United States General Accounting Office

GAO

Testimony

Before the Committee on the Budget, U.S. Senate

For Release on Delivery
Expected at
10 a.m.
Tuesday,
February 1, 2000

BUDGET ISSUES

Effective Oversight and Budget Discipline Are Essential--Even in a Time of Surplus

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

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Accountability * Integrity * Reliability

GAO/T-AIMD-00-73

Mr. Chairman, Senator Lautenberg, and Members of the Committee:

I appreciate the opportunity to be here this morning to discuss the unique budget and oversight challenges that face you and other Members of the Congress at this time. Let me commend you for taking on this important but not glamorous task of oversight. Seriously reviewing current laws and programs is hard work, but it can yield important outcomes; thinking about whether existing programs work or are still needed is critical to maximizing the government's performance and accountability.

We stand at an important crossroads. After nearly 30 years of deficits, the combination of hard choices and remarkable economic growth has led to a budget surplus. We appear—at least for the near future—to have slain the deficit dragon. In their most recent projections, the Congressional Budget Office (CBO) shows both unified and on-budget surpluses throughout the next 10 years. While this is good news, it does not mean that hard choices are a thing of the past. First, it is important to recognize that by their very nature projections are uncertain. This is especially true today because, as CBO notes, it is too soon to tell whether recent boosts in revenue reflect a major structural change in the economy or a more temporary divergence from historical trends. Indeed, CBO points out that assuming a return to historical trends and slightly faster growth in Medicare would change the on-budget surplus to a growing deficit. This means we should treat surplus predictions with caution.

However, even if the budget surplus continues, it does not signal the end of fiscal challenges. Nor does it eliminate the need for prudent stewardship of our national economy. Projected surpluses do not absolve government of its responsibility to make good use of taxpayer dollars. Rather, the surpluses provide an opportunity to rise out of the 1-, 3-, or 5-year budget horizon of recent deficit debates and to focus on longer-term challenges as we move into the 21st century. We move into this new century relatively free of the immediate security threats and fiscal constraints of the recent past, but we must recognize the challenges that will shape the United States and its place in the future: globalization, technology, demographic shifts, quality of life issues, changing security threats, and rising expectations for government performance and accountability.

I have testified before on the importance of preparing for the demographic tidal wave facing both the United States and much of the industrialized world.[1] Without changes in Social Security and Medicare, these programs will consume an ever-larger share of the economy—producing a serious squeeze on the resources available for other national needs. Further, while Social Security and Medicare are the obvious fiscal time bombs, they are not the only long-term cost pressures we face. Bills will also come due for a variety of other commitments and contingencies, such as federal insurance programs and cleanup costs from federal operations known to result in hazardous waste, including defense facilities and weapons systems. To help prepare our nation for the burdens these commitments will impose on future taxpayers, we should continue to devote a significant portion of our surplus to pay down the federal debt. Reducing interest payments on the debt—now our third largest "program"—is critical to providing the fiscal flexibility to address future needs and commitments.

Today, however, I would like to focus beyond these compelling fiscal pressures and talk about the need for serious debate about what the government does, how it does it, and who benefits from these activities. After a decade of focusing on deficit reduction, we know there are pent-up demands for using the projected budget surpluses. However, if careful scrutiny is given only to proposed new spending or new tax preferences, policymakers will have missed a golden opportunity to shape the government for the next century. A body of laws enacted during the last decade—including the Government Performance and Results Act, the Chief Financial Officers Act, and the Clinger-Cohen Act—has sought to provide more complete and consistent information on the fiscal, program, and management performance of federal agencies, programs, and activities.[2] Now—freed from the exclusive focus on deficit reduction but facing the demands of the future—policymakers have an opportunity to use that information in new and important ways.

As we enter a new century, we have been reminded about how much things change. To get some perspective on change in the last 20 years, it is useful to recall that students who started college this fall were 11 when the Soviet Union broke apart and have no memory of the Cold War; their lifetimes have always known microcomputers and AIDS. Yet many of our programs—their goals, organizations, and processes—were designed long before those students were born. It shouldn't be insulting or threatening to any federal program or activity to question its relevance or "fit" in today's

[1]*Medicare and Budget Surpluses: GAO's Perspective on the President's Proposal and the Need for Reform* (GAO/T-AIMD/HEHS-99-113, Mar. 18, 1999) and *Social Security Reform: What the President's Proposal Does and Does Not Do* (GAO/T-AIMD/HEHS-99-76, Feb. 9, 1999).

[2]*Managing for Results: The Statutory Framework for Performance-based Management and Accountability* (GAO/GGD/AIMD-98-52, Jan. 28, 1998).

world. Examining the legacy of existing activities and programs can yield several important benefits. First, we can create much-needed flexibility to address emerging needs by weeding out programs that have proven to be outdated and no longer relevant to our changing society. Second, we can update and modernize those activities that remain relevant by improving their targeting and efficiency through such actions as redesigning formulas, enhancing cost sharing by beneficiaries, consolidating facilities and programs, and streamlining and reengineering operations and activities.

In my testimony today, I will talk about selected performance challenges within federal agencies and programs and about possible changes to congressional oversight models to help address such problems. In this testimony, I draw on the breadth of our work at GAO and provide examples based on the key findings and issues developed in our audits and evaluations. These examples are organized within the following five thematic questions on which you asked us to focus.

- What federal services could be better provided by the private sector?
- What federal subsidies to individuals, business, or states and local governments are no longer needed or are poorly targeted?
- What overlapping or fragmented programs could be consolidated or better coordinated?
- What federal facilities or locations are outmoded, ineffective, or excess to requirement?
- In what areas could major federal capital investments be more cost-effective?

I will then conclude my statement by turning to some ideas that may be of use to you in thinking about new congressional oversight models and processes as we enter this new period in our nation's history. I will draw on some of our work on how other countries have dealt with their budget surpluses. I will also talk about how the Congress might use the new statutory framework for results-based management and accountability to provide for more systematic examination of current and proposed federal programs.

Addressing Performance Problems in Existing Government Programs and Operations

One of the lessons drawn from the history of deficit reduction efforts during the 1990s is that reconsidering federal programs and activities individually is less likely to lead to change than basing reform initiatives on broad policy rationales or themes. A consistent, clear, and complete set of overarching themes can be an effective means to formulate and package oversight and re-examination of federal agencies and programs. With this in mind, I now turn to the thematic questions I mentioned above and provide illustrative examples of candidates that could be considered within each area.

What Federal Services Could Be Better Provided by the Private Sector?

Many federal programs and activities were created to address real or perceived failures of private sector markets to provide specific goods or services. However, in some cases market conditions have evolved to the point where factors prompting federal intervention may no longer be valid; in other cases, private sector markets may have developed to the point that they can provide the good or service more cost effectively than the public sector. The following examples from GAO work illustrate federal programs or activities that could be considered for reform, reduction, or termination because of fundamental changes in underlying rationale.

- The federal government began to market electricity following the construction of dams and major water projects primarily from the 1930s to the 1960s. However, the restructured and increasingly competitive electricity industry, and the relatively small contribution made by federal power marketing administrations (PMAs), suggests that reassessment of roles and missions is needed. We reported in 1998 that divesting or corporatizing three PMAs—Southeastern, Southwestern, and Western—could produce significant budgetary savings.[3] These PMAs provide a small percentage of the total power consumed in a state, and most customers would see little or no rate increase if commercial market rates were charged.[4] For fiscal years 1992 through 1996, the federal government incurred a net cost of $1.5 billion from its involvement in the electricity-related activities of these PMAs. Divesting the PMAs and federal power assets would eliminate the government's presence in a commercial activity and, depending on a divestiture's terms and conditions and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury.

[3] *Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry* (GAO/RCED-98-43, Mar. 6, 1998).

[4] *Federal Power: PMA Rate Impacts by Service Area* (GAO/RCED-99-55, Jan. 28, 1999).

- The Market Access Program, operated by the U.S. Department of Agriculture (USDA), subsidizes the promotion of U.S. agricultural products in overseas markets. Despite changes made to the program between 1993 and 1998, uncertainties continue regarding the results of the program. Our work[5] has noted several questions—including whether the program generates a positive economic impact, results in increased exports that would not have occurred without the program, and supplements rather than supplants private sector spending—that the Congress could consider in determining whether to terminate or significantly reduce the program.

- USDA's Rural Utilities Service (RUS) finances the construction, improvement, and repair of electrical, telecommunications, water, and waste disposal systems through direct loans and repayment guarantees on loans made by other lenders. Given demographic changes, the operating environment of today's utilities industry, and weaknesses in RUS loan management operations, the Congress could reconsider the role of RUS in the development of the utility infrastructure for the nation's rural areas. We have identified various steps RUS could take to increase the effectiveness and reduce the costs of its loan programs. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have, significant financial problems with the electricity loan program. For example, during fiscal years 1994 through July 31, 1997, RUS wrote off debt totaling more than $1.7 billion for five electricity loan borrowers. Since then, the agency has written off $0.3 billion and is in the process of writing off an additional $3.0 billion; it is probable that the agency will continue to incur losses in the future.[6]

- Cargo preference laws require that certain government-owned or -financed cargo shipped internationally be carried on U.S.-flagged vessels. The laws were intended to guarantee a minimum amount of business for the U.S.-flagged vessels that are crewed by U.S. mariners, generally built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. The effect of cargo preference laws has been mixed. Although the laws appear to have had a substantial impact on the U.S. merchant marine industry by providing an incentive for vessels to remain in the U.S. fleet, cargo preference laws have increased the government's transportation costs because U.S.-flagged vessels

[5]*Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact* (GAO/NSIAD-99-38, Apr. 5, 1999).

[6]*Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively* (GAO/RCED-98-42, Jan. 21, 1998).

often charge higher rates to transport cargo than foreign-flagged vessels. Cargo preference laws increased federal agencies' transportation costs by an estimated $578 million per year in fiscal years 1989 through 1993 over the cost of using foreign-flagged vessels.[7]

- The United States broadcasts over 2,000 hours of radio programming in over 60 languages and at least 200 hours of television in several languages weekly to support U.S. foreign policy objectives.[8] Given changing world conditions—including the fall of the Soviet Union–and the development of commercial international broadcasting services, the Congress could reconsider the need for and benefits derived from these programs. In fiscal year 1999, $397.6 million of the U.S. Information Agency's budget supported the Voice of America (53 languages), Radio Free Europe/Radio Liberty (26 languages), Radio and TV Marti broadcasts to Cuba, Radio Free Asia (9 languages), Worldnet television broadcasts, and capital improvements. Although international broadcasting funding has declined considerably since 1994, very few services have been terminated.

- The Medicare Incentive Payment program provides a bonus payment for Medicare services provided in areas identified as having a shortage of primary care physicians. The bonus payments, amounting to over $90 million in 1997, do not appear to have a significant impact on physician recruitment and retention, and most of the program's payments are going to specialists in more urban areas rather than to primary care physicians in medically underserved areas. Moreover, recent beneficiary survey information indicates that access problems arise for reasons other than the unavailability of physicians.[9]

- The Government Printing Office (GPO), which receives over $100 million in annual appropriations, effectively has a statutory monopoly over printing for the federal government.[10] GPO's monopoly-like role in providing printing services perpetuates inefficiency because it permits GPO to be insulated from market forces and does not provide incentives to improve operations and processes that will ensure quality

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[7]*Maritime Industry: Cargo Preference Laws—Estimated Costs and Effects* (GAO/RCED-95-34, Nov. 30, 1994).

[8]*U.S. Information Agency: Options for Addressing Possible Budget Reductions* (GAO/NSIAD-96-179, Sept. 23, 1996).

[9]*Physician Shortage Areas: Medicare Incentive Payment Not an Effective Approach to Improve Access* (GAO/HEHS-99-36, Feb. 26, 1999).

[10]*Government Printing: Legal and Regulatory Framework Is Outdated for New Technological Environment* (GAO/NSIAD-94-157, Apr. 15, 1994).

services at competitive prices. Federal agencies could be given the authority to make their own printing policies, requiring GPO to compete with private sector printing service providers. If GPO is unable to provide quality service at competitive prices, the need for retaining a government printing office could then be re-examined.

- The Uniformed Services University of the Health Sciences (USUHS) is a medical school operated by the Department of Defense (DOD). Those who propose closing the university assert that DOD's need for physicians could be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. USUHS is a more costly source of military physicians on a per graduate basis when DOD's and total federal costs are considered. With DOD education and retention costs of about $3.3 million over the course of a physician's career, the cost of a USUHS graduate is more than 2 times greater than the $1.5 million cost for a DOD scholarship program graduate.[11]

What Federal Subsidies to Individuals, Businesses, or State and Local Governments Are No Longer Needed or Are Poorly Targeted?

The Congress originally defines the intended beneficiaries for any federal program or service based on certain perceptions of eligibility and/or need. Periodic oversight can be an effective means to ensure that limited resources remain properly targeted in light of changing conditions, current program operations, and overall congressional priorities. The following examples based on GAO work illustrate where specific subsidies could be reexamined.

- Many federal grant programs with formula-based distributions of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs enjoy a higher level of funding than that which is available in harder pressed areas. For example, under the Community Development Block Grant (CDBG), Greenwich, Connecticut received five times more funding per person in poverty in 1995 than that provided to Camden, New Jersey, even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. Better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier communities with comparatively fewer needs and greater capacity to

[11] *Military Physicians: DOD's Medical School and Scholarship Program* (GAO/HEHS-95-244, Sept. 29, 1995).

absorb cuts, while holding harmless harder pressed areas that are most vulnerable. For programs such as Medicaid, Foster Care, and Adoption Assistance, which base reimbursements on the per capita income of the state, the minimum federal share could be reduced or the formula could be revised to better reflect relative need, geographic differences in the cost of services, and state tax bases. For other formula-based grant programs, such as Federal Aid Highways or the CDBG, the formula could be revised to reflect the differential fiscal capacities of states.[12]

- The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by disasters. In a May 1996 report, we presented a number of options identified by FEMA's regional program officials that, if implemented, could reduce program costs. Among the options discussed was eliminating eligibility for private nonprofit organizations, many of which operate revenue-generating facilities such as utilities and hospitals, and publicly owned recreational facilities, which generate a portion of their operational revenue through user fees or admissions charges. Many of these types of facilities could have alternate sources of income sufficient to meet disaster-related costs.[13]

- Repetitive flood loss is one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. The Congress and FEMA could consider eliminating flood insurance and emphasizing mitigation for certain repeatedly flooded properties, removing what some argue is now an incentive to locate in harm's way. Approximately 43,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion. These repetitive losses account for about 36 percent of all program claims historically (currently about $200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time between 1 to 2 percent. The cost to the program of these multiple-loss properties over the years has been about $2 billion.[14]

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[12]*Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States* (GAO/HEHS-99-69, Feb. 26, 1999) and *Federal Grants: Design Improvements Could Help Federal Resources Go Further* (GAO/AIMD-97-7, Dec. 18, 1996).

[13]*Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them* (GAO/T-RCED-98-139, Mar. 26, 1998) and *Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance* (GAO/RCED-96-113, May 23, 1996).

[14]*Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program* (GAO/T-RCED-99-280, Aug. 25, 1999).

- We have reported in the past on this nation's practice of compensating veterans for medical conditions, such as diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis, that were probably neither caused nor aggravated by military service.[15] In 1996, the Congressional Budget Office (CBO) reported that about 230,000 veterans were receiving about $1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. Other foreign countries we reviewed require that a disability be closely related to the performance of military duty to qualify for disability benefits; no such link is required in the United States. The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities.

- The current tax treatment of health insurance—amounting to revenue losses of over $70 billion dollars in 1999—gives few incentives to workers to economize on consuming health insurance. Employer contributions for employee health protection are considered deductible, ordinary business expenses and are not included in an employee's taxable income. Some analysts have argued that the tax-preferred status of these benefits, which accrue disproportionately to those in high tax brackets who also have above average incomes, has contributed to the overuse of health care services and large increases in our nation's health care costs. The Congress may wish to reconsider the tax treatment of health insurance premiums to improve tax equity and provide incentives to control unneeded health care usage.[16]

- The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for $2.50 or $5.00 an acre—amounts that fall well short of today's market value for such lands. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands. For example, in 1990 hardrock minerals worth at least $1.2 billion were extracted from federal lands, while known and economically recoverable reserves of hardrock minerals remaining on federal lands were estimated to be worth almost $65 billion. The Congress could consider revising the law

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[15] *Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared to Five Other Countries* (GAO/HRD-94-6, Nov. 24, 1993).

[16] *Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits* (GAO/GGD-92-43, Apr. 7, 1992).

to require the payment of fair market value for a patent and to impose royalty payments on hardrock minerals extracted from federal lands.[17]

- Currently, of the $1.6 billion spent annually to inspect, test, grade, and approve agricultural commodities and products, USDA recovers only about $400 million through user fees paid by the beneficiaries of food-related inspection and testing services. USDA's appropriations fund the remaining 75 percent of its expenses. USDA generally does not charge user fees for (1) compliance inspections of meat, poultry, domestic foods, and processing facilities to ensure adherence to safety regulations, (2) import inspections and export certifications to ensure that food products in international trade meet specified standards, and (3) standards-setting and other support services essential to these functions. Congress could consider requiring USDA to charge user fees to meat and poultry slaughter and processing plants that gain substantial benefit from USDA's food safety inspection and testing services.[18]

- In 1997, the Congress created Medicare+Choice to encourage wider availability of health maintenance organizations and to permit other types of health plans to participate in Medicare. This law used 1997 payment rates as the foundation for rates in 1998 and future years. However, according to actuaries from the Health Care Financing Administration (HCFA), a forecast error caused the 1997 rates to be an estimated 4.2 percent too high. Consequently, aggregate plan payments in 1998 were $1.3 billion too high, and excess payments resulting from this forecast error will increase over time as managed care enrollment rises. Current law permits HCFA to correct forecasts in future years but does not include a provision to allow a correction of its 1997 forecast. HCFA maintains that the agency needs statutory authority to correct the 1997 forecast error.[19]

[17] *Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries* (GAO/RCED-93-109, Mar. 29, 1993) and *Federal Land Management: The Mining Law of 1892 Needs Revision* (GAO/RCED-89-72, Mar. 10, 1989).

[18] *Food-Related Services: Opportunities Exist to Recover Costs by Charging Beneficiaries* (GAO/RCED-97-57, Mar. 20, 1997).

[19] *Medicare+Choice: Reforms Have Reduced, but Likely Not Eliminated, Excess Plan Payments* (GAO/HEHS-99-144, June 18, 1999).

What Overlapping or Fragmented Programs Could Be Consolidated or Better Coordinated?

Virtually all of the results that the federal government strives to achieve require the concerted and coordinated efforts of two or more federal agencies. Yet our work has repeatedly shown that mission fragmentation and program overlap are widespread and that crosscutting federal program efforts are not well coordinated. In program area after program area, we have found that unfocused and uncoordinated crosscutting programs waste scarce resources, confuse and frustrate taxpayers and program beneficiaries, and limit overall program effectiveness.[20] The following examples provide illustrations of overlapping and fragmented federal missions and programs.

- The federal system to ensure the safety and quality of the nation's food is inefficient and outdated. Within USDA, the Food Safety and Inspection Service (FSIS) is responsible for the safety of meat, poultry, and some eggs and egg products, while the Food and Drug Administration (FDA) is responsible for the safety of most other foods. FSIS, FDA, and 10 other federal agencies administer over 35 different laws that oversee food safety. The current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources. The Congress may wish to consider consolidating federal food safety agencies and activities under a single, risk-based food safety inspection agency with a uniform set of food safety laws.[21]

- Duplication and overlap in federal land management could be reduced and operations streamlined through a collaborative federal land management strategy. The four major federal land management agencies—the National Park Service, the Bureau of Land Management (BLM), and the Fish and Wildlife Service within the Department of Interior, and the Forest Service within USDA—have grown increasingly similar over time, while federal land management missions have become more complex. Budgetary constraints and better understanding of natural ecosystems, whose boundaries are often not consistent with existing jurisdictional and administrative boundaries of the separate agencies, demand that the agencies find ways to refocus, combine, or eliminate certain functions, systems, programs, activities, and field locations. To improve the efficiency and effectiveness of federal land management, the Congress may wish to either reorganize the current

[20] For a summary discussion and many other examples, see *Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap* (GAO/AIMD-97-146, Aug. 29, 1997).

[21] *Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System* (GAO/T-RCED-99-256, Aug. 4, 1999).

organizational structures or streamline the existing structures by integrating and coordinating current functions and programs.[22]

- Federal water programs intended to promote the efficient use of finite water resources for the nation's agricultural and rural water systems have developed inconsistencies that may cause the programs to work at cross-purposes. In 1995, we reported that as many as eight different federal agencies administered 17 different programs just in the area of rural water and wastewater systems. In the area of irrigation, the multiplicity of programs and approaches has allowed for inconsistencies and potentially counterproductive outcomes. The Congress could consider several options to address these inconsistencies, including collecting the full costs of subsidized water for large farms and phasing out double subsidies for both water and crops.[23]

- Numerous federal assistance programs—grants, loans, loan guarantees, and other forms of assistance—are directed at local economic development.[24] One option to address this fragmentation of agencies and programs, and to more tightly focus federal contributions on local economic development efforts, is to consolidate or eliminate similar programs, such as those managed by the Department of Housing and Urban Development, the Economic Development Administration within the Department of Commerce, and the Appalachian Regional Commission. Another option is to reassess the economic effects attributed to these programs and determine if the federal government should more closely target economic development assistance or even provide it at all.

What Federal Facilities or Locations Are Outmoded, Ineffective or Excess to Requirements?

Our work has often found that agencies' effectiveness has been undermined by outmoded organizational and program structures. Agencies such as USDA and DOD have recently begun to redefine their structures and processes and have demonstrated that benefits can be achieved, but more needs to be done within these agencies and in other federal agencies. For example, in DOD, the base realignment and closure process (BRAC) is credited with producing substantial savings while

[22] *Federal Land Management: Streamlining and Reorganization Issues* (GAO/T-RCED-96-209, June 27, 1996).

[23] *Rural Development: Patchwork of Federal Water and Sewer Programs Is Difficult to Use* (GAO/RCED-95-160BR, Apr. 13, 1995).

[24] *Community Development: Challenges Face Comprehensive Approaches to Address Needs of Distressed Neighborhoods* (GAO/T-RCED-95-262, Aug. 3, 1995) and *Economic Development Programs* (GAO/RCED-95-251R, July 28, 1995).

mitigating long-term effects on military operational readiness and economic disruption to local communities.[25] In many cases, the organizational and program structures of civilian agencies have remained unchanged for decades, despite technological advances and demographic shifts, suggesting the possible relevance of a "civilian BRAC." Illustrations based on our work include the following.

- DOD's efforts at streamlining, consolidating, and possibly privatizing infrastructure activities should continue to be encouraged. For fiscal year 1998, DOD estimated that about $147 billion, or 58 percent of its budget, was spent for infrastructure requirements. Recognizing that it must make better use of its scarce resources, DOD announced the Defense Reform Initiative (DRI) in November 1997. Through this program, DOD hoped to create a revolution in business affairs that would streamline and substantially improve the economy and efficiency of its business operations. A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives designed to reduce the cost of DOD's operations and support activities. Included in these initiatives were (1) demolishing and disposing 80 million square feet of excess space at military facilities, (2) reducing the number of Defense Information System Agency major data processing centers from 16 to 6, (3) reducing the number of Defense Finance and Accounting Service operating locations from 19 to 11, (4) closing unneeded research, development, and test facilities, and (5) avoiding hundreds of millions of dollars in future capital expenditures by privatizing utility systems (electric, natural gas, water, and sewer) at military bases. The results of DOD's efforts in reducing infrastructure are mixed, but continued progress on this initiative can help DOD save significant amounts of operations and support money.[26]

- The Department of Veterans Affairs (VA) owns 4,700 buildings and 18,000 acres of land, which it uses to operate 181 major health care delivery locations. VA spends about $1 out of every $4 of its $18.4 billion budget to operate, maintain, and improve its delivery locations—in effect, the cost of its asset ownership. VA's delivery locations operate in 106 health care markets, and in 40 of these markets multiple VA facilities compete with each other to serve veterans—for example, 4 major VA facilities are located in the Chicago market. However, all VA delivery locations project a declining veteran population base, and two-thirds expect declines greater than 33 percent in the next 20 years.

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[25] *Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure* (GAO/NSIAD-99-17, Nov. 13, 1998).

[26] *Defense Reform Initiative: Organization, Status, and Challenges* (GAO/NSIAD-99-87, Apr. 21, 1999).

Without major restructuring over the next several years, billions of dollars will be used to operate hundreds of unneeded VA buildings. For example, a VA study projected annual savings ranging from $132 million to $189 million by consolidating medical and administrative services at its major delivery locations in the Chicago area. VA needs to develop and implement realignment plans for all of its health care markets, and the Congress could consider a variety of options, such as greater reliance on community-based, integrated networks of VA and non-VA providers, to meet the health care needs of veterans in the most cost-effective manner.[27]

- The Department of State maintains a physical presence—embassies, consulates, and other offices in the capital and other cities—in over 160 countries. About 18,000 direct-hire employees—over 6,400 from State and the rest from at least 27 other federal agencies—and over 35,000 locally hired and contract staff work overseas at a total of more than 250 diplomatic posts. It costs over $200,000 annually to station an American overseas, which is about two times as much as for Washington-based staff. In November 1999, the Overseas Presence Advisory Panel, established by the Secretary of State to review how the United States carries out its overseas activities, concluded that there is no process in place to “rightsize” posts as missions change. Although the panel did not specify the amount of savings that could be achieved through streamlining posts, it expressed the belief that the savings would be substantial and recommended the formation of an interagency committee to review and restructure every overseas post. State has not said how it will respond to the panel’s recommendations. Security and diplomacy requirements are directly linked to the size of the overseas workforce, and the Congress should be involved in any significant restructuring.[28]

- Since 1982, seven major panels, commissions, and task forces, and several GAO studies have addressed how the Department of Energy (DOE) could achieve operational efficiencies in its research and development facilities. Recommendations have included focusing unclear missions, aligning laboratory activities with DOE goals, consolidating facilities, and replacing cumbersome, inefficient management structures. In particular, with the end of the Cold War, DOE may no longer need to maintain three nuclear weapons

[27] *VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process* (GAO/T-HEHS-99-173, July 22, 1999).

[28] *State Department: Major Management Challenges and Program Risks* (GAO/T-NSIAD/AIMD-99-99, Mar. 4, 1999) and *Overseas Presence: Staffing at U.S. Diplomatic Posts* (GAO/NSIAD-95-50FS, Dec. 28, 1994).

laboratories. DOE officials estimate that transferring most of Lawrence Livermore's nuclear weapons functions to Los Alamos could eventually save about $200 million in annual operating costs. A DOE-chartered task force—the 1995 Task Force on Alternative Futures for the Department of Energy National Laboratories—reported that DOE's entire laboratory system could be reduced productively by eliminating obsolete and redundant missions and support infrastructure. Because such consolidations have not occurred, science budgets are increasingly being spent on maintenance of obsolete and inappropriate infrastructure, rather than innovative research and development.[29]

- Closing, consolidating or privatizing Coast Guard training and operating facilities could provide significant budgetary savings. In fiscal year 1996, we reported that the Coast Guard could save $6 million by closing or consolidating over 20 small boat stations. Also in 1996, we recommended that the Coast Guard consider other alternatives—such as privatization—to operate its vessel traffic service centers, which cost about $20 million in fiscal year 1999 to operate. In fiscal year 1995, we recommended that the Coast Guard close one of its large training centers in Petaluma, California, at a savings of $9 million annually. The Coast Guard has faced, however, significant opposition to closing facilities.[30]

In What Areas Could Major Federal Capital Investments Be More Cost-effective?

The federal government annually makes large investments in major new capital projects and equipment. Targeted and well-chosen investments in our country's infrastructure, human capital, and research and development activities can enhance future long-term economic growth. Similarly, carefully selected investments by federal agencies in human capital and financial and information management systems can yield important dividends and improve the effectiveness of federal programs. However, as we discuss in a forthcoming report on U.S. infrastructure, better information is needed to permit decisionmakers to sort through claims and to distinguish the infinite variety of "wants" from those investments that promise to effectively address critical "needs." Unfortunately, recent experiences ranging from information technology projects to major weapon systems illustrate that our return on such investments has been disappointing. Poorly conceived projects based on incomplete or inaccurate information and performance projections have

[29] *Department of Energy: Need to Address Longstanding Management Weaknesses* (GAO/T-RCED-99-255, July 13, 1999) and *Department of Energy: A Framework for Restructuring DOE and Its Missions* (GAO/RCED-95-197, Aug. 21, 1995).

[30] *Coast Guard: Review of Administrative and Support Functions* (GAO/RCED-99-62R, Mar. 10, 1999) and *Coast Guard: Challenges for Addressing Budget Constraints* (GAO/RCED-97-110, May 14, 1997).

led to projects with huge cost overruns and limited performance improvements. Although constructive change is occurring,[31] our work demonstrates the need to improve the basis for information technology investments, in particular, and capital investments, in general.

- The National Aeronautics and Space Administration (NASA) has estimated that the annual cost to operate the International Space Station (ISS) will average $1.3 billion, or $13 billion over a 10-year mission life. However, this estimate does not include risks associated with international partner commitments or other funding requirements, such as (1) costs associated with necessary upgrades due to component obsolescence, (2) end-of-mission costs to either extend or decommission the ISS, and (3) a variety of support costs (space shuttle flights, personnel, space communications, etc.) that are currently shown in other portions of NASA's budget.[32] Although assembly of the ISS is well under way, congressional oversight is vital to ensure that NASA's other priorities are not sacrificed in the agency's annual budget request to primarily fund ISS operations.

- The Congress may wish to reassess the costs and benefits of continuing the Army's Comanche helicopter program, given real and probable development cost increases, questions about its role compared to other affordable and capable Army helicopters, deferral of the production decision, and current Army aviation budgets. In 1983, the Army began the Comanche helicopter program with the intent of replacing the Vietnam-era scout helicopter, but the Comanche has changed over time to a high-technology attack and reconnaissance helicopter. Since 1983, the program has been restructured five times and is still in development. The first four restructurings addressed concerns over affordability and changing requirements and led to reduced planned procurement quantities, delayed development and production decisions, and increased unit costs. As the Army's concept for the Comanche changed over time, program costs increased. Total program cost is now estimated at $48 billion, with an estimated unit cost of about $37 million as of April 1999. Other unresolved technical risks indicate that future cost growth is likely.[33]

- The Army plans to invest over $13 billion dollars to develop and procure the Crusader self-propelled howitzer and its resupply vehicle to be used

[31] *Executive Guide: Leading Practices in Capital Decision-Making* (GAO/AIMD-99-32, Dec. 1999).

[32] *Space Station: Cost to Operate After Assembly is Uncertain* (GAO/NSIAD-99-177, Aug. 6, 1999).

[33] *Defense Acquisitions: Comanche Program Cost, Schedule, and Performance Status* (GAO/NSIAD-99-146, Aug. 24, 1999).

by the Army's rapidly deployable and forward-deployed forces. The Crusader program has experienced a number of problems that have delayed its development by 12 to 18 months, and a number of technical uncertainties remain. The Army has recently proposed changes to the Crusader artillery system to make it more affordable and relevant to future war plans. The new program reduces the planned procurement quantity, changes the armor, and cuts the system's weight to about 90 tons. Such changes, however, will likely reduce some of the Crusader's originally planned capabilities. Given the Crusader program's high acquisition costs and uncertain capabilities and requirements, other less costly alternatives—such as upgrading the Army's current Paladin system or procuring the German PzH 2000 self-propelled howitzer—could be investigated.[34]

- The Coast Guard needs to develop a realistic estimate of needs based on the capabilities of its current fleet of ships and aircraft for its Deepwater Project, the largest acquisition project in the agency's history. The initial justification did not accurately or fully depict the need to replace or modernize its fleet of deepwater ships and aircraft. The agency's initial estimate that the project may cost $9.8 billion, or about $500 million annually over 20 years, would consume more than the agency now spends for all capital projects and leave little funding for other critical capital needs.[35]

- DOD plans to develop and procure several aircraft, including the F/A-18E/F, the F-22, and the multi-service Joint Strike Fighter, to replace various types of tactical fighter and ground attack aircraft. As the nation proceeds to the next century with the prospect of a flat defense budget, DOD's plan to modernize its tactical aircraft fleet will be a significant issue confronting the Congress. DOD's planned investment in these aircraft, estimated by the Congressional Budget Office to exceed $350 billion, is likely to be significantly greater than probable future budgets. Moreover, questions have been raised about the need for, and cost-benefit of, all these systems given likely threats. The traditional practices of approving all requested programs and then reducing procurement quantities within each program lowers acquisition costs but exacerbates the problem of aging equipment and associated operating and support costs. The Congress and DOD will need to carefully consider tactical aircraft investment options to ensure balance

[34]*Army Armored Systems: Meeting Crusader Requirements Will Be a Technical Challenge* (GAO/NSIAD-97-121, June 6, 1997).

[35]*Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly* (GAO/RCED-99-6, Oct. 26, 1998).

among bona fide national security needs based on realistic threat assessments, the desires of individual services, and what can be afforded given likely future budgets.[36]

Developing a Congressional Oversight Model for the 21st Century

All of the above examples offer illustrations where congressional oversight can be fruitful and effective. But I am not unmindful of the challenges and difficulties this can present. Addressing these issues calls for hard choices and persistency. While there may be some examples of “low hanging fruit” on this list, real improvement in performance and management calls for a disciplined and determined process, jointly entered into by the Congress and executive departments and agencies. Many of the examples discussed above involve previously made choices that need to be reconsidered. Others address long-standing weaknesses in organizational and management structures and processes that will require persistent attention over a sustained period of time and may, in fact, call for targeted investments.

We in GAO are pleased to support the Congress in fulfilling its oversight responsibilities. Typically, we assist this Committee and the other Committees of the Congress by performing hundreds of specific reviews and audits of individual agencies and programs. We also look for opportunities to summarize or compile this large body of work to provide a more comprehensive picture of federal government performance and management. Last year, for example, we summarized much of our work in a series of reports that discussed the governmentwide and agency-specific challenges that must be addressed to improve performance, management, and accountability; we intend to update this series at the beginning of each Congress.[37] We also issued last year to this Committee the fifth in a series of reports on the budgetary implications of selected program reforms discussed in our work but not yet implemented or enacted;[38] we plan to publish the fiscal year 2000 update to this report next month. We completed last year our second annual audit of the consolidated financial statements of the federal government, which has helped to disclose significant financial management weaknesses and deficiencies in internal controls;[39] we will issue our report on the fiscal year 1999 statements in

[36] *Fiscal Year 2000 Budget: DOD's Procurement and RDT&E Programs* (GAO/NSIAD-99-233R, Sept. 23, 1999).

[37] *Performance and Accountability Series: Major Management Challenges and Program Risks* (GAO/OCG-99-22SET, January 1999).

[38] *Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000* (GAO/OCG-99-26, Apr. 16, 1999).

[39] *Financial Audit: 1998 Financial Report of the United States Government* (GAO/AIMD-99-130, Mar. 31, 1999).

March. And finally, we provided an update last year to a special effort begun in the last decade to identify federal activities and functions that were particularly vulnerable to waste, fraud, abuse, or mismanagement.[40] Since 1990, six of our high-risk designations have been removed as a result of sustained, tangible improvements by the affected agencies; at the end of the decade, however, 26 high-risk areas remain. In these areas, more needs to be done to achieve real and sustained improvements, and in a number of cases it will take time to fully resolve these high-risk areas because they reflect deep-rooted, difficult problems in very large programs and organizations.

In this context, it is appropriate to think about changes not only to specific programs and activities within the broad oversight questions discussed in this statement, but also to reconsider the fiscal and performance models, structures, and processes that the Congress uses to fulfill its oversight responsibilities. I would like to conclude my statement by offering our observations on what those oversight mechanisms might look like.

Developing a New Fiscal Paradigm

Clearly, projected surpluses—not only within the unified budget, but now also in the non-Social Security portion of federal spending—present unique challenges. The pressures to use these surpluses either to meet current demands for new spending or to meet calls for tax cuts will be substantial. As I have emphasized in previous testimonies before the Congress, we must be mindful that today's fiscal decisions have important consequences for the kind of society and economy we hand to the next generations of American citizens. I firmly believe that we need to develop a new fiscal paradigm that prompts a clearer focus on and attention to the long-term implications of current decisions.

We have reported that under current policies the fiscal flexibility of future generations will erode as the costs of paying for Social Security and health care consume ever-greater shares of available budgetary resources.[41] These known commitments do not include likely substantial costs associated with many other potential liabilities, such as environmental cleanup costs and federal insurance commitments. We can use this current surplus period to help future generations better afford these commitments and recapture their fiscal flexibility to address new priorities and needs. Specifically, continued debt reduction and entitlement reforms are both critical to promoting a more sustainable budget and economy for the longer term. More importantly, failure to do so will consign the nation to a

[40] *High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999).

[41] GAO/T-AIMD/HEHS-99-113, Mar. 18, 1999, and GAO/T-AIMD/HEHS-99-76, Feb. 9, 1999.

long-term future where, at current revenue levels, the federal government may be able to afford little more than paying for retirement checks and health care for the elderly.

Our recent work discussing how other countries are dealing with current surpluses can be informative about the character of a new fiscal paradigm for our nation. For example, some countries have recognized that using fiscal targets such as debt-to-GDP ratios can be useful to guide decision-making in a world where achieving a current year balance is no longer sufficient as a fiscal compass. We reported that several foreign countries, including New Zealand and Norway, have succeeded in saving at least a portion of their surpluses for several years, partly by adopting a broader framework for budgetary decision-making guided by explicit fiscal and economic goals that provided a compelling rationale for continued restraint.[42]

In addition, other nations have discovered that greater transparency about the future cost of commitments can be a useful method to prompt a timely debate about current and future affordability. Some foreign governments are attempting to achieve this transparency by incorporating accrual measures of longer term consequences in budget documents and presentations. The federal government also could consider where and to what extent greater disclosure of the future costs of today's commitments—possibly including accrual measures for appropriate areas of our budget such as pensions, federal insurance, and federal retirees' health care costs—might enhance congressional oversight.

Developing a New Performance Paradigm

Just as there is a need to rethink congressional approaches to fiscal decision-making models with the advent of projected surpluses, so also there is a need to consider changes to congressional oversight of the performance and management of the federal government. As a result of recent reform efforts, the Congress will soon begin receiving more consistent and complete information about the costs, efficiency, and effectiveness of federal programs and activities. However, to be fully useful, this information must become a routine component of congressional authorization, oversight, and appropriations processes.

As we enter the next century, the government is about to see the benefits of a framework of recently enacted management reform legislation, including the Government Performance and Results Act; financial

[42]*Budget Surpluses: Experiences of Other Nations and Implications for the United States* (GAO/AIMD-00-23, Nov. 2, 1999).

management reforms, such as the Chief Financial Officers Act; and information resources management improvements, such as the Clinger-Cohen Act.[43] Implemented together, these laws provide a powerful framework for developing and fully integrating information about (1) agencies' missions and strategic priorities, (2) the results-oriented performance goals that flow from those priorities, (3) the actual level of goal achievement, (4) the relationship of technology and other investments to the achievement of goals, and (5) the reliability of financial information on the costs of achieving mission results. This framework should support and promote more results-oriented management and decision-making processes within the Congress and the executive branch.

Although this reform framework is in place, key elements of it are in the early stages of implementation and how best to integrate implementation remains a work in progress.[44] For example, individual authorization and oversight committees are well suited to address performance or financial issues affecting individual agencies or programs, but many of the key performance questions are not confined to, and cannot be addressed effectively on, an agency-by-agency or committee-by-committee basis. Many federal mission areas—from low-income housing assistance to food safety to counterterrorism—are addressed by a wide range of mandatory and discretionary spending programs, tax expenditures, and regulatory approaches that cut across federal agencies and committee jurisdictions.[45] Similarly, while budgetary choices should be more clearly informed by performance considerations and a full understanding of associated costs, the capacity to align and relate this information to existing appropriations structures and presentations is complicated and very much in the early stages of development.[46]

Given this environment, the Congress should also consider the need for mechanisms that allow it to more systematically focus its oversight on problems with the most serious and systemic weaknesses and risks. Today, the President is required by the Government Performance and Results Act to prepare and submit to the Congress as part of the annual budget submission a governmentwide performance plan that provides a "single cohesive picture of the annual performance goals for the fiscal

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[43]GAO/GGD/AIMD-98-52, Jan. 28, 1998.

[44]*Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

[45]GAO/AIMD-97-146, Aug. 29, 1997.

[46]*Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans with Budgets* (GAO/AIMD-99-239R, July 30, 1999) and *Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans with Budgets* (GAO/AIMD/GGD-99-67, Apr. 12, 1999).

year.” First submitted with the fiscal year 1999 budget, the governmentwide performance plan includes fiscal, management, and program performance expectations; the plan provides a means to present performance goals for the varied missions of government and to identify the relative contributions of a wide range of agencies, programs, and strategies to address those mission-based performance goals.[47] At present, the Congress has no direct mechanism to respond to and provide a congressional perspective upon the President’s governmentwide performance plan. For example, the Congress has no established mechanism to articulate performance goals for the broad missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted on the most pressing crosscutting performance and management issues.

In many respects, this current environment mirrors that of 30 years ago. At that time, the Congress recognized that it had no effective mechanism to respond to and provide a congressional perspective upon governmentwide fiscal maters addressed in the President’s annual budget submission. Federal spending and taxing questions were dispersed among appropriations subcommittees and various authorizing committees dealing with mandatory spending and revenue matters. The response to that environment was the Congressional Budget Act of 1974, which, among other things, created the Budget Committees and the congressional budget resolution. The Budget Committees were established to perform a role—coordinating the budgetary activities of congressional committees—that is analogous to that of the Office of Management and Budget in the executive branch. The budget resolution, although not having the force of statute, was designed to provide an overall statement of congressional intent regarding federal fiscal policy—the receipts, budget authority, outlays and the resulting surplus or deficit for the fiscal year—as a response to the President’s budget submission.

The Congress might consider whether a more structured oversight mechanism is needed to permit a coordinated congressional perspective on governmentwide performance matters. One possible approach would involve modifying the current budget resolution prepared by this Committee. Already organized by budget function, similar to the program performance section of the President’s governmentwide performance plan, the resolution could be adapted to permit the Congress to respond to, and present a coordinated congressional perspective on, the President’s governmentwide performance plan, as it currently responds to the

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[47] *The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999* (GAO/AIMD/GGD-98-159, Sept. 8, 1998).

President’s proposed budget. Initially, this may involve collecting the “views and estimates” of authorization and appropriation committees on priority performance issues for programs under their jurisdiction and working with the Governmental Affairs Committee and others to identify crosscutting performance concerns that will receive priority congressional attention. Obviously, a “congressional performance resolution” linked to the budget resolution is only one approach to achieve the objective of enhancing congressional oversight, but the Congress should assess whether its current structures and processes are adequate to take full advantage of the benefits arising from the reform agenda under way in the executive branch. Ultimately, what is important is not the specific approach or process, but rather the intended result of helping the Congress better promote improved fiscal, management, and program performance through broad and comprehensive oversight and deliberation.

In summary, Mr. Chairman, you and I have discussed the importance of congressional oversight in the past, and I believe that is very timely to refocus our efforts on this subject as we enter a very unique period in our nation’s history. Broad and periodic reexamination of federal government priorities, programs, and activities is an important responsibility of the Congress to maintain the public’s confidence in government and to ensure our capacity to meet current and emerging needs. However, good oversight is difficult work. It requires taking a hard look at existing programs and carefully reconsidering the goals those programs were intended to address—and whether those goals are still valid. It involves analyzing the effectiveness of programs and seeking out the reasons for success or failure. It involves sorting through the maze of federal programs and activities, in which multiple agencies often operate many different programs to address often common or complementary objectives. However, revising and reforming current programs and activities that may no longer be needed or that do not perform well is fraught with difficulties and leads to real “winners” and “losers.” Notwithstanding demonstrated weaknesses in program design and shortfalls in program results, there often seems to be little “low hanging fruit” in the federal budget. In fact, some argue that because some programs are already “in the base” in budgetary terms, they have an advantage over new initiatives and new demands.

This is an opportune time for the Congress to carefully consider how this Committee and all of the Committees of the Congress will take advantage of and leverage the new information and perspectives coming from the reform agenda underway in the executive branch. Prudent stewardship of our nation's resources—whether in time of deficit or surplus—is essential not only to meet today's needs but also tomorrow's commitments and demands.

This concludes my prepared statement. I would be pleased to answer any questions you or the other members of the Committee may have at this time.

Contact and Acknowledgement

For future contacts regarding this testimony, please contact Paul L. Posner, Director for Budget Issues, at (202) 512-9573. Individuals making key contributions to this testimony included Michael J. Curro, Hannah R. Laufe, and Toni J. Wehman.

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