluates a project's proposed design and construction methods to identify ways to achieve the lowest possible life-cycle cost for the project. We agree with the PPSSCC that value engineering is a proven cost-saving technique, and we support its use in planning, designing, and constructing federal and federally funded facilities. We have issued several reports that demonstrate opportunities for savings by wider use of value engineering. We do not, however, fully support all of the PPSSCC's recommendations related to this issue. Care must be taken in implementing a value engineering program. Mandating its use, as the PPSSCC suggests, will not necessarily generate savings. Personnel must be trained in this technique, and lessons learned in both effective and ineffective programs must be considered before requiring that all agencies use value engineering. Too often, the focus of value engineering has been on reducing construction costs instead of on life-cycle costs, which can result in long-term cost increases instead of savings. The most critical factor impeding greater use of value engineering is the lack of top management acceptance and support.

The remainder of the PPSSCC issues in this section are related to overall property management (PROP 1); leasing (PROP 8, PROP 9); reducing office space (PROP 2, BANK 8); acquiring, managing, repairing, and disposing of real property (PROP 3, HUD 4, CONG 3 - 7); and reducing energy costs in government-controlled buildings (PROP 7). We generally support these PPSSCC issues, although in several cases we believe the PPSSCC's savings estimates are not adequately supported.

Eight of the real property issues the PPSSCC addressed would require some legislative action. We generally agree with the more significant measures the PPSSCC recommended. These primarily involve making changes in the congressional approval process for leasing and for repair and alteration projects. The objectives of these changes are to provide a better basis for congressional oversight and avoid unnecessary delays and resulting cost increases. For example, the PPSSCC recommended legislation to provide for congressional authorization of leases based on the full-term obligation over the life of the lease, rather than the current practice of considering only the first year's rental cost (PROP 9). We favor application of the full-funding concept to leasing so that the total budgetary impact of both leasing and construction projects is disclosed and can be compared. Currently, the full-funding concept applies to construction projects, but not to leasing.

TRAVEL AND TRANSPORTATION MANAGEMENT

We examined six PPSSCC issues addressing travel, transportation, and vehicle fleet management. The PPSSCC estimated savings totaling over $3.1 billion for these issues. We agree that the six issues have overall merit, although we do not support all of the PPSSCC's specific recommendations. Also, while we believe some savings can be obtained, we generally believe the PPSSCC's savings estimates are not adequately supported.

One PPSSCC issue calling for improvements in managing the federal government's fleet of over 436,000 nonmilitary vehicles (PRIV 7) accounts for estimated savings of about $1.3 billion, or 42 percent of the total estimated savings in this area. The PPSSCC recommends immediately reducing the fleet by 100,000 vehicles, developing a government-wide fleet management information system, and taking other steps to improve management of the remaining vehicles.

Reducing the size of the federal vehicle fleet to the degree proposed by the PPSSCC would obviously result in savings. However, the PPSSCC's recommendation was not based on an assessment of agencies' vehicle requirements. We have not studied agencies' vehicle requirements and therefore have no basis to determine the feasibility of an immediate 100,000-vehicle reduction. We agree that development of a management information system should contribute to determining the optimum size of the federal vehicle fleet and would probably result in savings over time, but we have no basis to support the PPSSCC's savings estimate of $1.3 billion.

The PPSSCC addressed three issues dealing with federal employee travel and estimated potential savings of about $1.1 billion for these proposals. The issue with the largest estimated savings, about $984 million, calls for GSA to develop an in-house travel service contracting and negotiating unit, establish some federal employee-operated travel centers, and continue to rely on some contractor-operated travel centers (TTM 1).

We agree with the intent of this issue, but we do not support all of its underlying recommendations. GSA already has a centralized in-house travel service contracting unit and is making extensive use of travel agent-operated travel services at little cost to the government. We are not aware of any evidence that would suggest a need to return to government-operated travel centers.

The remaining two PPSSCC issues dealing with travel call for improvements in travel administration and accounting (TTM 2, BANK 26). The PPSSCC estimated savings of about $173 million for these issues. We generally agree that these issues have merit and that some savings would result, although we have no basis for assessing the reasonableness of the PPSSCC's estimate.

The PPSSCC addressed two other issues which dealt with traffic management (TTM 3) and transportation audit (TTM 4). Estimated savings for these issues total about $695 million. We support these proposals and believe that savings can be achieved through their implementation, although we believe the PPSSCC savings estimates are overstated. For example, the PPSSCC based its transportation audit savings estimate on $4.6 billion in freight charges for fiscal year 1982. However, GSA data for fiscal year 1982 shows that only about $2 billion in freight charges were subject to its audit.

Three of the six PPSSCC issues include recommendations that we believe would require legislative action. First, legislation would be required to establish a flat-rate per diem system for federal employee travel. An OMB Interagency Travel Management Improvement Project report estimated substantial cost reductions from such a system, and we believe it merits consideration by the Congress. Second, the PPSSCC recommended reenactment of expired legislation that authorized GSA to collect data from the agencies on outstanding travel advances and other travel matters. The information was used by GSA to monitor government travel and report to the Congress on areas needing improvement. Although we believe GSA could request such data from the agencies without legislation, GSA's position would be strengthened if it were again authorized to collect and analyze relevant government-wide travel information.

Finally, the PPSSCC recommended that GSA seek repeal of legislation preventing prepayment audits of freight bills and reduction of freight charges (TTM 4). We believe GSA should explore this issue, although its accomplishment may not be feasible without delaying payment to carriers.

RECORDS MANAGEMENT AND PRINTING

We examined five PPSSCC issues directed toward improving federal records management and printing activities. The PPSSCC estimated savings of about $833 million for these issues. We believe all of these issues have merit and agree that they would result in significant savings, although probably not as great as the PPSSCC estimates.

The PPSSCC made recommendations for reducing federal records storage costs (LAND 3), improving mail management practices (PPAV 3, PPAV 4), and closing or consolidating unneeded printing and duplicating facilities (PPAV 5, CONG 2 - 9). However, we believe that the savings potential for these issues is not as great as the PPSSCC estimates. For example, the PPSSCC estimated savings of about $159 million from printing plant closings and consolidations, increased commercial printing, operation of a central printing plant, and various combinations of these options. OMB has estimated savings of $31.5 million from 111 printing plant closings already undertaken. We believe it is unlikely that further efforts in this area will yield the savings estimated by the PPSSCC. Two of the five issues would require legislative action; three could be implemented by executive branch action.

CHAPTER 10

AUTOMATED DATA PROCESSING/

OFFICE AUTOMATION OPERATIONS

Even though the federal government's automated data processing/office automation (ADP/OA) operations make up only 1.6 percent ($12 billion) of the federal budget, virtually every dollar the government spends or receives is processed, controlled, and monitored by an automated system. Vital weapons systems, phone systems, air traffic control, and weather forecasting are just a few examples of government functions completely dependent on computer support. Clearly, ADP's importance to the smooth, effective functioning of the government is greater than its cost implies.

The PPSSCC identified 65 issues related to ADP/OA activities. It estimated that the federal government could realize a cost savings of $29.5 billion by establishing an effective ADP/OA management structure, making managerial improvements, and reducing the cost of ADP/OA activities. This chapter, however, deals only with 39 issues representing about $15 billion in cost savings estimated by the PPSSCC. The remaining issues, while relating to ADP/OA activities, address such issues as the government's efforts to improve its cash management and financial systems, debt collection systems, and inventory management systems. These efforts are discussed in other chapters of this report.

The ADP/OA issues,[1] which focused on ways to increase the effectiveness of federal ADP/OA activities, were broken down into three broad categories:

--Central ADP/OA management and agency leadership.

--Government-wide management of major information resources, including ADP hardware, software, telecommunications, and OA.

--Specific issues identified in agencies' ADP/OA operations.

As summarized in the table below, we agree that 38 of the 39 issues have overall merit. We do not believe the remaining issue and its principal recommendation--accelerating the automation of the Agricultural Stabilization and Conservation Service's county offices (AG 36)--have merit.

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[1] Most of the issues centered on agencies' ADP/OA operations.

Summary of GAO Positions on PPSSCC ADP/OA Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	38	97	5
Disagree with merits	1	3	0
No position on merits	0	0	0
Total	39	100	5

Of the 39 issues, we found that five issues (ADP 1, 5, and 6; ED 2; and FMS 2), which we agree have merit, contain recommendations which require some type of legislative action to fully implement. We favor legislative action on one recommendation--to increase the size of the Inspector General's staff at the Department of Education (ED 2). However, we do not agree with the recommendation establishing a Federal Information Resources Management Office (ADP 1), nor do we believe that the Federal Information Resource Manager is the proper authority to implement specific ADP/OA recommendations (ADP 5 and 6). We also do not agree with the recommendation to have us review OA in every government agency on a published schedule (ADP 6). Further, we take no position on the recommendation to assign responsibilities to OFM[2] (FMS 2).

For the most part, we have no basis for judging the reasonableness of the PPSSCC's savings estimates related to ADP/OA activities because the PPSSCC did not discuss its assumptions and approaches in sufficient detail.

CENTRAL ADP/OA MANAGEMENT AND AGENCY LEADERSHIP

The PPSSCC found that the federal government has not been effectively managing its information technology resources. The government has not (1) developed a centralized management mechanism for its information technology resources, (2) provided for leadership at the agency level, and (3) fixed accountability for acquiring up-to-date technology. As a result, the government's ADP operations are obsolete and inefficient. According to the PPSSCC, the primary reason information technology resources have not been managed effectively is that OMB has not exercised managerial control over these resources. Instead, OMB's Office of Information and Regulatory Affairs (OIRA) has directed its efforts toward regulatory reform.

To improve the management, leadership, and technical support

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[2] We do not take a position on the establishment of OFM, a PPSSCC-proposed executive office to provide centralized leadership and policy direction (FMS 1).

of information resources, the PPSSCC recommended the following:

--The President should appoint a Federal Information Resource Manager to serve in the proposed Office of Federal Information Resources Management, and the resources provided to OMB under the Paperwork Reduction Act should be moved to this office (ADP 1). The Federal Information Resource Manager would be responsible for ensuring that agencies fully complied with the Paperwork Reduction Act of 1980 (Public Law 96-511) and for establishing priorities for upgrading information technology management in the agencies. The Federal Information Resource Manager's responsibilities would also include establishing and chairing a government-wide information technology steering committee to (1) develop goals and directives and short- and long-term plans for upgrading information technology, (2) exchange innovative ideas and applications, and (3) address the challenges and opportunities posed by new technologies.

--The roles of agency information resource managers should be expanded and more clearly defined (ADP 2). The agency information resource manager would oversee ADP/OA management, report directly to the agency head, and be assisted by an information management steering committee to link agency programmatic plans and strategies to ADP/OA planning. Also, federal agencies should assign the functions of their information resource managers to Senior Executive Service career professionals who have appropriate training and experience.

--GSA should provide better guidance to federal agencies on the acquisition process for ADP/OA equipment and services and streamline the acquisition process (ADP 3). Also, when agencies demonstrate technical competence, GSA should grant federal agencies more procurement autonomy and improve its technical assistance role by publishing an ADP acquisition guidebook, maintaining up-to-date inventories of ADP/OA equipment and software, and using benchmarking[3] (a long and expensive process) more judiciously.

Although the PPSSCC did not develop a savings estimate for this central ADP/OA management category, it stressed that the savings associated with the other categories could be realized only if the government acted on this group of ADP/OA management issues.

We believe that, for the most part, the PPSSCC issues and associated recommendations addressing the need for improved management, leadership, and technical support of information resources have merit and could be implemented. We take exception, however,

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[3] Benchmarking is a process in which computer programs and associated data are tailored to represent a particular workload and are used to evaluate the performance and cost of proposed automated information systems.

to the PPSSCC recommendation to establish a new central ADP management mechanism--the Office of Federal Information Resources Management--within the executive branch (ADP 1).

Implementing this recommendation by creating a new office would do little to strengthen the existing management structure put in place by the Paperwork Reduction Act. The act established OIRA within OMB. The functions and responsibilities of the proposed Federal Information Resources Management Office are essentially identical to those of OIRA. Creating a new office, in and of itself, will not ensure that the remaining PPSSCC ADP/OA recommendations will be effectively implemented or that OIRA's existing ADP responsibilities, which would be transferred to the new office, would be better carried out.

The PPSSCC proposed that a corporate approach be applied to the federal government by consolidating within OFM all policysetting responsibilities for human resources, financial, property and procurement, and information resources management (FMS 1). We are not sure that following the corporate approach of centralizing the administrative policymaking function is appropriate for the federal government. The government differs from the private sector in several significant ways. It is vastly bigger than the largest Fortune 500 companies, unique in many of its uses of ADP, subject to top management discontinuity, and diverse in its operations. There is no comparable model in private industry.

As recognized by the PPSSCC, many of its ADP/OA findings are not new and have previously been raised by other commissions and projects, such as former President Carter's ADP Reorganization Project. The fact that these problems continue to persist is evidence of the difficulty in making the transition from problem identification to solutions and cost savings.

We believe many of the ADP/OA problems can be corrected within the existing structure created by the Paperwork Reduction Act. Resolving ADP/OA problems involves obtaining top management attention and support; acquiring adequate staff resources; ranking problems and identifying specific solutions; and working, within the current organizational structure and processes, to solve identified problems.

GOVERNMENT-WIDE MANAGEMENT OF ADP/OA RESOURCES

The PPSSCC stated that the Federal Information Resource Manager and the agency information resource managers should be attentive to four areas of ADP/OA management: obsolete hardware and software, teleprocessing networks, office automation, and ADP personnel. According to the PPSSCC, approximately 50 percent of the government's ADP inventory is so old that the manufacturers no longer provide spare parts and maintenance to support the systems. Therefore, specially trained federal personnel must maintain the ADP systems themselves.

In addition, the federal government's teleprocessing expenditures in 1981 were estimated by the PPSSCC at $650 million and were increasing by 25 percent annually. Due to increased costs and the expanded use of teleprocessing resources, the PPSSCC believed that the rate of growth may well exceed 25 percent annually in the future. The PPSSCC emphasized that the cost and use of these resources should be accurately determined so they could be managed.

Past studies of public- and private-sector organizations have shown that using OA significantly increased productivity. The PPSSCC found, however, that productivity improvement in the government was not being achieved because individual agencies were procuring incompatible systems, underusing equipment, improperly planning and procuring OA, and not ensuring that the OA equipment was being used and operated properly.

According to the PPSSCC, the federal government could save about $11.1 billion (net) if:

--Agencies, under the direction of information resource managers, upgraded and replaced ADP systems with current technology and examined ways for consolidating and improving their systems (ADP 4). The PPSSCC did not identify the cost of replacing the ADP systems, but estimated a net savings of $4 billion for this issue.

--The Federal Information Resource Manager and agency information resource managers analyzed all ADP systems that employ significant, recurring levels of teleprocessing resources to determine the potential for consolidation and sharing (ADP 5).

--The Federal Information Resource Manager required agencies to submit an annual OA plan, the Federal Information Resource Manager and GSA provided guidance for agencies in developing long-range OA plans, and we reviewed OA in every government agency on a published schedule (ADP 6).

By implementing its recommendations, the PPSSCC expects that the government could (1) improve productivity by eliminating costly manual operations and improving computer processing efficiency and (2) reduce costs of ADP operations by replacing obsolete equipment and software.

We agree with the PPSSCC that the government-wide issues involving ADP/OA resource management have overall merit and warrant intensive, high-level management attention. However, management should consider the costs involved before implementing the PPSSCC's recommendations, particularly those dealing with upgrading and replacing obsolete ADP systems. Except for the recommendation that we review agency OA activities discussed below, the PPSSCC recommendations are generally feasible and can be carried out by the federal agencies.

We agree with the PPSSCC that effective management of OA could improve the productivity of federal managers, professionals, and clerical workers. Our report, Strong Central Management of Office Automation Will Boost Productivity (GAO/AFMD 82-54, Sept. 21, 1982), noted that agencies would have to establish strong central management of OA if potential benefits were to be achieved without wasting resources. However, we disagree with the PPSSCC recommendation to have us review OA in every government agency on a published schedule. In our opinion, the objectives sought by this recommendation are the primary responsibility of agency management and the internal audit staff. However, we will selectively review agency OA activities in the future.

We also believe teleprocessing resources need to be more effectively managed. In a report, Financial Information Lacking on Government Telecommunications Services and Equipment (GAO/MASAD 83-16, Feb. 25, 1983), we pointed out that the government was not ready to accurately accumulate government-wide teleprocessing cost data because some inconsistencies in cost classification needed to be resolved first. Therefore, before teleprocessing management in the federal government can be improved, OMB must act on the PPSSCC recommendation to issue new guidance clarifying its instructions to the agencies on documenting teleprocessing costs.

AGENCY- OR APPLICATION-SPECIFIC PROBLEMS

In exploring areas for savings related to ADP/OA, the PPSSCC found that individual agencies were experiencing a variety of problems. For example, some agencies' organizational structures for managing ADP/OA resources and applications were weak or nonexistent. In some instances, the agencies had not established a long-range planning process or developed effective management information systems. Further, the agencies were not using technology to meet their mission objectives in a cost-efficient manner. To correct these problems, the PPSSCC made specific recommendations to the cognizant agencies and anticipated that improved fiscal and management control over agency programs could be achieved. The PPSSCC estimated that the federal government could realize cost savings of about $18.4 billion by implementing the agency- or application-specific recommendations.

We believe that, for the most part, the PPSSCC issues and related recommendations to improve the agencies' ADP/OA systems have merit. Furthermore, we believe the recommendations can be implemented under existing executive branch authority and that they warrant high-level attention by the cognizant civilian and military agencies.

We do not believe the issue and principal recommendation to accelerate the automation of the Agricultural Stabilization and Conservation Service's county offices have merit (AG 36). We reviewed the Service's cost/benefit analysis of the nationwide county office automation and found that (1) certain benefits were overstated; (2) costs for the largest cost category, equipment and maintenance, appear to have been understated; and (3) potential risks were increased because the Service planned to use untested technology. In a report, ASCS Needs Better Information to Adequately Assess Proposed County and State Office Automation (GAO/IMTEC 84-11, May 25, 1984), we recommended that, rather than accelerating the automation, the Service proceed with a prototype project and defer the planned nationwide automation of the county offices.

The following two examples describe situations in which the PPSSCC believed that savings could be realized if the respective agency (1) improved its use of ADP resources to support its mission and (2) established a clear organizational structure.

In the first example, the PPSSCC believed that the improved use of ADP resources for inventory management would better enable the defense agencies to carry out their missions (ADP 16, OSD 2, PROC 11). The PPSSCC reported that, in DOD supply systems, reporting and processing of inventory data was automated, but the ADP equipment was frequently obsolete. Present computer facilities should be modernized so inventory data can be processed more accurately and promptly. To address this issue, the PPSSCC recommended that DOD modernize its automated logistics system for inventory management and control. However, the PPSSCC believed that DOD must first correct management practices and system design before modernizing its inventory management system. According to the PPSSCC, DOD could save about $6.1 billion by implementing the related recommendations described in this issue.

We agree that modernizing ADP facilities would help improve inventory management. As described by the PPSSCC, however, part of the problem of inventory management is the high error rate in the data used to manage the inventory. We believe that the data problems as well as the shortage of adequately trained personnel should be solved in conjunction with DOD's investment to modernize its computer facilities.

The second example is the Army's need for an organizational structure for managing ADP/OA (ADP 10 and ARMY 15). The PPSSCC found that, even though the Army depends heavily on automation to fulfill its mission, it had no clear organizational structure for ADP/OA. To correct this problem, the PPSSCC recommended that the Army establish an Automation Command. One of the command's responsibilities would be to develop short- and long-term plans for the coordinated use of ADP/OA. The PPSSCC estimated that implementing its recommendations would save $827.5 million.

We agree with the PPSSCC that the Army needs to focus more attention on ADP/OA management. However, we question the need for forming an Automation Command with Army-wide ADP responsibilities when an accountable official with such responsibilities already exists: the agency's information resource manager, as required by the Paperwork Reduction Act. Without further clarifications, the Automation Command could easily duplicate, as well as confuse and dilute, the role of the information resource manager.

CHAPTER 11

REVENUE MATTERS

Although most deficit reduction proposals center around reducing federal spending, achieving substantial progress toward a balanced budget may require the federal government to raise additional revenues. In fiscal year 1983, the latest year for which data is available, federal government receipts totaled over $600 billion. The receipts were comprised of income tax revenue (both individual and corporate), social security taxes and contributions, excise taxes, estate and gift taxes, and miscellaneous other receipts. The PPSSCC identified several ways to increase federal revenues by enhancing the tax system and by instituting new or increased user charges for services that are currently provided to the public at little or no cost.

Some of the PPSSCC revenue issues would address problems of major proportions which, taken together, currently create substantial revenue losses for the federal government and undermine the credibility of the tax system. For example, several recommendations are directed at taxpayer noncompliance that results in tax losses (TREAS 7). IRS has estimated these losses at approximately $90 billion for 1981, up from about $69 billion for 1979. In addition, many other PPSSCC recommendations are intended to help IRS collect from taxpayers with delinquent accounts (TREAS 1). At the close of 1983, almost 2 million taxpayers were delinquent in paying $7.7 billion of assessed tax, penalties, and interest. Accordingly, recommendations for revenue enhancements have the potential to significantly affect the budget deficit.

We examined 43 PPSSCC issues directed at raising revenues through (1) more effectively administering and broadening the applicability of federal taxes and (2) expanding the use of fees charged to those who use government facilities and services. We generally agree with the PPSSCC on the merits of 33 of the issues, disagree with the PPSSCC on six others, and lacked sufficient information to take a position on the remaining four.

Summary of GAO Positions on PPSSCC Revenue Issues

	Number	Percent	Number of issues requiring congressional action
Agree with merits	33	77	24
Disagree with merits	6	14	3
No position on merits	4	9	3
Total	43	100	30

The PPSSCC has estimated that increased revenue of $21.8 billion could be attained if its recommendations are implemented for the 33 PPSSCC issues with which we generally agree. While we generally agree with the PPSSCC on those issues, we do not always agree with the merits of each specific PPSSCC recommendation included in the discussion of the issue, nor could we endorse the PPSSCC's estimates of increased revenues related to most of the 33 issues. Fully implementing a number of issues would require legislation. For example, implementing those relating to enhanced IRS collections and examinations would require additional staff and, therefore, approval by the Congress through the appropriation process. In addition, implementing increases in user fees or taxes to increase revenue is also subject to congressional approval.

TAXES

The PPSSCC identified 13 issues directed at increasing tax revenues. The issues were primarily directed toward more efficiently and effectively administering tax laws but were also aimed at amending the tax laws to selectively raise tax rates and eliminate some tax exemptions.

The improved administration of the tax laws would be accomplished through IRS' (1) exploiting modern ADP technology (ADP 17), (2) accelerating government receipts (ASSET 2 and 3), (3) improving collection methods (TREAS 1), (4) changing its organizational structure (TREAS 4), (5) using volunteer professionals (TREAS 6), (6) expanding enforcement of the income and occupation taxes (TREAS 7 and 12), and (7) creating a decentralized appellate tax board (TREAS 3). The PPSSCC estimated that implementing the 40 recommendations to improve tax administration would decrease costs and increase revenues for a total benefit of $14.9 billion.

The four PPSSCC issues that would raise tax revenues through changes to the tax laws involve (1) increasing the payroll tax rate for railroad unemployment and sickness insurance premiums (BANK 13), (2) removing the income tax exemption for certain entities of the Farm Credit System (BANK 38), (3) taxing credit unions (BANK 23), and (4) reducing the volume of tax-exempt bonds issued (EX 2). The PPSSCC estimated that fully implementing these four issues would increase government revenues by $6.7 billion.

We agree with the PPSSCC on the merits of 8 of the 13 issues directed at raising tax revenues. In fact, many of the related PPSSCC recommendations are similar or related to recommendations we have made in previous reports. We believe, however, that four PPSSCC issues concerning (1) ADP use, (2) appeals and tax court backlog, (3) taxation of the Farm Credit System, and (4) organizational restructuring to eliminate functional overlap are generally without merit. We do not have a position on the remaining PPSSCC issue concerning the taxing of credit unions.

The PPSSCC issues on which we have taken a position and which would have the greatest effect on revenues are directed at taxpayer noncompliance, outstanding delinquent tax accounts, and tax court backlog. Certain PPSSCC recommendations would increase IRS' examination and collection staff, improve IRS' collection techniques, and establish a decentralized appellate tax board. We have noted in our work that IRS resources in the examinations and collections areas have not kept pace with the mounting workloads, and we agree with the PPSSCC contention that the costs of adding resources to those areas would be more than offset by the additional revenue collected. However, increasing IRS resources would require legislative approval. We also agree with the PPSSCC on the merit of IRS' adopting many of the suggested collection technique enhancements, such as using payroll deductions to collect installment payments.

We disagree with the PPSSCC on the merits of establishing an appellate tax board to hear small tax cases to relieve the Tax Court of its huge backlog of cases. While we agree with the PPSSCC that this enormous backlog threatens the Tax Court's effectiveness, we disagree with the PPSSCC on its proposed solution. A report we issued in 1984, Tax Court Can Reduce Growing Case Backlog and Expenses Through Administrative Improvements (GAO/GGD-84-25, May 14, 1984) contains several administrative recommendations, generally agreed to by the Tax Court, which should greatly increase the Court's case closings at little additional cost. We believe implementing those recommendations should eliminate the growth in case backlog and accelerate revenue collections.

USER CHARGES

The federal government supports a variety of economic activities out of general revenues, such as providing facilities and services to specific groups without charge or substantially below cost. Though the Congress created such subsidies to pursue national objectives, many original goals have now been met, and federal priorities have shifted. When this is the case, continued subsidization distorts federal spending, widens the budget deficit, creates economic inequities, and leads to excessive demand for the subsidized product or service.

A desire to improve efficiency in the economy, coupled with concerns about fairness and the federal deficit, has resulted in greater interest in user financing for federal services. User fees--generally, any tax or other levy designed to recover the costs of government services from identifiable beneficiaries--are not new. The Bureau of Reclamation, for example, has collected partial fees for irrigation water for nearly a century. And, since 1956, most federal highway spending has been paid for by special taxes earmarked for the Highway Trust Fund.

We examined 30 issues relating to federal programs where user fees could be an appropriate financing alternative. The PPSSCC estimated that these issues and the attendant recommendations, if implemented, could result in increased revenues of $6.4 billion. The user fees issues involve, for example, the interstate and defense highway system (USER 21), the Coast Guard (USER 16 and TRANS 19), GNMA (HUD 10 and BANK 37), and several agricultural programs.

We believe that all but five PPSSCC issues--GNMA (HUD 10),[1] Forest Service recreation fees (AG 44 and USER 3), the U.S. Customs Service (USER 18), and Washington National Airport (TRANS 17)--have merit. Two of the five issues--GNMA (HUD 10) and the U.S. Customs Service (USER 18)--are generally without merit. We do not have a position on the other three issues. We also found that 19 of the 30 issues will require legislative action to fully implement. Of the 19 issues requiring legislation, we believe 16 have merit and one has no merit. We do not have a position on two of the issues.

We believe the Congress should consider the 16 issues that require legislation to implement. The user charge issues we believe the Congress should consider are the Coast Guard (USER 16 and TRANS 19), Federal Communications Commission (FCC) (BUS-FCC 3 and USER 14), the National Park Service (INT 4 and USER 4), interstate and defense highway system (USER 21), the Agricultural Marketing Service (USER 11), the Corps of Engineers (USER 2), the Federal Energy Regulatory Commission (USER 15), the Commodity Futures Trading Commission (BUS-CFTC 2), grazing programs (AG 46, USER 6, USER 7, and INT 2) and government publications (PPAV 2). Six of the 16 user charge issues we believe the Congress should consider are discussed in greater detail below. Although we agree with the merit of two issues that require legislation, we do not agree with a recommendation in one grazing program issue (INT 2) calling for a special study, and are not in a position to agree or disagree with the recommendation in the government publications issue (PPAV 2).

Coast Guard user charges

The Coast Guard provides services (i.e., performing safety inspections and towing disabled craft to safety) that primarily benefit specific user groups. The PPSSCC estimated that a savings of $418.2 million in USER 16 and a savings of $1.6 billion in TRANS 19 could be realized if the beneficiary, rather than the general public, assumed the cost of providing such services. In

[1]The PPSSCC made conflicting recommendations concerning the GNMA fees. In one issue, the PPSSCC recommended the guarantee fee be increased from 6 to 10 basis points. However, in another issue, the PPSSCC recommended no fee change.

addition, the PPSSCC commented that many of these services now provided by the Coast Guard could be provided by local governments or the private sector.

As far back as 1955, we recommended that the Coast Guard consider charging for certain services performed primarily for the benefit of specific individuals or private entities. We repeated this recommendation in an April 1980 report, The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (GAO/CED-80-76) in addition to recommending that the Coast Guard transfer certain functions. We believe that transferring certain aspects of Coast Guard programs to the private sector could help free-up scarce resources to handle other Coast Guard mission responsibilities, such as enforcement of laws and treaties, promote more efficient service delivery, as well as lower cost.

Federal Communications Commission user charges

In fiscal year 1984, FCC spent about $16 million in carrying out its licensing activities. The PPSSCC estimated that savings of between $132.4 and $140.3 million could be realized if the FCC could recover one half of its annual budget through user fees (BUS-FCC 3 and USER 14).

The PPSSCC recommended that FCC establish a user charge schedule to recover the full cost of providing a product, service, or privilege to a particular party. We have formally recommended such action to FCC and supported it in congressional testimony since the late seventies. Although we have not independently analyzed the savings that would result from implementing a user charge schedule, FCC's Associate Managing Director for Operations stated that savings of $20 to $30 million per year is a reasonable estimate.

National Park Service recreation charges

The PPSSCC concluded that those who directly use and enjoy the nation's parks should pay a larger share of the costs of operating and maintaining them (INT 4 and USER 4). The PPSSCC said that, in fiscal year 1982, 90 percent of the $176.1 million cost for operating and maintaining those parks that charged a fee was paid for by the general public. It recommended that the Congress adopt legislation that would repeal existing legislation that (1) froze park entrance fees and prohibited collecting entrance fees at additional units and (2) limited the price of a Golden Eagle Passport to $10.

We agree that visitors to the parks should pay a larger percentage of park operating costs and, in the past, we have made recommendations similar to those made by the PPSSCC. In our report, Increasing Entrance Fees--National Park Service (GAO/CED-82-84, Aug. 4, 1982), we recommended (1) repealing legislation that froze entrance fees and the price charged for Golden Eagle Passports and (2) extending the hours entrance fees are collected. In an October 10, 1980 report, Facilities in Many National Parks and Forests Do Not Meet Health and Safety Standards (GAO/CED-80-115), we recommended repeal of legislation freezing park entrance fees and the greater use of camping fees by the Park Service.

CHAPTER 12

CONCLUSIONS AND OBSERVATIONS

We found overall merit in about three-fourths of the PPSSCC issues on which we had a basis to offer an opinion. Moreover, many of the recommendations associated with the PPSSCC's issues are either based on, or are consistent with, our previous recommendations. Most of the issues we found to have merit can be implemented administratively, but a significant number will require legislative action before full implementation can be achieved. While we support many of the PPSSCC's issues on the basis of their conceptual merits, we again question many of the PPSSCC's associated savings estimates.

ISSUE MERITS

Of the 581 issues on which we had sufficient information to prepare an evaluation, we found overall merit in 441, questioned the merits of 104, and offered information but had no position on 36. Our overall support for the PPSSCC's issues was consistent across all subject areas but was most extensive in the areas aimed at strengthening federal management systems, federal ADP operations, federal credit and cash management efforts, and civilian procurement and property management activities. Proportionately, we questioned more issues dealing with human services programs and civilian personnel management.

In general, we supported the PPSSCC's management improvement issues more frequently than the policy-oriented issues. However, the PPSSCC's policy-oriented issues made up a large fraction of the PPSSCC's total estimated savings. For example, we questioned the merits of two issues dealing with restructuring federal subsidy programs (SUBS 1) and fixing federal health care costs to a percentage of the gross national product (MEDIC 1) which together represent nearly $88 billion of the PPSSCC's total estimated savings. We also disagreed with selected aspects of the PPSSCC's recommendations to reduce civilian and military retirement benefits (FRS 4)--estimated to save another $58 billion by the PPSSCC--although we also see a need for reforms in this area.

Relatedly, considering only those issues the PPSSCC estimated would save less than $1 billion and hence not examined as part of the joint GAO/CBO analysis, we found nearly 80 percent to have overall merit. However, according to PPSSCC estimates, combined savings from all of these issues totalled about $45 billion, or only about 10 percent of the total from all the PPSSCC issues.

The PPSSCC normally developed a number of specific recommendations within each issue. In all, the PPSSCC prepared 2,478 recommendations. Of these, we had sufficient information to offer an opinion on 1,436. Among the 1,436 on which we had an opinion, we generally agreed with 1,158. In about half of these cases, we had made similar or related recommendations in previous reports and testimony. We generally disagreed with 278 other recommendations.

IMPLEMENTATION AUTHORITY AND STATUS

Of the 581 issues we analyzed, we found that legislative action will be necessary to fully implement the associated recommendations in 259 instances. Of these, we support the issues' overall merits nearly 75 percent of the time. These issues include enhancing the use of electronic funds transfer to reduce the cost of federal check writing; expanding the application of OMB Circular A-76 to increase contracting out where appropriate; repealing the Davis-Bacon Act to reduce the cost of federal construction projects; improving accounting practices in the civil service retirement system to fully reflect accruing costs, particularly for obtaining full cost recovery from off budget agencies such as the Postal Service; making changes to the congressional approval process for leasing and repairing buildings; increasing a variety of user charges to increase revenues, etc. Congressional action on these and other issues would contribute to increased government efficiency, reduced costs, and increased revenues. Over the coming weeks we plan to work with the Senate Governmental Affairs Committee to help the committee develop a legislative proposal to implement many of the recommendations.

Concerning the status of implementation, we noted that a number of PPSSCC recommendations have already been implemented either by agency action or as the result of legislation. For example, the Debt Collection Act of 1982 and the Deficit Reduction Act of 1984 implemented a number of the PPSSCC's recommendations aimed at improving federal credit management and debt collection techniques. As stated earlier, we did not have access to OMB's automated PPSSCC recommendation tracking system for use in preparing this report. Instead, we assessed implementation status to the extent possible from information obtained from our previous and ongoing work or shared by individual agencies. Consequently, we did not have available the information necessary to present a comprehensive picture on the extent of recommendation implementation. Such a broad assessment will await analysis of information from OMB's tracking system. We plan to work with the Senate Governmental Affairs Committee over the coming weeks to update our report with the latest information available from the tracking system.

VALIDITY OF SAVINGS ESTIMATES

As in the joint GAO/CBO report, we raised numerous questions concerning the savings estimates the PPSSCC attached to its issues. In this report, we did not attempt to develop independent estimates of savings that could be expected from implementing either all the PPSSCC issues examined or those issues we believed had overall merit. As discussed in chapter 1, we limited our scope in this area to examining the methodology and basis used by the PPSSCC to prepare its estimates.

In assessing the PPSSCC's individual savings estimates, we frequently questioned the PPSSCC's estimating basis and methodology. In many cases, we either could not determine the basis used by the PPSSCC to come up with its estimates or believed the basis used had flaws that would significantly impact on the estimates' accuracy. Most of the time we believed these methodological problems resulted in overstated savings, but, in some instances, we believed estimated savings were actually understated. In preparing its savings estimates the PPSSCC noted that its numbers were of a "planning", not "budget," quality. Hence they were more useful for rough projections than highly specific budget accounting.

It is important to recognize that improved government efficiency and reduced waste can only be counted on to contribute in part to reducing the deficit. Ultimate success in the budget balancing arena depends on the willingness and ability to make tough policy choices about the desired level and composition of government services and the sources and distribution of the revenues necessary to finance those services.

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