



April 2016

# 2016 ANNUAL REPORT:

## Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits

ACCESSIBLE VERSION



April 13, 2016

Congressional Addressees

The federal government continues to face an unsustainable long-term fiscal path based on the imbalance between federal revenue and spending, primarily driven by changing demographics and rising health care costs.<sup>1</sup> Addressing this imbalance will require long-term changes to both spending and revenue and difficult fiscal policy decisions. Significant action to mitigate this imbalance must be taken soon to minimize the disruption to individuals and the economy.

In the near term, however, Congress and executive branch agencies can act to improve the efficiency and effectiveness of government programs and activities. Opportunities to take action exist in areas where federal programs or activities are fragmented, overlapping, or duplicative. To call attention to these opportunities, Congress included a provision in statute for GAO to identify and report to Congress on federal programs, agencies, offices, and initiatives—either within departments or government-wide—that have duplicative goals or activities.<sup>2</sup> As part of this work, we also identify additional opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection.

In our first five annual reports issued from 2011 through 2015, we presented over 200 areas and 544 actions for Congress or executive branch agencies to reduce, eliminate, or better manage fragmentation,

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<sup>1</sup>GAO's analysis of the Federal Fiscal Outlook can be found at [http://www.gao.gov/fiscal\\_outlook/federal\\_fiscal\\_outlook/overview](http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview). Also see, GAO, *Financial Statement Audit: U.S. Government's Fiscal Years 2015 and 2014 Consolidated Financial Statements*, GAO-16-357R (Washington, D.C.: Feb. 25, 2016).

<sup>2</sup>Pub. L. No. 111-139, § 21, 124 Stat. 29 (2010), 31 U.S.C. § 712 Note. See appendix I for the list of congressional addressees for this work.

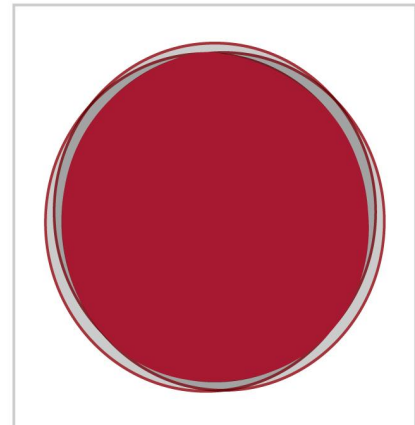
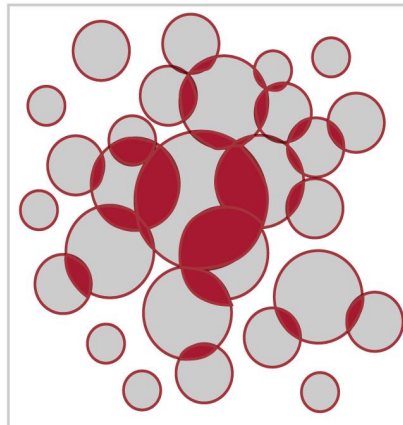
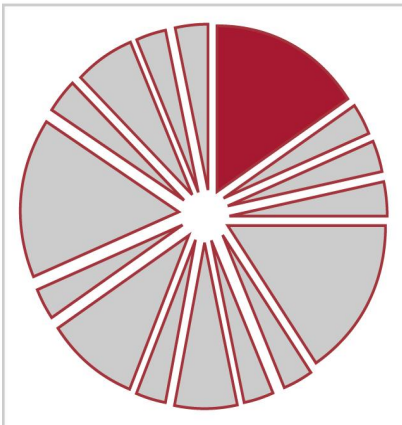
overlap or duplication; achieve cost savings; or enhance revenue.<sup>3</sup> Figure 1 outlines the definitions we use for fragmentation, overlap, and duplication for this work.

**Figure 1: Definitions of Fragmentation, Overlap, and Duplication**

**Fragmentation** refers to those circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and opportunities exist to improve service delivery.

**Overlap** occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries.

**Duplication** occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.



Source: GAO. | GAO-16-375SP

This report is our sixth in the series, and it identifies an additional 37 areas where a broad range of federal agencies may be able to achieve

<sup>3</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011); *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, [GAO-12-342SP](#) (Washington, D.C.: Feb. 28, 2012); *2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-13-279SP](#) (Washington, D.C.: Apr. 9, 2013); *2014 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-14-343SP](#) (Washington, D.C.: Apr. 8, 2014); and *2015 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-15-404SP](#) (Washington, D.C.: Apr. 14, 2015).

greater efficiency or effectiveness. For each area, we suggest actions that Congress or executive branch agencies could take to reduce, eliminate, or better manage fragmentation, overlap, or duplication, or achieve other financial benefits. In addition to identifying new areas, we have continued to monitor the progress Congress and executive branch agencies have made in addressing the areas we previously identified.

In 2013, we launched [GAO's Action Tracker](#), a publicly accessible website that allows Congress, executive branch agencies, and the public to track the progress the government is making in addressing the issues we have identified. We plan to continue to add areas and suggested actions identified in future reports to [GAO's Action Tracker](#) and periodically update the status of all identified actions. With the release of this report, we are concurrently releasing the latest updates to [GAO's Action Tracker](#).

There are three main sections of this report.

- Section I is the Report at a Glance, which provides an overall summary of the 37 new areas in which we identified opportunities to improve efficiency and effectiveness or achieve financial benefits.
- Section II presents 12 new areas in which we found evidence that fragmentation, overlap, or duplication exists among federal programs or activities. Although it may be appropriate for multiple agencies or entities to be involved in the same programmatic or policy area due to the nature or magnitude of the federal effort, the instances of fragmentation, overlap, or duplication we describe in Section II occur in areas where multiple programs and activities may be creating inefficiencies.
- Section III describes new areas where the federal government may achieve cost savings or enhance revenue collections.

This report is based upon work we previously conducted in accordance with generally accepted government auditing standards or our quality

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assurance framework. See appendix II for more information on our scope and methodology.<sup>4</sup>

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## New Opportunities Exist to Improve Efficiency and Effectiveness across the Federal Government

In this report, we present 92 new actions that Congress or executive branch agencies could take to improve the government's efficiency and effectiveness or achieve financial benefits across 37 areas that span a broad range of government missions and functions. Of these, we suggest 33 actions to address 12 areas in which we found evidence of fragmentation, overlap, or duplication in government missions such as defense, economic development, health, homeland security, and information technology. In addition, we present 59 opportunities for Congress or executive branch agencies to take action to reduce the cost of government operations or enhance revenue collections for the U.S. Treasury across 25 areas of government.

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### 33 New Actions to Address New Evidence of Fragmentation, Overlap, or Duplication in 12 Areas

We consider programs or activities to be fragmented when more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and there may be opportunities to improve how the government delivers these services, including the following examples:

- *Department of Defense (DOD) Commercial Satellite Communication Procurements*: Enforcing existing acquisition policy and identifying

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<sup>4</sup>Because this report is based on previously issued GAO products, in many cases we cite November 1999 internal control standards as criteria; see GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). When cited, these criteria were effective at the time of our review. However, new internal control standards for the federal government became effective beginning October 1, 2015; see GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014). Any corrective action that agencies plan to take should be in accordance with the new standards.

opportunities to centralize DOD's procurement of commercial satellite communications (SATCOM) services could create opportunities to potentially save tens of millions of dollars annually.

DOD depends on commercial SATCOM to support critical mission needs, from unmanned aerial vehicles and intelligence to voice and data services for military personnel. DOD spent over \$1 billion leasing commercial SATCOM in fiscal year 2012, the most recent information available at the time of our July 2015 report. Guidance from the Chairman of the Joint Chiefs of Staff requires the Defense Information Systems Agency (DISA) to procure all of DOD's commercial SATCOM.

However, we found that the combatant commands and military services independently procured commercial SATCOM to meet their individual needs. For example, in the most recent commercial SATCOM usage report, DOD reported that—contrary to the Joint Chiefs' requirement—approximately 34 percent (about \$290 million) of its fixed satellite commercial SATCOM services was procured outside of DISA in 2012. The usage report also indicated that these services acquired through DISA result in an approximate 15 percent cost savings versus those not acquired through DISA. Utilizing a central point of contact could better position DOD to not only meet mission needs, but also to maximize cost savings by consolidating commercial SATCOM purchases. In addition, although DOD has initiatives underway to improve SATCOM procurements, it has not performed an analysis to identify inefficiencies and opportunities to consolidate purchases.

We recommended that DOD enforce current policy requiring DISA to acquire all commercial SATCOM and conduct a spend analysis that identifies procurement inefficiencies and opportunities to consolidate purchases. In response, DOD agreed that enforcing its current policy makes the best use of taxpayer dollars. It also agreed that a spend analysis could help DOD understand military and commercial SATCOM spending, but DOD has yet to fully address either recommendation, as of March 2016.

- *Department of Homeland Security's (DHS) Human Resources Systems:* DHS's human resources administrative environment includes fragmented systems, duplicative and paper-based processes, and little uniformity in its data management practices. According to DHS, these issues compromise its ability to effectively

carry out its mission. In 2003, DHS initiated the Human Resources Information Technology (HRIT) investment to consolidate, integrate, and modernize the human resources information technology infrastructure of the department and its eight components.<sup>5</sup> As part of the HRIT effort, DHS determined that it had 422 human resources systems and applications.

We found in a February 2016 report that DHS had made only limited progress in implementing HRIT, in part due to a lack of involvement of the HRIT executive steering committee. Moreover, HRIT's strategy may not reflect DHS's current priorities, in part because the department had not updated the HRIT strategic planning document since 2011.

In addition, we reported that DHS established the Performance and Learning Management System (PALMS) program to provide a system that will consolidate DHS's nine existing learning management systems into one system and enable comprehensive training reporting and analysis across the department, among other things. However, we found that selected PALMS capabilities had been deployed to headquarters and two components, but that full implementation at four components was not planned as of January 2016, leaving uncertainty about whether the PALMS system would be used enterprise-wide to accomplish these goals. Further, DHS did not fully implement effective acquisition management practices and therefore was limited in monitoring and overseeing the implementation of PALMS and ensuring that the department obtains a system that improves its learning management weaknesses, reduces duplication, and delivers within cost and schedule commitments.

We made a number of recommendations to DHS to, among other things, address HRIT's poor progress and ineffective management. DHS concurred with our recommendations and identified initial actions that it had taken to evaluate HRIT and improve oversight of the investment. As of March 2016, our recommendations have not been fully addressed. Until DHS implements our recommendations, it may

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<sup>5</sup>DHS's eight components are the Federal Emergency Management Agency, the Federal Law Enforcement Training Center, the Transportation Security Administration, U.S. Citizenship and Immigration Services, U.S. Customs and Border Protection, the U.S. Coast Guard, U.S. Immigration and Customs Enforcement, and the U.S. Secret Service.

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be missing opportunities to use human resources system investment dollars more efficiently and effectively.

Fragmentation can also be a harbinger for overlap or duplication. Overlap occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. We found overlap among federal programs or initiatives in a variety of areas, including the following examples:

- *Internal Revenue Service's (IRS) Public Referral Programs:* IRS could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.

Public referral programs enable individuals to submit information to IRS about tax noncompliance, and they are an important piece of IRS's overall enforcement strategy and can help reduce the net \$385 billion tax gap—the difference between taxes owed and those ultimately collected.<sup>6</sup> We reported in February 2016 that IRS does not have a formal mechanism to facilitate information sharing across all nine referral programs, which causes both the public and IRS to spend resources unnecessarily. Additionally, the referral programs involve largely manual processes, which forces IRS to spend resources reading and routing the referrals. In an October 2015 report, we also identified key problems specific to the whistleblower program that are discouraging whistleblowers from coming forward, which, in turn, limits IRS's ability to close the tax gap. For example, few large awards have been paid, claims take years to process, and communication with whistleblowers is limited.

We made several recommendations to IRS, including that it establish a coordination mechanism to communicate across the multiple referral programs, develop an online referral submission process, streamline the review process, and improve external communication. IRS agreed with our recommendations and plans to implement the whistleblower recommendations by October 2016. IRS has not yet provided an

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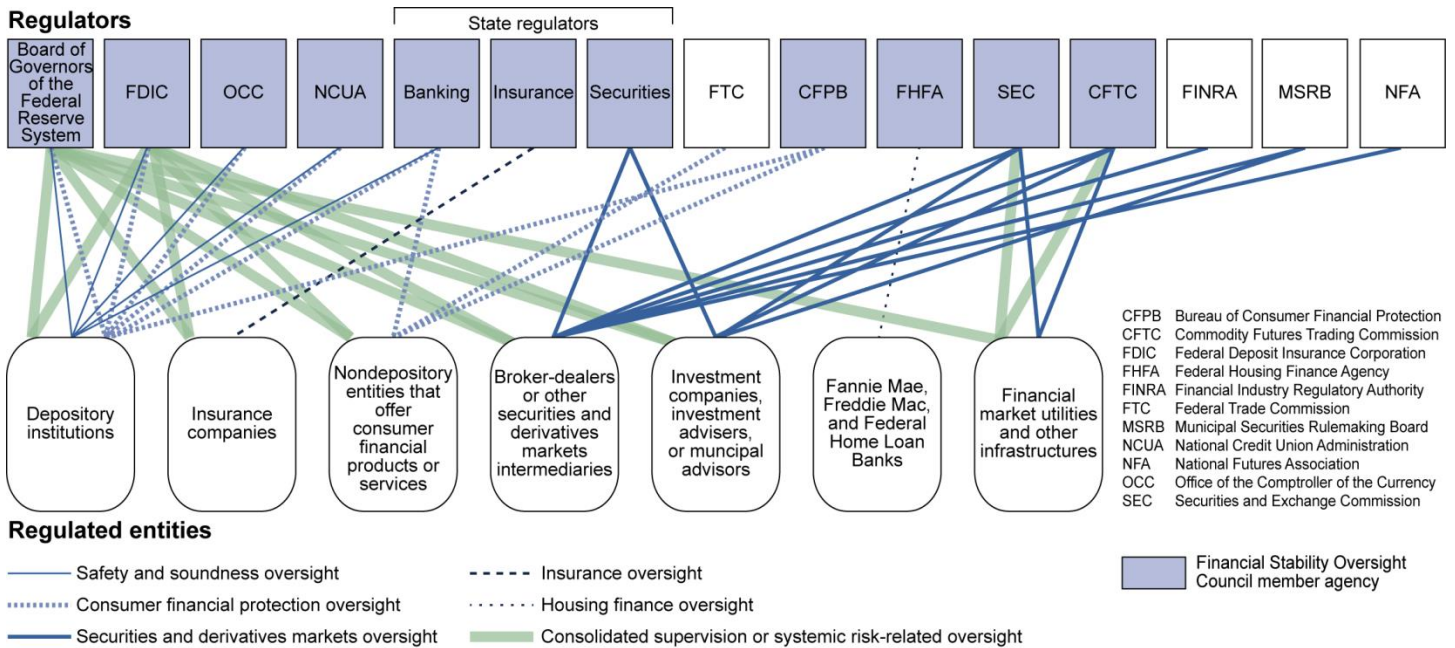
<sup>6</sup>In 2012, IRS estimated the net tax gap to be \$385 billion and the gross tax gap—the difference between taxes owed and taxes paid on time—to be \$450 billion based on data from tax year 2006. IRS plans to release an updated tax gap estimate in 2016, which will be based on tax years 2008, 2009, and 2010.



action plan or time frames for other referral program recommendations as of March 2016. Until IRS takes these actions, it may be missing opportunities to assist the public, collect billions in uncollected taxes owed, and leverage resources to streamline processes, which could help it to better coordinate and identify possible efficiencies, as well as better manage fragmentation and overlap.

- Financial Regulatory Structure:** The U.S. financial regulatory structure is complex, with responsibilities fragmented among multiple agencies with overlapping authorities (see fig. 2). As a result, regulatory processes are sometimes inefficient, regulators oversee similar types of institutions inconsistently, and consumers are afforded different levels of protection.

**Figure 2: U.S. Financial Regulatory Structure**



Notes: This figure depicts the primary regulators in the U.S. financial regulatory structure, as well as their primary oversight responsibilities. "Regulators" generally refers to entities that have rule-making, supervisory, and enforcement authorities over financial institutions or entities. There are additional agencies involved in regulating the financial markets, and there may be other possible regulatory connections than those depicted in this figure.

In 2009, we established a framework for evaluating regulatory reform proposals and noted that an effective regulatory system would need to address structural shortcomings created by fragmentation and

overlap. While changes made by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) were consistent with some of the characteristics identified in this framework, the existing regulatory structure does not always ensure (1) efficient and effective oversight, (2) consistent financial oversight, and (3) consistent consumer and investor protections. As a result, negative effects of fragmented and overlapping authorities persist throughout the system. For example, regulation of securities and derivatives markets by the Securities and Exchange Commission and the Commodity Futures Trading Commission, respectively, can create the potential for inefficiencies in the way markets are overseen because of differences in certain of the agencies' rules related to similar products.

In a February 2016 report, we suggested that Congress consider whether additional changes to the financial regulatory structure are needed.<sup>7</sup> Without congressional action, it is unlikely that remaining fragmentation and overlap in the U.S. financial regulatory system can be reduced or that more effective and efficient oversight of financial institutions can be achieved.

In other aspects of our work, we found evidence of duplication or risk of duplication, which occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries, including the following example:

- *Medicaid and Exchange Coordination:* We found that there is risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and federally subsidized

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<sup>7</sup>While most regulators did not comment on this issue, the National Credit Union Administration stated that it believes the substance of our February 2016 report did not support the report's conclusions or the report's resulting suggestion that Congress consider whether additional changes are needed to the regulatory structure. However, our report documents several instances where the current structure produced inconsistent, inefficient, and ineffective oversight. The costs and benefits of any options for improving and modernizing the structure would have to be part of any consideration of additional changes to the regulatory structure but would not preclude considering other options as we suggested.

health insurance purchased through the exchanges created under the Patient Protection and Affordable Care Act.<sup>8</sup>

If individuals have a change in income or are affected by other factors, their eligibility for Medicaid and for subsidized exchange coverage may also change. As many low-income individuals experience income volatility, transitions between the two coverage types are likely. Federal regulations require that state Medicaid agencies and exchanges coordinate to facilitate these transitions, including transferring individuals' accounts to the appropriate form of coverage when eligibility changes occur.<sup>9</sup>

A limited amount of duplicate coverage may be expected—and is permitted under federal law—for individuals completing the transition from subsidized exchange to Medicaid coverage. However, we found in October 2015 that duplicate coverage was also occurring outside of this transitional period—for example, in cases where individuals did not end their subsidized exchange coverage after being determined eligible for Medicaid. While the Centers for Medicare & Medicaid Services (CMS)—within the Department of Health and Human Services (HHS)—has taken some steps to minimize the potential for duplicate coverage in states with federally facilitated exchanges, we found that its policies and procedures were not sufficient based on federal standards for internal control.

We recommended that CMS establish a schedule for regular checks for duplicate coverage in states with federally facilitated exchanges and develop a plan to routinely monitor the effectiveness of the checks and other planned procedures to minimize duplicate coverage. HHS agreed and acknowledged steps it has taken and plans to take to minimize the risk of duplicate coverage. For example, HHS stated that its first check for duplicate coverage was underway in August 2015, and that it plans to analyze the rate of duplicate coverage identified. HHS also stated that it plans to monitor the rate of duplicate coverage identified in periodic checks and that it is working to implement additional internal controls to reduce duplicate coverage.

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<sup>8</sup>Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (2010). For the purposes of this report section, references to the Patient Protection and Affordable Care Act include the amendments made by HCERA.

<sup>9</sup>See generally 42 C.F.R. §§ 433.135 *et seq.*

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As of March 2016, HHS was in the process of refining these checks, but had not completed another check or established a schedule for doing so, which could ultimately help protect the federal government from unnecessary and duplicative expenditures.

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## 59 New Actions to Reduce Costs or Enhance Revenues Identified in 25 Areas

We also identified actions in 25 areas for Congress or executive branch agencies to consider that could reduce the cost of government operations, better target resources, or enhance revenue collections for the Treasury, including the following examples:

- *Disability Insurance Overpayments:* The Social Security Administration (SSA) may be losing billions of dollars through overpayments to beneficiaries of the Disability Insurance (DI) program and through improper waivers of overpayment debt.

In fiscal year 2014, about 11 million individuals with disabilities and their dependents received approximately \$143 billion in DI benefits, \$1.3 billion of which SSA identified as overpayments. Additionally, SSA permanently waived over \$2.4 billion in overpayment debt over the past 10 years. In our October 2015 report, we found that SSA's process for handling work reports by beneficiaries has internal control and other weaknesses that increase the risk of overpayments, even when DI beneficiaries follow program rules and report work and earnings. In addition, SSA's process for handling requests to waive overpayments lacks sufficient controls to help ensure appropriate decisions are made.

We made several recommendations to improve SSA's handling of overpayments, work reports, and waivers, including that SSA study automated reporting options and improve oversight of work reports and waivers. SSA agreed with all of these except the recommendation to improve oversight of work reports. We clarified that oversight should help to ensure that staff are following proper procedures. As of March 2016, SSA has not fully addressed these recommendations. Until SSA takes these actions, it will likely continue to overpay beneficiaries and improperly waive overpayment debt, costing the federal government billions of dollars.

- *Federal Mobile Telecommunications:* According to a 2012 Office of Management and Budget (OMB) estimate, the federal government spent about \$1.2 billion annually on about 1.5 million mobile devices

and associated services. OMB also reported the federal government could have saved about \$388 million in fiscal years 2013 through 2015 by consolidating or eliminating mobile device contracts. In May 2015, we reported on weaknesses in 15 selected agencies' controls on mobile device spending. For example, only 5 of the 15 agencies had complete service and device inventories at either the enterprise level or at the components we reviewed. As a result, agencies have limited abilities to monitor device usage and determine if a device should be canceled or moved to a more cost-effective service plan. Furthermore, OMB does not measure progress toward its financial savings goal related to mobile devices and services, which limits its ability to assure an effective approach.

We recommended that the 15 agencies take actions to improve their inventories and control processes and that OMB measure and report progress in achieving mobile cost savings. OMB and 14 agencies generally agreed with the recommendations or had no comment. DOD commented that maintaining an inventory would come at a considerable expense and effort at the headquarters level. We disagreed with DOD's assessment because the inventory can be generated by individual components. As of February 2016, these recommendations have not been fully addressed. Until agencies implement these recommendations, the federal government may be foregoing significant cost savings.

- *Medicare*: In fiscal year 2015, Medicare served about 55 million beneficiaries at a cost of \$634 billion. We found that the program could save billions of dollars annually if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.

For example, Medicare spending on hospital outpatient department services was over \$40 billion in 2013 and is growing, in part because services that were typically performed in physician offices have shifted to more costly hospital settings. Following this shift, services once reimbursed at a lower total payment rate can be classified as hospital outpatient department services and reimbursed by Medicare at a higher rate, increasing program costs. We suggested in December 2015 that Congress equalize payment rates between physician offices and hospital outpatient departments for certain services. While the Bipartisan Budget Act of 2015 addresses this payment differential for some new providers, many providers will continue to be paid more than necessary for certain services, such as office visits.

- *Defense Excess Property Disposal:* Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of DOD's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.

Each year the military services identify thousands of items of personal property—including military equipment and materiel—that they need to dispose of because the property is obsolete, not repairable, or excess to their requirements but still usable. Because this property was originally purchased with federal funds, the government seeks to promote its reuse by federal agencies to minimize new procurement costs. However, we found in a January 2016 report that DOD's process for disposing of excess personal property gives some nonfederal entities that participate in special programs—such as state and local law enforcement agencies—priority for excess property over some federal civilian agencies that may have similar needs.<sup>10</sup>

Consequently, federal agencies are at risk of spending appropriated funds to acquire property that could potentially be obtained through DOD's disposal process at a lower cost. For fiscal year 2014, DOD reported that excess and surplus personal property with a total original acquisition value of approximately \$3.18 billion in nominal dollars was reutilized within DOD or provided to special programs, transferred to other federal agencies, or donated to eligible organizations such as state and local governments or nonprofit organizations.

DOD recently revised its policies and procedures for disposing of excess personal property so that DOD components are able to obtain its excess property before special programs. Still, special programs could obtain such property before most federal civilian agencies and nonfederal entities. As a result, we recommended that DOD further reassess its property disposal process to determine whether additional changes are needed in the priorities given to recipients within the process. DOD agreed, and stated that it plans to continue to review all aspects of the disposal process as part of its standard operating procedures. However, while we understand DOD already

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<sup>10</sup>There are 12 special programs that may screen and request DOD excess personal property during the first stage of the disposal process, including, for example, the 1033 program, which provides excess DOD property to state and local law enforcement agencies.

assesses its disposal process as part of normal operations, we maintain that DOD should separately assess the priorities in its disposal process to make more efficient use of federal funds.

- *Medicaid:* We identified several opportunities to achieve cost savings within the Medicaid program, which in fiscal year 2015 covered approximately 69 million beneficiaries at an estimated cost of \$529 billion. For example, we found in February 2016 that CMS had not clarified or broadly communicated guidance regarding the appropriate methods for distributing supplemental payments to hospitals. Without such guidance, states may be shifting costs to the federal government by distributing payments that are counter to agency policy, including by making payments that are not commensurate with providers' provision of Medicaid services and that are based on the availability of provider and local government financing. We have also found that CMS's oversight of Medicaid payments to institutional providers was limited, in part, by the lack of a policy and standard process for determining whether payments to individual providers are economical and efficient, as required by federal law. As a result, excessive payments states make to individual providers may not be identified or examined by CMS. For example, we found that some hospitals' total Medicaid payments exceeded the hospitals' total operating cost—that is, cost for all hospital services provided to all patients the hospital served. We made a number of recommendations related to Medicaid, and HHS concurred or partially concurred with all of them. Taking these actions should help CMS to achieve substantial cost savings and improve its oversight of the Medicaid program.
- *Treasury's Foreclosure Prevention Efforts:* As of October 2015, the Making Home Affordable (MHA) program—which the Department of the Treasury (Treasury) administers to help struggling homeowners avoid foreclosure—had a \$7.7 billion available unexpended balance. In December 2015, Congress mandated that the MHA program be terminated on December 31, 2016, with an exemption for certain loan modification applications made before that date. We found that although Treasury monitors activity and aggregate expenditures under the MHA program, it has not systematically reviewed the extent to which it is likely to expend the full \$7.7 billion available program balance. Although we recognize that no estimate of future participation and expenditures can be made with certainty, our prior work has concluded that reviewing unexpended balances, including those that have been obligated, can help agencies identify possible budgetary savings and financial benefits.

We recommended that Treasury review unexpended balances and deobligate excess funds, and we suggested that Congress consider permanently rescinding any funds that Treasury deobligates. Treasury agreed with our recommendations, and the President's fiscal year 2017 budget submission indicates that Treasury is now estimating a \$4.7 billion reduction in total outlays for the MHA program. Treasury deobligated \$2 billion of the \$4.7 billion reduction in estimated MHA outlays in February 2016. Given the uncertainties in estimating future participation and the associated expenditures, it will be important for Treasury to update its cost estimates as additional information becomes available and take timely action to deobligate likely excess funds.

- *DOD Excess Ammunition.* DOD could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.

When a military service determines that serviceable ammunition is beyond its requirements, that ammunition is offered to the other services. If that ammunition is not taken, it is transferred to the Army, which manages the stockpile of excess conventional ammunition and takes actions to demilitarize and dispose of it. In fiscal year 2015, DOD spent about \$118 million to demilitarize and dispose of conventional ammunition. We reported in July 2015 that DOD had reduced some of its demilitarization and disposal costs by transferring some excess ammunition to other government agencies, as opposed to demilitarizing and disposing of it, but that DOD does not have a systematic means for communicating with these agencies about available excess ammunition. Communicating in a systematic manner with other government agencies on available excess ammunition could help reduce the stockpile and save DOD in storage, demilitarization, and disposal costs.

We recommended that DOD develop a systematic means to make information available to other government agencies on excess ammunition, and DOD agreed with this recommendation. However, in conducting follow-up work in March 2016, we found that DOD continues to transfer ammunition to other government agencies on an informal basis and no formal process has been implemented. Without establishing a formal means to communicate with and provide other government agencies with information on available excess



serviceable ammunition, DOD could miss opportunities to reduce its overall storage, demilitarization, and disposal costs.

- *National Park Service Fees*: The Federal Lands Recreation Enhancement Act (FLREA) does not give the National Park Service (Park Service) and other agencies that charge recreation fees the authority to adjust the price of a lifetime senior pass, which has been \$10 since 1993.<sup>11</sup> Without this authority, the Park Service is limited in its ability to increase revenue from this fee. In addition, the Park Service does not call for periodic reviews of recreation fees that the agency is able to adjust. Our guide on user fees states that federal agencies should regularly review fees and make changes if warranted.<sup>12</sup>

We suggested that Congress consider amending FLREA to give the agencies authority to adjust the price of a lifetime senior pass. A bill was introduced in September 2015 to increase the price of the senior pass to a one-time amount matching the price of the annual interagency pass, which is \$80, as of November 2015.<sup>13</sup> If passed, this could generate millions of dollars in revenue annually. We also made recommendations to improve the Park Service's management of recreation fees. The Department of the Interior, which administers the Park Service, agreed with our recommendations and plans to begin addressing them in 2016. Improving the management of recreation fees could help the Park Service to better ensure that these fees are set at a reasonable level.

In addition to the new areas presented in this year's annual report, we identified new actions from recently issued work that relate to issues presented in our 2011-2015 annual reports. See appendix III for more information.

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<sup>11</sup>Pub. L. No. 108-447, div. J. tit. VIII, 118 Stat. 3377 (2004) (codified as amended at 16 U.S.C. §§ 6801-6814 (2015)).

<sup>12</sup>GAO, *Federal User Fees: A Design Guide*, [GAO-08-386SP](#) (Washington, D.C.: May 29, 2008).

<sup>13</sup>National Park Service Centennial Act, H.R. 3556, 114<sup>th</sup> Cong. § 602 (2015). The annual interagency pass covers entrance fees and certain amenity fees for all federal recreational lands. The amount of additional revenue generated by adjusting the price of the senior pass could be lower if the amount of the price increase deters seniors from purchasing the pass.

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## Executive Branch Agencies and Congress Continue to Address Actions That Span the Federal Government

In addition to the new actions identified for this report, we have continued to monitor the progress that Congress and executive branch agencies have made to reduce, eliminate, or better manage fragmentation, overlap, or duplication or achieve other potential financial benefits. In response to our 2011-2015 annual reports, Congress and executive branch agencies have addressed a total of 224 actions, including 55 actions since April 2015.<sup>14</sup> We found that these efforts have resulted in roughly \$56 billion in financial benefits from fiscal years 2010 through 2015, with at least an additional \$69 billion in estimated benefits projected to be accrued through 2025.<sup>15</sup>

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### Progress toward Addressing Actions

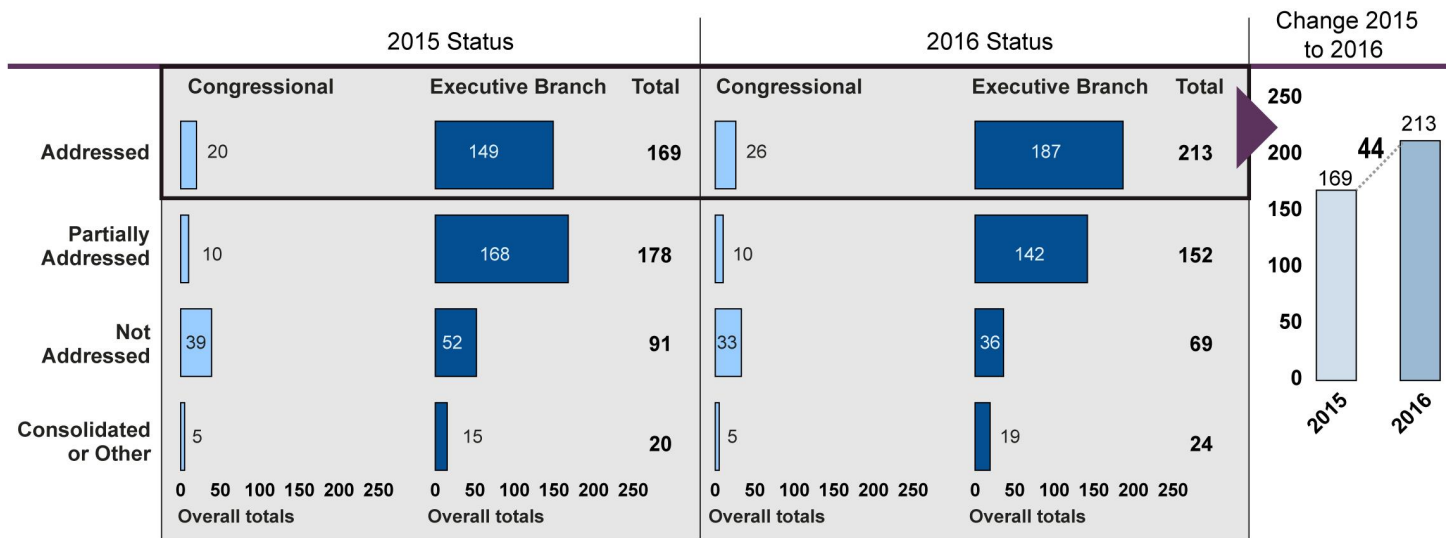
Congress and executive branch agencies have addressed a total of 55 actions since our last report. Of these 55 addressed actions, 44 were identified in our 2011-2014 annual reports, bringing the total number of addressed actions for the 2011-2014 annual reports to 213 actions—47 percent of the 458 actions identified over that period (see fig. 3).

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<sup>14</sup>Actions were assessed as of March 2, 2016, the date we completed our audit work. In assessing actions suggested for Congress, we applied the following criteria: “addressed” means relevant legislation has been enacted and addresses all aspects of the action needed; “partially addressed” means a relevant bill has passed a committee, the House of Representatives, or the Senate, or relevant legislation has been enacted but only addressed part of the action needed; and “not addressed” means a bill may have been introduced but did not pass out of a committee, or no relevant legislation has been introduced. In assessing actions suggested for the executive branch, we applied the following criteria: “addressed” means implementation of the action needed has been completed; “partially addressed” means the action needed is in development, or started but not yet completed; and “not addressed” means the administration, the agencies, or both have made minimal or no progress toward implementing the action needed.

<sup>15</sup>In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. They represent a rough estimate of financial benefits and have been rounded down to the nearest \$1 billion.

**Figure 3: Status of 2011-2014 Actions, as of 2015 and 2016**



Source: GAO analysis. | GAO-16-375SP

	2015			2016		
	Congressional	Executive Branch	Total	Congressional	Executive Branch	Total
Addressed	20	149	169	26	187	213
Partially addressed	10	168	178	10	142	152
Not addressed	39	52	91	33	36	69
Consolidated or other	5	15	20	5	19	24

Note: Actions categorized as “consolidated or other” are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as “consolidated or other” may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

In our 2015 annual report, we identified 86 new actions for congressional or executive branch agency attention.<sup>16</sup> As of March 2, 2016, we found

<sup>16</sup>In addition to the 66 actions identified in our 2015 annual report, we also added 19 new actions to existing areas that we previously identified in our 2011-2014 reports. During this year’s review, we also added 1 action that was inadvertently omitted from the 2015 total.

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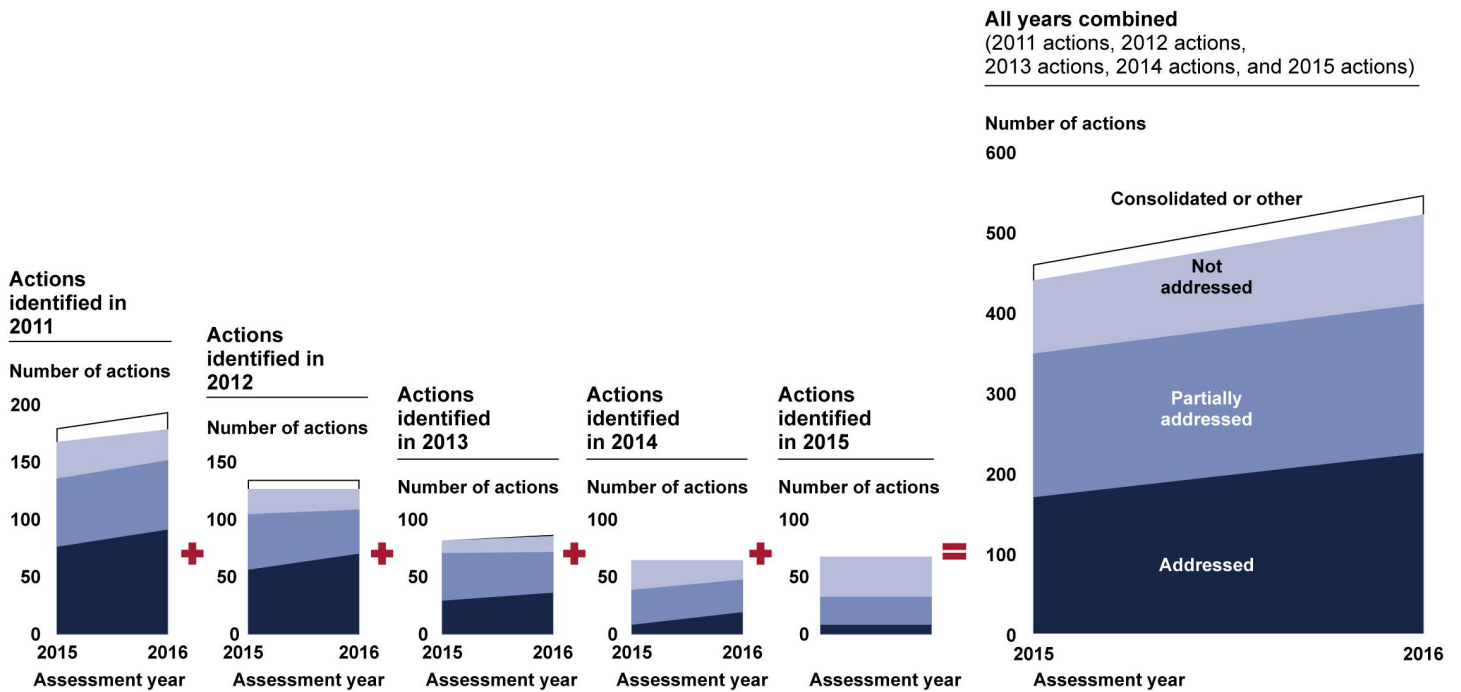
that 11 (13 percent) of the new 2015 actions had been addressed and 33 (38 percent) had been partially addressed.

In total, of the 544 total actions we identified in our 2011-2015 annual reports, we found that 224 (41 percent) were addressed, 185 (34 percent) were partially addressed, and 111 (20 percent) were not addressed.<sup>17</sup> As figure 4 shows, many of the actions that have been addressed were identified in our 2013 or earlier reports—which suggests that it frequently takes multiple years for actions to be fully addressed. See appendix IV for a list of all areas and the status of related actions.

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<sup>17</sup>Percentages do not add to 100 due to rounding. In addition, this year, 4 actions were categorized as “consolidated or other” for a total of 24 actions (4 percent) in this category from 2011-2015. Actions categorized as “consolidated or other” are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as “consolidated or other” may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

**Figure 4: Progress in Addressing 2011-2015 Actions, as of 2015 and 2016**



Source: GAO analysis. | GAO-16-375SP

**2011 Actions**

Assessment	2015 Assessment	2016 Assessment
Addressed	76	91
Partially Addressed	59	60
Not Addressed	32	27
Consolidated or other	12	15

**2012 Actions**

Assessment	2015 Assessment	2016 Assessment
Addressed	56	70
Partially Addressed	48	38
Not Addressed	22	18
Consolidated or other	8	8

**2013 Actions**

Assessment	2015 Assessment	2016 Assessment

<b>Assessment</b>	<b>2015 Assessment</b>	<b>2016 Assessment</b>
Addressed	29	36
Partially Addressed	41	35
Not Addressed	11	14
Consolidated or other	0	1

**2014 Actions**

<b>Assessment</b>	<b>2015 Assessment</b>	<b>2016 Assessment</b>
Addressed	8	19
Partially Addressed	30	28
Not Addressed	26	17
Consolidated or other	0	0

**2015 Actions**

<b>Assessment</b>	<b>2015 Assessment</b>	<b>2016 Assessment</b>
Addressed	N/A	8
Partially Addressed	N/A	24
Not Addressed	N/A	35
Consolidated or other	N/A	0

**Overall Actions**

<b>Assessment</b>	<b>2015 Assessment</b>	<b>2016 Assessment</b>
Addressed	169	224
Partially Addressed	178	185
Not Addressed	91	111
Consolidated or other	20	24

Note: Actions categorized as “consolidated or other” are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as “consolidated or other” may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa. Additionally, actions identified in 2015 were not assessed in 2015 because that was the year that the actions were identified.

## Financial Benefits Related to Actions Taken by Congress and Executive Branch Agencies

The progress Congress and executive branch agencies have made as of March 2, 2016, to address the actions we identified will result in approximately \$125 billion in financial benefits from 2010 through 2025.<sup>18</sup> Table 1 outlines examples of our addressed actions that have resulted in or are expected to result in cost savings or enhanced revenue.

**Table 1: Examples of Addressed Actions with Associated Cost Savings and Revenue Enhancements, 2010-2025**

Annual Report	Area Identified
2011	<b>Domestic Ethanol Production</b> (Area 13): Congress allowed the Volumetric Ethanol Excise Tax Credit to expire at the end of 2011, which eliminated duplicative federal efforts directed at increasing domestic ethanol production and reduced revenue losses by <b>\$29 billion</b> in fiscal year 2012 to fiscal year 2016.
2011	<b>Farm Program Payments</b> (Area 35): The Agricultural Act of 2014 eliminated direct payments to farmers and should save approximately <b>\$44 billion</b> from fiscal year 2015 through fiscal year 2023, of which \$5 billion has accrued and \$39 billion is expected to accrue in fiscal year 2016 or later, according to the Congressional Budget Office.
2014	<b>Real Estate-Owned Properties</b> (Area 18): GAO estimated that the Department of Housing and Urban Development saved as much as <b>\$2.8 billion</b> from July 2013 through June 2015 by implementing improvements to its property custody approach including reducing the number of foreclosed properties that it acquires by using other means of resolving troubled mortgages.
2015	<b>Tax Policies and Enforcement</b> (Area 17): Congress amended the audit procedures applicable to certain large partnerships to require that they pay audit adjustments at the partnership level. This should raise <b>\$9.3 billion</b> from fiscal years 2019 to 2025, according to the Joint Committee on Taxation.
2013	<b>Combat Uniforms</b> (Area 2): Consistent with our recommendation to avoid fragmentation, the Army chose not to introduce a new family of camouflage uniforms into its inventory, resulting in a cost avoidance of about <b>\$4.2 billion</b> over 5 years, of which \$1.7 billion has accrued since fiscal year 2014 and \$2.5 billion is expected to accrue in fiscal year 2016 or later.
2011	<b>Federal Emergency Management Agency (FEMA) Grants</b> (Area 26): GAO estimated savings of <b>\$2.55 billion</b> from fiscal years 2011 through 2013 due to Congress limiting preparedness grant funding until FEMA completes a national preparedness assessment of capability gaps.
2012	<b>Overseas Defense Posture</b> (Area 37): The United States Forces Korea conducted a series of consultations with the military services to evaluate the costs and benefits associated with tour normalization and decided not to move forward with the full tour normalization initiative because it was not affordable. The Department of Defense's (DOD) decision to not move forward with this initiative saved an estimated <b>\$3.1 billion</b> from fiscal years 2012 through 2016, of which \$2.5 billion has accrued through fiscal year 2015 and \$615 million is expected to accrue in fiscal year 2016.

<sup>18</sup>In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest \$1 billion.

Annual Report	Area Identified
2011	<b>Overseas Military Presence</b> (Area 36): In January 2015, DOD estimated that it would save <b>\$1.2 billion annually</b> by closing, consolidating, or realigning European installations after a comprehensive study of posture, as we had recommended.
2011	<b>Medicare Health Care Payments</b> (Area 74): Congress and the Centers for Medicare & Medicaid Services took several actions to improve the efficiencies of some Medicare payments for health care services, resulting in significant savings.

Source: GAO analysis. | GAO-16-375SP

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. The Tax Policies and Enforcement action (area 17) is newly addressed since GAO's 2015 report. Some estimates have been updated to reflect more recent analysis.

Congress also has taken a number of additional steps to address actions we have identified to achieve financial benefits or improve efficiency and effectiveness. For example, in our 2015 report we found the Department of Energy (DOE) could potentially realize savings by re-examining the appropriate size of the Strategic Petroleum Reserve (SPR)—which was valued at about \$22 billion as of January 2016—and depending on the outcome of the analysis, selling crude oil from the reserve and using the proceeds to fund other national priorities. In 2015, Congress required DOE to complete a long-range strategic review of the SPR and also authorized the sale of 124 million barrels of SPR oil. The Congressional Budget Office estimated potential savings to be \$8 billion from 2018 through 2025. In another example, in our 2011 annual report we found that a proliferation of programs to improve teacher quality complicated federal efforts to invest dollars effectively. We verified that legislation passed by Congress in December 2015 did not include authorization for 19 overlapping programs that were on our 2011 list of 82 distinct programs designed to improve teacher quality.<sup>19</sup> Using Department of Education (Education) data, GAO estimated the decision to not reauthorize saved approximately \$800 million based on fiscal year 2016 appropriations for these programs. In addition, Congress included language in appropriations acts that eliminated some barriers to educational program alignment and passed legislation to give Education broader discretion to realign program resources.

In other instances, Congress and executive branch agencies took steps to address issues that we identified during the course of our work that could also result in financial benefits. For example, in August 2014, we reported that the wage information that employers report on Form W-2 was not available to IRS until after it issued most refunds. We found that if

<sup>19</sup>Every Student Succeeds Act, Pub. L. No. 114-95 (Dec. 10, 2015).



IRS had access to W-2 data earlier, it could match such information to taxpayers' returns and identify discrepancies before issuing billions of dollars of fraudulent refunds. The Consolidated Appropriations Act, 2016, enacted in December 2015, amended the tax code to accelerate W-2 filing deadlines to January 31.<sup>20</sup> According to IRS, a program that would match W-2 data to tax returns before refunds are issued would save revenue by protecting a substantial part of the billions currently paid to fraudsters.

Also in August 2014, we reported that IRS had not fully assessed the costs and benefits of having available W-2 information for pre-refund matching, which could involve challenges such as a potential increase in W-2s that need to be corrected and required upgrades to IRS's information technology systems, among others. In response to our recommendation, in September 2015, IRS provided us with a report discussing (1) adjustments to IRS systems and work processes needed to use accelerated W-2 information, (2) potential impacts on internal and external stakeholders, and (3) other changes needed to match Form W-2 data to tax returns prior to issuing refunds. This report should help IRS determine how best to implement pre-refund W-2 matching, given the new January 31 deadline for filing W-2s.

While not all actions taken by Congress and executive agencies result in financial benefits to taxpayers, all of our suggested actions, when implemented, can result in gains in government efficiencies or the elimination, reduction, or improved management of fragmented, overlapping or duplicative programs, among other benefits. For example, in our 2012 annual report, we stated that we had recommended that DHS implement a process for tracking agency use of cybersecurity training, gather feedback from agencies on the training's value and on opportunities for improvement, and develop a process to coordinate training offered to minimize the production and distribution of duplicative products.<sup>21</sup> In 2014 and 2015, DHS took steps to address our recommendations by, among other things, implementing quarterly data calls to shared service centers and emphasizing the need to coordinate training. DHS reported that DOD, for example, has released an improved

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<sup>20</sup>Pub. L. No. 114-113, div. Q, § 201, 129 Stat. 2242 (Dec. 18, 2015). This change goes into effect for W-2s reporting payments made in 2016 and filed in 2017.

<sup>21</sup>In our 2012 annual report, see Cybersecurity Human Capital (Area 12).

version of its security awareness training in response to the results of the data calls.

## Action in Several Remaining Areas Could Yield Significant Additional Benefits

While Congress and executive branch agencies have made progress toward addressing the actions we have identified, further steps are needed to fully address the remaining actions, as shown in table 2. More specifically, 53 percent of the actions (243 of 459) directed to executive branch agencies and 62 percent of the actions (53 of 85) directed to Congress that were identified in our 2011-2015 reports remain partially or not addressed. In addition, we identified 92 new actions in 2016. We estimate that tens of billions of additional dollars would be saved should Congress and executive branch agencies fully address our actions that currently are partially addressed or not addressed, including the new ones we identified in 2016.<sup>22</sup>

**Table 2: Status of 2011-2015 Actions Directed to Congress and the Executive Branch, as of March 2, 2016**

Status	Executive branch <sup>a</sup>		Congress <sup>b</sup>		Grand totals	
	Number of actions	Percentage	Number of actions	Percentage	Total number of actions	Overall percentage <sup>c</sup>
Addressed	197	43%	27	32%	224	41%
Partially addressed/not addressed	243	53	53	62	296	54
Consolidated or other	19	4	5	6	24	4
<b>Total</b>	<b>459</b>	<b>100</b>	<b>85</b>	<b>100</b>	<b>544</b>	<b>99</b>

Source: GAO. | GAO-16-375SP

Notes: This year, 4 actions were categorized as “consolidated or other” for a total of 24 actions in this category from 2011-2015. Actions categorized as “consolidated or other” are no longer assessed. In most cases, these actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as “consolidated or other” may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

<sup>22</sup>In calculating this estimate, we relied on individual estimates from a variety of sources, which considered different time periods, and utilized different data sources, assumptions, and methodologies. These individual estimates are subject to increased uncertainty, depending on whether, how, and when they are addressed. This amount represents a rough estimate of financial benefits.

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<sup>a</sup>Executive branch agencies took steps that addressed five actions directed to Congress.

<sup>b</sup>Congress took steps that fully addressed one action and partially addressed another action directed to executive branch agencies.

<sup>c</sup>Numbers do not add to 100 percent due to rounding.

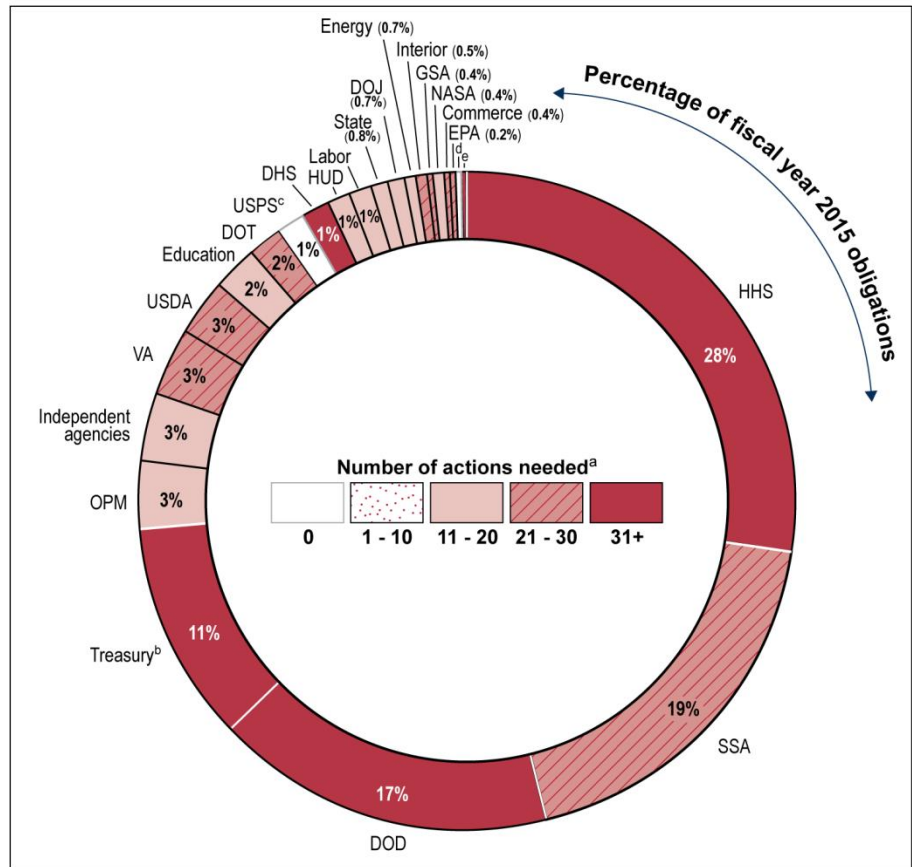
Our suggested actions that remain open span the government.<sup>23</sup> We have directed actions to all 15 cabinet-level executive departments and at least 17 other federal entities (see fig. 5). In particular, a substantial number of our actions are directed to three departments that made up 55 percent of federal obligations in fiscal year 2015—HHS, DOD, and Treasury.<sup>24</sup> Specifically, we have directed a total of 82 actions to HHS, 152 actions to DOD, and 112 actions to Treasury since 2011. Given the amount of federal dollars represented and number of unaddressed actions in the health care, defense, and tax areas, significant opportunities for cost savings and revenue enhancement exist in these three areas.

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<sup>23</sup>In some cases, these actions may be included in areas that have other actions with no associated cost savings or revenue enhancements.

<sup>24</sup>HHS includes Medicaid and Medicare. DOD includes the Office of the Secretary of Defense, military services, and defense agencies. Treasury consists of 10 bureaus, the largest of which is IRS.

**Figure 5: Fiscal Year 2015 Obligations and Number of Not Addressed and Partially Addressed Actions since 2011, by Agency**



Source: GAO. | GAO-16-375SP

Notes: Individual actions are counted multiple times when they are directed to more than one federal department or agency. Actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress. Percentages are rounded to the nearest whole percent for items greater than 1 percent.

<sup>a</sup> This includes actions that are partially addressed and not addressed.

<sup>b</sup> Treasury's percentage of fiscal year 2015 obligations includes interest on the national debt.

<sup>c</sup> U.S. Postal Service obligations are primarily funded by postal revenues, although the U.S. Postal Service receives minimal appropriations for overseas voting and mail for the blind. Additionally, the U.S. Postal Service has a maximum \$15 billion in borrowing authority.

<sup>d</sup> The judicial branch represented 0.2 percent of federal obligations in fiscal year 2015.

<sup>e</sup> Actions have also been directed to agencies and other federal entities that each represented less than 0.2 percent of federal obligations in fiscal year 2015.

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## Improving the Efficiency of Health Care Programs

According to the Congressional Budget Office (CBO), gross federal outlays for Medicare, Medicaid, and other major health care programs totaled \$1 trillion in 2015, equaling 5.8 percent of the gross domestic product (GDP).<sup>25</sup> CBO estimates that gross federal outlays for those programs will jump to \$1.1 trillion, or 6.2 percent of GDP, in 2016.<sup>26</sup> CBO further estimates that such spending will grow robustly, nearly doubling in dollar terms between 2016 and 2026, reaching \$2.0 trillion, or 7.4 percent of GDP, by the end of that period. This level of spending contributes to the fiscal challenges facing the nation.

In our 2011-2015 annual reports, we directed 64 actions to HHS to improve the efficiency and effectiveness of health care programs, among other areas. In addition, we directed 18 new actions to HHS in this year's annual report. Fifty-five of the 82 (67 percent) total actions we directed to HHS remain partially addressed or not addressed.<sup>27</sup> Many of these actions are directed at the Medicare and Medicaid programs, which had a combined total of over \$900 billion in federal outlays in 2015. Effectively implementing these actions would result in significant cost savings or revenue enhancement, including the examples shown in table 3.

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<sup>25</sup>Due to their size, complexity, and susceptibility to mismanagement and improper payments, we designated Medicare and Medicaid as high-risk programs in 1990 and 2003, respectively. See GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Feb. 11, 2015).

<sup>26</sup>Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (Washington, D.C.: January 2016).

<sup>27</sup>This includes new actions identified in this report. In addition, actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

**Table 3: Examples of Health Care Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed**

	Annual report	Area identified
<b>Medicare</b>	2011/2013	<b>Program Integrity (Areas 73/25):</b> To help prevent <b>billions of dollars</b> in improper payments, the Centers for Medicare & Medicaid Services (CMS) should better target its claims review by requiring its contractors to develop thresholds for unexplained increases in billing and use them to develop automated prepayment controls, and by requiring that physicians receive a statement of home health services that beneficiaries received based on the physicians' certification.
	2012	<b>Medicare Advantage Payments (Area 45):</b> To help ensure appropriate payments to Medicare Advantage plans, CMS should take steps to improve the accuracy of the adjustment made for differences in diagnostic coding practices between Medicare Advantage plans and traditional Medicare providers. We previously reported that these shortcomings in CMS's adjustment resulted in excess payments to Medicare Advantage plans totaling an estimated <b>\$3.2 billion to \$5.1 billion</b> over a 3-year period from 2010 through 2012.
	2015	<b>Medicare Payments to Certain Cancer Hospitals (Area 19):</b> To achieve almost <b>\$500 million per year</b> in program savings, Congress should consider modifying how Medicare pays certain cancer hospitals.
	2016	<b>Medicare Payments by Place of Service (Area 30):</b> Medicare could save <b>billions of dollars</b> if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.
	2016	<b>Eligibility of Medicare Providers and Suppliers (Area 26):</b> CMS could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the <b>billions of dollars</b> in improper payments that the program has paid out in recent years.
<b>Medicaid</b>	2013/2016	<b>Supplemental Payments (Areas 26/25):</b> To save Medicaid <b>hundreds of millions of dollars</b> , (1) Congress should consider requiring CMS to take steps that would facilitate the agency's ability to oversee these payments, including identifying payments that are not used for Medicaid purposes or are otherwise inconsistent with Medicaid payment principles, and (2) CMS should clarify its requirement that supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share.
	2014/2016	<b>Demonstration Spending (Areas 21/27):</b> To save <b>billions of dollars</b> , (1) Congress should consider requiring the Department of Health and Human Services (HHS) to improve the process for reviewing, approving, and making transparent the basis for approving spending limits, including ensuring that valid methods are used to demonstrate budget neutrality and (2) HHS should establish specific criteria for assessing whether demonstration spending furthers Medicaid objectives and take other steps to improve the transparency and accountability of the approval process.
	2015	<b>State Sources of Funds (Area 20):</b> To potentially save <b>hundreds of millions of dollars</b> , CMS should ensure that states report accurate and complete data on state Medicaid sources of funds so that it may better oversee states' financing arrangements that can increase costs for the federal government.
	2016	<b>Medicaid and Exchange Coordination (Area 7):</b> CMS should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage.
	2016	<b>Payments to Institutional Providers (Area 29):</b> CMS should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of <b>hundreds of millions</b> of dollars.
2016	<b>Medicaid Eligibility Determinations (Area 28):</b> CMS should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments.	

Source: GAO analysis. | GAO-16-375SP

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis. (Click area name for more information)

## More Effectively Targeting Defense Resources

Defense outlays represented about 17 percent of the government’s 2015 total outlays and was the largest component—almost half—of the federal government’s \$1.2 trillion discretionary spending in that year.<sup>28</sup> Avoiding fragmented, overlapping, and duplicative investments could help ensure more efficient and effective use of resources.

In our 2011-2015 annual reports, we directed 130 actions to DOD, and in this year’s annual report, we direct an additional 22 actions.<sup>29</sup> Ninety-five of the 152 (63 percent) total actions we identified remain partially addressed or not addressed.<sup>30</sup> Many of the actions fall within a few key areas, including acquisitions and contract management, support infrastructure, and headquarters management. Our work suggests that effectively implementing these actions, such as the examples in table 4, would yield significant financial benefits.

**Table 4: Examples of Defense Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed**

Annual report	Area identified
2013	<b>Agencies’ Use of Strategic Sourcing (Area 23):</b> The Department of Defense (DOD) and other selected agencies could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategically sourced contracts and further expanding strategic sourcing practices to their highest-spending procurement categories. GAO estimated that savings of 1 percent from selected agencies’ procurement spending alone would equate to over <b>\$4 billion</b> .
2013	<b>Joint Basing (Area 20):</b> DOD needs an implementation plan to guide joint bases to achieve <b>\$2.3 billion dollars in cost savings</b> over a 20-year period and efficiencies anticipated from combining support services at 26 installations located close to one another.

<sup>28</sup>Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriations acts. DOD program management has been on our High Risk List since 1990. See [GAO-15-290](#).

<sup>29</sup>The 22 new actions include 19 actions in new defense-related areas and 3 actions added to an existing area from our 2013 annual report. See appendix III for more information on actions added to existing areas in 2016.

<sup>30</sup>This includes new actions identified in this report. In addition, actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

Annual report	Area identified
2015	<b>Defense Facilities Consolidation and Disposal (Area 13):</b> DOD should ensure that data on the utilization of DOD facilities—which were collectively valued at around \$880 billion in fiscal year 2014—are complete and accurate in order to identify opportunities for saving costs by consolidating or disposing of unused or underutilized facilities.
2015	<b>DOD Headquarters Reductions (Area 14):</b> DOD could potentially achieve <b>hundreds of millions of dollars</b> in cost savings and help ensure that headquarters organizations are sized properly to meet their assigned mission by re-evaluating its headquarters reductions efforts and conducting periodic reassessments of workforce requirements.
2015	<b>Department of Defense US Family Health Plan (Area 6):</b> To potentially save millions of dollars and eliminate duplication within DOD’s health care system, Congress should terminate the statutorily required US Family Health Plan because it offers military beneficiaries the same health care benefit offered by other DOD health care contractors. GAO estimates this action could save <b>\$189 million</b> from fiscal years 2017 to 2022.
2016	<b>DOD Commercial Satellite Communication Procurement (Area 1):</b> Enforcing existing acquisition policy and identifying opportunities to centralize DOD’s procurement of commercial satellite communications services could create opportunities to potentially save <b>tens of millions of dollars annually</b> .
2016	<b>DOD Excess Ammunition (Area 15):</b> DOD could potentially reduce its storage, demilitarization, and disposal costs by <b>hundreds of thousands of dollars</b> by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.
2016	<b>DOD Leases and Use of Underutilized Space at Military Installations (Area 16):</b> DOD could potentially achieve <b>millions of dollars</b> in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies.
2016	<b>Defense Excess Property Disposal (Area 13):</b> Federal civilian agencies could potentially achieve <b>millions of dollars</b> in cost savings if they were able to obtain more of DOD’s available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.
2016	<b>DOD’s Eligibility Determinations for Living Quarters Allowance (Area 14):</b> DOD could potentially achieve cost savings by monitoring its components’ reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance.

Source: GAO analysis. | GAO-16-375SP

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

(Click area name for more information)

## Addressing Challenges in Collecting Tax Revenue and Reducing the Tax Gap

IRS collected \$3.3 trillion in gross taxes, or 93 percent of federal receipts, in fiscal year 2015. Among the challenges IRS faces in collecting this money are combatting tax refund fraud associated with identity theft,



addressing factors that contribute to the \$385 billion net tax gap, and reducing the causes of Earned Income Tax Credit improper payments.<sup>31</sup>

In our 2011-2015 annual reports, we directed 99 actions to the Department of the Treasury, and we include 13 additional actions in this year’s report. Seventy of the 112 (63 percent) total actions we identified remain open.<sup>32</sup> Effectively implementing our open recommendations, including the examples in table 5, would increase revenues or reduce costs.

**Table 5: Examples of Tax Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed**

Annual report	Area identified (Click area name for more information)
2011	<b>Real Estate Tax Deductions (Area 59)</b> : Better information and outreach could help increase revenues by <b>tens or hundreds of millions of dollars annually</b> by addressing overstated real estate tax deductions.
2011	<b>Simple Tax Return Errors (Area 56)</b> : Broadening the Internal Revenue Service’s (IRS) authority to correct simple tax return errors could facilitate correct tax payments and help IRS avoid costly, burdensome audits. The Joint Committee on Taxation estimated this action could raise <b>\$274 million</b> from fiscal years 2018 through 2026.
2013/2015	<b>Tax Policy and Enforcement (Areas 22/17)</b> : By using more rigorous analyses to allocate enforcement resources and using data to improve management of enforcement programs such as large partnership and correspondence audits, among other things, IRS can increase revenue collections by <b>billions of dollars</b> .
2014	<b>Online Taxpayer Services (Area 17)</b> : IRS could potentially realize <b>hundreds of millions of dollars</b> in cost savings and increased revenues by enhancing its online services, which would improve service to taxpayers and encourage greater tax law compliance.
2016	<b>IRS’s Public Referral Programs (Area 6)</b> : IRS could potentially collect <b>billions of dollars</b> in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.
2016	<b>Identity Theft Refund Fraud (Area 22)</b> : IRS and Congress could potentially save <b>billions of dollars</b> in fraudulent refunds by improving the agency’s efforts to prevent refund fraud associated with identity theft.

Source: GAO analysis. | GAO-16-375SP

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

<sup>31</sup>The tax gap does not include taxes due from illegally derived income or various forms of fraud. For example, in general, refund fraud related to identity theft would not be included in the tax gap estimate because it does not involve evading a tax liability.

<sup>32</sup>This includes new actions identified in this report. Actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

## Additional Areas with Significant Open Actions

In addition to the health care, defense, and tax areas, we have suggested a number of other actions that, if addressed, would result in significant cost savings or revenue enhancement across the government.<sup>33</sup> Table 6 summarizes examples where additional leadership attention could promote progress.

**Table 6: Examples of Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed**

	Annual report	Area identified (Click area name for more information)
<b>Energy and Agriculture</b>	2011	<a href="#">Oil and Gas Resources (Area 45)</a> : Improved management of federal oil and gas resources could result in <b>\$1.7 billion</b> of additional revenue over 10 years, according to the Department of the Interior.
	2012	<a href="#">Excess Uranium Inventories (Area 40)</a> : Marketing the Department of Energy's excess uranium could provide substantial revenue for the government. In 2014, GAO estimated that actions in this area could increase revenue by about <b>\$1 billion</b> .
	2013	<a href="#">Crop Insurance (Area 19)</a> : To achieve <b>up to \$2 billion annually</b> in cost savings in the crop insurance program, Congress could consider limiting the subsidy for premiums that are provided on behalf of individual farmers, reducing the subsidy, or some combination of limiting and reducing these subsidies.
	2015	<a href="#">U.S. Enrichment Corporation (USEC) Fund (Area 16)</a> : Congress may wish to permanently rescind the entire <b>\$1.6 billion</b> balance of the USEC fund—a revolving fund in the U.S. Treasury—because its purposes have been fulfilled.
<b>General Government</b>	2016	<a href="#">National Park Service Fees (Area 23)</a> : The National Park Service could potentially increase revenues from the recreation fees it collects by <b>millions of dollars annually</b> if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees.
	2016	<a href="#">Financing of Improvements to Federally Leased Space (Area 21)</a> : In order to achieve <b>millions</b> in potential cost savings, the General Services Administration should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates.
	2016	<a href="#">Unobligated Balances (Area 24)</a> : To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts.

<sup>33</sup>In some cases, these actions may be included in areas that have other actions with no associated cost savings or revenue enhancements.

	Annual report	Area identified (Click area name for more information)
Homeland Security/Law Enforcement	2012	<a href="#">Immigration Inspection Fee (Area 49)</a> : The air passenger immigration inspection user fee should be reviewed and adjusted to fully recover the cost of the air passenger immigration inspection activities conducted by the Department of Homeland Security's U.S. Immigration and Customs Enforcement and U.S. Customs and Border Protection rather than using general fund appropriations. GAO estimated this action could increase revenue by almost <b>\$175 million</b> .
	2013	<a href="#">Checked Baggage Screening (Area 28)</a> : By reviewing the appropriateness of the federal cost share the Transportation Security Administration applies to agreements financing airport facility modification projects related to the installation of checked baggage screening systems, the Transportation Security Administration could, if a reduced cost share was deemed appropriate, achieve cost efficiencies and be positioned to install a greater number of optimal baggage screening systems than it currently anticipates. More efficient baggage screening systems could result in roughly <b>\$234 million</b> in cost savings from 2015 through 2027, according to the Transportation Security Agency.
Income Security	2011	<a href="#">Social Security Offsets (Area 80)</a> : Social Security needs data on pensions from noncovered earnings to better enforce offsets and ensure benefit fairness. This action could result in estimated savings of <b>\$2.4 billion to \$7.9 billion</b> over 10 years if enforced both retrospectively and prospectively, according to the Congressional Budget Office and the Social Security Administration. If Social Security only enforced the offsets prospectively, the overall savings would be less as it would not reduce benefits already received.
	2014	<a href="#">Veterans' and Survivors' Benefits (Area 23)</a> : The Department of Veterans Affairs' direct spending could be reduced—by an average of about <b>\$4 million annually</b> , according to the Congressional Budget Office—if new statutory provisions were enacted, namely, a look-back review and penalty period for claimants who transfer assets for less than fair market value before applying for pension benefits that are available to low-income wartime veterans who are at least 65 years old or have disabilities unrelated to their military service.
	2014	<a href="#">Disability and Unemployment Benefits (Area 8)</a> : Congress should consider passing legislation to prevent individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits that cover the same period, which could save <b>\$1.9 billion</b> from fiscal years 2016 through 2025, according to the Congressional Budget Office.
	2015	<a href="#">Children's Disability Reviews (Area 21)</a> : To prevent an estimated <b>\$3.1 billion</b> in potential overpayments over 5 years, the Social Security Administration needs to conduct timely disability reviews to better ensure that only eligible children receive cash benefits from the Supplemental Security Income program.
	2016	<a href="#">VA's Individual Unemployability Benefit (Area 34)</a> : To potentially achieve cost savings, the Department of Veterans Affairs should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated <b>\$15 billion</b> in savings from 2015 through 2023, according to the Congressional Budget Office.

Annual report	Area identified (Click area name for more information)
2016	<b>Disability Insurance and Federal Workers' Compensation (Area 31):</b> The Social Security Administration should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.
2016	<b>Disability Insurance Overpayments (Area 32):</b> To help prevent the loss of billions of dollars, the Social Security Administration should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.
2016	<b>Disability Reviews (Area 33):</b> The Social Security Administration may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.
<b>Information Technology</b>	2011 <b>Federal Data Centers (Area 15):</b> Consolidating federal data centers would provide an opportunity to improve government efficiency. Action in this area could potentially achieve cost savings and avoidances of <b>\$8.2 billion</b> through fiscal year 2019, of which \$2.8 billion has accrued from actions already taken and \$5.4 billion could potentially accrue if further action is taken, according to GAO's analysis of data from 24 agencies involved in the Federal Data Center Consolidation Initiative.
	2013 <b>Cloud Computing (Area 29):</b> Better planning of cloud-based computing solutions provides an opportunity for potential savings of <b>millions of dollars</b> .
	2013 <b>Information Technology Operations and Maintenance (Area 30):</b> Strengthening oversight of key federal agencies' major information technology investments in operations and maintenance would provide an opportunity for savings on billions in information technology investments.
	2014 <b>Information Technology Investment Portfolio Management (Area 24):</b> The Office of Management and Budget and multiple agencies could help the federal government realize <b>billions of dollars</b> in savings by taking steps to better implement PortfolioStat, a process to help agencies manage their information technology investments.
<b>International Affairs</b>	2016 <b>Cargo Preference for Food Aid (Area 36):</b> A clearer definition of "geographic area" in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.
<b>Training, Employment, and Education</b>	2016 <b>Post 9/11 GI Bill Overpayments (Area 37):</b> The Department of Veterans Affairs could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.

Source: GAO analysis. | GAO-16-375SP

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

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issues may be directed to the area contact listed at the end of each summary.

A handwritten signature in black ink, reading "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and a long horizontal flourish extending to the right.

Gene L. Dodaro  
Comptroller General of the United States

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# Abbreviations

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APTC	advance payments of the premium tax credit
BIA	Bureau of Indian Affairs
BRAC	Base Realignment and Closure
CAD	conventional ammunition awaiting demilitarization and disposal
CBO	Congressional Budget Office
CBPS	Consular and Border Security Programs
CDR	continuing disability review
CMRA	Commercial Mail Receiving Agency
CMS	Centers for Medicare & Medicaid Services
COLA	cost of living adjustments
CPFA	cargo preference for food aid
CROM	Construction, Rehabilitation, Operation and Maintenance
D&CP	Diplomatic and Consular Programs
DS	Diplomatic Security
DCPAS	Defense Civilian Personnel Advisory Service
DHS	Department of Homeland Security
DI	Disability Insurance
DISA	Defense Information Systems Agency
DIV	Development Innovation Ventures
DLA	Defense Logistics Agency
DMEPOS	durable medical equipment, prosthetics, orthotics, and supplies
DOD	Department of Defense
DOE	Department of Energy
DOEHRS	Defense Occupational and Environmental Health Readiness System
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DSSR	Department of State Standardized Regulations
EDA	Economic Development Administration
EESA	Emergency Economic Stabilization Act of 2008
EITC	Earned Income Tax Credit
EPA	Environmental Protection Agency
FAR	Federal Acquisition Regulation
FAS	Foreign Agricultural Service
FBF	Federal Buildings Fund
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FFE	federally facilitated exchanges
FLREA	Federal Lands Recreation Enhancement Act
FMAP	Federal Medical Assistance Percentage
FPDS-NG	Federal Procurement Data System-Next Generation
FPMR	Federal Property Management Regulations
FPS	Federal Protective Service
FSMB	Federation of State Medical Boards
FSOC	Financial Stability Oversight Council

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FSS	Fixed Satellite Service
FSS	Federal Supply Schedules
GDP	gross domestic product
GPRA	Government Performance and Results Act
GSA	General Services Administration
HAMP	Home Affordable Modification Program
HCERA	Health Care and Education Reconciliation Act of 2010
HHS	Department of Health and Human Services
HRIT	Human Resources Information Technology
HUD	Department of Housing and Urban Development
IDT	identity theft
IRS	Internal Revenue Service
IT	information technology
ITM	Innovative Technologies in Manufacturing
LCM	License Continuous Monitoring
LQA	living quarters allowance
MAC	Medicare Administrative Contractors
MARAD	Maritime Administration
MESL	Military Exposure Surveillance Library
MHA	Making Home Affordable
MOA	memorandum of agreement
MOU	memorandum of understanding
MSIS	Medicaid Statistical Information System
NASA	National Aeronautics and Space Administration
NIH	National Institutes of Health
NIST	National Institute of Standards and Technology
NPS	National Park Service
OBO	Overseas Buildings Operations
OCC	Office of the Comptroller of Currency
OCHCO	Office of the Chief Human Capital Officer
OCIO	Office of the Chief Information Officer
OEHS	occupational and environmental health surveillance
OEP	Occupant Emergency Plan
OFPP	Office of Federal Procurement Policy
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTSA	Oklahoma Tribal Statistical Areas
PALMS	Performance and Learning Management System
PECOS	Provider Enrollment, Chain and Ownership System
PERM	Payment Error Rate Measurement
PIN	personal identification number
POMS	Program Operations Manual System
PPACA	Patient Protection and Affordable Care Act
ROAR	Recovery of Overpayments, Accounting and Reporting
SATCOM	satellite communications
SBA	Small Business Administration
SCA	Bureau of South and Central Asian Affairs
SMCA	Single Manager for Conventional Ammunition
SRAP	Special Representative for Afghanistan and Pakistan
SSA	Social Security Administration
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income

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TARP	Troubled Asset Relief Program
TDIU	Total Disability Individual Unemployability
TROR	Treasury Report on Receivables
TSA	Transportation Security Administration
UPL	Upper Payment Limit
UPS	United Parcel Service
USAID	U.S. Agency for International Development
USDA	Department of Agriculture
USPS	United States Postal Service
VA	Department of Veterans Affairs
VHA	Veterans Health Administration
WAPA	Western Area Power Administration



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# Section I: Report at a Glance

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The Report at a Glance provides an overall summary of the 37 new areas in which we identified opportunities to improve efficiency and effectiveness or achieve financial benefits.

# Report at a Glance

Table 1 summarizes the 12 areas in which we found evidence of fragmentation, overlap, or duplication among federal government programs, which we present in detail in Section II.

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

Mission	Areas Identified	Page
Defense	1. <b>DOD Commercial Satellite Communication Procurements:</b> Enforcing existing acquisition policy and identifying opportunities to centralize the Department of Defense's procurement of commercial satellite communications services could create opportunities to potentially save tens of millions of dollars annually.	43
	2. <b>DOD's Storage of Occupational and Environmental Health Surveillance Data:</b> Inconsistencies among the policies of the Department of Defense and the military services have contributed to fragmented and duplicative efforts to store occupational and environmental health surveillance data needed to track and assess service-related health conditions of returning servicemembers and veterans.	47
	3. <b>Weapon System Portfolio Management:</b> By using portfolio management more effectively, the Department of Defense could help ensure that the more than \$100 billion it spends annually on weapon system acquisitions contributes to its strategic goals and could reduce the potential for overlapping and unnecessarily duplicative investments.	53
Economic development	4. <b>Manufacturing Loan Guarantees:</b> The Economic Development Administration could better ensure that the activities carried out under the Innovative Technologies in Manufacturing program do not duplicate the efforts of other federal loan guarantee programs by working with other agencies to identify and target capital access gaps not filled by other programs.	58
General government	5. <b>Financial Regulatory Structure:</b> To reduce or better manage fragmentation and overlap, Congress should consider changes to the financial regulatory structure, and the Board of Governors of the Federal Reserve System and the Office of Financial Research should take steps to improve collaboration in monitoring systemic risk.	63
	6. <b>IRS's Public Referral Programs:</b> The Internal Revenue Service could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.	72
Health	7. <b>Medicaid and Exchange Coordination:</b> The Centers for Medicare & Medicaid Services should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage.	79
Homeland security/law enforcement	8. <b>Department of Homeland Security's Human Resources Systems:</b> To address issues related to fragmented systems and duplicative processes, the Department of Homeland Security should take steps to (1) ensure that its Human Resources Information Technology investment receives necessary oversight and attention from its steering committee and (2) evaluate and update the investment's strategic planning document.	85
	9. <b>Security of Federal Facilities:</b> The Federal Protective Service and General Services Administration need to improve collaboration in key areas to better manage fragmentation and enhance the agencies' ability to protect federal facilities.	92
Information technology	10. <b>Tribal Internet Access:</b> Greater coordination among the Federal Communications Commission's Universal Service Fund subsidy programs and the U.S. Department of Agriculture's Rural Utilities Service grant programs could result in more efficient and effective support of Internet access for tribal communities.	96
International affairs	11. <b>U.S. Embassy Kabul Construction:</b> A strategic facilities plan for construction projects in Kabul, Afghanistan, could enhance the planning and coordination among Department of State bureaus and reduce the likelihood of fragmented construction efforts and duplicative facilities.	101
	12. <b>U.S.-Funded Development Innovation Programs:</b> The U.S. Agency for International Development should establish a joint approach to collaboration among its Development Innovation Ventures program and other similar U.S.-funded programs in India to better manage overlap.	107

Table 2 summarizes 25 additional opportunities for Congress or executive branch agencies to consider taking action that could either reduce the

cost of government operations or enhance revenue collections for the Treasury, which we present in detail in Section III.

**Table 2: Cost Savings and Revenue Enhancement Opportunities Identified in This Report**

Mission	Areas Identified	Page
Defense	13. <b>Defense Excess Property Disposal:</b> Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of the Department of Defense's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.	113
	14. <b>DOD's Eligibility Determinations for Living Quarters Allowance:</b> The Department of Defense (DOD) could potentially achieve cost savings by monitoring its components' reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance.	121
	15. <b>DOD Excess Ammunition:</b> The Department of Defense could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.	126
	16. <b>DOD Leases and Use of Underutilized Space at Military Installations:</b> The Department of Defense could potentially achieve millions of dollars in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies.	131
Economic development	17. <b>Treasury's Foreclosure Prevention Efforts:</b> The Department of the Treasury could potentially achieve billions in financial benefits by reviewing the potential for unexpended balances for the Making Home Affordable Program and deobligating excess funds, which Congress could rescind and direct to other priorities.	141
General government	18. <b>Bridge Contracts:</b> When bridge contracts—which include extensions to existing contracts and short-term noncompetitive contracts to avoid a gap in service—are used frequently or for prolonged periods of time, the government is at risk of paying more than it should for goods and services.	146
	19. <b>Federal Supply Schedules:</b> Agencies are paying insufficient attention to prices when using the Federal Supply Schedules program and may be missing opportunities for cost savings.	150
	20. <b>Federally Leased Vehicles:</b> The General Services Administration and selected agencies could potentially reduce costs by improving the processes for justifying the use of vehicles in the federal fleet and taking actions for any vehicles that may be underutilized.	153
	21. <b>Financing of Improvements of Federally Leased Space:</b> In order to achieve millions in potential cost savings, the General Services Administration should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates.	157
	22. <b>Identity Theft Refund Fraud:</b> The Internal Revenue Service and Congress could potentially save billions of dollars in fraudulent refunds by improving the agency's efforts to prevent refund fraud associated with identity theft.	163
	23. <b>National Park Service Fees:</b> The National Park Service could potentially increase revenues from the recreation fees it collects by millions of dollars annually if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees.	169
	24. <b>Unobligated Balances:</b> To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts.	174

Mission	Areas Identified	Page
Health	25. <b>Distribution of Medicaid Supplemental Payments:</b> The Centers for Medicare & Medicaid Services should provide written guidance to state Medicaid programs clarifying its policies that the distribution of Medicaid supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share—actions that could result in substantial cost savings.	181
	26. <b>Eligibility of Medicare Providers and Suppliers:</b> The Centers for Medicare & Medicaid Services could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the billions of dollars in improper payments that the program has paid out in recent years.	188
	27. <b>Medicaid Demonstration Approved Spending:</b> The Secretary of Health and Human Services could potentially curtail spending growth of Medicaid demonstrations, which have resulted in the authorization of billions of dollars in federal spending, by establishing specific criteria for assessing whether demonstration spending furthers Medicaid objectives and taking other steps to improve the transparency and accountability of the approval process.	195
	28. <b>Medicaid Eligibility Determinations:</b> The Centers for Medicare & Medicaid Services should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments.	201
	29. <b>Medicaid Payments to Institutional Providers:</b> The Centers for Medicare & Medicaid Services should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of hundreds of millions of dollars.	206
	30. <b>Medicare Payments by Place of Service:</b> Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.	211
Income security	31. <b>Disability Insurance and Federal Workers' Compensation:</b> The Social Security Administration should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.	216
	32. <b>Disability Insurance Overpayments:</b> To help prevent the loss of billions of dollars, the Social Security Administration should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.	222
	33. <b>Disability Reviews:</b> The Social Security Administration may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.	229
	34. <b>VA's Individual Unemployability Benefit:</b> To potentially achieve cost savings, the Department of Veterans Affairs should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated \$15 billion in savings from 2015 through 2023, according to the Congressional Budget Office.	233
Information technology	35. <b>Federal Mobile Telecommunications:</b> In order to achieve substantial government-wide savings, federal agencies should establish better controls on mobile device spending, and the Office of Management and Budget should monitor progress in achieving these savings.	238
International affairs	36. <b>Cargo Preference for Food Aid:</b> A clearer definition of "geographic area" in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.	244
Training, employment, and education	37. <b>Post 9/11 GI Bill Overpayments:</b> The Department of Veterans Affairs could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.	249

**Table 3: Appendixes**

<b>Appendix</b>	<b>Page</b>
Appendix I: List of Congressional Addressees	<a href="#">255</a>
Appendix II: Objectives, Scope, and Methodology	<a href="#">257</a>
Appendix III: New Actions Added to Existing Areas in 2016	<a href="#">263</a>
Appendix IV: Areas Identified in 2011-2016 Annual Reports, by Mission	<a href="#">264</a>
Appendix V: Lists of Programs Identified	<a href="#">287</a>

## Section II: Areas in Which GAO Has Identified Fragmentation, Overlap, or Duplication

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This section presents 12 areas in which we found evidence of fragmentation, overlap, or duplication among federal government programs.

# 1. DOD Commercial Satellite Communication Procurements

Enforcing existing acquisition policy and identifying opportunities to centralize the Department of Defense's procurement of commercial satellite communications services could create opportunities to potentially save tens of millions of dollars annually.

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## Why This Area Is Important

The Department of Defense (DOD) uses satellite communications (SATCOM) to support land, sea, air, and space operations. For example, DOD utilizes SATCOM to support a variety of mission critical needs, such as surveillance being performed by unmanned aerial vehicles and communications between commanders and field units. DOD partially meets these communication needs through leasing commercial SATCOM services. This analysis focuses on the Fixed Satellite Service (FSS) portion of commercial SATCOM because it represents the largest percentage (over 70 percent) of DOD's annual expenditures for commercial SATCOM for fiscal year 2012—the most recent year for which data are available—and also because it favors long-term purchases of bulk commercial SATCOM capacity that might benefit from a multi-year contracting strategy. DOD has become increasingly reliant upon commercial SATCOM, which now represents a significant portion of the DOD SATCOM architecture.<sup>1</sup> For fiscal year 2012 DOD reported that it spent over \$1 billion to lease SATCOM services from commercial providers. According to a 2013 Defense Business Board report, DOD's SATCOM requirements are expected to grow by nearly 70 percent over the next decade.

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## What GAO Found

As GAO reported in July 2015, guidance from the Chairman of the Joint Chiefs of Staff requires the Defense Information Systems Agency (DISA) to procure all of DOD's commercial SATCOM. However, because DOD has not enforced this policy, the combatant commands and military services (known as DOD components) independently procure commercial

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<sup>1</sup>DOD's military SATCOM architecture consists of three segments: a protected segment that provides secure, jam-resistant communications; a wideband segment, which supports Army mobile ground terminals and Navy ships and submarines, among other things; and a narrowband segment, which provides complementary capability to the other segments, such as beyond line-of-sight secure tactical communications capabilities. In comparison, the commercial SATCOM architecture consists of two segments—fixed and mobile satellite services—which provide functions similar to the military wideband and narrowband segments, respectively. There is no commercial counterpart to the military protected segment.

SATCOM to meet their individual needs. As a result, DOD misses opportunities to achieve cost savings by consolidating its commercial SATCOM purchases.

Once commercial SATCOM is procured, U.S. Strategic Command, the DOD agency responsible for providing satellite capability for military operations, assumes operational responsibility. Although the Joint Chiefs' policy sets the foundation for a centralized commercial SATCOM acquisition and management approach, according to DISA and Strategic Command officials, neither DISA nor Strategic Command has enforcement power to ensure that all components adhere to the policy. To begin addressing this policy goal, the Joint Requirements Oversight Council recently approved the commercial SATCOM Centralized Management Concept of Operations, which intends to implement a three-phased approach to centralize management of military and commercial wideband SATCOM.

Some combatant commands and military services believe they can acquire commercial SATCOM faster, better, and cheaper than DISA. Moreover, having an ability to quickly procure commercial SATCOM on their own has helped the military services meet pressing needs in recent military conflicts. While we recognize DOD is often confronted with addressing immediate needs to help ensure mission effectiveness, particularly in times of conflict, this fragmented approach to acquiring commercial SATCOM places DOD at risk of not leveraging its own buying power through efficiencies, such as combining acquisitions. Utilizing a central point of contact could better position DOD to not only meet mission needs but to do so both effectively and efficiently. In the most recent commercial SATCOM usage report, DOD reported that—contrary to the Joint Chiefs' requirement—approximately 34 percent (about \$290 million) of its fixed satellite commercial SATCOM services was procured outside of DISA in 2012. The usage report also indicated that these services acquired through DISA result in an approximate 15 percent cost savings versus those not acquired through DISA. Comparatively, in 2011, about 32 percent of commercial SATCOM was procured outside of DISA, illustrating that the condition had worsened in 2012.

Over the past decade, several entities, including GAO, have recommended that DOD move toward a more strategic approach for commercial SATCOM procurement. For example, the Defense Business Board found in 2013 that DOD's strategy and management structure for procuring commercial SATCOM was not optimized and recommended that DOD designate a single lead organization for overall satellite communication strategy.<sup>2</sup> Specifically, the report recommended that DOD designate and resource a single organization, possibly DISA, to acquire and manage all SATCOM assets—including fixed and mobile services as

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<sup>2</sup>Defense Business Board. *Report to the Secretary of Defense: Taking Advantage of Opportunities for Commercial Satellite Communications Services*, Report FY13-02.



well as DOD's procurement of commercial satellites—under a managed service-type approach in the same manner that the Defense Logistics Agency is a one-stop shop for the military services' common logistical commodities. Under this construct, all commercial SATCOM acquisition and management would be handled in a managed service type approach, with the designated organization maintaining an inventory of available resources, ensuring their disciplined use, and procuring SATCOM resources in manner to obtain the best value. Additionally, in 2013, executives from five leading commercial satellite operators co-authored a paper stating that a single focal point would be better positioned to determine how to best meet the overall demand for SATCOM.<sup>3</sup> While DOD is investigating ways to how best meet overall demand, it will be several years before these efforts are expected to be completed.

Although DOD has several initiatives under way aimed at improving the procurement of commercial SATCOM, to date, DOD has not performed its own assessment to identify procurement inefficiencies and opportunities to consolidate purchases. As a result, DOD may be missing opportunities to further save money and improve efficiency. However, DOD faces considerable challenges in making these improvements, including a lack of data needed to support spend analyses. While DOD has recently initiated a number of small scale approaches to address fiscal, operational, and policy challenges that could potentially improve commercial SATCOM acquisition and management, DOD still does not know what it spends annually on commercial SATCOM. Without this knowledge, DOD cannot effectively manage and plan for its SATCOM procurement.

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## Actions Needed and Potential Financial or Other Benefits

To reform DOD's commercial SATCOM procurement processes and better leverage DOD's buying power, GAO recommended in July 2015 that the Secretary of Defense—in coordination with stakeholders including the Joint Chiefs of Staff, U.S. Strategic Command, combatant commands, the military services, and DISA—should take the following actions:

- Enforce current policy requiring DISA to acquire all commercial SATCOM for DOD.
- Conduct a spend analysis that identifies procurement inefficiencies and opportunities to consolidate purchases. Specifically, the analysis should identify how much is being spent for which services, who the buyers are, who the suppliers are, duplicative contracts and

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<sup>3</sup>*Seven Ways to Make the DOD a Better Buyer of Commercial SATCOM* (Jan. 14, 2013).

opportunities to aggregate demand, and where the opportunities are for leveraged buying and other tactics to save money and improve performance.

Implementation of these recommendations could help the government more efficiently and effectively procure commercial SATCOM, potentially saving tens of millions of dollars annually. GAO estimated that if, in 2012, DOD had procured all of its fixed satellite commercial SATCOM services through DISA, as required by guidance from the Chairman of the Joint Chiefs of Staff, the department may have realized a savings of almost \$44 million.

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## Agency Comments and GAO's Evaluation

In commenting on the July 2015 report on which this analysis is based, DOD concurred with GAO's recommendations to improve the department's procurement of SATCOM, stating that (1) enforcing current policy requiring DISA to procure all commercial SATCOM for DOD makes the best use of taxpayer dollars and supports acquisitions that are fully compliant with applicable laws and regulations; and (2) a spend analysis could help the department understand its military and commercial SATCOM spending and leverage its buying power.

GAO also provided a draft of this report section to DOD for review and comment. DOD provided technical comments and in response GAO made changes to this report section where appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product in the related GAO product section. To assess the extent to which DOD efficiently procures bandwidth, GAO reviewed DOD guidance and recent DOD studies and reports to identify criteria for procuring commercial satellite services as well as for evidence DOD has identified its future SATCOM requirements. GAO met with agency officials from DISA, the U.S. Strategic Command, DOD's Chief Information Officer, Joint Staff, Combatant Commands, and the military services to obtain their perspectives on how DOD procures bandwidth. Additionally, GAO reviewed recent DOD studies and reports, such as its August 2014 Satellite Communications Strategy Report and its Fiscal Year 2012 Commercial Satellite Communications Usage Report, as well as DISA's April 2013 Commercial Satellite Communications Analysis of Alternatives Final Report, in which past and current acquisition strategies are described. GAO then compared these acquisition strategies to the prescribed Chairman of the Joint Chiefs of Staff Instruction procurement policy.

Table 1 in appendix V lists the programs GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Product

*Defense Satellite Communications: DOD Needs Additional Information to Improve Procurements.* [GAO-15-459](#). Washington, D.C.: July 17, 2015.

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## Contact Information

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## 2. DOD's Storage of Occupational and Environmental Health Surveillance Data

Inconsistencies among the policies of the Department of Defense and the military services have contributed to fragmented and duplicative efforts to store occupational and environmental health surveillance data needed to track and assess service-related health conditions of returning servicemembers and veterans.

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### Why This Area Is Important

Since the end of the 1991 Persian Gulf War, servicemembers' and veterans' reports of unexplained illnesses that they attributed to service-related occupational and environmental exposures have led to increasing interest in health effects related to military deployments. In 1997, the Department of Defense (DOD) developed a military-wide health surveillance framework that includes occupational and environmental health surveillance (OEHS)—the regular collection and reporting of occupational and environmental health hazard data by the military services during deployments that can be used to help prevent, treat, or control disease or injury. Despite these efforts, attempts to research and investigate whether post-deployment health conditions are the result of military service continue to be problematic. This is of particular concern for those servicemembers and veterans returning from more recent conflicts, who have health concerns they believe are related to their deployment, such as conditions related to smoke inhalation from open-air burn pits—used for waste disposal—on military bases in Iraq and Afghanistan.

Establishing a service connection for health conditions is important because federal law generally entitles veterans with service-connected disabilities (i.e., injuries or diseases incurred or aggravated while on active military duty) to Department of Veterans Affairs disability compensation benefits.<sup>1</sup> However, establishing a relationship between occupational and environmental exposures and health issues can be difficult. In light of such difficulties, Congress has, on several occasions, legislated “presumptive service connections,” which allow veterans to receive compensation for certain conditions without having to prove cause.<sup>2</sup>

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<sup>1</sup>38 U.S.C. §§ 1110 and 1131. Service-connected disability status does not include disabilities caused by a veteran's own “willful misconduct or abuse of alcohol or drugs.”

<sup>2</sup>A presumptive service connection relieves veterans of the burden to prove that a disability or illness was caused by a specific exposure that occurred during service in the Armed Forces, and instead shifts the burden of proof concerning whether a disease or disability was caused or aggravated due to service from the veteran to the Department of Veterans Affairs.

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Letter

In July 2005, GAO reported that improvements were needed with OEHS during deployments to address immediate and long-term health issues. Specifically, GAO recommended that DOD improve deployment OEHS data collection and reporting, including the development of cross-service guidance to facilitate more consistent implementation of OEHS policy, which DOD developed in 2007. From the July 2005 report through December 31, 2014, there have been about 2.1 million servicemember deployments to Iraq and Afghanistan, involving about 1.4 million individual servicemembers.<sup>3</sup>

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## What GAO Found

In May 2015, GAO found that inconsistencies among the policies of DOD and the military services regarding OEHS data storage had led to fragmentation and duplication of OEHS data between the department's two information technology systems—the Military Exposure Surveillance Library (MESL) and the Defense Occupational and Environmental Health Readiness System (DOEHRS):

- MESL, originally implemented in 2003, contains both classified and unclassified documents that have been scanned and uploaded into the system.<sup>4</sup>
- DOEHRs—which DOD began implementing in 2006—only contains unclassified data, but incorporates additional functionalities, including OEHS data collection, management, and assessment, into a single system.

DOD officials told GAO that DOD is transitioning from the use of MESL to DOEHRs, which has greater functionality, and that this transition would eventually include the transfer of all unclassified documents currently in MESL to DOEHRs (once DOEHRs had been sufficiently upgraded) while classified data would remain in MESL. However, departmental policy last updated in 2011 states that all classified and unclassified OEHS data should be stored in MESL even though DOEHRs was implemented more recently.<sup>5</sup> DOD officials told GAO that the policy DOD currently has in place does not reflect the potential transition from MESL to DOEHRs because developing the functionality of DOEHRs in archiving data from deployments was still under way when the policy was last updated in 2011—about 5 years after DOEHRs was implemented. These officials

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<sup>3</sup>Of these approximately 1.4 million individual servicemembers, about 470,000 were deployed more than once—potentially multiple times—to Iraq and Afghanistan during this period.

<sup>4</sup>MESL was originally established by DOD as the OEHS Document Archival Portal and went through several name changes before being renamed the MESL in October 2011.

<sup>5</sup>See DOD Instruction 6490.03, *Deployment Health* (Aug. 11, 2006; certified current as of Sept. 30, 2011).

**Letter**

also told GAO that the policy was being revised to require the storage of unclassified OEHS data in DOEHRS, and they expected the updated policy to be released in 2016.

Further, when GAO reviewed all of DOD’s relevant OEHS policies as well as corresponding policies developed by each of the military services—all dated after 2006—GAO identified additional inconsistencies about which system should be used to store OEHS data.<sup>6</sup> Specifically, only 3 of the 14 policies GAO reviewed instructed officials to store OEHS data in DOEHRS, while 4 others instruct officials to store OEHS data in MESL. In addition, 6 of the policies instruct the use of both systems as appropriate, depending on the type of document being submitted and the availability of DOEHRS during a deployment. One of the policies does not specifically mention DOEHRS or MESL, although it notes that databases are necessary for OEHS data storage. The table below shows the list of 14 policies related to OEHS data storage that GAO reviewed.

**Policies That Direct the Storage of Occupational and Environmental Health Surveillance Data to the Defense Occupational and Environmental Health Readiness System (DOEHRS) or the Military Exposure Surveillance Library (MESL)**

Policy	DOEHRS	MESL	Neither
Department of Defense Instruction 6490.03 (2011)	NO	YES	NO
Department of Defense Instruction 6055.05 (2008)	YES	YES <sup>a</sup>	NO
Joint Chiefs of Staff Memorandum MCM 0017-12 (2012)	NO	YES	NO
Central Command Regulation 40-2 (2014)	YES	NO	NO
Army Regulation 11-35 (2007)	NO	NO	YES <sup>b</sup>
U.S. Army Public Health Command Technical Guidance 230 (2013)	NO	YES	NO
Air Force Instruction 48-145 (2014)	YES		NO
U.S. Air Force Central Command Public Health Guide (2014)	YES	YES	NO
U.S. Air Force Central Command Special Instruction 13-04 (2014)	YES	YES	NO
U.S. Air Force Central Command Bioenvironmental Engineering Deployment Guide (2014)	YES	YES	NO
Air Force Manual 48-146 (2012)	YES	NO	NO
Secretary of the Navy Instruction 6200.1 (2014)	NO	YES	NO
Occupational and Environmental Health Site Assessment Guide (2012) <sup>c</sup>	YES	YES	NO
Technical Bulletin: Sanitary Control and Surveillance of Field Water Supplies (2010) <sup>d</sup>	YES	YES	NO

Source: GAO analysis of DOD information. | GAO-16-375SP

<sup>a</sup>Although DOD Instruction 6055.05 does not directly reference MESL in the policy, it does reference the “DOEHRS data portal,” a prior name for MESL.

<sup>b</sup>Army Regulation 11-35 (May 2007) highlights the importance of collecting and storing OEHS data, but does not specifically mention DOERHS or MESL. According to DOD officials, the regulation is currently under revision.

<sup>c</sup>The Army, the Air Force, and the Navy jointly developed this guide on occupational and environmental health site assessments for all officials to follow, and each of the military services has its own reference for it (NTRP 4-02.9, AFTTP 3-2.82\_IP, and ATP 4-02.82).

<sup>6</sup>All but one of these policies referenced DOD Instruction 6490.03, which reflects the departmental policy on OEHS storage. The only policy that did not directly reference DOD Instruction 6490.03 referenced another policy, which refers to DOD Instruction 6490.03.

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**Letter**

<sup>d</sup>The Army, the Air Force, and the Navy jointly developed this technical bulletin regarding the sanitation and safety of water during deployments for all officials to follow, and each of the military services has its own reference for it (TB MED 577, AFMAN 48-138\_IP, and NAVMED P-5010-10).

Inconsistent policies are contrary to federal standards for internal control, which state that management should have policies in place that are both appropriate and clear.<sup>7</sup> Without consistent policies on which system should be used to store unclassified OEHS data, officials' efforts to store these data are inefficient and have resulted in both fragmentation and duplication. Specifically, in some cases, similar types of unclassified OEHS data have been submitted to both MESL and DOEHRS, and in other cases, identical unclassified OEHS data have been submitted to both systems. A DOD official who has technical expertise in both systems confirmed that there is duplication of stored OEHS data, but told GAO that there was no reasonable way to determine the extent because only DOEHRS has specific data level querying abilities. As neither system serves as a central repository for OEHS data, it is difficult to identify complete and comprehensive data sets for specific types of OEHS data, which may impede future efforts to identify and fully assess service-related health conditions, or in conducting other important research.

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in its May 2015 report that to eliminate the fragmentation and duplication in the storage of unclassified OEHS data, the Secretary of Defense should

- determine which information technology system—MESL or DOEHRS—should be used to store specific types of unclassified OEHS data and clarify the department's policy accordingly; and
- require all other departmental and military-service-specific policies to be likewise amended and implemented to ensure consistency.

Because GAO found that DOD cannot readily determine the extent to which identical unclassified OEHS data are stored repetitively in both MESL and DOEHRS, the potential costs associated with the fragmented and duplicative data storage efforts, such as any additional administrative costs expended in uploading data into both systems, could not be determined. However, taking these actions should help ensure that the storage of OEHS data does not compromise the future ability of officials to use the data in determining service connections for specific health conditions, or in conducting other important research.

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<sup>7</sup>See [GAO/AIMD-00-21.3.1](#).

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## Agency Comments and GAO's Evaluation

In commenting on the May 2015 report on which this analysis is based, DOD concurred with GAO's recommendations. DOD noted that it plans to clarify DOD Instruction 6490.03 in a subsequent version and issue appropriate guidance on the use of MESL and DOEHRS. Additionally, DOD noted that once a new instruction is published, the entire department, including the military services, is to revise related policies accordingly. However, while this may be the case, GAO found that not all of the departmental and military services' policies were revised to reflect the main DOD instruction regarding which system to use for storing OEHS data. As a result, GAO maintains that it is important for the department to ensure that the appropriate revisions are made to all related policies.

GAO provided a draft of this report section to DOD for review and comment. In an email received in March 2016, the Executive Officer to the Deputy Assistant Secretary of Defense for Health Readiness Policy and Oversight stated that a draft version of the revised DOD Instruction 6490.03 is under review within the department. In addition, the Executive Officer stated that once DOD Instruction 6490.03 is published, military service and combatant command policy and guidance documents will be revised to ensure consistency.

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## How GAO Conducted Its Work

The information contained in this analysis is based on the findings from products listed in the related GAO products section. To conduct this work, GAO reviewed and analyzed DOD and military-service-specific policies that describe OEHS data storage.<sup>8</sup> GAO also obtained information on the functionalities and capabilities of DOD's two information technology systems used to store OEHS data: MESL and DOEHRS. GAO reviewed the numbers and types of OESH data entries in each system to better understand how OEHS data were being stored. In addition, GAO interviewed DOD and military service officials about their practices for storing OEHS data.

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<sup>8</sup>In total, GAO reviewed 64 DOD and military service policies to determine which policies described how OEHS data should be stored. GAO also confirmed with officials that these policies were still current as of May 2015. GAO found that 14 of those policies described the storage of OEHS data. For the purposes of the May 2015 report and this report section, "policies" include directives, instructions, technical guides, and memorandums.



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## Related GAO Products

*Defense Health Care: DOD Needs to Clarify Policies Related to Occupational and Environmental Health Surveillance and Monitor Risk Mitigation Activities.* [GAO-15-487](#). Washington, D.C.: May 22, 2015.

*Defense Infrastructure: DOD Can Improve Its Response to Environmental Exposures on Military Installations.* [GAO-12-412](#). Washington, D.C.: May 1, 2012.

*Afghanistan and Iraq: DOD Should Improve Its Adherence to Its Guidance on Open Pit Burning and Solid Waste Management.* [GAO-11-63](#). Washington, D.C.: October 15, 2010.

*Defense Health Care: Occupational and Environmental Health Surveillance Conducted during Deployments Need Improvement.* [GAO-05-903T](#). Washington, D.C.: July 19, 2005.

*Defense Health Care: Improvements Needed in Occupational and Environmental Health Surveillance during Deployments to Address Immediate and Long-term Health Issues.* [GAO-05-632](#). Washington, D.C.: July 14, 2005.

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## 3. Weapon System Portfolio Management

By using portfolio management more effectively, the Department of Defense could help ensure that the more than \$100 billion it spends annually on weapon system acquisitions contributes to its strategic goals and could reduce the potential for overlapping and unnecessarily duplicative investments.

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### Why This Area Is Important

The Department of Defense's (DOD) 2014 portfolio of 78 major weapon system programs had total estimated acquisition costs of over \$1 trillion, yet DOD has not consistently managed these investments as a portfolio to ensure they are strategy driven, affordable, and balance near- and long-term needs. Rather, DOD and the military services plan to acquire more weapons than they can afford given anticipated levels of funding. Furthermore, as GAO has reported since at least 2011, when multiple services have weapon system needs in common, they sometimes develop separate, rather than common, solutions that result in inefficient and, in some cases, potentially duplicative investments.

Weapon system investment decision making in DOD is highly complex. It involves numerous entities, levels, and policies at the military service and enterprise level. The military services make initial decisions regarding what to buy, how to buy it, and how much it will cost. These decisions are made by the military service organizations responsible for determining weapon system requirements, managing the acquisition of those systems, and developing defense budgets and go through multilayered review processes within the services. For major investments, the military services' decisions may be reviewed and approved or disapproved at the enterprise level.

Leading commercial companies use portfolio management—a disciplined process that helps optimize investments by ensuring organizations have the right mix of new products that meet customer needs within available resources—to make a wide variety of decisions, including capability and funding trade-offs, to achieve the optimal capability mix for a given investment. Rather than optimizing individual programs, portfolio management focuses on products collectively at an enterprise level and involves evaluating, selecting, prioritizing, and allocating limited resources to projects that best accomplish strategic or organizational goals.

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### What GAO Found

In August 2015, GAO found that DOD is not effectively using portfolio management to optimize its weapon system investments and improve agency-wide governance of weapon system investment decisions. Best practices recommend assessing investments collectively from an enterprise-wide perspective and integrating requirements, acquisition, and budget information, but DOD's fragmented governance structure for

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**Letter**

making weapon system investment decisions makes implementing these practices difficult. As GAO reported in August 2015, DOD has numerous fragmented processes, organizations, and decision makers to oversee its weapon system investments, which generally do not operate as an integrated whole. As a result of this fragmentation, most weapon system investment decisions are made on a piecemeal basis within DOD's requirements, acquisition, and budget processes.

Best practices also call for providing sustained leadership for portfolio management, which as GAO reported in August 2015, DOD has lacked. DOD leadership made a concerted effort to implement portfolio management by initiating portfolio management pilots in 2006 to improve strategic decisions on resource allocation across programs and by issuing DOD Directive 7045.20 on capability portfolio management in 2008. However, soon afterward, leadership priorities shifted away from portfolio management. DOD eliminated the pilots, did not document the results of the pilots, and stopped implementing that directive, although it has not been rescinded. This was attributed to a variety of factors, including the lack of a senior-level champion for the effort as political leadership changed, which can happen every few years in DOD. Officials from the acquisition and requirements communities told GAO in 2015 that DOD no longer has a champion for portfolio management.

In addition to lacking sustained leadership, GAO reported in August 2015 that DOD does not have a policy to guide portfolio management across the department that fully reflects key best practices, nor has department leadership assigned an appropriate office to ensure its implementation. For example, best practices state that leadership should be empowered to make investment decisions. However, under DOD Directive 7045.20, the department's current policy, portfolio managers do not have sufficient authority to effectively influence weapon system investment decisions. Leadership responsibilities in DOD Directive 7045.20 are also fragmented, and there is no one office responsible for ensuring the policy's implementation. The office with primary responsibility for the directive, the Office of the Under Secretary of Defense for Policy, does not have direct management authority over the organizations responsible for implementing it.

Portfolio management best practices and the Project Management Institute's portfolio management standard also state that organizations should conduct regular reviews to adjust to strategic changes or changes in the mix of products within a portfolio, among other reasons. However, DOD does not conduct regular enterprise-level portfolio reviews that integrate the requirements, acquisition, and budget communities. Instead, the requirements, acquisition, and budget communities each have their own limited portfolio review efforts, some of which are still being developed. As a result, DOD may be missing opportunities to better leverage its resources and identify investment priorities that best reflect DOD-wide needs. Regular, DOD-wide portfolio reviews can help increase return on taxpayers' substantial investments in weapon systems by helping ensure that those investments align with national security and

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**Letter**

military strategies, prioritizing the most important investments, selecting the optimum mix of investments, identifying and eliminating unwarranted duplication, and determining whether investments are affordable.

In interviews for GAO's August 2015 report, officials from DOD's requirements, acquisition, and budget communities said they lacked the resources, readily accessible data, and analytical tools to regularly or effectively conduct integrated portfolio reviews. GAO has previously found that one way to better manage fragmented activities is to improve collaboration and coordination.<sup>1</sup> This includes engaging in key practices such as defining and articulating common outcomes, agreeing on roles and responsibilities, and identifying and addressing needs by leveraging resources. Without better coordination and collaboration, DOD will likely struggle both from an information and resource perspective to implement integrated portfolio reviews. In addition, GAO reported that the Joint Staff was developing a database to provide it with a better analytical tool to support portfolio management, but the database was difficult to populate with requirements, acquisition, and budget information, and there has been limited coordination to determine if and how it could be useful to others. DOD does not have a formal implementation plan for improving the Joint Staff database or investing in other means, such as new analytical tools, to meet agency-wide portfolio management data needs. Without establishing this planning foundation, the Joint Staff may not be in a sound position to effectively monitor and evaluate the implementation of its efforts to provide quality information for reviews.

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## **Actions Needed and Potential Financial or Other Benefits**

In August 2015, GAO recommended that DOD take the following four actions to increase accountability for portfolio management efforts and enable more integrated portfolio reviews and analyses of weapon system investments at the department-wide level:

- designate the Deputy Secretary of Defense, or some appropriate delegate, responsibility for providing sustained leadership for portfolio management efforts and implementing DOD Directive 7045.20 on Capability Portfolio Management;
- revise DOD Directive 7045.20 on Capability Portfolio Management in accordance with the best practices GAO has identified;
- require annual enterprise-level portfolio reviews that incorporate key portfolio review elements, including information from the requirements, acquisition, and budget processes; and

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<sup>1</sup>GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015).

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**Letter**

- direct the requirements, acquisition, and budget communities to collaborate on their portfolio management data needs and develop a formal implementation plan for meeting those needs either by building on the database the Joint Staff is developing or investing in new analytical tools.

Taking these actions should enable DOD to better manage weapon system investments at the portfolio level by ensuring that weapon system funding is spent on the programs that contribute most to achieving DOD's short-term and long-term strategic goals and reducing the risk of potentially overlapping and duplicative investments across the military services. In general, these actions could result in a more efficient use of the more than \$100 billion dollars the department spends annually on its weapon system investments. However, the precise cost savings associated with such efficiencies is not possible to quantify because the actual cost of inefficient and unnecessary duplicative weapon system investments across DOD is unknown.

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## Agency Comments and GAO's Evaluation

In commenting on the August 2015 report on which this analysis is based, DOD partially concurred with GAO's recommendation to revise DOD Directive 7045.20 on Capability Portfolio Management in accordance with best practices and promote the development of better tools to enable more integrated portfolio reviews and analyses of weapon system investments. However, DOD's planned actions will not fully address the issues we raised in our report. DOD agreed with the need to further develop portfolio management tools and ensure access to authoritative data, but stated that other aspects of our recommendation were redundant to and would conflict with other processes and activities in place to perform portfolio management. DOD's response presumed that its existing portfolio management processes and activities have been effective and failed to acknowledge that they have not successfully addressed affordability issues in some portfolios and potential duplication among some programs. We continue to believe that our recommendations to revamp DOD's portfolio management policy to align with best practices, establish clear leadership responsibility for its implementation, and conduct annual portfolio reviews would provide the foundation for improved weapon system investment planning and management.

GAO provided a draft of this report section to DOD for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO product section. To perform this work,

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**Letter**

GAO compared DOD's weapon system investment policies and decision-making processes, which include the requirements, acquisition, and budget processes, to portfolio management best practices. GAO identified these best practices in prior GAO reports and conducted a literature review to ensure they were still current. To determine the extent to which DOD conducts integrated portfolio reviews at the enterprise level, GAO analyzed enterprise-level portfolio reviews and other portfolio-level analyses. GAO also interviewed DOD requirements, acquisition, and budget officials.

Table 2 in appendix V lists the program GAO identified that might have similar or overlapping objectives, provide similar services, or be fragmented across government missions. Overlap and fragmentation might not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

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## Related GAO Products

*Weapon System Acquisitions: Opportunities Exist to Improve the Department of Defense's Portfolio Management.* [GAO-15-466](#). Washington, D.C.: August 27, 2015.

*Best Practices: An Integrated Portfolio Management Approach to Weapon System Investments Could Improve DOD's Acquisition Outcomes.* [GAO-07-388](#). Washington, D.C.: March 30, 2007.

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## 4. Manufacturing Loan Guarantees

The Economic Development Administration could better ensure that the activities carried out under the Innovative Technologies in Manufacturing program do not duplicate the efforts of other federal loan guarantee programs by working with other agencies to identify and target capital access gaps not filled by other programs.

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### Why This Area Is Important

Manufacturing plays a key role in the U.S. economy as a source of economic growth, high-paying jobs, and innovation. According to data from the Bureau of Economic Analysis and the Bureau of Labor Statistics, in 2014, the manufacturing sector accounted for about \$2 trillion—or 12 percent of the U.S. economy—and employed approximately 12 million workers—or about 9 percent of the U.S. workforce.<sup>1</sup> The development of innovative products and processes serves as an important driver of U.S. competitiveness, and small- and medium-sized manufacturers are particularly important to U.S. competitiveness because they represent a majority of manufacturers in the country. However, small- and medium-sized manufacturers often lag behind large firms in innovation and adopting new technologies and, according to a report by the National Institute of Standards and Technology (NIST) Hollings Manufacturing Extension Partnership program, many have reported difficulty gaining access to capital, which could present a challenge to developing and commercializing innovative technologies.<sup>2</sup>

To invest in innovation, improve U.S. competitiveness, and help address the capital needs of small- and medium-sized manufacturers, the America COMPETES Reauthorization Act of 2010 (COMPETES 2010), among other things, directed the Secretary of Commerce to establish the Federal Loan Guarantees for Innovative Technologies in Manufacturing (ITM) program, which is intended to support loan guarantees for small- and medium-sized manufacturers for the use or production of innovative technologies.<sup>3</sup> Through fiscal year 2015, Congress has appropriated \$19 million for the ITM program; each year's appropriation can support up to

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<sup>1</sup>The number and percentage of workers is based on Bureau of Labor Statistics data on nonfarm employment estimates.

<sup>2</sup>The National Institute of Standards and Technology Hollings Manufacturing Extension Partnership, *Connecting Small Manufacturers with the Capital Needed to Grow, Compete, and Succeed: Small Manufacturers Capital Access Inventory and Needs Assessment Report* (Gaithersburg, MD: November 2011).

<sup>3</sup> Pub. L. No. 111-358, § 602, 124 Stat. 3982, 4026-27 (2011). This law reauthorized the America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science (COMPETES) Act.

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Letter

\$70 million in guaranteed loans.<sup>4</sup> As the federal government continues to experience budgetary constraints, there is an ever-increasing need to ensure that governmental resources are appropriately targeted and that unnecessary duplication is mitigated, and a key issue debated during consideration of COMPETES 2010 was whether the ITM program would duplicate existing loan guarantee programs at other federal agencies. COMPETES 2010 directs the Secretary of Commerce to ensure, to the maximum extent practicable, that the activities carried out under the ITM program are coordinated with, and do not duplicate, the efforts of other federal loan guarantee programs. Ultimately, the Department of Commerce's Economic Development Administration (EDA) was assigned the task of implementing the ITM program.

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## What GAO Found

In February 2016, GAO found that EDA has not yet begun issuing ITM loan guarantees; according to the agency's fiscal year 2017 congressional budget justification, EDA plans to begin issuing loan guarantees in fiscal year 2017. GAO found that EDA coordinated with other federal agencies with comparable loan guarantee programs to learn from their experiences in implementing such programs, but EDA has not clearly differentiated the ITM program from other programs, which creates the risk of duplication. GAO identified four examples of programs implemented by the Small Business Administration (SBA), the U.S. Department of Agriculture (USDA), and the Department of Energy that are comparable to the ITM program because they provide loan guarantees for domestic manufacturers and allow or specifically target businesses producing, using, or commercializing innovative technologies, among other criteria. EDA officials said that, based on what they learned from officials at these agencies, they decided to largely model the ITM program after an SBA program. EDA officials also said they have adapted or plan to adapt the SBA program's application forms, regulations, and manuals, among other things. EDA's coordination with other agencies and its adaptation of existing federal loan guarantee program materials has helped avoid duplication of the effort those agencies have already expended in designing those programs.

However, as currently designed, the ITM program does not clearly differentiate its potential applicants from those of the comparable federal loan guarantee programs GAO identified. Those programs already provide loan guarantees to a pool of borrowers similar to those who would

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<sup>4</sup>A federal loan guarantee is a binding agreement between an agency and a lender. If a borrower defaults on a guaranteed loan, the lender is to be reimbursed by the agency for the balance of the guaranteed portion of the loan. Consistent with statutory language, each year's appropriation, for example the \$5 million provided in fiscal year 2013, can support up to \$70 million in guaranteed loans. The \$70 million in guaranteed loans can potentially be supported with a smaller appropriation because the government incurs costs only when a borrower defaults on a loan.



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Letter

be eligible for the ITM program, with roughly equivalent limitations. For example, the ITM program and all four examples of comparable programs provide loan guarantees for manufacturers producing, using, or commercializing innovative technologies, although for a couple of the comparable programs this support is limited to certain types of technologies.

EDA officials acknowledged that the ITM program is potentially duplicative with other programs in a number of respects, and they said that it is possible that loan guarantees ultimately issued under the ITM program could be similar to those issued by another agency, such as SBA or USDA. For example, according to an EDA analysis of SBA 7(a) loan data, roughly 11 percent of the loans made under SBA's 7(a) program from October 1991 through March 2014 were to manufacturers in subsectors identified as innovative.<sup>5</sup> In addition, USDA officials estimated that about 25 percent of the agency's Business and Industry program loan guarantees are issued to manufacturers.<sup>6</sup> However, as discussed, COMPETES 2010 directs the Secretary of Commerce to ensure, to the maximum extent practicable, that the activities carried out under the ITM program do not duplicate the efforts of other federal loan guarantee programs.

GAO's fragmentation, overlap, and duplication analysis guide states that one way to help minimize duplication among government programs is to identify and target service gaps that the programs could fill. While EDA officials coordinated with other agencies to design the ITM program, they did not work with agencies specifically to target service gaps—in this case, capital access gaps—because they have not yet developed a marketing and outreach strategy for the program. SBA officials stated that EDA did not specifically seek information from them on how to target the ITM program so as not to duplicate the efforts of SBA's program. Similarly, while EDA officials coordinated with NIST about relevant topics, such as the optimal loan sizes and loan guarantee percentages to support small- and medium-sized manufacturers, EDA did not specifically coordinate with NIST about how to help address the capital access needs of manufacturers identified in its Hollings Manufacturing Extension Partnership program report. EDA officials stated that they intend to work with NIST by using its Hollings Manufacturing Extension Partnership centers to conduct ITM program marketing and outreach to borrowers and manufacturers, as was authorized by COMPETES 2010. However, according to a NIST Hollings Manufacturing Extension Partnership program official, as of November 2015, EDA had not worked with NIST to

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<sup>5</sup>The SBA 7(a) program is authorized by Section 7(a) of the Small Business Act. 15 U.S.C. § 636(a). The 7(a) program provides loan guarantees to small businesses, including manufacturers, for a variety of purposes.

<sup>6</sup>The USDA Business and Industry program provides loan guarantees to improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities.

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Letter

develop marketing materials or an outreach strategy and had not discussed other ways to ensure that the ITM program addresses capital access gaps. As a result, EDA has not taken full advantage of SBA and NIST officials' expertise regarding the capital needs of small- and medium-sized manufacturers. Coordinating more extensively with SBA and NIST on targeting the ITM program could provide EDA with greater assurance that ITM loan guarantees will not duplicate support that could be provided by other federal loan guarantee programs.

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in February 2016 that the Secretary of Commerce should take the following action:

- Direct EDA to work with SBA and NIST to further identify any gaps in capital access that may be present that the program could fill, and then develop marketing materials and conduct outreach to help target those gaps.

Implementing this recommendation could better ensure that the ITM program is appropriately targeted and does not duplicate the efforts of other federal loan guarantee programs, such as SBA's 7(a) program. Financial benefits associated with this action cannot be quantified because they relate to loan guarantees for innovative technologies in manufacturing that have not yet been requested or provided. However, by helping to ensure that future ITM program activities do not duplicate the efforts of other federal loan guarantee programs, this action should enable more efficient use of federal funds associated with the ITM program's credit subsidy costs.

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## Agency Comments and GAO's Evaluation

In commenting on the February 2016 report on which this analysis is based, Commerce concurred with GAO's recommendation and said that EDA plans to work with SBA and NIST to further identify capital access gaps that can be filled by the ITM program. Commerce also noted that there can be no assurance that loan guarantees provided by the ITM program will never duplicate the efforts of other agencies' programs. However, GAO's recommendation to work with SBA and NIST to identify capital access gaps and then target those gaps in marketing the program would better ensure that the activities carried out in implementing the ITM program do not duplicate the efforts of other federal loan guarantee programs, but the recommendation would not eliminate the possibility of duplication completely. In addition to Commerce's written comments, EDA provided technical comments, which GAO incorporated as appropriate. The Department of Energy and SBA also provided technical comments that GAO incorporated, as appropriate. USDA and the Office

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Letter

of Management and Budget indicated they had no comments on the report.

GAO provided a draft of this report section to the Departments of Agriculture, Commerce, and Energy and the Small Business Administration for review and comment. The Department of Energy indicated it had no comments on this report section. The Departments of Commerce and Agriculture, and Small Business Administration did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings in the February 2016 report listed in the related GAO products section. GAO analyzed applicable laws and program documents, interviewed EDA officials, and interviewed officials from agencies with comparable loan guarantee programs or with other expertise about the needs of small- and medium-sized manufacturers. In addition, GAO reviewed the 2014 Catalog of Federal Domestic Assistance to identify examples of comparable loan guarantee programs at other federal agencies and verified the program information listed against other sources.<sup>7</sup> Using this methodology, GAO identified four examples of programs that are comparable to the ITM program.<sup>8</sup>

Table 3 in appendix V lists the programs GAO identified that might have similar or overlapping objectives, provide similar services, or be fragmented across government missions. Overlap and fragmentation might not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

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## Related GAO Products

*Innovative Manufacturing: Commerce Should Target Program Outreach to Address Capital Access Gaps.* [GAO-16-271](#). Washington, D.C.: February 4, 2016.

*COMPETES Reauthorization Act: Federal Loan Guarantees for Innovative Technologies in Manufacturing.* [GAO-13-717R](#). Washington, D.C.: July 24, 2013.

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<sup>7</sup>The Catalog of Federal Domestic Assistance is a government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public.

<sup>8</sup>GAO relied on the Catalog of Federal Domestic Assistance as an initial source for information and did not verify that the Catalog of Federal Domestic Assistance includes all potentially comparable loan guarantee programs. GAO asked agency officials to identify other potentially comparable programs that they were aware of and included those in its analysis as appropriate.

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## Contact Information

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# 5. Financial Regulatory Structure

To reduce or better manage fragmentation and overlap, Congress should consider changes to the financial regulatory structure, and the Board of Governors of the Federal Reserve System and the Office of Financial Research should take steps to improve collaboration in monitoring systemic risk.

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## Why This Area Is Important

While a fully functioning financial system is critical to the well-being of our citizens and overall economic growth, financial services activities can, at times, cause significant harm. For example, mortgage and mortgage-related activity played a role in triggering the 2007-2009 financial crisis, which resulted in unprecedented federal support being provided to many firms, and many households suffered as a result of falling asset prices, tightening credit, and increasing unemployment. These events demonstrated that the fragmented U.S. financial regulatory system was in need of significant reform. In particular, the crisis highlighted gaps and weaknesses in the supervision and regulation of the U.S. financial system, including the lack of an agency or mechanism responsible for monitoring and addressing risks across the financial system and a shortage of timely information to facilitate this oversight. GAO has designated modernizing the U.S. financial regulatory system as a high-risk area.<sup>1</sup>

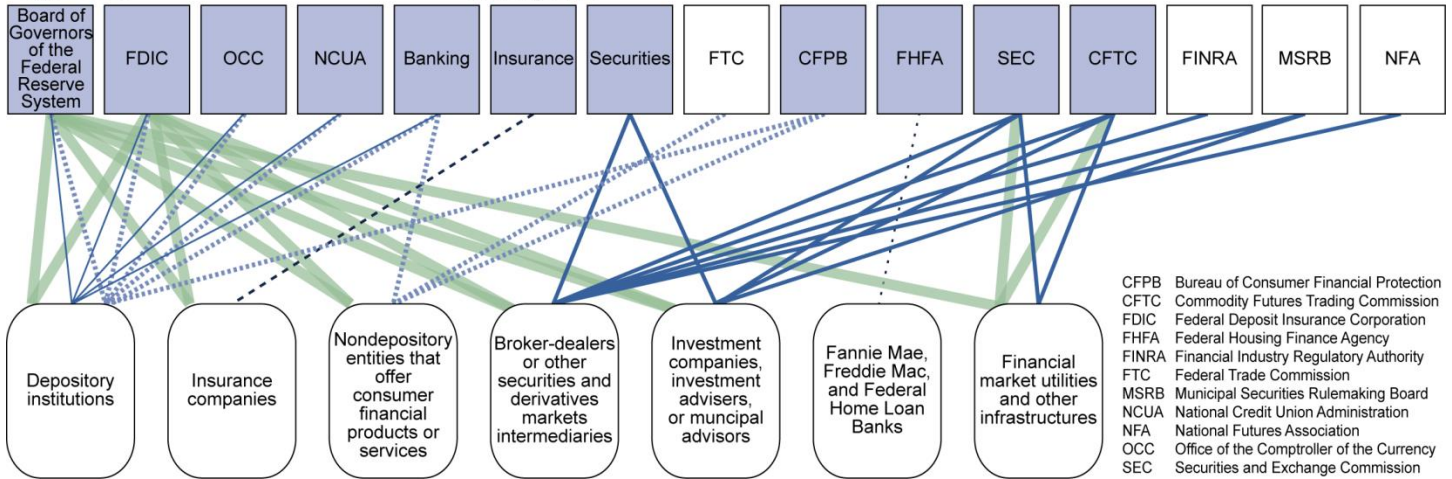
Financial regulation generally aims to ensure the safety and soundness of depository institutions, adequate consumer and investor protections, the integrity and fairness of markets, and the stability of the overall financial system. As GAO reported in February 2016, the U.S. financial regulatory structure is complex, with responsibilities fragmented among multiple agencies that have overlapping authorities. Responsibilities for overseeing the financial services industry are spread among over a dozen entities, including federal banking, securities, derivatives, and other regulatory agencies and entities; numerous self-regulatory organizations; and hundreds of state financial regulatory agencies (see figure).

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<sup>1</sup>See GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

**U.S. Financial Regulatory Structure, 2016**

**Regulators**



**Regulated entities**

- Safety and soundness oversight
- ..... Consumer financial protection oversight
- Securities and derivatives markets oversight
- Insurance oversight
- ..... Housing finance oversight
- Consolidated supervision or systemic risk-related oversight

Financial Stability Oversight Council member agency

Source: GAO. | GAO-16-375SP

Notes: This figure depicts the primary regulators in the U.S. financial regulatory structure, as well as their primary oversight responsibilities. “Regulators” generally refers to entities that have rule-making, supervisory, and enforcement authorities over financial institutions or entities. There are additional agencies involved in regulating the financial markets, and there may be other possible regulatory connections than those depicted in this figure.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted in 2010.<sup>2</sup> The Act made changes to the financial regulatory system to help address shortcomings identified by the 2007-2009 financial crisis. For example, it abolished the former regulator of thrifts and thrift holding companies, and transferred its authorities to other depository institution and holding company regulators; created the Bureau of Consumer Financial Protection (also known as the Consumer Financial Protection Bureau, or CFPB), a new federal consumer financial protection regulator; created the Financial Stability Oversight Council (FSOC), and two additional nonregulatory offices with mandates that include certain responsibilities related to monitoring systemic risk.<sup>3</sup> However, other than these changes, the Act it generally left the regulatory structure unchanged. Prior to the Dodd-Frank Act, GAO reported on numerous instances in multiple areas of the regulatory structure in which fragmentation and overlap created inefficiencies in regulatory processes, inconsistencies in how regulators oversee similar types of institutions, and

<sup>2</sup>Pub. L. No. 111-203, 124 Stat. 1376 (2010).

<sup>3</sup>The term “thrifts” refers to federal and state savings associations and “thrift holding companies” refers to savings and loan holding companies that control a thrift or another thrift holding company. FSOC is a council of the heads of the federal financial regulatory agencies, as well as representatives from state regulatory agencies and others, tasked with identifying and responding to systemic risks.

differences in the levels of protection afforded to consumers.<sup>4</sup> While agencies have taken actions to help mitigate the negative effects of fragmentation and overlap that GAO identified in its previous work, more recent examples cited below demonstrate a pattern of inconsistencies and inefficiencies that continue to persist because of the fragmented regulatory structure.

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## What GAO Found

In January 2009, GAO established a framework for evaluating regulatory reform proposals that describes nine characteristics that should be reflected in a new regulatory system.<sup>5</sup> In a February 2016 report, GAO used this framework to evaluate the current regulatory structure and found that while changes made by the Dodd-Frank Act were consistent with some of the framework's characteristics, the Act did not address three characteristics that would likely help to reduce the negative effects of fragmentation and overlap in the structure. In particular, the current regulatory structure does not always ensure (1) efficient and effective oversight, (2) consistent financial oversight, and (3) consistent consumer and investor protections. Because these characteristics have not been fully addressed, negative effects of fragmented and overlapping authorities persist throughout the system. In its February 2016 report, GAO found a number of instances of these negative effects, including the following examples:

- While the Dodd-Frank Act helped to reduce fragmentation in consumer financial protection oversight by consolidating authority for a number of consumer financial protection laws that had been previously handled by seven different agencies, the Act also fragmented consumer protection supervision and enforcement for depository institutions, based on a depository institution's size.<sup>6</sup> This

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<sup>4</sup>For example, see GAO, *Bank and Thrift Regulation: Improvements Needed in Examination Quality and Regulatory Structure*, GAO/AFMD-93-15 (Washington, D.C.: Feb. 16, 1993); *Financial Market Regulation: Benefits and Risks of Merging SEC and CFTC*, GAO/T-GGD-95-153 (Washington, D.C.: May 3, 1995); *Insurance Reciprocity and Uniformity: NAIC and State Regulators Have Made Progress in Producer Licensing, Product Approval, and Market Conduct Regulation, but Challenges Remain*, GAO-09-372 (Washington, D.C.: Apr. 6, 2009); *Fair Lending: Data Limitations and the Fragmented U.S. Financial Regulatory Structure Challenge Federal Oversight and Enforcement Efforts*, GAO-09-704 (Washington, D.C.: July 15, 2009); and *Financial Regulation: Clearer Goals and Reporting Requirements Could Enhance Efforts by CFTC and SEC to Harmonize Their Regulatory Approaches*, GAO-10-410 (Washington, D.C.: Apr. 22, 2010).

<sup>5</sup>GAO, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, GAO-09-216 (Washington, D.C.: Jan. 8, 2009).

<sup>6</sup>The seven agencies were the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, National Credit Union Administration, Federal Trade Commission, and the Department of Housing and Urban Development. The Dodd-Frank Act gave CFPB authority in connection with a number of federal consumer protection laws.



fragmentation may result in inefficiencies, such as duplication in examinations, because while most consumer protection oversight responsibilities were transferred from the federal depository institution regulators to CFPB, federal depository institution regulators retained authority for certain consumer protection laws for depository institutions with more than \$10 billion in assets. As a result, examiners from the federal depository institution regulators and CFPB examine the compliance management systems at the same depository institutions for their respective supervisory purposes.

- The Dodd-Frank Act also created a new oversight regime for the swaps and security-based swaps markets and generally divided the oversight of these markets between the Commodity Futures Trading Commission and the Securities and Exchange Commission, respectively.<sup>7</sup> In GAO's February 2016 report, market participants noted that regulation of these markets by separate agencies may create market inefficiencies because of differences in certain of the agencies' rules that have been developed for each type of product.

The regulators coordinate in many areas and, in some cases, are required to coordinate, to help reduce the negative effects of fragmentation and overlap. However, the fragmented structure creates a significant responsibility and burden for regulators, which must cooperate and effectively coordinate their activities. GAO has previously made suggestions to Congress to modernize and improve the effectiveness of the financial regulatory structure.<sup>8</sup> Without congressional action, it is

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<sup>7</sup>In general, the Dodd-Frank Act defines a swap to include, among other things, an agreement that provides for the exchange of one or more payments based on the value or level of one or more assets, liabilities, or indices or other financial or economic interests or property of any kind that transfers, in whole or in part, the financial risk associated with a future change in the value or level without also conveying a current or future ownership interest in an asset or liability that incorporates the financial risk transferred. Pub. L. No. 111-203, § 721(a)(21), 124 Stat. 1376, 1666 (2010).

<sup>8</sup>For example, in 1996, GAO suggested that the regulatory structure could be modernized by reducing the number of federal agencies with responsibility for the oversight of depository institutions, which GAO stated should help improve the consistency of oversight and reduce regulatory burden. In 2004, GAO suggested that Congress may want to consider some consolidation or modification of the regulatory structure to (1) better address the risks posed by large, complex, internationally active firms and their consolidated risk management approaches; (2) promote competition domestically and internationally; and (3) contain systemic risk. Congress has not taken actions to significantly modify the regulatory structure since GAO made these suggestions, although through the Dodd-Frank Act, Congress did take some actions consistent with GAO's suggestions. For example, the Dodd-Frank Act eliminated the former regulator of thrifts and thrift holding companies—the Office of Thrift Supervision—and transferred its responsibilities to other depository institution and holding company regulators. The Act also established the Financial Stability Oversight Council to monitor the stability of the U.S. financial system and take actions to mitigate risks that might destabilize the system. See GAO, *Bank Oversight Structure: U.S. and Foreign Experience May Offer Lessons for Modernizing U.S. Structure*, [GAO/GGD-97-23](#) (Washington, D.C.: Nov. 20, 1996), and *Financial Regulation: Industry Changes Prompt Need to Reconsider U.S. Regulatory Structure*, [GAO-05-61](#) (Washington, D.C.: Oct. 6, 2004).



unlikely that remaining fragmentation and overlap in the U.S. financial regulatory system can be reduced or that more effective and efficient oversight of financial institutions can be achieved.

The 2007-2009 financial crisis also highlighted the lack of an agency or mechanism responsible for monitoring and addressing risks across the financial system. The Dodd-Frank Act tried to address this gap in systemic risk oversight by placing this responsibility on a collective group of financial regulators and other entities through the creation of FSOC and also gave the Office of Financial Research broad systemic risk monitoring mandates.<sup>9</sup> These reforms aim to create ways to monitor, identify, and mitigate systemic risks within a regulatory structure that is fragmented among numerous agencies. In February 2016, GAO reported that these reforms create the potential for unnecessary duplication in activities or gaps in systemic risk oversight.

For example, the Board of Governors of the Federal Reserve (Federal Reserve) and the Office of Financial Research both have developed broad-based systemic risk monitoring efforts that use quantitative and qualitative information to monitor the breadth of the financial system for potential threats to financial stability. GAO found that the agencies had articulated similar goals with respect to their systemic risk monitoring activities; however, they have engaged in these efforts largely independently, leading to lost collaborative opportunities that could improve their ability to identify systemic risks and reduce the potential for unnecessary duplication. The Federal Reserve's and the Office of Financial Research's actions have not been consistent with key practices for collaboration that GAO has previously identified, such as establishing mutually reinforcing or joint strategies, leveraging resources, and agreeing on roles and responsibilities.<sup>10</sup> Both agencies told GAO that they believe the current nature and level of their collaboration is appropriate, and they stated that they believe that their participation in FSOC's Systemic Risk Committee—its main staff-level committee for collaboration on systemic risk monitoring across the many federal and state financial regulators and other members—ensures communication between the two agencies about their systemic risk monitoring efforts. Separate entities monitoring systemic risk from different perspectives could help reduce the likelihood that potential systemic risks will not be identified in time. As such, systemic risk monitoring efforts need not be harmonized across agencies. However, failure to use some key collaboration practices could result in the Office of Financial Research and the Federal Reserve missing opportunities to leverage each other's resources and identify

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<sup>9</sup>The Office of Financial Research was created within the U.S. Department of the Treasury to support FSOC and its member agencies, in part, by performing financial research and collecting data.

<sup>10</sup>GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

important and mutually beneficial ways to improve their systemic risk monitoring activities.

Further, in February 2016 GAO reported that FSOC's Systemic Risk Committee did not have full and consistent access to existing monitoring tools or other outputs developed by the Office of Financial Research and the Federal Reserve. Office of Financial Research officials told GAO that the use of disaggregated or otherwise confidential data in its systemic risk monitoring tools restricts the agency's ability to share such information with Systemic Risk Committee participants. Officials from both the Office of Financial Research and the Federal Reserve stated that participation of key staff in the Systemic Risk Committee allows for the proper sharing of information on systemic risks identified by their respective efforts. However, federal internal control standards call for the use of relevant, reliable, and timely information to achieve the entity's responsibilities, and international best practices for systemic risk oversight state that efforts to monitor the financial system for systemic risks must be based on a continuous assessment of evolving risks that uses available qualitative and quantitative information.<sup>11</sup> Without better access to existing systemic risk monitoring tools or other outputs, the committee may miss some risks or not identify them in a timely manner.

Finally, in February 2016 GAO also reported that while FSOC's mission is to respond to systemic risks, it has limited authorities to do so. The Dodd-Frank Act left the responsibility for overseeing financial entities and activities with individual financial regulatory agencies.<sup>12</sup> FSOC has authorities to designate certain entities or activities for enhanced supervision by a specific regulator, but these authorities may not allow it to address certain broader risks that are not specific to a particular entity.<sup>13</sup> For such risks, FSOC can recommend but not compel action. GAO's January 2009 framework states that financial systems should include a mechanism for managing risks regardless of the source of the risks, and international best practices for systemic risk oversight state that macroprudential entities require authorities to foster the ability to act and ensure regulatory responses.<sup>14</sup> Because of the limitations in FSOC's authorities, without congressional action FSOC may not have the tools it needs to carry out its mission to comprehensively respond to systemic

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<sup>11</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014) and [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999), and International Monetary Fund, *Staff Guidance Note on Macroprudential Policy* (Washington, D.C.: December 2014), and *Key Aspects of Macroprudential Policy*, IMF Policy Paper (Washington D.C.: June 2013).

<sup>12</sup>FSOC's own authorities do not divest its members of their existing authorities.

<sup>13</sup>Pub. L. No. 111-203, §§ 113, 804, 124 Stat. 1376, 1398, 1807 (2010).

<sup>14</sup>International Monetary Fund, *Staff Guidance Note on Macroprudential Policy; Key Aspects of Macroprudential Policy; and Macroprudential Policy: An Organizing Framework*, IMF Policy Paper (Washington D.C.: March 2011).

risks, and it may be difficult to hold the council accountable for responding to such risks.

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## Actions Needed and Potential Financial or Other Benefits

GAO suggested in its February 2016 report that to reduce or better manage fragmentation and overlap in the oversight of financial institutions, activities, and risks, Congress should take the following two actions:

- Consider whether additional changes to the financial regulatory structure are needed to improve (1) the efficiency and effectiveness of oversight; (2) the consistency of consumer and investor protections; and (3) the consistency of financial oversight for similar institutions, products, risks, and services.
- Consider whether legislative changes are necessary to align FSOC's authorities with its mission to respond to systemic risks.

In February 2016, GAO also recommended the following three actions to help regulators address regulatory fragmentation and to improve the effectiveness of monitoring systemic risks:

- The Office of Financial Research and the Federal Reserve should jointly articulate individual and common goals for their systemic risk monitoring activities, including a plan to monitor progress toward articulated goals, and formalize regular strategic and technical discussions around their activities and outputs to support those goals.
- The Office of Financial Research should work with FSOC to determine ways in which to fully and regularly incorporate current and future monitors and assessments into Systemic Risk Committee deliberations, including, where relevant, those that present disaggregated or otherwise confidential supervisory information.
- The Federal Reserve should work with FSOC to regularly incorporate the comprehensive results of its systemic risk monitoring activities into Systemic Risk Committee deliberations.

While it is possible that restructuring the financial regulatory system could result in savings to the federal government, such restructuring would involve many unknown variables and would depend on a number of congressional decisions. As such, the financial benefits cannot be quantified. However, the 2007-2009 financial crisis—in which the fragmented regulatory structure contributed to failures by regulators to adequately protect consumers and ensure financial stability—demonstrated the high costs of inefficiency and ineffectiveness in regulation and, conversely, the enormous benefits that can be achieved

by promoting consistency, efficiency, and effectiveness in the regulatory structure.

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## Agency Comments and GAO's Evaluation

GAO provided a draft of its February 2016 report on which this analysis is based to 12 federal financial regulators or entities for their review and comment. The National Credit Union Administration stated that it believes the report's substance did not support GAO's conclusions leading to the suggestion that Congress consider whether additional changes are needed to the regulatory structure and believes that consideration of changes to the regulatory structure would need to include a careful review of the costs and benefits. The National Credit Union Administration also emphasized that it is the only federal agency with regulatory and supervisory authority over federal credit unions, in contrast with the federal banking regulators. GAO maintains that changes to the regulatory structure could help to reduce and better manage fragmentation and overlap in the oversight of financial institutions and activities. The report documents several instances where the current structure produced inconsistent, inefficient, and ineffective oversight. The costs and benefits of any options for improving and modernizing the structure would have to be part of any consideration of additional changes to the regulatory structure but would not preclude considering other options as GAO suggested.

The Commodity Futures Trading Commission noted that while the securities and derivatives markets are interconnected, they remain separate and serve distinct functions within the financial system. In addition, it stated that it has worked and continues to work closely with the Securities and Exchange Commission. The report discusses areas in which these agencies have worked together in the past to resolve jurisdictional disputes and address areas of overlap in the oversight of their respective markets, as well as recent examples of their coordination efforts on the swaps and security-based swaps rulemakings. GAO also notes that despite these efforts there were still substantive differences between certain of the agencies' rules, which create the potential for inefficiencies in the way the markets are overseen.

Both the Federal Reserve and Office of Financial Research agreed with GAO's recommendations to the agencies. The Federal Reserve stated that close collaboration with FSOC is essential to improving the council's ability to identify emerging systemic risks and that communication with the Office of Financial Research is a key aspect of monitoring the financial system for systemic risks. The Office of Financial Research stated that it has initiated conversations with both FSOC staff and the Federal Reserve in response to GAO's recommendations.

GAO provided a draft of this report section to 11 federal financial regulators or entities for review and comment. In response, CFPB noted that GAO should acknowledge the benefits associated with the creation of

CFPB, including that the agency reduced fragmentation in consumer protection responsibilities by consolidating consumer protection responsibilities from multiple agencies into one. To address this concern, GAO added language on additional benefits created by the Dodd-Frank Act. In addition, the National Credit Union Administration noted that the way in which GAO summarized the agency's response to the February 2016 report was not consistent with its intent. The National Credit Union Administration stated that it did not disagree with GAO's suggestion that Congress should consider if additional changes are needed to the regulatory structure but rather that it believed the report's substance did not support GAO's conclusion. GAO's February 2016 report, however, documented multiple instances of inconsistent, inefficient, and ineffective oversight produced by the current regulatory structure. GAO adjusted its summary of the agency's response in this report section to reflect these concerns. In addition, the Federal Deposit Insurance Corporation, Federal Trade Commission, Financial Stability Oversight Council, Office of the Comptroller of the Currency, Office of Financial Research, and Securities and Exchange Commission provided technical comments, which were incorporated as appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the February 2016 product in the related GAO products section. To identify fragmentation and overlap in the U.S. financial regulatory structure and their effects, GAO reviewed relevant financial statutes, agencies' documents on their oversight activities, and previous GAO reports and other reports on financial regulatory reform. GAO also interviewed agency officials and industry and policy groups that represented the different areas of the financial system or had expertise in evaluating areas of the financial regulatory structure. GAO also held four discussion groups on areas where the Dodd-Frank Act altered the regulatory structure and on issues widely identified as potential causes of the 2007-2009 financial crisis. The groups consisted of former regulatory officials, industry and advocacy group representatives, and experts. GAO also reviewed agendas and presentations from monthly meetings of FSOC's Systemic Risk Committee from July 2012 through August 2014 and interviewed relevant FSOC member agency staff. GAO did not include assessments of fragmentation and overlap in two areas within the financial regulatory structure: housing finance oversight and the farm credit system.

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## Related GAO Products

*Financial Regulation: Complex and Fragmented Structure Could Be Streamlined to Improve Effectiveness.* [GAO-16-175](#). Washington, D.C.: February 25, 2016.

*Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System.*  
[GAO-09-216](#). Washington, D.C.: January 8, 2009.

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## Contact Information

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## 6. IRS's Public Referral Programs

The Internal Revenue Service could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.

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### Why This Area Is Important

Individuals who submit information to the Internal Revenue Service (IRS) about tax noncompliance by others through IRS's public referral programs can help IRS identify taxes that may otherwise go uncollected. Such efforts are an important piece of IRS's overall enforcement strategy and can help reduce the net \$385 billion tax gap—the difference between taxes owed and those ultimately collected.<sup>1</sup> IRS has nine referral programs that allow others to report possible tax law violations by individuals and businesses. Of these nine programs, IRS's whistleblower program, in which qualifying whistleblowers are paid from 15 to 30 percent of collected proceeds, received over 12,000 claims in fiscal year 2015 and is the largest in terms of revenue collected—more than \$3 billion since fiscal year 2007. The information referral process, which covers underreporting of income, false claims of tax benefits, failure to file a return, and failure to withhold and pay taxes, received over 87,000 referrals in fiscal year 2015. This general program resulted in at least \$209 million in recommended tax assessments from fiscal year 2012 through fiscal year 2015. The other referral programs are specific to certain issues, such as identity theft or misconduct by return preparers. The following table describes IRS's nine referral programs.

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<sup>1</sup>This estimate is for fiscal year 2006, which is the most recent available.

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**IRS's Nine Programs for Public Reporting of Alleged Tax Noncompliance and Misconduct**


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Referral program	Type of tax issue
Whistleblower Office	Any tax violation; serves as an application for monetary award
Information Referral Process	Any tax violation by individual or business taxpayers; for those not seeking award
Identity Theft	Actual or potential incidents of identity theft
Return Preparer Office	Tax return preparers that filed or altered a tax return without taxpayer consent
Small Business/Self-Employed Abusive Transactions	Suspected abusive tax avoidance schemes or tax return preparers that promote such schemes
Large Business and International Office of Tax Shelter Analysis	Abusive tax shelters involving large numbers of taxpayers and posing greater compliance risk
Tax Exempt and Government Entities Exempt Organizations	Violation by a tax-exempt organization
Tax Exempt and Government Entities Employee Plans	Abusive tax transactions by a retirement plan
Electronic Filing Program	Fraudulent and abusive returns

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Source: GAO analysis of IRS referral forms and IRS.gov. | GAO-16-375SP

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## What GAO Found

In a February 2016 report, GAO found that IRS does not have a mechanism to facilitate information sharing across its nine referral programs. Such a mechanism would help IRS better coordinate and identify possible efficiencies, as well as better manage fragmentation and overlap. Internal control standards require management to ensure that there are adequate means of communicating and obtaining information from stakeholders.<sup>2</sup> GAO found that while a few of IRS's referral programs with overlapping responsibilities coordinate with each other, no formal mechanism exists for all nine of the programs to do so. For example, IRS's Return Preparer Office and Identity Theft Program coordinate on identity theft referrals. In addition, the Return Preparer Office and Small Business/Self-Employed Abusive Transactions unit coordinate on abusive transactions involving tax preparers, and they also can access a common electronic information system to identify overlapping referrals.

However, the other programs do not regularly collaborate. This lack of collaboration has resulted, for example, in confusion for the individuals coming forward to report tax noncompliance. GAO found that individuals reporting noncompliance may report one allegation to multiple referral programs, which causes both the public and IRS to spend resources unnecessarily. Without a broader collaborative mechanism to communicate across the multiple referral programs, IRS may be missing opportunities to assist the public, collect revenue owed, and leverage resources to streamline processes.

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<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#). (Washington, D.C.: November 1999).



In addition, IRS's referral programs involve largely manual processes, which forces IRS to spend resources reading and routing each of the referrals received. Clerks in the general information referral program, for example, manually screened over 87,000 letters and Forms 3949-A, *Information Referral*, in 2015. They then routed the referrals to other IRS divisions for additional manual screening and possible examination. Also in 2015, the information referral program rerouted more than 2,900 referrals related to identify theft and return preparer misconduct that were submitted on the wrong form to the wrong referral program, which resulted in inefficiencies and processing delays. Similarly, IRS's Whistleblower Office staff manually screen an average of 10,000 Forms 211, *Application for Award for Original Information*, annually and sometimes multiple times before the information is sent to an examination team. For example, whistleblower claims alleging over \$2 million in tax noncompliance are generally reviewed three times: first, by intake staff to check for completeness; second, by another group to identify whether to send the information to the operating divisions for a more rigorous review; and third, by subject matter experts in the operating division who recommend whether the operating division should take action.

Internal control standards state that effective information technology management is critical to achieving the useful, reliable, and continuous reporting and communication of information.<sup>3</sup> According to IRS's strategic plan for fiscal years 2014 through 2017, the public prefers Internet-based service over other service channels, such as phones, paper, or in person. A senior official in IRS's Online Services office stated that a universal online referral intake system to control the routing of referrals would be preferable to the separate systems that presently exist for each referral form. Currently, IRS's referral forms are received within IRS units through different channels (e.g., mail, fax, and e-mail). According to one official, IRS's Return Preparer Office is exploring the conversion of its specialized referral form to an online form. However, if the various referral programs separately explore developing online form submissions, IRS risks replicating or compounding the fragmented referral forms and means of submitting these forms. An IRS plan and timeline for developing a consolidated, online referral submission could assist IRS in leveraging specialized expertise to further consolidate the referral intake process. IRS says it is committed to expanding its portfolio of digital service offerings to meet customer expectations while continuing to keep taxpayer data secure. Strengthened collaboration across the nine referral programs could enable IRS to explore a more systemic online referral submission process. Such an effort could help IRS improve its ability to more efficiently receive and process referrals, while also reducing the public confusion caused by trying to choose among multiple forms.

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<sup>3</sup>[GAO/AIMD-00-21.3.1.](#)

In an October 2015 report, GAO also identified key problems specific to the whistleblower program that are discouraging whistleblowers from coming forward: few large awards have been paid, claims take years to process, and communication with whistleblowers is limited. Since expanding the whistleblower program in fiscal year 2007, IRS has received thousands of high-dollar claims (those alleging noncompliance of more than \$2 million), but it had paid only 31 high-dollar awards as of September 30, 2015. The manual intake and review process previously described, as well as staffing shortfalls, resulted in claim processing backlogs—more than 5,000 in the intake review process alone in fiscal year 2015. GAO found that resource allocation decisions, including the use of short-term detailees, did not completely address these work flow backlogs; as of January 2016, IRS reported that the backlog had shrunk to about 400 claims.<sup>4</sup> This backlog resulted in delays in the intake and processing of claims.

IRS's Whistleblower Office has studied its claim review work flow to identify opportunities to more efficiently use staff by consolidating processes. However, as of January 2016, IRS had put implementation of any significant changes on hold while it awaits additional recommendations from an internal process improvement review. Increasing efficiency can help government make better use of scarce resources.<sup>5</sup> Improving efficiency in claim intake and processing may help IRS process claims more quickly and pay more awards, which, in turn, may encourage more individuals with information about tax noncompliance to come forward.

Regarding communications, GAO also found in October 2015 that IRS's recently published information for whistleblowers lacked important information, such as an outline of the claim submission and review process, key information about taxpayer rights, and examples of what to include when submitting Form 211, *Application for Award for Original Information*. Consistent with internal control standards, IRS's Whistleblower Office should be the primary source of information to the public about the program. Program managers should ensure that there are adequate means of communicating with external stakeholders who may have a significant impact on the agency achieving its goals.<sup>6</sup> Providing such information to whistleblowers and their representatives could potentially reduce the administrative burden on IRS and alleviate

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<sup>4</sup>A detailee is a federal employee who is temporarily assigned or loaned to another unit, agency, or department without a permanent change of position. The detailees assigned to the Whistleblower Office were from other areas of IRS.

<sup>5</sup>See GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015). This guide defines economy and efficiency as maintaining services or outcomes using fewer resources (such as time, money, and staff) or improving or increasing the quality or quantity of services or outcomes while maintaining (or reducing) resources expended.

<sup>6</sup>[GAO/AIMD-00-21.3.1](#).

workload. In addition, if whistleblowers are not clear about the Form 211 submission and review process or are discouraged by timeliness and communications concerns, they are less likely to come forward with information that could help IRS address noncompliance and collect additional revenues.

Further, GAO found that IRS was not collecting comprehensive information to evaluate whether the benefit of a recent pilot program to send letters to whistleblowers annually with a limited update on the status of their claim was worth the costs. For example, IRS's Whistleblower Office did not have plans to reach out to letter recipients for feedback on the usefulness of the status update letters because, according to IRS officials, reaching out for feedback would be contrary to the intent of the pilot program, which is to reduce incoming calls and correspondence from whistleblowers. A comprehensive analysis of the various costs and benefits of a project is the Office of Management and Budget's recommended technique for formally evaluating government projects. If IRS's Whistleblower Office is not collecting enough information to evaluate efforts to improve communication, IRS may be using resources inefficiently and further discouraging whistleblowers from coming forward.

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## Actions Needed and Potential Financial or Other Benefits

To enhance revenue, better manage fragmentation and overlap across multiple referral programs, and improve efficiency in receiving information from the public on possible tax noncompliance, GAO recommended in February 2016 that the Commissioner of Internal Revenue should take the following two actions:

- Establish a coordination mechanism to facilitate communication and information sharing across IRS referral programs on crosscutting tax issues and ways to improve efficiency in the mechanisms for public reporting of possible tax violations.
- Direct the referral programs to establish a mechanism to coordinate on a plan and timeline for developing a consolidated, online referral submission in order better position IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations.

In October 2015, GAO also recommended that to improve the intake and claim review process of IRS's Whistleblower Office, and evaluate how to increase information available to whistleblowers, the Commissioner of Internal Revenue should take the following three actions:

- Implement a staffing plan for streamlining the intake and initial review process for the whistleblower program to make more efficient use of staff resources.

- Develop an additional or revised fact sheet, publish additional information about the whistleblower program on the IRS website, or both.
- Develop a comprehensive plan for evaluating the costs and benefits of the pilot annual status letter program, including obtaining feedback from whistleblowers in the pilot regarding the usefulness of the letter.

Improving coordination among referral programs and streamlining processes could reduce the negative effects of fragmentation and overlap and facilitate IRS's efforts to collect taxes owed and reduce the tax gap. Although there is uncertainty in the cost savings and additional revenues these actions would generate for IRS, these programs could potentially help IRS identify and collect billions of dollars in tax revenue that would otherwise go uncollected.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's February 2016 report on which much of this analysis is based, the IRS Deputy Commissioner for Services and Enforcement agreed with GAO's recommendations and stated that IRS will be exploring the feasibility of using a single form for referral reporting as well as considering an online option for the public to submit referrals to IRS. As of February 2016, the Deputy Commissioner stated that IRS set up a cross-functional working group and is working to identify the specific actions, responsible officials, and timelines to address GAO's recommendations. As of March 2016, IRS has provided no further update.

In commenting on GAO's October 2015 report on which some of this analysis is based, the IRS Deputy Commissioner for Services and Enforcement agreed with GAO's recommendations and underscored the importance of the whistleblower program as part of IRS's overall enforcement efforts. The Deputy Commissioner also stated that IRS is committed to improving the whistleblower claim review process and implementing the recommendations in GAO's report. In a letter dated January 29, 2016, IRS stated that it expects to implement the recommendations by October 1, 2016.

GAO provided a draft of this report section to IRS for review and comment. IRS did not have comments.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products in the related GAO products section. For IRS's referral programs, GAO reviewed IRS guidance and forms for making referrals, assessed coordination among the programs using *Standards for Internal Control in the Federal Government* and GAO's body of work on interagency collaboration, and interviewed IRS officials. For the

Whistleblower Office, GAO reviewed award files for 17 paid high-value whistleblower program claims; reviewed IRS guidance and documentation; analyzed IRS data; and interviewed IRS officials, whistleblowers, and whistleblower attorneys.

Table 4 in appendix V lists the referral programs and related budgetary information.

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## Related GAO Products

*IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs.* [GAO-16-155](#). Washington, D.C.: February 23, 2016.

*IRS Whistleblower Program: Billions Collected, but Timeliness and Communication Concerns May Discourage Whistleblowers.* [GAO-16-20](#). Washington, D.C.: October 29, 2015.

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## Contact Information

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## 7. Medicaid and Exchange Coordination

The Centers for Medicare & Medicaid Services should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage.

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### Why This Area Is Important

The Patient Protection and Affordable Care Act (PPACA) provided many low-income Americans with a new pathway for maintaining health insurance coverage.<sup>1</sup> Specifically, under PPACA, states may opt to expand eligibility for Medicaid—the joint federal-state program that finances health insurance coverage for certain categories of low-income individuals—to individuals who are not eligible for Medicare and whose incomes are at or below 133 percent of the federal poverty level.<sup>2</sup> As of March 2015, 29 states had chosen to expand their Medicaid programs. Additionally, PPACA required that health insurance exchanges—that is, marketplaces where eligible individuals may compare and select among private health plans—be established in all states. As of March 2015, 17 states had chosen to establish and operate their own exchanges, referred to as state-based exchanges. Thirty-four states allowed the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) responsible for overseeing Medicaid and the exchanges—to do so; such exchanges are known as federally facilitated exchanges (FFE).

PPACA also provided for federal subsidies to assist qualifying low-income individuals in affording exchange coverage, referred to as subsidized exchange coverage. For example, individuals may be eligible for premium tax credits if their incomes fall between 100 and 400 percent of the federal poverty level, and they do not have access to Medicaid or other minimum essential coverage.<sup>3</sup> Eligible individuals may choose to have advance payments of the premium tax credit (APTC) made on their behalf to issuers of health coverage to reduce their premium costs for exchange plans. The amount of APTC for which an individual is eligible is based on an estimate of the premium tax credit the individual will claim on his or her tax return. Individuals receiving APTC must file a federal income tax

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<sup>1</sup>Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (2010). For the purposes of this report section, references to PPACA include the amendments made by HCERA.

<sup>2</sup>PPACA also provides for a 5 percent disregard when calculating income for determining Medicaid eligibility, which effectively increases this income level to 138 percent of the federal poverty level. For the purposes of this report section, the District of Columbia is considered a state.

<sup>3</sup>References to Medicaid coverage in this report section do not include Medicaid plans that provide less than full benefits, such as Medicaid plans that cover only family planning.

return with the Internal Revenue Service (IRS) to reconcile the amount of the tax credit allowed with the amount received in advance and may be liable to pay back any excess credits received.

Changes in income and other factors can change an individual's eligibility for Medicaid and for subsidized exchange coverage, and as many low-income individuals experience income volatility, transitions between the two coverage types are likely under the law. Previous research has estimated that out of all individuals who receive either Medicaid or exchange subsidies, 6.9 million (7 percent) will experience a change in eligibility from one to the other each year.<sup>4</sup> In October 2015, GAO reported that a relatively small percentage of Medicaid and exchange coverage enrollees transitioned between the coverage types in three selected states in 2014, but that such transitions may increase in the future.

PPACA required the establishment of a coordinated eligibility and enrollment process for Medicaid and exchange coverage. This process helps ensure that individuals are enrolled in the coverage for which they are eligible and transferred to the appropriate form of coverage if their eligibility changes. Since the enactment of the law, CMS has issued regulations and technical guidance outlining aspects of this process, which can involve significant coordination between state and federal information technology (IT) systems. Given the complexity of designing coordinated policies and systems, challenges could arise during the transition process. For example, individuals may become simultaneously enrolled in both Medicaid and subsidized exchange coverage (referred to as duplicate coverage), which is only allowed in limited circumstances under federal law.<sup>5</sup>

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## What GAO Found

In October 2015, GAO reported that CMS's policies and procedures do not sufficiently minimize the potential for duplicate coverage in states with FFEs, which increases the risk that the federal government could be paying twice—subsidizing exchange coverage and reimbursing states for

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<sup>4</sup>See M. Buettgens, A. Nichols, and S. Dorn, *Churning Under the ACA and State Policy Options for Mitigation* (Washington, D.C.: Urban Institute and Robert Wood Johnson Foundation, June 2012). This study also notes that some of these individuals may choose not to enroll in the coverage for which they become eligible and instead become uninsured.

<sup>5</sup>Individuals enrolled in subsidized exchange coverage who are found to be eligible for Medicaid are permitted to be enrolled in both types of coverage through the end of the month of the eligibility determination. See 26 U.S.C. § 36B(c)(2)(A)-(B); 26 C.F.R. § 1.36B-2(c)(iv).

Medicaid spending—for the same individuals.<sup>6</sup> GAO found that a limited amount of duplicate coverage may be expected, and is permitted under federal law, for individuals completing the transition from subsidized exchange to Medicaid coverage. However, GAO found that duplicate coverage was also occurring outside of this transitional period in cases where individuals did not end their subsidized exchange coverage after being determined eligible for Medicaid, or where they enrolled in subsidized exchange coverage when already enrolled in Medicaid. For example, one state reported that 3,500 individuals had duplicate coverage at some point from January to July 2014. However, the full extent to which duplicate coverage was occurring was unknown.

While CMS has taken some steps to minimize the potential for duplicate coverage in states with FFEs, GAO found that its current policies and procedures were not sufficient based on federal standards for internal control.<sup>7</sup>

- GAO found vulnerabilities in CMS’s methods for preventing individuals from maintaining subsidized exchange coverage after being determined eligible for Medicaid. For example, CMS does not have procedures to automatically terminate exchange subsidies when individuals are determined eligible for Medicaid—a practice that some states with state-based exchanges have in place.
- GAO found vulnerabilities in CMS’s methods for preventing individuals enrolled in Medicaid from also enrolling in subsidized exchange coverage. While CMS generally performs an automated check of state IT systems to determine whether individuals already have Medicaid before initially determining them eligible for subsidized exchange coverage, CMS officials recognize that there are a number of limitations to this check. For example, officials said the checks identify at a point in time whether an individual is enrolled in Medicaid, and so would not indicate if a Medicaid determination was pending. In addition, CMS did not perform a check for Medicaid coverage for the 1.96 million individuals who were enrolled in exchange coverage in 2014 and were automatically reenrolled for 2015, thereby increasing the risk that duplicate coverage occurring during the year would continue in the next year.
- GAO found that CMS did not have procedures in place as of July 2015 to detect and resolve duplicate coverage. CMS officials told GAO that the agency planned to implement periodic checks for

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<sup>6</sup>Our review focused primarily on federal controls for the FFE. At the time of the review, these controls affected 34 FFE states and 3 additional states that rely on the FFE IT systems. The 4 states in our review with state-based exchanges had implemented integrated eligibility and enrollment systems for Medicaid and exchange coverage, which included IT system rules that help prevent duplicate coverage.

<sup>7</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).



duplicate coverage beginning in the summer of 2015. Officials also said that in 2016, if CMS can build the necessary functionality, the agency plans to begin automatically terminating exchange subsidies for those with duplicate coverage who do not do so themselves, as appropriate, upon agency notification. However, the effectiveness of these plans will depend in part on how frequently the checks are conducted. As of July 2015, CMS had not yet decided the frequency, with officials noting that it will depend in part on the agency's analysis of the first check. In addition, while CMS officials told us they intend to monitor the results of the checks, they do not have a specific plan, including thresholds for the level of duplicate coverage that the agency deems acceptable, to routinely monitor the effectiveness of these and other procedures.

These weaknesses increase the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and subsidized exchange coverage in states with FFEs. In states where Medicaid agencies have identified that individuals are enrolled in exchange coverage—and Medicaid is operating as the payer of last resort, as required—there may not be a significant difference in federal costs for the individual during the period of duplicate coverage compared with what would have been spent if duplicate coverage had not occurred.<sup>8</sup> However, GAO previously reported that some states may face challenges identifying exchange coverage.<sup>9</sup> If a state is not aware of an individual's exchange coverage, the federal government could be both subsidizing exchange coverage and reimbursing states for Medicaid spending for the same individual. The risk of duplicate payments may be higher in states where a large proportion of Medicaid enrollees use Medicaid managed care because the state pays issuers a monthly fee for each enrolled individual, regardless of whether services are received.<sup>10</sup> Further, while the tax reconciliation process for the APTC has the potential to reduce the financial implications of duplicate payments, IRS officials stated that the agency will generally not have the data necessary to identify duplicate coverage until 2016. They added that the agency's ability to identify the need for repayment of the APTC because of duplicate coverage at that time will depend on the quality of the data and IRS's available resources.

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<sup>8</sup>See generally 42 C.F.R. § 433.135 et seq. Where individuals are enrolled in Medicaid along with another form of coverage, the other source of coverage must pay to the extent of its liability before Medicaid pays. States are required to take certain steps to identify these other sources of coverage and ensure that they pay to the extent of their liability.

<sup>9</sup>See GAO, *Medicaid: Additional Federal Action Needed to Further Improve Third-Party Liability Efforts*, [GAO-15-208](#) (Washington, D.C.: Jan. 28, 2015).

<sup>10</sup>The alternative to a managed care model is a fee-for-service model, in which states pay health care providers for each service delivered. In fiscal year 2014, about 37 percent of national Medicaid spending was attributable to Medicaid managed care.

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## Actions Needed and Potential Financial or Other Benefits

To better minimize the risk of duplicate coverage for individuals transitioning between Medicaid and exchange coverage in FFE states, GAO recommended in October 2015 that the Administrator of CMS take the following two actions:

- Establish a schedule for regular checks for duplicate coverage and ensure that the checks are carried out according to schedule.
- Develop a plan, including thresholds for the level of duplicate coverage it deems acceptable, to routinely monitor the effectiveness of the checks and other planned procedures to minimize duplicate coverage, and take additional actions as appropriate.

Because GAO found that CMS did not have a process in place to identify individuals with duplicate coverage, the extent to which duplicate coverage was occurring and the extent to which duplicative payments were being made for such individuals could not be determined. Therefore, GAO cannot estimate the costs associated with this duplication. However, taking these actions should help minimize the occurrence of duplicate coverage, thus helping protect the federal government from unnecessary and duplicative expenditures.

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## Agency Comments and GAO's Evaluation

In commenting on the October 2015 report on which this analysis is based, HHS concurred with GAO's recommendations and described steps it has taken and plans to take to minimize the risk of duplicate coverage. For example, HHS stated that its first check for duplicate coverage was under way in August 2015, and that HHS plans to analyze the rate of duplicate coverage identified and gather other relevant input in order to establish the frequency of checks going forward. HHS also stated that it plans to monitor the rate of duplicate coverage identified in periodic checks and that it is working to implement additional internal controls to reduce duplicate coverage, including automatically ending exchange subsidies for individuals also found to have been determined eligible for Medicaid.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. To examine the

extent to which the federal government had policies and procedures that minimize the potential for duplicate coverage when individuals transition between Medicaid and exchange coverage, GAO reviewed relevant PPACA provisions, federal regulations, and guidance for Medicaid and the exchanges. GAO also reviewed FFE procedures and interviewed CMS officials to determine whether CMS's policies and procedures for FFE states included internal controls consistent with federal standards. In addition, GAO collected information from and interviewed Medicaid officials from eight states selected, among other factors, to include four with FFEs; representatives of five issuers, selected because they offered both types of coverage in one or more selected states; and a trade association representing issuers that offered both types of coverage in multiple states throughout the country. GAO also interviewed IRS officials on the agency's process for reconciling APTC, including how the agency might identify cases of duplicate coverage.

Table 5 in appendix V lists the programs GAO identified that might have similar or overlapping objectives, provide similar services, or be fragmented across government missions. Overlap and fragmentation might not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

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## Related GAO Products

*Medicaid and Insurance Exchanges: Additional Federal Controls Needed to Minimize Potential for Gaps and Duplication in Coverage.* [GAO-16-73](#). Washington, D.C.: October 9, 2015.

*Medicaid: Additional Federal Action Needed to Further Improve Third-Party Liability Efforts.* [GAO-15-208](#). Washington, D.C.: January 28, 2015.

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## 8. Department of Homeland Security's Human Resources Systems

To address issues related to fragmented systems and duplicative processes, the Department of Homeland Security should take steps to (1) ensure that its Human Resources Information Technology investment receives necessary oversight and attention from its steering committee and (2) evaluate and update the investment's strategic planning document.

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### Why This Area Is Important

Since the Department of Homeland Security (DHS) was created, its human resources environment has included fragmented systems, duplicative and paper-based processes, and little uniformity of data management practices. According to DHS, these limitations in its human resources environment compromise the department's ability to effectively and efficiently carry out its mission. For example, according to DHS, reporting and analyzing enterprise human capital data are time-consuming, labor-intensive, and challenging because the department's data management largely consists of disconnected, standalone systems, with multiple data sources for the same content.

In 2003, DHS initiated the Human Resources Information Technology (HRIT) investment, which is intended to consolidate, integrate, and modernize the human resources IT infrastructure of the department and its eight components.<sup>1</sup> From 2003 to 2010, DHS made limited progress on the HRIT investment due to, among other things, limited coordination with and commitment from DHS's components, as reported by DHS's Inspector General.<sup>2</sup> To address this problem, in 2010, the DHS Deputy Secretary issued a memorandum emphasizing that DHS's wide variety of human resources processes and IT systems inhibited DHS's unity and negatively impacted operating costs. Among other things, the memorandum directed the Office of the Chief Human Capital Officer (OCHCO) and the Office of the Chief Information Officer (OCIO) to develop a department-wide human resources architecture.

In response to the Deputy Secretary's direction, in 2011 the department developed a strategic planning document referred to as the Human Capital Segment Architecture Blueprint, which redefined the HRIT

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<sup>1</sup>DHS's eight components include the Federal Emergency Management Agency, the Federal Law Enforcement Training Center, the Transportation Security Administration, U.S. Citizenship and Immigration Services, U.S. Customs and Border Protection, the U.S. Coast Guard, U.S. Immigration and Customs Enforcement, and the U.S. Secret Service.

<sup>2</sup>DHS Office of Inspector General, *Management Oversight and Component Participation Are Necessary to Complete DHS' Human Resource Systems Consolidation Effort*, OIG-10-99 (Washington, D.C.: July 1, 2010).

investment's scope and implementation time frames. As part of the effort to develop the blueprint, DHS conducted a system inventory and reported in its blueprint that it had 422 human resources systems and applications. DHS also reported that these numerous, antiquated, and fragmented systems reduced its ability to efficiently and effectively perform basic workforce management functions necessary to support mission-critical programs. The blueprint articulated that HRIT would be comprised of 15 strategic improvement opportunity areas (e.g., enabling seamless, efficient, and transparent end-to-end hiring) and outlined 77 associated projects (e.g., deploying a department-wide hiring system and establishing an integrated data repository and reporting mechanism) to implement these 15 opportunities.

While OCHCO officials had not prepared a complete life-cycle cost estimate for the HRIT investment, for fiscal years 2005 through 2015, the investment received line item appropriations totaling at least \$180 million.<sup>3</sup> However, this figure is not a complete cost estimate because, as GAO reported in February 2016, DHS was unable to provide all cost information on HRIT activities since it began in 2003.

HRIT's Performance and Learning Management System (PALMS) is intended to fully address HRIT's Performance Management strategic improvement opportunity area. PALMS is attempting to implement a commercial off-the-shelf software product intended to allow DHS to consolidate nine existing learning management systems into one system and enable comprehensive enterprise-wide tracking, reporting, and analysis of employee learning and performance for DHS headquarters and its eight components.

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## What GAO Found

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### Limited Progress Made in Implementing HRIT, Due in Part to Lack of Steering Committee Involvement

In February 2016, GAO reported that DHS had made very little progress in addressing the 15 strategic improvement opportunities and the 77 associated projects included in HRIT. According to the Human Capital Segment Architecture Blueprint, DHS planned to implement 14 of the 15 strategic improvement opportunities and 68 of the 77 associated projects by June 2015, and the remaining improvement opportunity and 9 associated projects by December 2016. However, as of November 2015, DHS had fully implemented only 1 of the strategic improvement opportunities, which included 2 associated projects. DHS has partially implemented 5 of the other strategic improvement opportunities, but it is

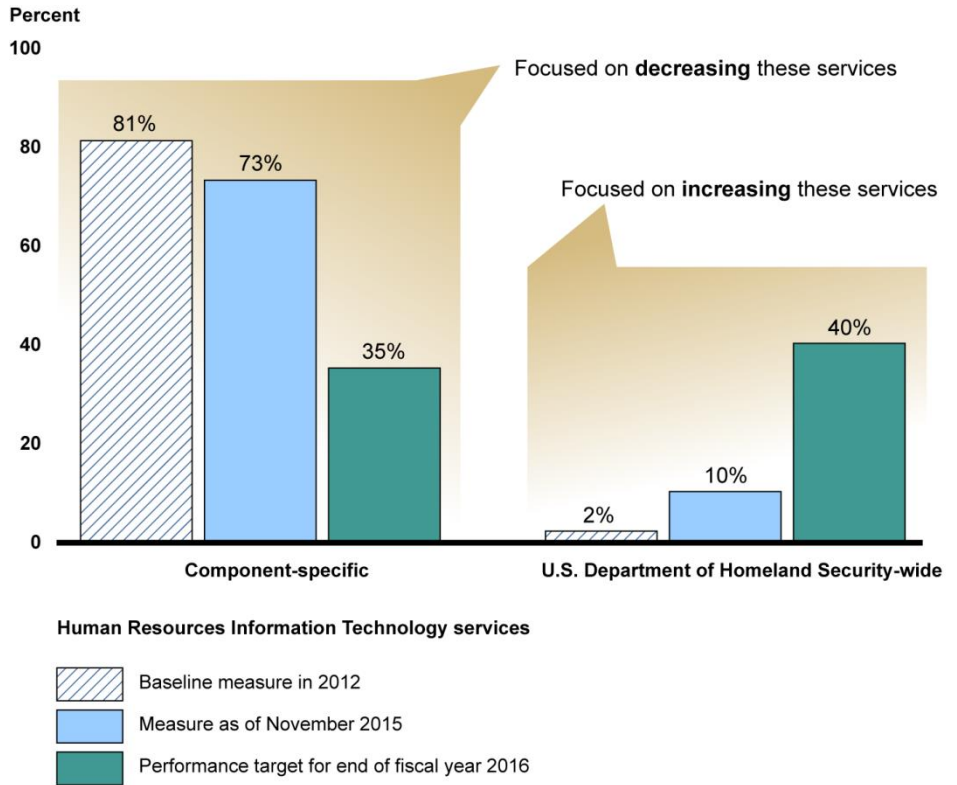
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<sup>3</sup>Appropriations acts passed for fiscal years 2003 through 2004 did not include a line item appropriating specific funds to HRIT.

unknown when they will be fully addressed. As one example, HRIT’s only active program—PALMS—is intended to fully address HRIT’s Performance Management strategic improvement opportunity area; however, while progress to implement PALMS has been made, many actions remain before it can be fully implemented and it is unknown when those actions will be taken. Further, HRIT officials stated that DHS has not yet started to work on the remaining 9 improvement opportunities, and the officials did not know when they would be addressed.

GAO also reported in February 2016 that DHS had made limited progress in achieving two performance targets related to the delivery of human resources IT services across DHS, as identified in DHS’s HRIT strategic plan for fiscal years 2012 through 2016. This plan outlined the investment’s key goals and objectives, including reducing duplication and improving efficiencies in the department’s human resources processes and systems. The plan also identified two performance metrics that were focused on reductions in the number of component-specific human resources IT services provided and increases in the number of department-wide HRIT services provided by the end of fiscal year 2016. The figure below provides a summary of HRIT’s limited progress towards achieving its performance targets.

**Human Resources Information Technology’s Progress towards Achieving Its Performance Targets, as of November 2015**



Source: GAO analysis of data provided by U.S. Department of Homeland Security officials. | GAO-16-375SP

Specifically,

- DHS's goal is to reduce its component-specific HRIT services by 46 percentage points—from 81 percent to 35 percent—however, it had reduced these services by 8 percentage points as of November 2015, according to OCHCO officials.
- Additionally, while DHS is aiming to increase its DHS-wide HRIT services by 38 percentage points—from 2 percent to 40 percent—as of November 2015, OCHCO officials stated that the department had increased these services by 8 percentage points.

Among other things, GAO reported that a key cause for DHS's lack of progress in implementing HRIT and its associated strategic improvement opportunities was the lack of involvement of the HRIT executive steering committee. This committee—which is chaired by the department's Under Secretary for Management and co-chaired by the Chief Information Officer and Chief Human Capital Officer—is intended to be the core oversight and advisory body for all DHS-wide matters related to human capital IT investments, expenditures, projects, and initiatives. In addition, according to the committee's charter, the committee is to approve and provide guidance on the department's mission, vision, and strategies for the HRIT program.

However, the executive steering committee only met once from September 2013 through June 2015—in July 2014—and was minimally involved with HRIT for that period. In addition, DHS replaced its Chief Information Officer (the executive steering committee's co-chair) in December 2013. Also during this period, PALMS was experiencing significant problems, including schedule slippages and frequent turnover in its program manager position. As a result of the executive steering committee not meeting, key governance activities were not completed on HRIT. For example, the committee did not approve HRIT's notional operational plan for fiscal years 2014 through 2019. OCHCO and OCIO officials attributed the lack of HRIT executive steering committee meetings and committee involvement in HRIT to the investment's focus being only on the PALMS program to address its issues. However, because the committee did not regularly meet and provide oversight during a time when a new co-chair for the executive steering committee assumed responsibility and PALMS was experiencing problems, the committee's guidance to the troubled program was limited.

As we reported in February, the HRIT executive steering committee met in June and October 2015, and OCIO and OCHCO officials stated that the committee planned to meet quarterly going forward. However, while the committee's charter specified that it meet on at least a monthly basis for the first year, the charter did not specify the frequency of meetings following that year. Furthermore, the committee's charter had not been updated to reflect the increased frequency of these meetings. In response to our February report, OCIO officials stated that the executive steering committee met twice in February and, going forward, will be meeting on a

regular schedule. Officials also stated that they are in the process of updating their HRIT committee charter.

Nevertheless, as a result of the limited progress in implementing HRIT, DHS is unaware of when critical weaknesses, including unnecessary duplication and inefficient fragmentation in the department's human capital environment, will be addressed, which, among other things, impacts DHS's ability to efficiently and effectively carry out its mission. Additionally, without HRIT's executive steering committee effectively carrying out its oversight responsibility, DHS is limited in its ability to improve HRIT investment results and accountability.

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## HRIT's 2011 Blueprint May Not Be Valid and Reflective of DHS's Current Priorities and Goals

GAO also reported in February 2016 that HRIT's blueprint may not be valid and reflective of DHS's current priorities and goals. According to the HRIT executive steering committee's charter, the Under Secretary for Management (as the chair of the committee) is to ensure that the department's human resources IT business needs are met, as outlined in the blueprint. Also, according to the GPRA (Government Performance and Results Act) Modernization Act of 2010, agency strategic plans should be updated at least every 4 years. While the Human Capital Segment Architecture blueprint does not fall under the category of an "agency strategic plan," the requirement to update at least every 4 years is considered a leading practice for other strategic planning documents, such as the blueprint.

The department issued the blueprint in August 2011 (approximately 4.5 years ago) and has not updated it since. As a result, the department does not know whether the remaining 14 strategic improvement opportunities and associated projects that it has not fully implemented—many of which were to help reduce duplicative and fragmented systems and processes—are still valid and reflect DHS's current priorities and are appropriately prioritized based on current mission and business needs. Additionally, DHS does not know whether new or emerging opportunities or business needs need to be addressed.

Officials stated that the department is still committed to implementing the blueprint but agreed that it should be re-evaluated. To this end, OCHCO and OCIO officials told GAO that HRIT was asked by the Deputy Under Secretary of Management in late October 2015 to re-evaluate the blueprint's strategic improvement opportunities and to determine the way forward for those improvement opportunities and the HRIT investment. However, officials did not know when this re-evaluation and determination would occur.

Further, according to OCIO officials, DHS has not updated its complete systems inventory since it was originally developed as part of the blueprint effort. DHS developed the original systems inventory in



response to a 2010 Office of Inspector General report that stated that DHS had not identified all human resource systems at the components. This report also emphasized that without an accurate inventory of human resource systems, DHS cannot determine whether components are using redundant systems. Moreover, OCIO officials were unable to identify whether and how DHS's inventory of human resources systems had changed. Without time frames for re-evaluating the blueprint to reflect DHS's HRIT current priorities and an updated human resources system inventory, the department is limited in its ability to address the duplicative, fragmented, and inefficient human resources environment that has plagued the department since it was first created.

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## Actions Needed and Potential Financial or Other Benefits

In February 2016, GAO recommended that the Secretary of Homeland Security direct the Under Secretary of Management to take the following two actions:

- Update the HRIT executive steering committee charter to establish the frequency with which HRIT executive steering committee meetings are to be held.
- Ensure that the HRIT executive steering committee is consistently involved in overseeing and advising HRIT, including approving key program management documents, such as HRIT's operational plan.

Additionally, GAO recommended that the Secretary of Homeland Security direct the Under Secretary of Management to direct the Chief Human Capital Officer to direct the HRIT investment to take the following three actions:

- Establish time frames for re-evaluating the strategic improvement opportunities and associated projects in the Human Capital Segment Architecture Blueprint and determining how to move forward with HRIT.
- Evaluate the strategic improvement opportunities and projects within the Human Capital Segment Architecture Blueprint to determine whether they and the goals of the blueprint are still valid and reflect DHS's HRIT priorities going forward, and update the blueprint accordingly.
- Update and maintain the department's human resources system inventory.

Financial benefits associated with these actions cannot be quantified because they are related to programs and projects for implementing human resources process changes and potential future systems whose costs have not yet been determined. However, taking these actions should help result in the implementation of department-wide human

resources systems, rather than duplicative, component-specific systems, which should enable a more efficient use of human resources system investment dollars.

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## Agency Comments and GAO's Evaluation

In commenting on the February 2016 report on which this analysis is based, DHS concurred with GAO's recommendations and identified initial actions that it had taken to evaluate HRIT and improve oversight of the investment. The department also identified estimated completion dates for implementing GAO's recommendations.

GAO provided a draft of this report section to DHS for review and comment. The department provided technical comments, which GAO incorporated, as appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product listed in the related GAO products section. To perform this work, GAO compared HRIT's goals, scope, and implementation time frames (as defined in the Human Capital Segment Architecture Blueprint, which was completed in August 2011) to the investment's actual accomplishments. Specifically, GAO compared the completed and in-progress HRIT projects against the strategic improvement opportunities and projects that were outlined in the blueprint to determine which of the improvement opportunities and projects had been fully implemented or were in-progress. GAO also compared DHS's planned schedule for implementing the improvement opportunities and projects against DHS's current planned schedule for implementing them as of November 2015. GAO interviewed officials from DHS's Office of the Chief Information Officer and Office of the Chief Human Capital Officer, as well as DHS's eight components, to obtain additional information on how HRIT reduced or would reduce duplicative human resources systems.

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## Related GAO Product

*Homeland Security: Oversight of Neglected Human Resources Information Technology Investment Is Needed.* [GAO-16-253](#). Washington, D.C., February 11, 2016.

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## Contact Information

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# 9. Security of Federal Facilities

The Federal Protective Service and General Services Administration need to improve collaboration in key areas to better manage fragmentation and enhance the agencies' ability to protect federal facilities.

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## Why This Area Is Important

Over 1 million employees and a wide range of visitors seeking services depend on the government to provide security and protection at approximately 8,900 facilities held or leased by the General Services Administration (GSA). Two federal agencies—the Federal Protective Service (FPS), an agency within the Department of Homeland Security (DHS), and GSA—are critical to ensuring security. The Homeland Security Act of 2002 vested both the Secretary of Homeland Security and the Administrator of GSA with responsibilities for the protection of federal facilities.<sup>1</sup> FPS and GSA's related missions regarding facility protection require them to collaborate at the agency headquarters, regional, and facility levels.

GAO has designated federal real-property management as a high-risk area in part because of physical security challenges at federal facilities.<sup>2</sup> GAO and others have identified physical security of federal facilities as an area facing ongoing challenges, specifically with regard to collaboration between FPS and GSA. For example, GAO has reported on FPS's and GSA's difficulty collaborating in areas including sharing information and clearly defining roles and responsibilities.<sup>3</sup> To the extent that collaboration

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<sup>1</sup>The Homeland Security Act of 2002 transferred FPS along with its law enforcement and security functions from GSA to DHS. Pub. L. No. 107-296, § 403(3), 116 Stat. 2135, 2178 (2002). GSA manages federal facilities, including courthouses, and is responsible for federal courthouse design, construction, and maintenance. The U.S. Marshals Service, a component of the Department of Justice, has primary responsibility for protecting federal judicial facilities and personnel. FPS is responsible for enforcing federal laws and providing building-entry and perimeter security at GSA-held or GSA-leased facilities including facilities housing federal courts. For the purpose of this report section, GAO focuses on collaboration between FPS and GSA related to federal facilities. For more information on collaboration issues at federal courthouses, see GAO, *Federal Courthouses: Improved Collaboration Needed to Meet Demands of a Complex Security Environment*, [GAO-11-857](#) (Washington, D.C.: Sept. 28, 2011).

<sup>2</sup>GAO designated the broader area of federal real property management as a high-risk area due to overreliance on leasing, the presence of unneeded and underutilized facilities, and security challenges at federal facilities. GAO, *High Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: February 2015).

<sup>3</sup>See GAO, *Federal Facility Cybersecurity: DHS and GSA Should Address Cyber Risk to Building and Access Control Systems*, [GAO-15-6](#) (Washington, D.C.: Dec. 12, 2014); *Federal Protective Service: Better Data on Facility Jurisdictions Needed to Enhance Collaboration with State and Local Law Enforcement*, [GAO-12-434](#) (Washington, D.C.: Mar. 27, 2012); and *Homeland Security: Greater Attention to Key Practices Would Improve the Federal Protective Service's Approach to Facility Protection*, [GAO-10-142](#) (Washington, D.C.: Oct. 23, 2009).

affects these agencies' ability to adequately protect facilities, security may be compromised.

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## What GAO Found

In a December 2015 report, GAO found that FPS and GSA have taken some steps to improve collaboration, such as drafting a joint strategy and renewing negotiations to update their 2006 memorandum of agreement (MOA) on roles, responsibilities, and operational relationships concerning the security of GSA-controlled space. However, at the time of our report, GAO found that the two agencies have not reached final agreement in these areas. While each agency has some individual policies for collaboration, the two agencies have made limited progress in agreeing on several key practices GAO has identified in prior work that can enhance and strengthen collaboration.<sup>4</sup> For example, they have not fully defined or articulated a common outcome or established mutually reinforcing joint strategies; collaborated in communicating existing policies and procedures to operate across agencies and regions; or jointly developed mechanisms to monitor, evaluate, and report on the results of their related missions regarding facility protection. As of December 2015, the two agencies continued to work toward reaching agreement in these areas. FPS and GSA officials have not previously focused on these areas of collaboration largely because they have not made it a priority to address how they can better work together.

As a result of not having key practices in place, officials GAO interviewed in the four FPS and GSA regions said they were not aware of agreed upon collaborative policies and procedures to conduct day-to-day operations. GAO found that this created inefficiencies and security risks at the regional level, such as in the following examples:

- GSA officials in two different regions told GAO that they did not have sufficient information from FPS about security plans for upcoming events—a dignitary's visit and a major world conference—to prepare tenants for changes to security procedures. Without sufficient information, GSA officials said that they could not fully inform their tenants of necessary security measures.
- FPS and GSA officials told GAO of a bomb threat to a building that houses more than 3,000 tenants. Officials from both agencies said they were uncertain about which agency had responsibility for making building-wide decisions during the event, such as whether or not to evacuate the tenants. The problem resulted, in part, from the building not having an accurate and up-to-date Occupant Emergency Plan (OEP) for addressing such issues. Uncertainty about responsibilities

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<sup>4</sup>See GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

could have serious consequences—such as the loss of lives, injuries to tenants and visitors, and property damage in the facility.

- FPS officials identified two cases in which GSA did not notify FPS of projects, an oversight that prevented FPS from reviewing the project for possible security enhancements as part of the renovation. FPS officials said the two projects are expected to total approximately \$1.1 million. FPS was only informed of the two renovation projects when notified by U.S. Marshals Service officials. FPS officials told GAO these are isolated incidents, and that the FPS region plans to reach out to GSA to ensure that FPS is brought into the process during the early stages of planning, specifically in smaller areas. Better communication between FPS, as security experts, and GSA could have helped to prevent this problem. Although the 2006 MOA requires GSA to notify FPS of alteration projects, without GSA developing mechanisms to ensure that notification and consultation occur with FPS, projects may not include recommended security enhancements.

The incomplete implementation of key collaboration practices—particularly with regard to agreement on roles and responsibilities, compatible policies and procedures, and mechanisms to monitor, evaluate, and report on results—leaves day-to-day operational decisions to the regional and facility levels, a situation that may result in inconsistent management practices among regions across the country. As noted in the cases previously described, this practice could lead to FPS and GSA not making the best use of limited resources to build and renovate facilities, and may increase security lapses, putting facilities, tenants, and the public at greater risk.

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## **Actions Needed and Potential Financial or Other Benefits**

To improve collaboration, in December 2015, GAO recommended that FPS and GSA take the following four actions:

- Establish a plan with time frames for reaching agreement on a joint strategy and finalizing it in order to define and articulate a common understanding of expected outcomes and align the two agencies' activities and core processes.
- Establish a plan with time frames for reaching agreement on the two agencies' respective roles and responsibilities for federal facility security, and update and finalize the two agencies' MOA accordingly.
- Develop a process to ensure that compatible policies and procedures are communicated at the regional level so that regional officials at both agencies have common information.

- Develop mechanisms to monitor, evaluate, and report on their collaborative efforts to protect federal facilities in order to identify possible areas for improvement and to reinforce accountability.

GAO was not able to quantify the potential financial benefits of taking these actions because different roles and responsibilities prevent direct comparison between the two agencies. However, implementation of these actions could improve coordination in protecting federal facilities, help ensure more efficient and effective use of federal resources, and reduce confusion that can arise from multiple agencies working toward a common goal.

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## Agency Comments and GAO's Evaluation

In commenting on the December 2015 report on which this analysis is based, DHS and GSA provided written comments. DHS concurred with GAO's recommendations and provided actions and time frames for completion. DHS officials stated that they are working to update their respective roles and responsibilities and to define a joint strategy and outcome for federal facility protection. Specifically, DHS stated that the MOA is to include roles and responsibilities for each organization where there are clear dependencies. DHS also stated that in collaboration with GSA, FPS plans to document how field personnel can better execute their responsibilities. Furthermore, DHS stated that FPS and GSA headquarters personnel have agreed to meet monthly to review and address identified areas for improvement, and the officials expect to further define mechanisms to monitor, evaluate, and report on their collaborative efforts to protect federal facilities during these monthly meetings. GSA agreed with GAO's findings and agreed to work with FPS to address them. DHS's and GSA's responses are a positive step toward addressing GAO's recommendations.

GAO provided a draft of this report section to DHS and GSA for their review and comment. Both agencies responded and did not provide any new comments to those already provided on the report.

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## How GAO Conducted Its Work

GAO analyzed pertinent laws; reviewed DHS, National Protection and Programs Directorate, FPS, and GSA regulations, policy documents, and strategic plans; and compared FPS's and GSA's collaboration efforts against GAO's selected key collaboration practices. GAO also interviewed agency officials at the headquarters and regional levels. GAO selected four FPS and GSA regions because they comprise about 41 percent of all GSA-leased facilities and GSA-controlled federally-owned facilities, are geographically dispersed, and include a mix of urban and rural federal facilities and a range of facility security levels. While the results from regions cannot be generalized, they provided illustrative examples.

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## Related GAO Product

*Homeland Security: FPS and GSA Should Strengthen Collaboration to Enhance Facility Security.* [GAO-16-135](#). Washington, D.C.: December 16, 2015.

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## Contact Information

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# 10. Tribal Internet Access

Greater coordination among the Federal Communications Commission's Universal Service Fund subsidy programs and the U.S. Department of Agriculture's Rural Utilities Service grant programs could result in more efficient and effective support of Internet access for tribal communities.

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## Why This Area Is Important

High-speed Internet service is viewed as a critical component of the nation's infrastructure and an economic driver. The Internet is particularly useful to tribal communities—which are generally located in remote, rural locations—as access to it offers new opportunities for growth, productivity, and innovation. In 2012, the Federal Communications Commission (FCC) reported that the lack of service in rural and tribal lands presents impediments to efforts of tribal nations to build their internal structures for self-governance, economic opportunity, education, public safety, and cultural preservation.<sup>1</sup> The communications infrastructure that supports Internet access is, by and large, built and operated by private industry, but the federal government provides funding to promote greater access and adoption of high-speed Internet through FCC's Universal Service Fund and the U.S. Department of Agriculture's (USDA) Rural Utilities Service. From fiscal years 2010 to 2014, the federal government provided over \$33 billion in assistance to telecommunications service providers and municipalities to build or improve networks in order to further the national goal of universal high-speed Internet access in underserved areas, including tribal lands.<sup>2</sup>

FCC and USDA implement several mutually supportive, interrelated high-speed Internet access programs that offer assistance to tribes and the providers that serve tribal lands.

- FCC's Universal Service Fund supports three programs—the Connect America Fund, the Schools and Library Support Program, and the Healthcare Connect Fund—that provide subsidies or discounts to improve telecommunications services, including services in tribal lands. The goals of these programs include increasing access to Internet service for all consumers at reasonable and affordable rates.

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<sup>1</sup>For this report, GAO has defined tribal lands as lands that include any federally recognized Indian tribe's reservation, off-reservation trust lands, pueblo, or colony, and Alaska Native regions established pursuant to the Alaska Native Claims Settlement Act, Pub. L. No. 92-203, 85 Stat. 688 (1971) (codified as amended at 43 U.S.C. §§ 1601 et seq.). Tribal lands do not include Oklahoma Tribal Statistical Areas (OTSA), and the population figure of 640,000 does not include the 401,000 Native Americans living on OTSAs.

<sup>2</sup>Due to a lack of specific data, GAO was unable to determine the portion of funds that went to tribal lands from each of the programs.

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- USDA's Rural Utilities Service supports programs—the Distance Learning and Telemedicine program and the Community Connect Program—that also help to improve infrastructure for high-speed Internet and other telecommunications services through grants, loans, and loan guarantees. These programs seek to extend high-speed Internet access in rural communities, where it is least likely to be commercially available.

FCC's and USDA's programs have similar goals to increase access to Internet service on tribal lands, and both agencies' programs offer funding to either tribal entities or service providers to achieve this goal of increased access. For example, FCC's Health Care Connect and USDA's Distance Learning and Telemedicine programs both seek to assist clinics in connecting to the Internet, including those clinics on tribal lands. Further, both FCC and USDA programs have eligibility requirements such as the need and condition of the Internet infrastructure in a region. Tribes sometimes qualify for benefits from more than one of these programs, either directly or through private-sector Internet providers.

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## What GAO Found

In a January 2016 report, GAO found that FCC and USDA do not coordinate to develop joint outreach and training for their programs that promote high-speed Internet access in tribal lands, which could result in an inefficient use of federal resources and missed opportunities for resource leveraging between the two agencies. About half of the 21 tribes GAO interviewed for its January 2016 report said that a lack of tribal members with sufficient administrative and technical expertise is a barrier to increasing high-speed Internet access on tribal lands. Tribal officials said that tribal members do not always have the bureaucratic expertise required to apply for federal funds, which can lead to mistakes or the need to hire consultants. The National Broadband Plan recognized the challenges of administrative and technical capacity and recommended that FCC and Congress support technical training and capacity development on tribal lands, such as by considering additional funding for tribal leaders to participate in FCC training at no cost.<sup>3</sup> However, despite the importance of training and outreach, FCC's and USDA's programs in this area are not always well coordinated.

One area in which FCC and USDA lack coordination is their outreach and technical assistance efforts when planning visits to tribes or training events. Synchronizing these activities could improve the efficiency, reach, and effectiveness of these programs. However, both FCC and USDA

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<sup>3</sup>In March 2010, FCC issued the National Broadband Plan, which included a centralized vision for achieving affordability and maximizing use of high-speed Internet to advance community development, health care delivery, education, job creation, and other national purposes. FCC, *Connecting America: The National Broadband Plan* (Washington D.C.: 2010).

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independently conduct outreach and training efforts for related programs promoting Internet access, including the following examples:

- FCC spent \$300,000 on tribal consultation and training in fiscal year 2015. While FCC officials said they invite USDA officials to FCC training workshops and are sometimes invited to USDA training workshops, they said that they do not coordinate to develop joint outreach or training events. This lack of coordination could result in an inefficient use of federal resources to improve access to high-speed Internet, missed opportunities for resource leveraging between FCC and USDA, and the need for tribes to attend multiple events.
- While USDA held a training event in Washington State in fiscal year 2015, FCC hosted a training event in Oregon the same year. The two agencies could have planned a joint training event in the Pacific Northwest Region and each contributed toward the costs of the event while reducing the cost burdens for tribes, which would not have had to travel twice or choose between the two training events given limited budgets.

Officials from one tribe said that multiple federal programs offering similar grants were confusing and that a federal one-stop-shop for outreach and training would help them better target the right programs for their situation. Officials from a different tribe said that the tribe benefits from FCC programs but not USDA programs, in part because tribal officials did not have a strong understanding of the USDA programs that might benefit their community's Internet access.

GAO's body of work has shown that interagency coordination in general can help agencies with interrelated programs ensure efficient use of resources and effective programs.<sup>4</sup> Agencies can enhance and sustain their coordinated efforts by engaging in key practices, such as establishing compatible policies and procedures through official agreements.<sup>5</sup> Agencies can also develop means to operate across agency boundaries, including leveraging resources across agencies for joint activities such as training and outreach.<sup>6</sup> Through better coordination where feasible on joint training and outreach efforts to build tribal administrative and technical capacity, FCC and USDA could better ensure that their programs are efficient and remain mutually supportive and accessible to tribal governments.

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<sup>4</sup>GAO, *Managing for Results: Barriers to Interagency Coordination*, [GAO/GGD-00-106](#) (Washington, D.C.: Mar. 29, 2000).

<sup>5</sup>GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012).

<sup>6</sup>GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015).

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in January 2016 that the Chairman of the Federal Communications Commission take the following action:

- Develop joint outreach and training efforts with USDA whenever feasible to help improve Internet availability and adoption on tribal lands.

GAO cannot quantify financial benefits due to a lack of specific data on which service providers serve tribal areas. However, implementing this action could result in more efficient and effective use of federal resources and reduce confusion that can arise from multiple programs.

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## Agency Comments and GAO's Evaluation

In commenting on the January 2016 report on which this analysis is based, FCC concurred with GAO's recommendation. FCC summarized the areas in which it coordinates with USDA and said that it will continue to work with USDA to ensure more strategic and routine coordination.

GAO provided a draft of this report section to FCC and USDA for review and comment. FCC concurred with the recommendation and said that it will continue to work with USDA to ensure more strategic and routine coordination. FCC invited USDA officials to their 2016 training events. USDA did not provide comments on this report section.

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## How GAO Conducted Its Work

To determine the level of interrelation and coordination between federal programs at FCC and USDA that promote high-speed Internet access on tribal lands, GAO reviewed FCC and USDA program funding and guidance materials for fiscal year 2010 through 2014. GAO also interviewed FCC and USDA officials, as well as officials from 18 tribal governments in the continental United States, 3 Alaska Native regions, and 6 service providers operating on tribal lands. To identify tribes to interview, GAO reviewed the types and amounts of assistance provided by FCC and USDA between fiscal years 2010 and 2014 and Bureau of the Census 2013 data regarding population and poverty rates. Tribes were selected to have a range of population, poverty rates, and locations, both remote and closer to urban areas. These interviews were not generalizable to all tribes or all service providers. GAO evaluated Universal Service Fund and Rural Utilities Service program coordination based on criteria for implementing interrelated programs developed in

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previous GAO work on fragmentation, overlap, duplication, and interagency coordination within the federal government.<sup>7</sup>

Table 6 in appendix V lists the programs GAO identified that might have similar or overlapping objectives, provide similar services, or be fragmented across government missions. Overlap and fragmentation might not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

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## Related GAO Products

*Telecommunications: Additional Coordination and Performance Measurement Needed for High-speed Internet Access Programs on Tribal Lands.* [GAO-16-222](#). Washington D.C.: January 29, 2016.

*Telecommunications: Challenges to Assessing and Improving Telecommunications for Native Americans on Tribal Lands.* [GAO-06-189](#). Washington D.C.: January 11, 2006.

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## Contact Information

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<sup>7</sup>GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015); *Managing for Results: Barriers to Interagency Coordination*, [GAO/IGD-00-106](#) (Washington, D.C.: Mar. 29, 2000); and *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012).

# 11. U.S. Embassy Kabul Construction

A strategic facilities plan for construction projects in Kabul, Afghanistan, could enhance the planning and coordination among Department of State bureaus and reduce the likelihood of fragmented construction efforts and duplicative facilities.

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## Why This Area Is Important

Since the reopening of the U.S. embassy in Kabul, Afghanistan, in 2002, the Department of State (State) has invested or plans to invest a total of \$2.17 billion in its facilities in Kabul to address current and projected space needs in a difficult environment that has experienced constantly evolving security threats.<sup>1</sup>

State's Bureau of Overseas Buildings Operations (OBO) is responsible for the acquisition, design, construction, maintenance, and sale of U.S. government diplomatic property abroad. State's Bureau of Diplomatic Security (DS) is responsible for, among other things, establishing and operating security and protective procedures at posts, developing and implementing posts' physical security programs, and chairing the interagency process that sets security standards. Accordingly, DS is responsible for ensuring that new diplomatic construction meets security standards. State's Bureau of South and Central Asian Affairs (SCA) is responsible for coordinating foreign policy related to countries in the region, including Afghanistan. In that capacity, SCA guides the operation of U.S. diplomatic missions—embassies and consulates, including Kabul—within those countries.

From 2002 through 2009, State took several actions to expand the U.S. embassy compound in Kabul—a challenging location with a dynamic, unpredictable, and dangerous operating environment. Moreover, this construction occurred on an already fully operational embassy compound. Initially, OBO refurbished an existing office building, built in the 1960s.<sup>2</sup> OBO also constructed a new chancery office building, staff apartments, and support facilities. Additionally, OBO constructed temporary offices and housing. In fiscal years 2009 and 2010, State awarded two contracts originally worth \$625.4 million in total to meet growing facility requirements at the U.S. embassy in Kabul. This project, which is ongoing, includes temporary and permanent housing and office buildings. Once the current construction is completed, the Kabul embassy's permanent facilities—both older structures and the newly constructed office and apartment buildings—will contain 1,487 desks and 819 beds. In

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<sup>1</sup>State's past and planned capital construction investments in Kabul from 2002 through March 2015 total \$2.17 billion in project funding, which includes awarded construction contracts and other costs State incurs that are not part of those contracts.

<sup>2</sup>The U.S. government vacated the existing office building in 1989, reoccupying it in 2002.

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addition, the post has used a variety of off-compound facilities to meet some needs that could not be met on-compound. Key off-compound facilities include Camps Alvarado, Eggers, Seitz, and Sullivan, which represent a total State construction investment of almost \$731.4 million.

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## What GAO Found

GAO reported in May 2015 that State's lack of a strategic facilities plan led to coordination challenges in addressing the Kabul embassy's future facility needs. State officials indicate that additional capital construction investments are needed to address interim and future facility needs of the U.S. embassy in Kabul, both on and off compound. State stakeholders in Washington, D.C., and at the post are working to identify, prioritize, and address the post's facility needs through various coordination meetings and working groups. However, State does not have a strategic facilities plan for Kabul that documents current and future embassy needs, comprehensively outlines existing facilities, analyzes gaps, provides projected costs, and documents decisions made. Lack of such a plan has inhibited coordination and undermined the continuity necessary to address emergent needs at the Kabul embassy.

Guidance issued by the International Facility Management Association, GAO, and the Office of Management and Budget (OMB) recommend that an organization view all real property asset investments as a single portfolio with strategic linkages when determining the right mix of projects to undertake.<sup>3</sup> The International Facility Management Association describes a strategic facility plan as a 2- to 5-year facilities plan encompassing an entire portfolio of owned and/or leased properties that sets strategic facility goals based on the organization's strategic objectives. It contains a needs statement (i.e., mission need), analysis of all real property assets and their condition (owned and leased), analysis of gaps between needs and current asset capabilities, recommendations for new spaces or buildings, and facility cost projections. The International Facility Management Association also indicates that the plan should document findings to include expected timelines for implementation but allow flexibility for updates, as appropriate. Similarly, GAO and OMB capital planning guidance emphasize the importance of identifying current capabilities of real property assets, determining gaps between current assets and needed capabilities, deciding how best to meet the gap by

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<sup>3</sup>The International Facility Management Association is an international professional association that advances facilities management through professional credentialing of facility managers, research, and training. OBO recognizes the International Facility Management Association, and OBO's facility managers have used its training programs.

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identifying and evaluating alternative approaches, documenting decisions, and making updates as needed.<sup>4</sup>

State officials responsible for embassy management, facilities, security, and construction all cited the lack of an overarching plan as an obstacle to project coordination intended to address the embassy's emergent facility needs. According to State officials in Kabul and Washington, coordination to address the Kabul embassy's future needs is particularly difficult due to the large number of stakeholders in Kabul and in Washington. Additionally, the constant personnel turnover caused by the 1-year tours served by most management, facilities, and security staff in Kabul results in lack of continuity in decision making. As far back as January 2006, the State Office of Inspector General also identified "the near total lack of institutional memory" stemming from the lack of staff continuity and a "never-ending" learning curve as the most serious impediments to good executive direction at the U.S. embassy in Kabul.

State officials in Kabul noted the growing number and frequency of coordination meetings and teleconferences intended to address the embassy's future facility needs. However, they also reported that communication at such meetings can be difficult as parties seek to reconcile planning differences on proposed projects. Without a comprehensive plan that provides a strategic framework to document mission needs, catalog existing facilities, analyze gaps, provide projected costs, and document recommendations, the competing proposals of the post's many stakeholders are difficult to manage, prioritize, and reconcile. As a result, State officials in Kabul said that these meetings suffer from no common vision and a lack of decision making.

Consequently, State has been challenged to efficiently address changing embassy needs in several instances on and off compound. For example:

- *Interference with on-compound construction*—OBO officials in Kabul expressed frustration that proposals for new projects would often conflict with plans previously agreed to by previous post management staff. For example, during GAO's fieldwork, post management proposed to locate a helicopter landing zone near the embassy warehouse. However, according to OBO officials on-site, they had arranged with the previous management team to reserve that space as a staging area for the contractor to build the warehouse expansion. When asked about this, post management officials stated that they had no continuity document that informed them of this earlier decision.

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<sup>4</sup>GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: Dec. 1, 1998), and Office of Management and Budget, *Capital Programming Guide*, Supplement to Office of Management and Budget Circular A-11, *Planning, Budgeting, and Acquisition of Capital Assets* (June 2015).



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- *On-compound physical security upgrades*—DS first requested changes to the embassy compound's security perimeter in December 2010 and added more requirements in response to attacks against the compound in September 2011. In February 2013, the post urged OBO to provide a project schedule and expedite the upgrades. However, that was not done, and as of March 2015, OBO and DS had not reached agreement on schedules and costs for some security upgrade projects.
  - *Camp Seitz construction*—In 2013, DS and post management decided to relocate the Kabul Embassy Guard Force from Camp Sullivan and the Protective Security Detail (movement protection) Guard forces from another camp to sites closer to the embassy compound due to security concerns. To facilitate this, DS initiated the acquisition of the Camp Seitz site through OBO. However, according to State officials, DS then began construction of temporary housing at Camp Seitz without submitting the design to OBO for review or applying for a building permit. After OBO became aware of the completed construction, it identified fire safety deficiencies that DS had to correct.
  - *Camp Sullivan, Camp Eggers, and Qasemi Lot Vehicle Maintenance Facility*—As part of the security contractor relocation, post management and DS asked OBO in September 2013 to remove several support facilities, including a vehicle maintenance facility, from an ongoing construction project at Camp Sullivan, and instead proposed to build them at Camp Eggers. Post management and DS officials stated that once the temporary vehicle maintenance facility on-compound is demolished to make way for two new apartment buildings, it would be better for security and logistics to build the replacement vehicle maintenance facility close to the compound rather than at Camp Sullivan. However, OBO continued to proceed with its plan to build the Sullivan vehicle maintenance facility because negotiations for the 30 leases that would comprise the Camp Eggers compound were not complete. Also, OBO was concerned that if an alternative vehicle maintenance facility was not available for the embassy's use, construction of the apartment buildings could be delayed and their costs increased. Discussions continued among OBO, DS, and post management, and the proposed temporary vehicle maintenance facility was shifted to Qasemi Lot, a site adjacent to Camp Seitz. However, OBO decided not to eliminate the Camp Sullivan vehicle maintenance facility until plans for a replacement facility at Qasemi Lot were approved by OBO and DS had awarded a construction contract with a scheduled completion date prior to the demolition date for the existing vehicle maintenance facility on-compound. As a result, State is funding two new, temporary vehicle

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maintenance facilities—one at Camp Sullivan (built by OBO) and one at Qasemi Lot (to be built by DS).<sup>5</sup>

A strategic facilities plan could have facilitated coordination in the above cases by providing a common vision of embassy needs, comprehensively cataloging existing assets and alternatives considered for meeting those needs, documenting expected project timelines and estimated costs, and facilitating continuity by documenting decisions made, while allowing for updates.

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## Actions Needed and Potential Financial or Other Benefits

To strengthen coordination efforts to address facility needs of the U.S. embassy in Kabul, in May 2015 GAO recommended that the Secretary of State take the following action:

- Develop a Kabul strategic facilities plan. Such a plan should comprehensively outline existing facilities, identify embassy needs, establish gaps between facilities and needs, and document decisions on meeting those needs.

GAO was unable to estimate the financial benefits of greater coordination in Kabul. However, as of May 2015 State's investments to properly house and protect U.S. staff in Kabul were on track to surpass \$2 billion and likely to increase further. Additionally, it is clear that the changing facility needs of the Kabul embassy will require a combination of further permanent and temporary construction on and off compound. Coordination would be strengthened by the development of a strategic facilities plan. Such a plan for Kabul would need to be tailored to the specific context of the post and would likely go through repeated updates. However, such a common framework would strengthen existing coordination and facilitate greater continuity of decision making. This would lower the likelihood of fragmented or unnecessarily duplicative construction in addressing the embassy's future needs.

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## Agency Comments and GAO's Evaluation

In commenting on the May 2015 report upon which this analysis is based, State concurred with GAO's recommendation to develop a Kabul strategic facilities plan. According to State, OBO plans to continue to work with post and State stakeholders to formalize current and future embassy needs into a plan that outlines existing facilities, identifies embassy

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<sup>5</sup>GAO was unable to estimate the cost of these vehicle maintenance facilities as they were part of off-compound projects outside the scope of the on-compound construction contracts that were the primary focus of the May 2015 report.

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needs, establishes gaps between facilities and needs, and documents decisions on meeting those needs.

GAO provided a draft of this report section to State for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings in GAO's May 2015 report listed in the related GAO products section. To conduct this review, GAO obtained information from agency planning, funding, and reporting documents and interviewed State officials from OBO; DS; the Office of Acquisitions Management; SCA; the Office of the Special Representative for Afghanistan and Pakistan (SRAP); and the Office of Management Policy, Rightsizing, and Innovation. In February 2014, GAO conducted fieldwork in Kabul, Afghanistan, to observe construction progress and meet with U.S. embassy officials responsible for construction, facilities management, post management, and security. GAO also met with contractor officials in Kabul and in the United States. In addition, GAO's Kabul Field Office conducted follow-up meetings with officials in Kabul and their successors through December 2014.

To examine State's planning for projected embassy facility needs, GAO analyzed State coordination and planning documents, as well as funding proposals for new construction in Kabul. In addition, GAO reviewed State policy regarding master planning and strategic facilities planning. GAO also consulted best practices for such planning established by the International Facility Management Association as well as GAO and OMB capital planning guidance. To discuss changing post facility needs and the various coordination efforts to address those needs, GAO met with State officials from OBO, SCA, SRAP, and DS, as well as with post officials responsible for management, facilities, and security in Kabul.

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## Related GAO Product

*Afghanistan: Embassy Construction Cost and Schedule Have Increased, and Further Facilities Planning Is Needed.* [GAO-15-410](#). Washington, D.C.: May 19, 2015.

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## Contact Information

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# 12. U.S.-Funded Development Innovation Programs

The U.S. Agency for International Development should establish a joint approach to collaboration among its Development Innovation Ventures program and other similar U.S.-funded programs in India to better manage overlap.

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## Why This Area Is Important

In October 2010, the U.S. Agency for International Development (USAID) established the Development Innovation Ventures (DIV) program as a key component of the USAID Forward initiative to strengthen USAID by pursuing a more results-oriented approach, developing new partnerships, and investing in innovative solutions to development challenges. DIV's goal is to create a portfolio of innovations that improve the lives of millions of people around the world within 10 years, especially those living in poverty or extreme poverty. DIV seeks to test new approaches to development assistance and identify those that can deliver more impact per dollar spent. DIV also aims to manage risks by investing relatively small amounts of funding in new and innovative ideas for solving development problems and investing larger amounts in ideas that have been proven to work through rigorous evaluation. From fiscal years 2010 to 2015, DIV obligated approximately \$72.5 million for innovation projects to reduce poverty across a range of sectors, including energy, health, and education.

Managed at USAID headquarters, DIV takes a venture capital approach to investing in innovations by awarding grants through a three-stage funding model. The model is intended to identify, evaluate, and scale up development innovations that demonstrate widespread impact and cost-effectiveness. In stage 1 (proof of concept), DIV provides small grants for testing the viability of an innovation in a real-world setting. In stage 2 (testing and positioning for scale), grantees determine through rigorous evaluations whether the solution can achieve greater impact and can be implemented successfully at a larger scale. In stage 3 (transitioning proven solutions to scale), DIV funding supports innovations that seek to transition a solution from large-scale implementation to widespread adoption in one country or to replication in an additional country.

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## What GAO Found

In a December 2015 report, GAO found that DIV and other U.S.-funded innovation programs in India supported similar objectives and beneficiaries among poor, underserved populations in India. For example, in 2012 the USAID mission in India ("USAID India") established the Millennium Alliance, an innovation grant program modeled on DIV. This program provides funding to Indian grantees that demonstrate cost-

effective solutions that address the needs of the extreme poor in India. Like DIV, the program uses a staged funding model to make relatively small initial investments, test more developed solutions, and scale up those that have proven development impact through rigorous evaluations. USAID India also created the India Partnerships program in 2013 to overcome critical development challenges through new technologies and other innovations that can be rigorously tested, shared, and scaled up in India and abroad. In addition, in 2012, the Department of State (State) began funding innovations to support economic growth for underserved populations in India through the U.S.-India Science and Technology Endowment Fund.

GAO’s review of project data for these programs identified instances where DIV and other USAID and State innovation programs funded similar projects in India, as shown in the figure below. These included projects to test the viability of “clean” cook stoves in rural markets, the provision of inexpensive eye care and eyewear for poor and underserved populations, and multiple projects to support the development, testing, or implementation of micro grids for people living in rural areas who are unconnected to the power grid.

**Innovation Projects Funded by Development Innovation Ventures and Other U.S.-Funded Innovation Programs in India**

Innovation	USAID DIV	Millennium Alliance	USAID India Partnerships Program	U.S. – India Science and Technology Endowment Fund (State)
Cook stoves	✓			✓
Microgrid electricity	✓	✓	✓	
Reading initiatives	✓	✓	✓	
Low-cost eye care	✓	✓		✓
Mobile phone agriculture information	✓	✓		
Mobile phone healthcare solutions	✓	✓	✓	
Microfinance/ credit worthiness	✓	✓		

**Legend**

- DIV** Development Innovation Ventures
- State** Department of State
- USAID** U.S. Agency for International Development

Source: GAO analysis of DIV and other U.S.-funded innovation programs in India. | GAO-16-375SP

USAID and State officials who GAO interviewed in India stated that they generally supported the implementation of similar innovation programs in India by different organizations if the programs resulted in additional resources being made available to poor and underserved populations. According to these officials, there is a vast need for innovations such as clean energy and off-grid electricity that improve the lives of the poor in that country. These officials said that as a result, in some cases it may be

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necessary to fund several similar or competing solutions in an effort to identify the few that demonstrate widespread impact and cost-effectiveness. However, GAO has previously noted that without enhanced collaboration, overlap may have a negative effect in that limited resources may not be used in the most effective and efficient manner.<sup>1</sup> GAO has also previously found that several key practices that enhance collaboration—including articulating a joint strategy and common outcomes, agreeing on roles and responsibilities, and identifying and addressing needs by leveraging resources—can help manage programs with similar objectives and beneficiaries.<sup>2</sup>

Collaboration among DIV and U.S.-funded innovation programs in India has not routinely or systematically included the key practices GAO has identified that enhance collaboration and, with some exceptions, has been limited to USAID India's providing initial input to DIV regarding grant award decisions. For example, during USAID India's technical reviews of DIV applications, DIV communicated with USAID India officials, requesting that USAID India review applications for projects that DIV subsequently funded in India. DIV officials also provided some additional examples of communication and consultation with USAID India beyond the initial consultation on DIV applications, such as joint funding of a project to rigorously test an innovation to increase full immunization rates in rural areas.

However, according to DIV officials and a wide range of USAID India and State officials GAO spoke with in India, collaboration among programs beyond these examples has been limited. These officials indicated that after award decisions were made, DIV and the other programs did not systematically share information about project results or reach agreements on their respective roles and responsibilities, such as roles in coordinating planning for the use of grant funds or in monitoring the implementation of grants. State officials who manage other innovation programs in India also stated that while they were aware of some of the activities that DIV supported in India, DIV had not communicated with these programs to collaborate on ongoing or upcoming efforts.

USAID India and State officials who GAO interviewed in India who manage innovation programs that are similar to DIV said that limited collaboration among these programs and DIV had resulted in missed opportunities to share information and leverage USAID India resources. These included missed opportunities to provide outreach to DIV grantees and monitor project implementation and to market DIV innovations to

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<sup>1</sup>See GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015) and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

<sup>2</sup>[GAO-15-49SP](#), [GAO-06-15](#).

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government of India officials and other stakeholders with the means to scale them up, if appropriate.

During the course of GAO's review, DIV officials acknowledged that collaboration could be improved and began implementing an action plan to improve collaboration with missions and bureaus within USAID. The plan outlines steps to share information on DIV's activities across the agency, including establishing DIV points of contact for outreach with missions and bureaus and developing tools for providing more frequent updates on DIV projects with the missions. However, DIV's action plan, while a promising step toward improving collaboration, does not yet represent a joint approach among the overlapping innovation programs that GAO identified in India or include key practices of successful collaboration. For example, DIV has not extended its action plan outside of USAID India to include State's U.S.-India Science and Technology Endowment Fund. DIV also has not harmonized its award selection processes with those of the other innovation programs to help ensure that funding for similar projects is appropriate and not duplicative. Thus, DIV cannot maximize the likelihood that the benefits of its initial outreach efforts will be realized.

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## Actions Needed and Potential Financial or Other Benefits

To help ensure that DIV is making progress toward achieving its global development goal, in December 2015, GAO recommended that the Administrator of USAID take the following action:

- Establish a joint approach to collaboration reflecting agreement with the USAID mission in India and with other related U.S. agency programs in India, and consider where such a joint approach would be beneficial in other countries.

Data are not available to quantify the financial benefit of establishing a joint approach to collaboration among USAID's Development Innovation Ventures program and other similar U.S. programs in India and considering such an approach in other countries. However, taking these actions could strengthen coordination among U.S.-funded innovation programs and help result in more efficient use of U.S. financial support for innovation projects in India and other developing countries.

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## Agency Comments and GAO's Evaluation

In commenting on the December 2015 report on which this analysis is based, USAID agreed with GAO's recommendation, stating that GAO's review had helped identify areas for improvement. USAID also discussed steps it is taking to respond to the recommendation. Specifically, USAID discussed collaboration and coordination between DIV and the USAID mission in India that had occurred during the course of GAO's review.

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USAID also stated that it would build on these collaboration efforts, discuss where improvements could be made, and take action to formalize them.

GAO provided a draft on this report section to USAID and State for review and comment. Neither USAID nor State provided comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product listed in the related GAO products section. GAO examined DIV's collaboration with other similar U.S. development assistance innovation programs, using India as a nongeneralizable case study. GAO selected India as a case study based on analysis of USAID project data. As of 2014, India was the largest recipient of DIV funding representing approximately one-third of the program's portfolio. To determine the extent to which DIV overlaps with programs from USAID and other U.S. agencies in India, and the extent to which it has funded projects that could overlap or duplicate projects funded by U.S. agencies in India, GAO obtained and analyzed program and project data and information for fiscal years 2010 to 2015 from DIV officials in Washington, D.C., and from USAID India and State officials in New Delhi, India. To examine DIV's collaboration with similar U.S. development assistance innovation programs in India, GAO interviewed officials at USAID, State, the Department of Agriculture's Foreign Agricultural Service (FAS), and the Department of Energy, in Washington, D.C., and traveled to the USAID Mission in New Delhi, India, to interview officials from USAID, State, FAS, the U.S. Trade and Development Agency, and the Department of Commerce. During this fieldwork, GAO identified programs at USAID India and the U.S. Embassy in New Delhi that had innovation and development components. GAO interviewed program officials from these agencies, including the Chief of Mission and the Deputy Chief of Mission, to obtain information on the programs and their experiences in collaborating with the DIV office in Washington, D.C.

Table 7 in appendix V lists the programs GAO identified that might have similar or overlapping objectives, provide similar services, or be fragmented across government missions. Overlap and fragmentation might not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

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## Related GAO Product

*Foreign Assistance: USAID Venture Capital Approach Relies on Evidence of Results but Could Strengthen Collaboration among Similar Programs.* [GAO-16-142](#). Washington, D.C.: December 21, 2015.



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## Contact Information

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# Section III: Areas in Which GAO Has Identified Other Cost Savings or Revenue Enhancement Opportunities

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This section summarizes 25 areas for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections for the Treasury.

# 13. Defense Excess Property Disposal

Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of the Department of Defense's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.

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## Why This Area Is Important

Each year the military services identify thousands of items of personal property—including military equipment and materiel—that they need to dispose of because the property is obsolete, not repairable, or excess to their requirements but still usable.<sup>1</sup> According to Department of Defense (DOD) guidance for disposing of its excess personal property, the objectives of the defense materiel disposition process are to dispose of the property in a manner that ensures maximum use to satisfy valid needs, permits authorized donations of surplus property, obtains optimum monetary return to the U.S. government for property sold, and, among other things, minimizes the need for abandoning or destroying property.<sup>2</sup> The Defense Logistics Agency's (DLA) Disposition Services executes the disposal of DOD personal property. Because this property was originally purchased with federal funds, the government seeks to promote its reuse by federal agencies to minimize new procurement costs. GAO has reported that the federal government is facing serious long-term fiscal challenges, and that DOD and other federal agencies will likely encounter considerable budget pressures over the coming years.<sup>3</sup> These challenges make it potentially attractive for DOD and other federal agencies to obtain

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<sup>1</sup>DOD defines personal property as all DOD property except real property, records of the federal government, and certain naval vessels (battleships, cruisers, aircraft carriers, destroyers, and submarines). DOD excess property is not required for the needs and the discharge of the responsibilities of any DOD activity. DOD defines property disposition as the process of reusing, recycling, converting, redistributing, transferring, donating, selling, demilitarizing, treating, destroying, or other ultimate disposition of personal property. DOD Manual 4160.21, *Defense Materiel Disposition: Disposal Guidance and Procedures*, vol. 1 (Oct. 22, 2015).

<sup>2</sup>Department of Defense, DOD 4160.21-M, *Defense Materiel Disposition Manual* (August 1997). According to the manual, eligible recipients of Department of Defense (DOD) excess and surplus property are responsible for all costs associated with the preparation, handling, and movement of the property. During the audit period for the January 2016 report, GAO relied on the August 1997 manual, which implemented the requirements of the Federal Property Management Regulation and other laws as appropriate, as they apply to the disposition of DOD's excess, surplus, and foreign excess personal property. On October 22, 2015, DOD released an updated four-volume Materiel Disposition Manual, which, in general, clarifies aspects of DOD's disposition process while maintaining the essential structure of the program. Because the 1997 manual was in effect during the audit period, GAO's report relied on the 1997 guidance.

<sup>3</sup>GAO, *The Federal Government's Long-Term Fiscal Outlook: Spring 2013 Update*, [GAO-13-481SP](#) (Washington, D.C.: Apr. 11, 2013). This report is part of GAO's body of work on the federal debt and long-term fiscal challenges.

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usable personal property that is already in the federal inventory, rather than procuring similar new items.

DOD's disposal process allows multiple opportunities for potential recipients to obtain personal property no longer needed by DOD. The process includes a 42-day period known as the "screening cycle," during which potential recipients may screen, request, and obtain excess property at the stages in which they are eligible to do so, after which any remaining property may be sold. The property may remain a specific number of days in each stage, as shown in the figure below. If the property is not disposed of during one stage of the cycle, it moves on to the next stage. First, usable property may be reutilized within DOD or provided to certain special programs, such as the program authorized by Section 2576a of the United States Code, Title 10 that provides excess DOD property to state and local law enforcement agencies.<sup>4</sup> If not reutilized, this property may be transferred—working through the General Services Administration (GSA)—to federal agencies, after which it becomes surplus and may be donated to other parties, such as state governments. Remaining property may be sold to the general public, if appropriate and safe, or rendered useless for its original military purpose (demilitarized) and sold as scrap or destroyed. For fiscal year 2014, DOD reported that excess and surplus property with a total original acquisition value of approximately \$3.18 billion in nominal dollars was reutilized within DOD or provided to special programs, transferred to other federal agencies, or donated to eligible organizations (such as state and local governments or nonprofit organizations).<sup>5</sup> DOD further reported total revenues of almost \$128 million from items sold in fiscal year 2014.<sup>6</sup>

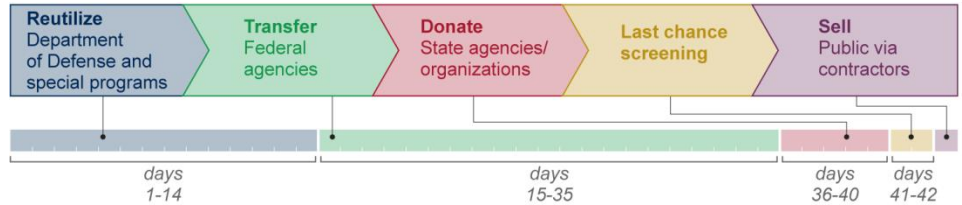
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<sup>4</sup>There are 12 special programs that may screen and request DOD excess personal property during the reutilization stage of the disposal process. Of these, 6 programs are found in laws and codified in statutes, and 6 were established by DOD, and no separate legal authorities apply. Programs found in law and statute include the program that authorizes DOD to transfer excess DOD property that is suitable for use by law enforcement activities, including counter-drug and counter-terrorism activities (called the "1033 program," for the section of the law that authorizes it). Programs established by DOD include the civil air patrol, which is the official auxiliary of the U.S. Air Force, and is eligible to receive excess DOD property without reimbursement.

<sup>5</sup>The acquisition value is the amount identified as the original cost of the property or the estimated replacement cost. DLA uses this figure when reporting on its excess property disposal process. During the transfer stage, both federal and nonfederal agencies may view the property on the GSA website. Federal agencies—including DOD components—may also request property during this stage.

<sup>6</sup>DOD reported approximately \$39 million in sales of usable property, \$34 million in scrap sales, and \$55 million from other contracts in fiscal year 2014.

## Overview of DOD's Disposal Process



Source: GAO analysis of Defense Logistics Agency (DLA) data. | GAO-16-375SP

## What GAO Found

GAO found in the January 2016 report that the priorities outlined in DOD's disposal process guidance place special program recipients in the first stage of the process (reutilization) versus the later stages (transfer or donation). This approach gives some nonfederal entities priority for excess property over some federal civilian agencies that may have similar needs.<sup>7</sup> One of these special programs is the 1033 program, which provides excess DOD personal property to federal, state, local, and tribal law enforcement agencies. Among the special programs, the 1033 program receives the largest proportion of DOD excess personal property in terms of original acquisition value.

For fiscal year 2014, approximately 85 percent of the property obtained under the 1033 program, by original acquisition value, went to state and local law enforcement agencies.<sup>8</sup> DLA's 1033 program guidance states that participating law enforcement agencies must meet eligibility requirements and comply with program guidelines. Specifically, program participants must be government agencies whose primary function is the enforcement of applicable federal, state, and local laws, and whose compensated law enforcement officers have powers to apprehend and arrest. All requests for property are required to be based on current, *bona fide* law enforcement requirements, and any property obtained is to be placed into use within 1 year.<sup>9</sup> Within the 1033 program, law enforcement agencies may obtain DOD property even if the property does not appear to be *exclusively* related to law enforcement activities so long as the law enforcement agency provides the required justification for obtaining the

<sup>7</sup>In this report, we refer to federal civilian agencies as those which are not military, law enforcement, or firefighting agencies.

<sup>8</sup>The remaining 15 percent of property obtained under the 1033 program went to federal and tribal law enforcement agencies. In total, federal, state, local, and tribal law enforcement agencies obtained 32.6 percent—about \$922 million in original acquisition value (in nominal dollars)—of property obtained at the reutilization stage in fiscal year 2014.

<sup>9</sup>Defense Logistics Agency Instruction 8160.01, *Law Enforcement Support Office* (July 21, 2014).

property, and a state coordinator and the Law Enforcement Support Office at DLA Disposition Services approve the request.

In January 2016, GAO reported that law enforcement agencies at all levels have used the 1033 program to obtain property—such as excavating equipment, fencing, and musical instruments—that could also be used by other types of potential recipient organizations, including federal civilian agencies. During calendar years 2013 and 2014, 150 law enforcement agencies obtained 285 pieces of earth-moving and excavating equipment through the 1033 program, with original acquisition values totaling just over \$25 million.<sup>10</sup> GAO reported in January 2016 that at least 9 federal agencies purchased earth-moving equipment to meet their mission requirements during the same period. For purposes of this report section, GAO performed additional analyses outside of the January 2016 report, reviewing financial obligation data related to 249 federal agency contracts for earth-moving and excavating equipment from those 9 agencies in calendar years 2013 and 2014. GAO found that federal agencies obligated over \$28 million to purchase earth-moving and excavating equipment similar to the equipment obtained by state and local law enforcement agencies through the 1033 program. The following table shows more information about federal civilian agency contracts for earth-moving and excavating equipment.

**Categories of Earth-Moving and Excavating Equipment Procured by Federal Civilian Agencies during 2013-2014**

Property type	Total number of contracts <sup>a</sup>	Total number of federal agencies	Total action obligation value <sup>b</sup>
Ditching machines	1	1	\$28,465
Dump trucks and trailer	5	2	416,833
Excavators	50	7	5,096,764
Loaders <sup>c</sup>	160	8	14,537,004
Road graders	22	4	6,760,585
Tractor scrapers	11	2	1,177,946
<b>Total</b>	<b>249</b>	<b>9<sup>d</sup></b>	<b>\$28,017,597</b>

Source: GAO analysis of Federal Procurement Data System data. | GAO-16-375SP

<sup>a</sup>Contracts may include procurements for more than one asset.

<sup>b</sup>Total action obligation values are rounded to the nearest dollar.

<sup>c</sup>Loaders include scoop loaders, backhoes, skid steer loaders, and multiterrain loaders.

<sup>d</sup>Agencies procured multiple product types, and so the total reflects the total number of unique agencies contracting for these products. Federal agencies include the Department of Agriculture; Department of Justice; Department of Transportation; Department of Health and Human Services; Department of Homeland Security; International Boundary and Water Commission: U.S.-Mexico; Department of the Interior; Department of State; and Department of Veterans Affairs.

As reported in January 2016, GAO could not determine whether any specific item that DLA Disposition Services provided to state and local law

<sup>10</sup>For instance, officials from U.S. Customs and Border Protection said they use such items for operations such as maintaining roads on the border to ensure safe operations for agents in the field.

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enforcement agencies would have filled the need that one of these federal agencies met by using appropriated funds for a new procurement. Nonetheless, DLA's implementation of the disposal process risks such an occurrence because state and local law enforcement agencies obtain the majority of the excess property available under the 1033 program. By providing access to excess property to special programs in the first stage of the disposal process, DOD's disposal process gives preference to special programs over potential federal civilian agency recipients for obtaining excess property. Consequently, in some cases, federal agencies may be disadvantaged in favor of nonfederal agencies in their ability to obtain property that was originally purchased with federal funds. In such cases, federal agencies are at risk of spending appropriated funds to acquire property that could potentially be obtained through DOD's disposal process at a lower cost. While the property that was available might not have been suitable to meet federal agency requirements due to matters such as quantity, timing, condition, and transportation costs, it is possible that some of this equipment may have been suitable and could have allowed the federal government to postpone or even avoid some of these purchases—resulting in potentially millions of dollars in cost savings.<sup>11</sup> There may also be additional potential savings for other types of equipment not included in GAO's analysis.

In October 2015, DOD issued an update to its 1997 disposition guidance. In its new manual, DOD now explicitly gives priority to DOD components over the special programs for obtaining excess property during the reutilization stage.<sup>12</sup> However, special programs remain in the reutilization stage and thus would still be able to obtain property ahead of federal civilian agencies. DOD officials acknowledged that they have the authority within their 1033 program to give preference to federal law enforcement agencies over state and local law enforcement agencies. However, at the time of GAO's review, these officials told GAO they were not planning further revisions to the screening and issuance priorities in the disposal process because there has been no demand from federal agencies, other than Customs and Border Protection, to change these priorities.

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<sup>11</sup>GAO does not know what proportion of the \$28 million in contracts awarded by federal civilian agencies to private sector suppliers for earth-moving and excavating equipment could have been avoided if similar assets had been obtained through the disposal process for DOD excess property. However, if even a relatively small proportion of such equipment could be obtained through the disposal process, this could result in savings of over a million dollars. Moreover, GAO's review of contracts awarded by federal civilian agencies was confined to earth-moving and excavating equipment and did not include other categories of excess property, which could also potentially be obtained through the disposal process and yield savings as well. Therefore, GAO concludes that obtaining assets through DOD's disposal process could eventually result in millions of dollars in savings for federal civilian agencies.

<sup>12</sup>DOD Manual 4160.21, *Defense Materiel Disposition: Reutilization, Transfer, and Sale of Property*, vol. 3, encl. 5, § 3(b)(3) (Oct. 22, 2015). While special programs may continue to screen and request excess DOD personal property during this stage, property is now not to be issued to the special programs until the reutilization stage has ended.

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A key internal control for federal agencies is management's ability to assess and manage risks associated with achieving agency objectives, including consideration of an assessment of significant interaction between the organization and other parties and development of mechanisms to respond to changes in governmental and operating conditions, among other special risks.<sup>13</sup> Unless DOD further reassesses its disposal process to determine if it needs to make additional changes to its guidance governing the priorities of the disposal process—specifically for property obtained by special programs such as the 1033 program—and revises its guidance reflecting these priorities accordingly, the risk remains that federal civilian agencies may spend additional appropriated federal funds to procure equipment rather than pursue obtaining equal or similar items at little or no additional cost to the federal government through DOD's disposal process.

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in January 2016 that the Secretary of Defense direct the Director, DLA, to take the following action:

- Further reassess DOD's disposal process to determine whether additional changes are needed in the priority given to recipients within the process, including potential changes to the categories and quantities of property that special programs may obtain, and revise its guidance reflecting those priorities accordingly to better enable DOD to fulfill the disposal program's objectives.

Federal agencies could potentially save millions of dollars by obtaining excess property from DOD rather than procuring new property. There may also be opportunities for additional savings if federal agencies are able to obtain other types of excess personal property from DOD.

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## Agency Comments and GAO's Evaluation

In commenting on the January 2016 draft report on which this analysis is largely based, DOD concurred with GAO's recommendation and stated that it would continue to assess all aspects of the disposal process as part of its standard operating procedures. As discussed in the report, GAO's analysis indicates that DOD should separately assess the priorities in its disposal process, to include preferences provided to the special programs. Absent such an assessment, risk remains that federal agencies may spend additional appropriated federal funds to procure equipment, rather than pursue obtaining equal or similar items at little or

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<sup>13</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: 1999).



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no additional cost to the federal government through DOD's disposal process. While GAO understands that DOD already assesses its disposal process as part of its normal operations, GAO maintains that the potential to make more efficient use of federal funds warrants further efforts in this area.

GAO provided a draft of this report section to DOD for review and comment. DOD provided technical comments and in response we made changes to this report when appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the report listed in the related GAO products section and additional work GAO conducted. To identify types of excess property obtained by law enforcement agencies, GAO obtained and analyzed data on DOD's 1033 program from an extract of the Federal Excess Property Management Information System provided by the U.S. Forest Service, which manages this database on behalf of the Law Enforcement Support Office at DLA Disposition Services. To assess the reliability of these data, GAO interviewed knowledgeable officials at the U.S. Forest Service and the Law Enforcement Support Office, performed electronic testing of key data elements, and met with both the 1033 program coordinator and a local law enforcement agency in two states to compare the property on hand with the records in the database. Based on these efforts, GAO concluded that the data were sufficiently reliable for GAO's purpose of identifying types of excess property obtained by law enforcement agencies. GAO then used the data to examine property obtained by law enforcement agencies from calendar years 2013 and 2014—the most recent full calendar year data available—that did not appear to be exclusive to law enforcement activities and that did not possess military attributes. To provide some examples of types of property that could fall into these categories, GAO analyzed data from six federal supply classes, including earth-moving and excavating equipment (federal supply class #3805); self-propelled warehouse trucks and tractors (3930); fencing, fences, gates, and components (5660); food cooking, baking, and serving equipment (7310); kitchen equipment and appliances (7320); and musical instruments (7710). GAO selected these broad categories of property based on testimonial evidence gathered during site visits to the four states in which the audit team conducted field work, and GAO's judgment that these types of property, which had recently been obtained by law enforcement agencies, did not seem to be exclusively related to law enforcement activities. GAO used the national stock numbers to calculate the number of items, number of distinct law enforcement agencies,

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number of states, and range of acquisition values for various equipment types within each federal supply class.<sup>14</sup>

To identify potential savings, GAO did further analysis on the federal supply class of earth-moving and excavating equipment by identifying federal agency contracts for this type of equipment in calendar years 2013 and 2014 that is similar to equipment given to state and local law enforcement agencies through DOD's 1033 program during the same period. This federal supply class was selected because of the value of such personal property given to state and local law enforcement agencies through the 1033 program, and the likelihood that a number of federal agencies might be able to use such equipment. Using the Federal Procurement Data System, GAO identified procurement records for purchased earth-moving and excavating equipment for all federal agencies that procured such equipment and reviewed all records to identify the procured equipment that was comparable to the equipment given to state and local law enforcement agencies based on the description of the requested equipment. In performing this work, GAO did not determine whether donated property would have been suitable for the needs of the purchasing agency or confirm that the purchased equipment had been delivered.

Table 8 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Product

*Excess Personal Property: DOD Should Further Reassess the Priorities of Its Disposal Process.* [GAO-16-44](#). Washington, D.C.: January 29, 2016.

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## Contact Information

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<sup>14</sup>GAO did not include in its analysis property that had been turned in to DLA Disposition Services using locally assigned stock numbers since the numbers vary by location and it is difficult to make comparisons among them. For these federal supply classes, including local stock numbers would increase the amount of property obtained by law enforcement agencies during this time frame.

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# 14. DOD's Eligibility Determinations for Living Quarters Allowance

The Department of Defense (DOD) could potentially achieve cost savings by monitoring its components' reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance.

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## Why This Area Is Important

The Department of Defense (DOD) provides a living quarters allowance (LQA) as an incentive to recruit eligible U.S. citizens for civilian employee assignments overseas. This allowance helps defray expenses, such as rent and utilities, associated with living overseas. In fiscal year 2014, the most recent year for which data are available, DOD paid about 16,880 U.S. civilian employees assigned overseas over \$504 million for LQA. After conducting a worldwide audit in 2013, DOD determined some civilian employees had, over the course of their employment, erroneously received a total of about \$104.5 million for LQA, in part because of misinterpretations of eligibility requirements for this allowance. Specifically, 444 employees were identified as having been erroneously paid LQA because they were incorrectly identified by DOD components as having been initially recruited in the United States or as having maintained continuous employment with only a single prior employer since being hired overseas.<sup>1</sup>

Within DOD, the Deputy Assistant Secretary of Defense for Civilian Personnel Policy is to develop, revise, and monitor the implementation of overseas allowance and differential policies and procedures, including those for LQA.<sup>2</sup> This responsibility has been delegated to the Defense Civilian Personnel Advisory Service (DCPAS), a component of the Defense Human Resources Activity. DCPAS is responsible for monitoring other DOD components' LQA determinations.<sup>3</sup>

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<sup>1</sup>This recruitment must have been by the U.S. government, a private U.S. organization, an international organization in which the United States participates, or a foreign government, and having remained in continuous employment with that employer.

<sup>2</sup>This responsibility is outlined in DOD Instruction 1400.25, Volume 1250, *DOD Civilian Personnel Management System: Overseas Allowances and Differentials* (Feb. 23, 2012), which we refer to as the LQA Instruction.

<sup>3</sup>DOD makes LQA eligibility determinations in accordance with Department of State Standardized Regulations (DSSR); DOD Instruction 1400.25, Volume 1250; and department-wide and component-level guidance.

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## What GAO Found

In June 2015, GAO found that DCPAS had not monitored DOD components' LQA eligibility determinations for civilian employees overseas to help ensure the consistent application of eligibility requirements across the department. In 2010, the DOD Office of the Inspector General recommended that the Deputy Assistant Secretary of Defense for Civilian Personnel Policy conduct periodic quality assurance reviews of overseas allowance and differential payments, including LQA.<sup>4</sup> In implementing the Office of the Inspector General's recommendation, DOD updated its LQA Instruction in February 2012 to include a requirement that ongoing quality assurance reviews be conducted to verify that overseas allowance and differential payments are proper and consistent with applicable statutory and regulatory provisions. However, DOD delegated this requirement to its components that make the eligibility determinations for LQA, thereby having them periodically review their own actions, rather than having the office responsible for oversight of such allowances perform the reviews. Further, according to DCPAS officials, these reviews have not consistently been conducted. DCPAS officials explained that they became aware of issues with inconsistent LQA eligibility determinations shortly after the February 2012 LQA Instruction containing the new requirement for ongoing quality assurance reviews was issued. DCPAS officials chose not to have DOD components begin conducting the periodic quality assurance reviews because they anticipated that the components would soon be involved in the 2013 LQA audit, which was conducted by DCPAS. DCPAS officials also told GAO that they are not responsible for monitoring the LQA eligibility determinations of DOD components. In the absence of a specific requirement to conduct this monitoring, it is unclear whether DCPAS officials would fulfill this responsibility.

As a result of the issues that arose from the 2013 audit, DOD is in the process of revising its LQA Instruction. A February 2015 draft LQA Instruction that GAO reviewed included, among other things, a proposal that the heads of DOD components annually conduct an audit of employees who receive overseas allowances and differentials and report the results to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy by March of each year. However, there is no specific requirement in the draft LQA Instruction for the Office of the Deputy Assistant Secretary or DCPAS to monitor the reviews conducted by DOD components to identify any potentially inconsistent eligibility determinations and ensure corrective action is taken. Furthermore, according to DCPAS officials, the draft was subsequently modified to require DOD components to report to the Deputy Assistant Secretary of

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<sup>4</sup>DOD Inspector General, *Report No. D-2010-075: Foreign Allowances and Differentials Paid to DOD Civilian Employees Supporting Overseas Contingency Operations* (Aug. 17, 2010).

Defense for Civilian Personnel Policy only when component officials identify a problem during the course of an audit.

*Standards for Internal Control in the Federal Government* state that internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.<sup>5</sup> Without actively monitoring the reviews, DCPAS cannot independently verify that DOD components are making LQA eligibility determinations in accordance with applicable statutory and regulatory provisions and are promptly and appropriately taking action to resolve any findings and recommendations from their reviews. Further, DOD cannot ensure the consistent application of LQA eligibility requirements throughout the department and is at risk for future erroneous payments of this allowance to its civilian employees overseas. If, through consistent monitoring, DCPAS concludes that DOD components are improperly providing LQA to civilian employees who are not eligible to receive it, DOD may identify cost savings.

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## Actions Needed and Potential Financial or Other Benefits

To better ensure that DOD components are determining LQA eligibility consistently with applicable regulations and policies, GAO recommended in June 2015 that the Secretary of Defense

- require the Deputy Assistant Secretary of Defense for Civilian Personnel Policy or DCPAS, as delegated, to monitor reviews of LQA eligibility determinations conducted by DOD components.

Estimated cost savings in this area cannot be determined because the net savings will depend on the results of DOD components' periodic quality assurance reviews. If DOD components identify a significant number of civilian employees who have improperly received LQA for a number of years, then DOD could realize significant cost savings if the relevant component(s) discontinue LQA for those employees. Further, DOD may altogether avoid costs that it would have otherwise incurred through improper payments of LQA by identifying and discontinuing LQA for such employees earlier than would have occurred without monitoring the reviews of LQA determinations. For example, in its 2013 audit, DOD concluded that LQA payments totaling \$104.5 million were paid to employees who should not have been authorized to receive LQA at all. By monitoring the components' reviews, the Deputy Assistant Secretary of Defense for Civilian Personnel Policy or DCPAS, as delegated, can ensure that potential improper payments are promptly identified and

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<sup>5</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

resolved and do not result in conditions similar to those that were revealed in the 2013 LQA audit.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's June 2015 report on which this analysis is based, DOD concurred with the recommendation to monitor reviews of LQA eligibility determinations. DOD stated that it was in the process of revising DOD's LQA Instruction. As stated earlier, according to DCPAS officials, the updated LQA Instruction is to require the DOD components to conduct annual reviews of LQA payments and communicate any inconsistencies to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy. While a notable development, the draft LQA Instruction still does not require the Office of the Deputy Assistant Secretary or DCPAS to monitor the reviews conducted by DOD components to identify any potentially inconsistent eligibility determinations and ensure corrective action is taken, as was the intent of GAO's June 2015 recommendation. As of March 2016, DOD had not yet issued the revision to DOD LQA Instruction, but according to DCPAS officials, they had begun the intradepartmental coordination process that is necessary prior to issuance. DCPAS officials submitted the draft for internal legal review in September 2015, which was still underway as of March 2016. According to the officials, this review has taken longer than expected due to legal staff working on other department priorities. DCPAS officials estimated that the LQA Instruction would not be finalized and issued until April 2016 at the earliest.

GAO provided a draft of this report section to DOD for review and comment. In an email received on March 11, 2016, DOD officials stated their intent to meet the recommendation when the LQA Instruction is finalized and issued. The Department also recently directed components to complete another review and submit a report of overseas allowances and differentials paid to a sampling of overseas employees. Component headquarters are required to submit specific information on each allowance approved by their subordinate offices along with supporting laws and regulations that authorize each allowance. DOD officials stated that this will allow the department to review and monitor LQA eligibility determinations. The issuance of such a review is a positive interim step, but until DOD issues its revised LQA Instruction to include a requirement to monitor DOD components' reviews of LQA determinations, there is no assurance that such monitoring will be regularly conducted in the future.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings in the report identified in the related GAO product section. For this report, GAO reviewed the DSSR, DOD's current LQA Instruction, and DOD's draft LQA Instruction dated February 2015. GAO interviewed officials from DCPAS and DOD components with employees who were determined to

have been erroneously paid LQA in DOD's 2013 audit to assess DCPAS's oversight of LQA eligibility determinations. GAO used Defense Finance and Accounting Service's payroll data for fiscal years 2011 through 2014 to identify the number of employees who received LQA, the total dollar amount of LQA spent, and the debt incurred by the employees determined by DOD's 2013 LQA audit to have been erroneously paid LQA. GAO also interviewed officials from the Army, Navy, Air Force, and Marine Corps who are involved in creating and implementing LQA guidance for the military services as well as providing support to the overseas officials who make LQA eligibility determinations.

Table 9 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Product

*Defense Civilian Compensation: DOD and OPM Could Improve the Consistency of DOD's Eligibility Determinations for Living Quarters Allowances.* [GAO-15-511](#). Washington, D.C.: June 16, 2015.

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# 15. DOD Excess Ammunition

The Department of Defense could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.

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## Why This Area Is Important

The Department of Defense (DOD) manages conventional small arms ammunition that includes bullets for rifles, hand guns, and shotguns, some of which are also used by other government agencies and departments. When a military service determines that serviceable ammunition is beyond its requirements, that ammunition is offered to the other services. If that ammunition is not taken, it is transferred to the Army, which manages the stockpile of conventional ammunition awaiting demilitarization and disposal (CAD stockpile) and takes actions to demilitarize and dispose of the ammunition in the stockpile.

According to data provided by DOD officials, as of February 2015, the CAD stockpile was about 529,373 tons, which included 3,533 tons of serviceable small arms ammunition.<sup>1</sup> DOD estimates that from fiscal year 2016 to fiscal year 2020, it will add an additional 582,789 tons of conventional ammunition to this CAD stockpile, making the proper management of the disposal of such large quantities of explosive materiel critical. DOD demilitarizes and disposes of the conventional ammunition by burning it, detonating it with other explosives, or using a number of closed disposal technologies that control or clean the discharge waste from the demilitarization process.<sup>2</sup> In fiscal year 2015, DOD spent about \$118 million to demilitarize and dispose of conventional ammunition. DOD can also reduce the CAD stockpile by transferring useable small arms ammunition to other federal, state, and local agencies.

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## What GAO Found

GAO reported in July 2015 that DOD had reduced some of its demilitarization and disposal costs by transferring some excess ammunition to other government agencies as opposed to demilitarizing

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<sup>1</sup>The February 2015 data were the latest available information that GAO reported in its July 2015 report, on which this report section is based. The types of ammunition in the stockpile include items ranging from small arms cartridges, to rockets, mortars, and artillery, to tactical missiles.

<sup>2</sup>The Secretary of the Army serves as DOD's Single Manager for Conventional Ammunition (SMCA), and is responsible for centrally managing all aspects of the life cycle management of conventional ammunition, from research and development through demilitarization and disposal. Because the Army centrally manages DOD's demilitarization activities as the SMCA, in this context, GAO refers to the Army as DOD.



and disposing of it, but that DOD does not have a systematic means for communicating with these agencies about available excess ammunition. Communicating in a systematic manner with other government agencies on available excess ammunition could help reduce the CAD stockpile and save DOD hundreds of thousands of dollars in storage, demilitarization, and disposal costs.

Section 346 of the Ike Skelton National Defense Authorization Act, as amended, requires, among other things, that serviceable small arms ammunition and ammunition components in excess of military needs not be demilitarized, destroyed, or disposed of unless they are in excess of commercial demands or certified as unserviceable or unsafe by the Secretary of Defense.<sup>3</sup> Before offering the excess serviceable small arms ammunition for commercial sale, this provision outlines a preference that DOD offer the small arms ammunition, such as bullets and ammunition components, for purchase or transfer to other federal government agencies and departments, or for sale to state and local law enforcement, firefighting, homeland security, and emergency management agencies, subject to certain conditions. In addition, DOD Manual 4140.01, Volume 6, states that the Secretary of Defense can transfer excess ammunition suitable for law enforcement activities, including counter-drug and counter-terrorism activities, to other federal and state agencies.<sup>4</sup> However, the DOD manual does not specify how the transfer of the ammunition should be facilitated.

In July 2015, GAO reported that there have been instances of DOD transfers of ammunition to other government agencies but that these have been done informally and on a limited basis. For example, GAO reported that in fiscal year 2014, DOD provided 38 million rounds of small arms ammunition to the Federal Bureau of Investigation (FBI) and 7.5 million rounds of small arms ammunition to the U.S. Marshals Service. In 2015, according to DOD officials, the department also transferred approximately 10 million rounds of 5.56 millimeter ammunition to the U.S. Marshals Service, which uses the ammunition for training purposes. DOD officials stated that this transfer saved the department approximately \$968,000 in demilitarization and disposal costs. In addition, DOD officials

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<sup>3</sup>The Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Pub. L. No. 111-383, § 346 (2011), as amended by the National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, § 361 (2011).

<sup>4</sup>This manual references 10 U.S.C. § 2576a, under which DOD is permitted to transfer (sell or donate) ammunition to federal or state agencies where the Secretary of Defense determines that the ammunition is “(A) suitable for use by the agencies in law enforcement activities, including counter-drug and counter-terrorism activities; and (B) excess to the needs of the Department of Defense.” The ammunition must also be part of the existing stock of DOD, accepted by the recipient agency on an as-is, where-is basis, transferred without the expenditure of any funds available to DOD for the procurement of defense equipment, and transferred such that all costs incurred subsequent to the transfer of the property are borne or reimbursed by the recipient agency. Finally, there is a stated preference for those applications indicating that the transferred property will be used in counter-drug or counter-terrorism activities of the recipient agency.

noted that DOD transferred an unspecified amount of small arms ammunition to state enforcement agencies—the Texas Rangers and Pennsylvania State Police—about a decade ago, but they could not identify any additional requests from or transfers to state or local agencies.

According to DOD officials, DOD uses informal methods—such as relying on relationships with agency officials and contacting them by phone or e-mail—to communicate information about available excess ammunition. DOD could potentially save hundreds of thousands of dollars in future storage, demilitarization and disposal costs if it provided information about excess ammunition to law enforcement agencies in a more systematic manner. Law enforcement agencies, such as the Department of Justice and Department of Homeland Security (including the Immigration and Customs Enforcement), annually procure millions of dollars in ammunition. GAO reported in January 2014 that the ammunition purchases are driven primarily by firearms training and qualification requirements for the firearm-carrying workforce. For example, according to Department of Homeland Security officials, Immigration and Customs Enforcement has an estimated annual 5.56 millimeter ammunition requirement of approximately 25 million rounds. Department of Homeland Security officials stated that the agency uses the ammunition for training and weapons qualifications and has expressed interest in meeting a significant amount of its annual usage with serviceable excess DOD 5.56 millimeter ammunition. Such a transfer could also produce cost savings for DOD in avoiding the disposal and demilitarization of this ammunition.

How much DOD could save in storage, demilitarization, and disposal costs would depend upon how much ammunition could be transferred to other services. According to officials with several law enforcement agencies within the Department of Justice, there are potential challenges to using the military version of the conventional ammunition. For example, FBI officials stated that they obtained excess ammunition from DOD in 2014 for training purposes but initially experienced problems in using the military version of the ammunition. The agency modified their weapons to avoid damage. FBI officials stated that they would like to continue to obtain ammunition from DOD but would need to test the ammunition first before use. The U.S. Marshals Service did not note any challenges with using the ammunition that it received from DOD, and reported that it could use DOD's ammunition for firearms training but not for qualification because there is a different standard and type of ammunition required for these purposes. While in some cases challenges associated with acquiring DOD ammunition would need to be addressed, without establishing a formal means to communicate with and provide other government agencies with information on available excess serviceable ammunition, DOD could miss opportunities to reduce its overall storage, demilitarization, and disposal costs by transferring such ammunition to other government agencies.

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## Actions Needed and Potential Financial or Other Benefits

To improve the visibility and awareness of serviceable excess ammunition in the CAD stockpile that could potentially be transferred to other government agencies, thereby reducing costs to DOD, in July 2015, GAO recommended that the Secretary of Defense direct the Secretary of the Army to take the following action:

- Develop a systematic means to make information available to other government agencies on excess ammunition to include small arms ammunition that could be used to meet their needs.

Taking the action would allow DOD to potentially save hundreds of thousands of dollars by reducing the storage, demilitarization, and disposal costs for DOD. A more precise estimated amount of future potential cost savings is difficult to quantify because the quantities of available DOD excess ammunition as well as the government agencies and departments annual requirements for ammunition vary from year to year.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's July 2015 report on which this analysis is based, DOD concurred with the recommendation. DOD stated that Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics would ensure that the Secretary of the Army is tasked to develop a systematic means to make information available to other government agencies on excess ammunition. However, in conducting follow-up work, GAO found that DOD continues to transfer ammunition to federal law enforcement agencies on an informal basis and no formal process has been implemented.

GAO provided a draft of this report section to the Departments of Homeland Security and Justice for review and comment. In an email received on March 3, 2016, the Department of Homeland Security agreed with the material facts as presented and provided technical comments, which were incorporated as appropriate. In an email received on March 4, 2016, the Department of Justice agreed with the material facts as presented. GAO provided a Statement of Facts of this draft report section to the Department of Defense for review and comment. In an email received on February 27, 2016, the Department of Defense agreed with the material facts as presented.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the reports listed in the related GAO products section and additional work

GAO conducted to follow up on its recommendation in 2015. To assess the extent to which DOD adequately shared information on the quantity, condition, and location of excess, obsolete, and unserviceable conventional ammunition for each military service, GAO reviewed DOD's inventory data on excess, obsolete, and unserviceable conventional ammunition held in the CAD stockpile as of February 2015. Further, GAO obtained information from and interviewed officials at DOD and federal law enforcement agencies, specifically those from the Department of Homeland Security (Immigration and Customs Enforcement) and Department of Justice (U.S. Marshals Service and Federal Bureau of Investigation). GAO used its January 2014 report, which described ammunition purchases of the Departments of Homeland Security and Justice, to select the federal law enforcement agencies that could potentially use excess serviceable ammunition in the CAD stockpile for training purposes. In addition, GAO reviewed documents from the federal law enforcement agencies that obtained excess ammunition from DOD to identify the amount of ammunition transferred. Agencies that are able to obtain serviceable ammunition in transfers from DOD would see reductions in their procurement costs, although we did not estimate the extent of such savings.

Table 10 in appendix V lists the programs GAO identified that might have opportunities for cost savings.

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## Related GAO Products

*Defense Logistics: Improved Data and Information Sharing Could Aid in DOD's Management of Ammunition Categorized for Disposal.* [GAO-15-538](#). Washington, D.C.: July 21, 2015.

*Department of Homeland Security: Ammunition Purchases Have Declined since 2009.* [GAO-14-119](#). Washington, D.C.: January 13, 2014.

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# 16. DOD Leases and Use of Underutilized Space at Military Installations

The Department of Defense could potentially achieve millions of dollars in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies.

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## Why This Area Is Important

GAO has designated the federal government's management of its real property assets as high risk, in part because of overreliance on costly leasing and challenges in reducing excess infrastructure.<sup>1</sup> In particular, the Department of Defense (DOD)—one of the federal government's largest owners of real estate—continues to rely on and pay for leased commercial space while also operating and maintaining underutilized (vacant or partially vacant) facilities on its military installations. DOD expends valuable resources on these underutilized facilities that could potentially be eliminated from the budget or allocated to other uses. The need to better utilize existing real property has been the focus of government-wide efforts since the President issued an executive order to promote the efficient and economical use of federal real property assets in 2004.<sup>2</sup> On March 25, 2015, the Office of Management and Budget (OMB) issued a memorandum to clarify the existing policy to dispose of excess properties and promote more efficient use of real property assets.<sup>3</sup>

DOD manages a global real property portfolio that consists of nearly 562,000 facilities, which are located on over 4,800 sites worldwide and cover over 24.9 million acres. DOD estimates that its facilities have a plant replacement value of about \$880 billion. This portfolio includes property that is currently underutilized but is retained because it may be needed in the future. DOD can allow use of underutilized property on its installations by moving DOD organizations out of leased space and onto military installations or by establishing agreements to move other tenants, such as non-DOD federal agencies and other government and private entities, onto military installations. Such agreements may offer potential opportunities for financial benefits, including reduced maintenance costs and, in some circumstances, revenue to DOD. However, while DOD continues to operate and maintain underutilized facilities, as of

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

<sup>2</sup>Exec. Order No. 13327, *Federal Real Property Asset Management*, 69 Fed. Reg. 5897 (Feb. 6, 2004).

<sup>3</sup>Office of Management and Budget, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, Management Procedures Memorandum No. 2015-01 (Washington, D.C.: Mar. 25, 2015).

September 2013 it had over 5,500 leases to use space owned or held by private organizations, the General Services Administration (GSA), and state organizations. GSA has key leadership responsibilities related to real property management for the federal government, including acquiring, managing, utilizing, and disposing of real property for most federal agencies, as well as entering into, renewing, and terminating contracts for leased properties. Notably, DOD facilities are not generally subject to GSA authority, as DOD has authority under law to acquire, manage, and dispose of its real property.<sup>4</sup> GAO reported in March 2016 that although DOD cannot fully determine the total cost of its leases, GAO's work over the years has shown that operating leases often costs more than owning buildings, especially where there are long-term needs for space.

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## What GAO Found

GAO reported in March 2016 that DOD has underutilized space at military installations but may miss opportunities to reduce its reliance on leased facilities and assess the use of available space resulting from planned force reductions at its installations. GAO also reported that DOD also does not systematically identify the availability of underutilized space on its installations to leasing agencies. GAO reported in June 2015 that DOD and GSA do not routinely share information on opportunities to move non-DOD federal agencies onto military installations to use underutilized space. GAO found that both DOD and non-DOD agencies could benefit from this use of underutilized space. DOD avoids the cost of utilities and maintenance, which typically are paid by the tenant, and the tenant agency avoids the cost of rent for commercial leases, as DOD charges for use of space by other federal entities on a cost-recovery basis but does not charge rent.

In March 2016, GAO reported that while DOD has taken some actions to reduce its leased space, DOD had projected minimal change in its overall lease activities in response to a presidential memorandum and a series of OMB memorandums instructing federal agencies to maintain or reduce

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<sup>4</sup>See 40 U.S.C. § 582; 10 U.S.C. §§ 2661, et seq.

both owned and leased space.<sup>5</sup> Specifically, in its October 2013 Freeze the Footprint report to GSA, DOD stated that most of the military departments did not anticipate significant year-to-year changes in their current leasing activities.<sup>6</sup> GAO also reported in March 2016 that DOD has not assessed effects of future force reductions on existing leased facilities. Potential future force structure reductions may offer DOD and the military departments an opportunity to further reduce reliance on leased space. For example, in December 2013, GAO reported that the Army planned to inactivate 10 Army brigade combat teams on some of its installations starting in fiscal year 2017, which would likely result in additional unutilized or underutilized buildings as a result of these reductions in force structure. To illustrate potential cost savings, for its March 2016 report, GAO reviewed all leasing data in DOD's real property database and identified six leases for administrative office space within 50 miles of four of the installations where the Army plans to inactivate brigade combat teams. Each of the installations is projected to have available administrative office space once the Army brigade combat teams are inactivated. GAO's analysis of these leases of general administrative space shows the annual rent cost of maintaining these leases for another 2 years, starting on January 1, 2016, is about \$8.2 million.

Further, although DOD guidance directs the military departments to maintain a program monitoring the use of real property to ensure that it is being used to the maximum extent possible consistent with both peacetime and mobilization requirements, GAO reported in March 2016 that officials do not share information on available unutilized or underutilized space that can potentially be used when there is a new lease requirement or when a lease is up for renewal. While each of the military departments told GAO that it has a process for requesting leased space, GAO found that officials managing leased space did not always have information on unutilized or underutilized space. According to

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<sup>5</sup>Pursuant to a Presidential Memorandum, *Disposing of Unneeded Federal Real Estate* (June 10, 2010), federal agencies are to take actions to include accelerating cycle times for identifying excess assets and disposing of surplus assets; eliminating lease arrangements that are not cost-effective; pursuing consolidation opportunities within and across agencies in common asset types (such as data centers, office space, warehouses, and laboratories); increasing occupancy rates in current facilities through innovative approaches to space management and alternative workplace arrangements, such as telework; and identifying offsetting reductions in inventory when new space is acquired. This Presidential Memorandum is cited as an ongoing effort in OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations* (May 11, 2012), which describes a series of policies and practices related to reducing costs and improving efficiencies in government real estate, among other things, and builds on measures already in place at various agencies. In March 2013, OMB issued clarifying guidance for implementing the real property portion of the May 2012 memorandum, OMB Management Procedures Memorandum No. 2013-02, *Implementation of OMB M-12-12 Section 3: Freeze the Footprint* (Mar. 14, 2013).

<sup>6</sup>Department of Defense, *Revised Real Property Cost Savings and Innovation Plan for Fiscal Year 2013 to 2015* (October 2015).

military department officials, the process of requesting leased space takes several steps to ensure that leased space is used efficiently, including assessing whether DOD-held or government-owned space is available within a 50-mile radius of a lease location. For example, Navy officials said that the Navy pursues leasing space only when it has determined that suitable government-owned space does not exist. Additionally, Air Force and Army officials provided informational checklists that are to be used when acquiring or renewing leases, including surveying the availability of government-controlled or DOD-held space within a 50-mile radius of the lease location. However, based on discussions with Army officials, GAO determined that the U.S. Army Corps of Engineers officials who manage the Army's rental facilities database had not been contacted by the installation officials with projected unutilized or underutilized space because of the inactivation of the brigade combat teams on their installations—space that is close to DOD lease locations. If installation officials do not routinely share information on unutilized and underutilized space, DOD leasing agents may not know whether government owns suitable space, thereby leaving DOD at risk of relying on more costly leased space when government-owned space may be available.

DOD officials stated that there are many factors to consider before deciding to move an activity from leased space onto an installation, such as suitability of the space to meet the tenants' needs and security concerns with non-mission-related tenants. While the military departments have reported that they have initiatives under way to reduce leased space, greater opportunities are possible because of planned force structure reductions, which will lead to increasing vacancies of on-installation facilities. If DOD does not require that the military departments evaluate these likely-to-be-vacated facilities in conjunction with leases being renewed—or before entering into new leases—DOD will likely not have reasonable assurance that it will be able to fully identify opportunities to vacate more costly leased space when appropriate and to move into DOD-owned space.

In addition, in June 2015 GAO reported that routine information sharing does not occur between DOD and GSA concerning opportunities to use underutilized space by moving non-DOD federal agencies onto military installations. Government-wide efforts, such as OMB's 2015 Reduce the Footprint policy, continue to focus on the need to better utilize existing real property assets in order to promote efficiency and leverage government resources, which can be facilitated by coordination between federal agencies.<sup>7</sup> GAO has previously reported that agencies can become better stewards of government resources through enhancing and sustaining collaboration and coordination, which can be accomplished

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<sup>7</sup>Office of Management and Budget, *National Strategy for the Efficient Use of Real Property 2015–2020, Reducing the Federal Portfolio through Improved Space Utilization, Consolidation, and Disposal* (Mar. 25, 2015).



through various practices, including operating across agency boundaries through compatible policies, procedures, and frequent communication.<sup>8</sup>

GSA works with non-DOD federal agencies to help them seek and obtain space because, according to GSA, placing a federal agency in government-owned space is generally a better long-term solution than commercial leasing and provides cost savings over time.<sup>9</sup> According to GSA officials, the search for suitable federally controlled space includes a check of federally owned and GSA-leased real property before helping its clients to acquire space through a commercial lease. However, even though DOD holds over 60 percent of all federal real property and GSA may have information on agencies near an installation needing space, according to GSA officials, GSA's process for seeking and assigning space to its non-DOD federal agency clients does not include sharing this information with DOD or other federal landholding agencies. The officials stated that if a client were to express interest in space on a military installation, GSA would direct the client to contact the installation directly, and GSA would have little to no involvement with the details of any agreement between DOD and the non-DOD federal agency for the use of space on a military installation.

The GSA officials with whom GAO spoke said that a primary reason GSA does not routinely coordinate with DOD concerning the availability of unutilized and underutilized space is that they assume that space in DOD-held facilities typically would not meet the needs of GSA's non-DOD federal agency clients because installation security requirements and locations are not likely to be compatible with the non-DOD federal agency missions. However, although such factors can limit some non-DOD federal agencies from being located on a military installation in some circumstances, DOD reports having non-DOD federal tenants on many of its installations. Therefore, there are instances when a non-DOD federal agency's space needs can be met on military installations. Further, GSA's assumption that agencies' needs cannot be met on a military installation may preemptively limit options available to the agencies for which GSA is working to find space, and non-DOD federal agency tenants may not receive full information on potential facilities located on the installations.

In its June 2015 report, GAO also reported that DOD also does not routinely share information with GSA or other non-DOD federal agencies when space is available on military installations, although DOD guidance

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<sup>8</sup>GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

<sup>9</sup>For example, non-DOD federal agencies could receive a financial benefit from being located on a military installation because of differences in costs charged by DOD when compared with the costs of commercial leases. Specifically, a DOD instruction allows military installations to collect reimbursements from non-DOD federal agencies for direct and indirect costs, such as utilities, maintenance, and services provided, but generally does not allow installations to collect additional rent beyond cost recovery.

directs military services to ensure that real property is being used to the maximum extent possible consistent with both peacetime and mobilization requirements. Routine sharing does not occur when space is available, in part because officials told GAO that military installations generally wait for non-DOD federal agencies to inquire about available space. DOD officials at various levels said that they do not conduct outreach to communicate information regarding unutilized and underutilized space on military installations, in part because the installations primarily focus on supporting missions within DOD, not other non-DOD federal agencies. However, when there is available space on military installations that is not currently used by other DOD entities, DOD's approach of waiting for agencies to contact installations does not assist installations in utilizing space to the maximum extent possible, consistent with DOD policy.

Officials at the Office of the Secretary of Defense and at the service and installation levels also stated that actively pursuing potential tenants would be an administrative burden on the installations, especially if there is not a significant amount of available space on the installation. However, there are ways that DOD could accomplish this without significantly increasing the administrative burden, such as by ensuring that regional GSA offices know whom to contact at the installations when seeking space for tenants. At the time of GAO's review, DOD did not provide regional or local contacts or information on the process for requesting space for installations to GSA or other non-DOD federal agencies. Without actions to share information at the regional and local levels, GSA offices working with non-DOD federal agencies may risk missing opportunities for clients to use available underutilized or unused federal space at lower cost than commercial leases. In addition, DOD may be missing opportunities to leverage resources with GSA to enhance utilization of its unutilized and underutilized facilities and reduce costs associated with maintaining these facilities.

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## Actions Needed and Potential Financial or Other Benefits

To help reduce facility costs and reliance on leased space, GAO recommended the following two actions:

- In March 2016, GAO recommended that DOD look for opportunities to relocate DOD organizations in leased space to installations that may have underutilized space because of force structure reductions or other indicators of potentially available space, where such relocation is cost-effective and does not interfere with the installation's ongoing military mission.
- In June 2015, GAO recommended that DOD, in collaboration with the Administrator of GSA, identify and implement actions to enable and enhance routine information sharing between DOD and GSA about the utilization of facilities on military installations. Such actions should

include establishing recurring processes to (1) share information about non-DOD federal agencies seeking workspace and (2) ensure that GSA and DOD organizations are aware of the appropriate points of contacts within their organizations at the regional and local levels.

DOD could potentially save millions of dollars each year by identifying opportunities to relocate some of its organizations in leased space to installations that may have underutilized facilities. GAO analyzed all 5,566 lease records in DOD's real property database for fiscal year 2013 (the most recent year for which data were available) and found that there were 407 records for general administrative space.<sup>10</sup> The total annual rent plus other costs for these leases was approximately \$326 million for about 17.6 million square feet of leased space. Further, without systematically sharing information, DOD may be missing opportunities for installations to maximize the use of space and reduce costs, while reducing its leased space, and GSA risks missing opportunities for some of its clients to reduce or avoid rental costs altogether and to reduce their reliance on commercial leases.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's March 2016 report on which portions of this analysis are based, DOD did not concur with the recommendation for military departments to look for opportunities to relocate DOD organizations in leased space onto installations that may have underutilized space. DOD stated that its existing policy requires the effective and efficient use of DOD real property and that current initiatives undertaken by each of the military departments and Washington Headquarters Services reflect, in DOD's opinion, adherence to this policy, and therefore no additional actions are necessary at this time.

Although DOD sees no immediate requirement for additional action, GAO found that—existing guidance notwithstanding—DOD will need to assess the likely effects of future force reductions and the implementation of the Reduce the Footprint Plan on its use of leased space. Although DOD noted that the Army issued an execution order in March 2015 requiring that commanders plan and implement footprint reductions, the impact of that effort is not yet known as the requirements of the execution order are still on-going. Specifically, according to the Army execution order, the Army plans to take a phased approach to infrastructure reductions. During Phase One, the Army plans to accurately document existing facility utilization and update its real property master plan. In Phase Two, the Army intends to implement the updated plan by consolidating its footprint to the minimum appropriate space and disposing of unneeded leases and facilities. OSD and Army officials told GAO that they have

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<sup>10</sup>According to DOD officials, general administrative space is more likely to be usable by tenants, compared to more specialized military-mission-oriented facilities.

identified some leases for elimination but that further analysis would need to be completed before such actions could be taken. Officials also said that good execution data would not be available for this effort until the end of 2016. At present, data on Army leases to be eliminated are not available. However, if the process laid out in the execution order is effectively and fully implemented, it may meet the intent of GAO's recommendation.<sup>11</sup> Until the Army effort is completed, however, DOD may be at risk of missing opportunities to reduce its leased space at a DOD-wide level.

In commenting on the June 2015 report on opportunities to move non-DOD federal agencies onto military installations, DOD and GSA both concurred with the recommendation to enhance information sharing on space availability on military installations. DOD stated that it would support GSA's efforts to share information about the non-DOD federal agencies seeking workspace and that it would work with GSA to ensure that GSA and DOD organizations are aware of the appropriate points of contacts within their organizations at the regional and local levels. GSA stated that it would take actions to implement the recommendation, consisting of (1) convening a working group with DOD real property officials to understand DOD's national landholding portfolio and identify unutilized and underutilized space at military installations, (2) collaborating with DOD to establish a shared real property inventory database, (3) reviewing GSA's inventory of customer agencies' current and future needs, and (4) revising the Federal Management Regulations to include DOD in GSA's priorities for housing federal agencies. As of March 2016, GSA and DOD began setting up a working group to share information on available space and to establish points of contact and other participants to address the recommendation.

GAO also provided a draft of this report section to DOD for review and comment. DOD provided technical comments and in response GAO made changes to this report section where appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from two products in the related GAO products section: GAO's March 2016 report on DOD's use of leased space and GAO's June 2015 report on non-DOD tenants' use of DOD-owned space. To determine the extent to which DOD has taken actions to reduce its reliance on leased space since 2011 (the final year of a 6-year period to implement the 2005 Base Realignment and Closure (BRAC) recommendations), GAO obtained and reviewed the 2005 BRAC Commission report and identified the commission's recommendations for realigning and closing some DOD

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<sup>11</sup> According to DOD officials, the Army is the executive agent for the majority of DOD leases, including those for joint service programs and defense agencies.

leased facilities that had to be implemented by September 15, 2011.<sup>12</sup> GAO also reviewed DOD's 2013 Freeze the Footprint reports that were submitted to OMB—the most current reports available when GAO initiated the review—to identify DOD's planned initiatives to reduce its domestic office and warehouse space (including both leased and owned space). GAO interviewed officials from the Office of the Assistant Secretary of Defense (Energy, Installations, and Environment) to discuss DOD's policies and ongoing initiatives involving DOD's use of leased space. GAO also interviewed real property officials from the Department of the Army and gathered documentation on its initiatives regarding leased space that would assist it in meeting the Freeze the Footprint requirements. GAO focused on the Army because it has more leases than the other military departments and Washington Headquarters Services combined. GAO interviewed and gathered documentation from officials at Washington Headquarters Services to determine if DOD was reoccupying leased space previously vacated in the National Capital Region as a result of the 2005 BRAC recommendations. The National Capital Region was a primary focus of the 2005 BRAC recommendations that involved moving DOD activities from leased space to government-owned space. For fiscal year 2013, GAO obtained DOD reports on the number and location of DOD's leases and interviewed officials who maintain the leases. GAO also analyzed the lease data from DOD's Real Property Assets Database to see if any opportunities existed for DOD to reduce its leased space based on the proximity of leased space to installations that could have additional underutilized buildings in the future as a result of planned reductions in force structure. GAO chose fiscal year 2013 data because they were the most recent data available at the time the review began.

To determine the extent to which DOD and other federal agencies coordinate to enhance use of unutilized and underutilized facilities on military installations, GAO reviewed GSA guidance on its process to seek and assign space to its clients and interviewed cognizant GSA officials concerning that process, to determine whether the process includes coordination with landholding agencies such as DOD. GAO compared that information to criteria on practices to enhance collaboration among federal agencies that GAO identified previously. Specifically, GAO identified certain practices that can help enhance and sustain collaboration among federal agencies, including establishing compatible policies, procedures, and other means to operate across agency boundaries, which can be accomplished through frequent communication among collaborating agencies.<sup>13</sup> GAO also interviewed responsible officials at the Office of the Secretary of Defense, military department

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<sup>12</sup>2005 Defense Base Closure and Realignment Commission: Report to the President (Sept. 8, 2005).

<sup>13</sup>[GAO-06-15](#).

headquarters, and military installations to obtain their perspectives on coordination between DOD and GSA.

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## Related GAO Products

*Defense Infrastructure: More Accurate Data Would Allow DOD to Improve the Tracking, Management, and Security of Its Leased Facilities.* [GAO-16-101](#). Washington, D.C.: March 15, 2016.

*Underutilized Facilities: DOD and GSA Information Sharing May Enhance Opportunities to Use Space at Military Installations.* [GAO-15-346](#). Washington, D.C.: June 18, 2015.

*Defense Infrastructure: DOD Needs to Improve Its Efforts to Identify Unutilized and Underutilized Facilities.* [GAO-14-538](#). Washington, D.C.: September 8, 2014.

*Defense Infrastructure: Army Brigade Combat Team Inactivations Informed by Analyses, but Actions Needed to Improve Stationing Process.* [GAO-14-76](#). Washington, D.C.: December 11, 2013.

*Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space.* [GAO-12-779](#). Washington, D.C.: July 25, 2012.

*Excess Facilities: DOD Needs More Complete Information and a Strategy to Guide Its Future Disposal Efforts.* [GAO-11-814](#). Washington, D.C.: September 19, 2011.

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## Contact Information

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# 17. Treasury's Foreclosure Prevention Efforts

The Department of the Treasury could potentially achieve billions in financial benefits by reviewing the potential for unexpended balances for the Making Home Affordable Program and deobligating excess funds, which Congress could rescind and direct to other priorities.

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## Why This Area Is Important

Since 2009, the U.S. Department of the Treasury (Treasury) has been using funds under the Troubled Asset Relief Program (TARP) authorized by the Emergency Economic Stabilization Act of 2008 (EESA) to address weaknesses in the U.S. housing market.<sup>1</sup> Treasury initially announced that up to \$50 billion would be used to help as many as 3 million to 4 million struggling homeowners avoid preventable foreclosure but subsequently reduced the amount to \$37.5 billion. Of that amount, Treasury obligated \$27.8 billion (as of February 2016) in TARP funds for the Making Home Affordable (MHA) program.<sup>2</sup> The cornerstone program under MHA is the Home Affordable Modification Program (HAMP), which provides financial incentives for eligible borrowers, servicers, and mortgage holders/investors to modify first-lien mortgages. These modifications are intended to prevent foreclosure by reducing homeowners' monthly mortgage payments to affordable levels.

Treasury has made extensive modifications to MHA programs, including HAMP, since their introduction. These modifications include expanding HAMP to cover additional homeowners and investors, providing additional payment relief, and granting underwater borrowers principal reduction. The modifications could result in additional expenditures of program funds in the billions of dollars. However, billions of dollars obligated under the MHA program remain unexpended, and GAO and the Congressional Budget Office have raised questions about the potential for excess funds. In December 2015, Congress mandated that the MHA programs be

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<sup>1</sup>Pub. L. No 110-343, 122 Stat. 3765 (codified at 12 U.S.C. §§ 5201-5261). EESA provided Treasury with authority to purchase up to \$700 billion worth of troubled assets. The Dodd-Frank Wall Street Reform and Consumer Protection Act (1) reduced Treasury's authority to purchase or insure troubled assets to a maximum of \$475 billion and (2) prohibited Treasury, under EESA, from incurring any obligations for a program or initiative that was not initiated prior to June 25, 2010. Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified as amended at 12 U.S.C. § 5225(a)).

<sup>2</sup>Treasury has also allocated \$7.6 billion in TARP funds to state housing finance agencies to help borrowers in the areas most affected by the housing crisis, and plans to allocate an additional \$2 billion in TARP funds to the state housing finance agencies in 2016. Also, Treasury has allocated \$100 million to support the Department of Housing and Urban Development's Federal Housing Administration refinance program for borrowers in negative equity positions.

terminated on December 31, 2016, with an exemption for HAMP loan modification applications made before that date.<sup>3</sup> At that time, Congress also provided Treasury with the authority to obligate up to \$2 billion to current program participants in the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund).<sup>4</sup>

As of October 2015, Treasury had obligated \$29.8 billion for all MHA programs, \$12.6 billion of which had been expended, leaving \$17.2 billion in obligated but unexpended funds. Of this \$17.2 billion, according to Treasury's estimate, a maximum of \$9.5 billion could be expended through future payments to servicers for HAMP loan modifications completed before October 2015 and for other activities that servicers have already initiated. The remaining \$7.7 billion in obligations represented the amount potentially available to servicers for future HAMP modifications and other MHA transactions, as established in the original contracts. Due to restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Treasury may obligate TARP funds only for programs that were initiated prior to June 25, 2010.

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## What GAO Found

Treasury monitors activity and aggregate expenditures under the MHA program, but it has not systematically reviewed the extent to which it is likely to use all obligated funds. Treasury did not update its estimate of potential future participation and associated expenditures of HAMP—the largest MHA program—between 2009 and 2015. In a July 2009 report, GAO found that Treasury's estimates may have been overstated, reflecting uncertainty caused by data gaps and assumptions that had to be made, and recommended that Treasury periodically review and update its estimates.

In response, Treasury started performing periodic estimations of the eligible HAMP population, but it has not used these estimates to assess likely future expenditures or excess MHA program funds. Instead of producing updated estimates of future program participation and related expenditures, Treasury historically had assumed that all funds obligated for MHA would be spent. GAO recognizes that no estimate of future participation and expenditures can be made with certainty. However, prior GAO work has concluded that reviewing unexpended balances, including those that have been obligated, can help agencies identify possible

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<sup>3</sup>See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div.O, tit. VII, § 709, 129 Stat. 2242 (2015).

<sup>4</sup>First announced in February 2010, the Hardest Hit Fund provided \$7.6 billion in TARP funds to 18 states, plus the District of Columbia, to develop locally tailored programs to assist struggling homeowners in their communities. In February 2016, Treasury officials stated that they expect to obligate \$2 billion to the Hardest Hit Fund.



budgetary savings.<sup>5</sup> Moreover, Congress's recent action to terminate the MHA program on December 31, 2016, and to allow Treasury to obligate up to \$2 billion in TARP funds to current program participants in the Hardest Hit Fund, provides Treasury with greater certainty and opportunity with respect to estimating and reprogramming any excess MHA fund balances.<sup>6</sup>

GAO performed its own analysis of mortgage data to estimate potential future HAMP participation and costs. This analysis resulted in estimates of MHA program balances as of October 16, 2015, that ranged from using the full \$7.7 billion in funds available at that time (a surplus of \$0) to a surplus of \$2.5 billion. In preparing these estimates, GAO attempted to provide a wide range of possible outcomes and generally used inclusive assumptions about program participation levels. Thus, the actual amount of unexpended MHA program funds would likely have been higher than GAO's estimates. The President's fiscal year 2017 budget submission indicates that Treasury estimated a \$4.7 billion reduction in total outlays for the MHA program. Treasury deobligated \$2 billion of the \$4.7 billion on February 25, 2016. In addition, Treasury has indicated it plans to commit \$2 billion to the Hardest Hit Fund. Treasury officials also told GAO that deobligating all MHA funds in excess of the current cost estimate would unduly increase the risk of insufficient funding for program expenditures. Estimating likely future participation and associated expenditures would allow Treasury to identify and deobligate excess funds, and, to the extent funds are deobligated, Congress may then have an opportunity to use those funds for other priorities.

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## Actions Needed and Potential Financial or Other Benefits

To better ensure that taxpayer funds are being used effectively, in March 2016, GAO suggested that Congress consider taking the following action:

- Rescind any Treasury-deobligated excess MHA balances that Treasury does not move into the Hardest Hit Fund.

In addition, in order to provide Congress and others with accurate assessments of the funding that has been and will likely be used to help troubled borrowers and to identify any obligations not likely to be used, in March 2016, GAO recommended that the Secretary of the Treasury take the following two actions:

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<sup>5</sup>GAO, *Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts*, [GAO-13-798](#) (Washington, D.C.: Sept. 30, 2013).

<sup>6</sup>See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. O, tit. VII, § 709, 129 Stat. 2242. The termination of the MHA program will not apply to MHA loan modification applications made before December 31, 2016.

- Review potential unexpended balances by estimating future expenditures of the MHA program.
- Deobligate funds that Treasury's review shows will likely not be expended and move up to \$2 billion of such funds to the TARP-funded Hardest Hit Fund, as authorized by the Consolidated Appropriations Act, 2016.

While the actual financial benefits associated with these actions are unknown, GAO's analysis resulted in estimates of unused funds that ranged from using all available funds to a surplus of \$2.5 billion. Treasury's estimation of its future expenditures will require it to make assumptions that may differ from those made during GAO's estimation. Additionally, taking these actions should better position Treasury for the eventual end of the MHA program, mandated by Congress to occur on December 31, 2016. Treasury agreed with the recommendations in GAO's March report and wrote that it plans to evaluate whether to deobligate additional funds after the complete universe of MHA transactions (i.e., mortgage modifications, short sales, and deeds-in-lieu of foreclosure) is known, sometime after all MHA transactions are completed in late 2017. These actions are consistent with the intent of GAO's recommendation.

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## Agency Comments and GAO's Evaluation

In commenting on a draft of GAO's March 2016 report on which this analysis is based, Treasury agreed with each of GAO's recommendations, and noted that it was planning to address each of the recommendations. Specifically, Treasury indicated that it had updated its MHA program cost estimates and, as a result, subsequently deobligated \$2 billion of MHA funds on February 25, 2016. Treasury also indicated that it plans to commit \$2 billion to the Hardest Hit Fund program.

GAO provided a draft of this report section to Treasury for review and comment. Treasury provided technical comments which are incorporated as appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the March 2016 report listed in Related GAO Product section. To assess the extent to which Treasury was reviewing unexpended balances and cost projections for the MHA program, GAO collected and reviewed internal Treasury memoranda on the purpose and justification of program changes made in 2014 and 2015. GAO reviewed servicer survey results as well as projections of eligible borrowers and loans to understand the

factors that might affect program participation.<sup>7</sup> GAO reviewed internal Treasury estimates of the average cost of modifications and of obligations, outlays, and remaining funds for the MHA programs. GAO also reviewed a prior GAO report on best practices concerning reviews of unexpended balances and cost projections.<sup>8</sup> In addition, GAO conducted its own analysis of potential future program participation and the likely associated costs to illustrate the potential for unexpended balances. To do so, GAO used analyses it directed that were prepared by a private data vendor, Black Knight Data & Analytics LLC.<sup>9</sup> GAO also conducted and reviewed past interviews with Treasury officials about the status of the programs, including any future program changes, and their projections for completing disbursement of TARP-housing funds.

Table 11 in appendix V lists the programs GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*Troubled Asset Relief Program: Treasury Should Estimate Future Expenditures for the Making Home Affordable Program.* [GAO-16-351](#). Washington, D.C.: March 8, 2016.

*Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable.* [GAO-09-837](#). Washington, D.C.: July 23, 2009.

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## Contact Information

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<sup>7</sup>Treasury initiated HAMP and the other TARP housing programs using its authority under EESA and authorized Fannie Mae to act as a financial agent.

<sup>8</sup>[GAO-13-798](#).

<sup>9</sup>Black Knight Data & Analytics LLC is a private data vendor that provides comprehensive property, multiple listing service, and mortgage performance data. According to Black Knight Data & Analytics, there were about 30 million active first-lien mortgages in its mortgage performance database, which they estimated to cover about 60 percent of the total mortgage universe.

# 18. Bridge Contracts

When bridge contracts—which include extensions to existing contracts and short-term noncompetitive contracts to avoid a gap in service—are used frequently or for prolonged periods of time, the government is at risk of paying more than it should for goods and services.

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## Why This Area Is Important

When a contract is set to expire and there is a continuing need for services, but the follow-on contract is not ready to be awarded, the government can extend the existing contract or award a short-term sole-source contract to an incumbent contractor. These types of contracting arrangements have been referred to as “bridge contracts,” and they are used to ensure there is no gap in services. Bridge contracts are almost always noncompetitive, which may put the government at risk of paying more than it should for goods and services. While bridge contracts can be a necessary and appropriate tool, their use has also been associated with negative effects, such as higher contract prices due to a lack of competition and the inefficient use of staff and resources. No formal definition of bridge contracts exists, nor is there a requirement for agencies to track them in the Federal Acquisition Regulation (FAR), which provides uniform acquisition policies and procedures for executive agencies. In addition, bridge contracts are not identified in the Federal Procurement Data System-Next Generation (FPDS-NG) or any other federal database.

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## What GAO Found

In an October 2015 report, GAO found that, although bridge contracts are typically envisioned as short-term, 17 of 29 bridge contracts it reviewed in-depth spanned longer than a year, with six lasting more than 3 years, potentially undetected by approving officials. The value of the 29 bridge contracts included in our review was over \$225 million.<sup>1</sup> Of the 26 cases in GAO’s review where follow-on contracts were later awarded—even after a lengthy bridge contract period—23 were awarded competitively. Some of these competitively awarded contracts lead to savings for the government, highlighting the importance of better management controls over the use of bridge contracts. For example, GAO found that when the Air Force awarded a competitive follow-on contract to provide logistics support services, it resulted in a monthly rate reduction of approximately \$22,400 (34 percent).

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<sup>1</sup>The \$225 million includes stand-alone bridge contracts for 20 of the 29 contracts we reviewed in-depth. The other 9 contracts used only contract extensions to bridge the gap in services. Fourteen of the 29 contracts used a combination of stand-alone bridge contracts and contract extensions. We were unable to calculate the value of contract extensions, as these values are reported as part of the predecessor contract in FPDS-NG.

For its October 2015 report, GAO also found that the three agencies it reviewed—the Departments of Defense (DOD), Health and Human Services (HHS), and Justice (DOJ)—had limited or no insight into their use of bridge contracts.<sup>2</sup> None of the agencies have agency-level policies to manage and track their use of bridge contracts, nor do their acquisition regulations define bridge contracts. HHS officials told GAO that their agency has no overarching policy because the agency does not have a standard definition for bridge contracts. Officials at DOD said that, at the department level, the agency did not have any policies because bridge contracts had not previously been raised as a specific concern at the department. DOJ officials indicated they see defining bridge contracts as a government-wide issue, and officials from one of their components told GAO that the concept of defining bridge contracts was new to them. However, GAO found that two DOD components, the Navy and Defense Logistics Agency, have established policies that provide definitions and procedures to manage and track their use. The components took these steps due to concerns that bridge contracts were being used too frequently and can be an impediment to competition.

Federal internal control standards state that agencies should identify, analyze, and monitor risks associated with achieving objectives, and that information needs to be recorded and communicated to management so as to achieve agency objectives.<sup>3</sup> One common procurement objective at federal agencies is to maximize competition. However, without a definition for bridge contracts and strategies for tracking and managing their use, agencies are not able to fully identify and monitor the risks related to these contracts, and therefore may be missing opportunities to increase competition. The Federal Acquisition Regulation (FAR) does not define bridge contracts. Staff from the Office of Management and Budget's (OMB) Office of Federal Procurement Policy (OFPP), one of the entities responsible for initiating revisions to the FAR, acknowledged that the use of bridge contracts may introduce risks related to a lack of competition, such as the risk of higher contract prices. Similarly, contracting, program, and policy officials GAO spoke with also stated that while bridge contracts are an important "tool in their toolbox" for ensuring continuity of services, their prolonged use poses a risk to competition and that use of bridge contracts should be avoided when possible.

By defining bridge contracts and implementing a policy related to their use, the Navy and DLA have taken important steps to enhance these components' management of bridge contracts. However, bridge contracts

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<sup>2</sup>For its October 2015 report, GAO reviewed available policies and procedures for bridge contracts at DOD, HHS, and DOJ and several components within each agency. The eight components GAO reviewed were Air Force, Army, Navy, and Defense Logistics Agency within DOD; the National Institutes of Health and the Indian Health Service within HHS; and the Drug Enforcement Administration and Federal Bureau of Prisons within DOJ.

<sup>3</sup>GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

have been identified not only across the three agencies and eight components included in GAO's review, but at other agencies as well, as evidenced by GAO's past work and that of others (see, for example, GAO's March 2012 and March 2014 reports). Therefore, the importance of defining and tracking bridge contracts is not limited to those agencies included in GAO's review.

A uniform, government-wide definition and strategies for tracking and managing the use of bridge contracts would help ensure all agencies have better insights into their use of these contracts and provide agencies with the information necessary to manage their use. Otherwise, agencies are left without a complete picture or understanding of how long a bridge contract has been in place. Without such information, it is difficult for agencies to take steps to reduce their reliance on noncompetitive bridge contracts or remediate internal deficiencies—such as issues related to acquisition planning or challenges with the acquisition workforce—that may lead to delays in the award of follow-on contracts.

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in October 2015 that to gain visibility and enable efficient management of the use of bridge contracts in federal agencies, the Administrator of OFPP take the following two actions:

- Take appropriate steps to develop a standard definition for bridge contracts and incorporate it as appropriate into relevant FAR sections.
- As an interim measure until the FAR is amended, provide guidance to agencies on (1) a definition of bridge contracts, with consideration of contract extensions and stand-alone bridge contracts, and (2) suggestions for agencies to track and manage their use of these contracts.

The financial benefits of implementing these recommendations cannot be quantified because the universe of bridge contracts is currently unknown. However, implementing GAO's recommendations would enable agencies to obtain the information necessary to help them determine the extent to which they can achieve cost savings through better management of these contracts.

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## Agency Comments and GAO's Evaluation

In commenting on the October 2015 report on which this analysis is based, OFPP concurred with GAO's recommendation to provide guidance to agencies on bridge contracts. With regard to GAO's recommendation to develop a definition of bridge contracts and incorporate it in the FAR, OFPP stated its intention to work with members of the FAR Council to explore the value of doing so. GAO maintains that a uniform, government-

wide definition for bridge contracts is imperative to providing agencies with the information necessary to monitor these contracts and to ensure they are being used as intended.

GAO provided a draft of this report section to DOD, DOJ, HHS, and OMB for review and comment. DOD, DOJ and HHS did not provide comments. In an email response, OMB staff stated that OFPP is developing guidance to address the use of bridge contracts in the context of agencies' responsibility to manage risks associated with noncompetitive contracts. The response also stated that while a decision has not yet been made regarding changes to the FAR, OFPP is discussing the issue with the FAR Council and believes that the development of guidance will help clarify where regulatory coverage may be needed.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from GAO's October 2015 report. Because bridge contracts are not defined in the FAR or tracked in the federal procurement data system, GAO developed a definition based on its prior work and that of other federal agencies and developed a customized search of the federal procurement data system to identify potential bridge contracts. For the purposes of the October 2015 report, GAO defined the term "bridge contract" as (1) an extension to an existing contract beyond the period of performance (including base and option years), or (2) a new, short-term contract awarded on a sole-source basis to an incumbent contractor to avoid a lapse in service caused by a delay in awarding a follow-on contract. GAO focused its review on DOD, HHS, and DOJ and selected components because they were among those agencies with the highest number of potential bridge contracts. GAO reviewed policies and procedures at these three agencies and conducted an in-depth review of 29 contracts, which included interviews with program and contracting officials, contract file reviews of the bridge contract, the contract preceding the bridge contract, and, if awarded at the time of GAO's review, the follow-on contract.

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## Related GAO Products

*Sole Source Contracting: Defining and Tracking Bridge Contracts Would Help Agencies Manage Their Use.* [GAO-16-15](#). Washington, D.C.: October 14, 2015.

*Federal Contracting: Noncompetitive Contracts Based on Urgency Need Additional Oversight.* [GAO-14-304](#). Washington, D.C.: March 26, 2014.

*Defense Contracting: Competition for Services and Recent Initiatives to Increase Competitive Procurements.* [GAO 12-384](#). Washington, D.C. March 15, 2012.

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## Contact Information

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# 19. Federal Supply Schedules

Agencies are paying insufficient attention to prices when using the Federal Supply Schedules program and may be missing opportunities for cost savings.

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## Why This Area Is Important

The Federal Supply Schedules (FSS) program, managed by the General Services Administration (GSA), provides federal agencies a simplified method of purchasing commercial products and services at prices associated with volume buying. A schedule is a set of contracts awarded to multiple vendors that provide similar products and services. According to GSA, total sales through the program in fiscal year 2014 were \$33.1 billion. The FSS program must be used properly to help ensure that the government is obtaining a good price and competition to the maximum extent possible. For example, while contractors are not required to offer discounts from their FSS prices, ordering activities are required by the Federal Acquisition Regulation (FAR) to seek discounts when placing orders with values over a certain amount, and may seek discounts for all orders.<sup>1</sup>

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## What GAO Found

In a July 2015 report, GAO reviewed the extent to which agencies examine prices to be paid for FSS orders. GAO focused its review on the three agencies with the highest use of the program: the Department of Defense (DOD), GSA, and the Department of Health and Human Services (HHS).<sup>2</sup> GAO's analysis of how these agencies assessed prices for a nongeneralizable sample of 60 orders showed that agencies are not paying sufficient attention to prices for goods and services under FSS orders. Ordering agencies did not consistently seek discounts from schedule prices, even when required to do so by the FAR. GAO found a significant number of cases—16 out of 45 orders reviewed—in which contracting officers did not seek discounts from FSS prices as required. When contracting officers sought discounts, vendors generally offered them, including a 57 percent discount for a \$19.9 million order. In other instances, agencies purchased items not on the schedule contract—called open market items—without performing a separate price or cost analysis, as required by the FAR, or they did not obtain sufficient information to determine whether an item was on the schedule. Despite existing training programs, contracting officials GAO interviewed were not

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<sup>1</sup>FAR Subsection 8.405-4.

<sup>2</sup>GAO identified these agencies based on obligations reported in Federal Procurement Data System-Next Generation, the government's procurement database, for fiscal years 2010-2014.

always aware of the requirement to seek discounts. Agency officials noted that some of the problems stem from inexperienced staff who are unfamiliar with schedule ordering procedures. When contracting officers do not seek discounts for FSS orders, the government may miss opportunities for cost savings. Further, when contracting officers do not evaluate prices for non-FSS items purchased in conjunction with an FSS order—which is allowed for administrative convenience—the government cannot be sure that items are being purchased at a fair and reasonable price.

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## Actions Needed and Potential Financial or Other Benefits

To help ensure contracting officers follow ordering procedures when using FSS, and to enhance internal controls, GAO recommended that the Secretaries of Defense and Health and Human Services and the Administrator of GSA take the following three actions:

- Issue guidance emphasizing the requirement to seek discounts and outlining effective strategies for negotiating discounts when using the FSS program.
- Issue guidance reminding contracting officials of the procedures they must follow with respect to purchasing open market items through the FSS program, including the requirement to perform a separate determination that the prices of these items are fair and reasonable.
- Assess existing training programs to determine whether they are adequate to ensure that contracting officials are aware of the ordering procedures of the FSS program.

The financial benefits of implementing these recommendations cannot be precisely quantified because the effect this would have on thousands of individual transactions is unknown, but given the size of the FSS program, the savings could be quite substantial. For example, if agencies routinely obtained discounts on the more than \$30 billion dollars obligated under FSS orders, the savings could exceed tens of millions government-wide.

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## Agency Comments and GAO's Evaluation

All three agencies concurred with GAO's recommendations to issue guidance emphasizing the requirement to seek discounts, issue guidance reminding contracting officials of procedures for open market items, and assess the adequacy of training programs related to FSS ordering procedures. In response to GAO's recommendations, DOD and GSA issued guidance reminding the contracting workforce to seek discounts when placing orders against FSS contracts and to follow the required

FSS procedures for purchasing open market items. In addition, GSA has started to take steps to examine training curricula.

GAO provided a draft of this report section to all three agencies for review and comment. None of the agencies provided comments on this report section.

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## How GAO Conducted Its Work

GAO analyzed data from the Federal Procurement Data System-Next Generation on obligations through the FSS program for fiscal years 2010-2014 and reviewed a nongeneralizable sample of 60 FSS orders awarded in fiscal year 2013 by DOD, HHS, and GSA, the agencies with the highest use of the FSS program. GAO also interviewed officials from these agencies and FSS vendors.

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## Related GAO Products

*Defense Contracts: DOD's Requests for Information from Contractors to Assess Prices.* [GAO-15-680](#). Washington D.C.: August 12, 2015.

*Federal Supply Schedules: More Attention Needed to Competition and Prices.* [GAO-15-590](#). Washington D.C.: July 9, 2015.

*Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings.* [GAO-12-178](#). Washington D.C.: December 20, 2011.

*Contract Management: Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements despite Significant Increase in Usage.* [GAO-09-792](#). Washington D.C.: September 9, 2009.

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## Contact Information

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## 20. Federally Leased Vehicles

The General Services Administration and selected agencies could potentially reduce costs by improving the processes for justifying the use of vehicles in the federal fleet and taking actions for any vehicles that may be underutilized.

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### Why This Area Is Important

In fiscal year 2014, federal agencies paid over \$1 billion to lease over 186,000 vehicles from the General Services Administration (GSA) to carry out agencies' missions. Ranging from busses to compact sedans, these vehicles transport personnel, haul equipment, and ferry clients to agency-provided service locations, among other activities. In recent years, Members of Congress and the President have raised questions about the size and cost of the federal fleet, and legislative proposals have been aimed at reducing its size and cost.

Each federal agency is responsible for managing its own vehicle fleet. At agency request, GSA leases vehicles to each agency. GSA also provides guidance and advice to agencies on the management of their federal fleet. Additionally, the Federal Property Management Regulations (FPMR) require agencies to ensure that each vehicle within their fleets either meets an agency-wide utilization standard or is individually justified. The FPMR recommend—but do not require—that the annual mileage minimum be 12,000 miles for passenger vehicles and 10,000 miles for light trucks. For both utilization metrics and justification, agencies are allowed to define their own criteria for their vehicle fleets. For its January 2016 report, GAO reviewed the leased vehicle fleets at five agencies: the Bureau of Indian Affairs (BIA), the National Aeronautics and Space Administration (NASA), the National Park Service (NPS), the U.S. Air Force (Air Force), and the Veterans Health Administration (VHA). BIA and NPS are within the Department of the Interior, and VHA is within the Department of Veterans Affairs.

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### What GAO Found

While agencies are allowed to determine their criteria for keeping vehicles in their fleet, GAO found that some federal agencies kept vehicles that did not meet the agency's utilization criteria and for which the agency could not readily provide a justification, including the following examples.

- Air Force officials could not readily provide the justifications for 413 vehicles that did not meet Air Force's utilization criteria. The agency paid \$1.5 million to GSA for these vehicles in fiscal year 2014. Air Force officials told GAO that the justifications for these vehicles are not stored in Air Force's Fleet Management Information System because these vehicles are used by the Air National Guard, which has

its own justification process. However, Air Force is administratively responsible for these vehicles, according to agency officials.

- VHA was unable to locate justifications for 181 vehicles for which it had data indicating that the vehicle had not met VHA's utilization criteria. VHA paid \$0.6 million to GSA for these vehicles in fiscal year 2014. According to VHA officials, justifications are stored with local fleet managers and are not readily accessible to headquarters officials. Agency officials said the justification system was developed to assist local fleet managers and that previously, it was not necessary for headquarters to access these records.

Agencies are allowed to individually justify vehicles that do not meet the agency's utilization criteria, but the regulations do not specify how agencies should conduct this justification process or how the justifications should be documented. While the FPMR state that agencies may be required to provide written justification, the regulations do not require agencies to clearly document the justifications before a request to provide such documentation is made. Federal internal control standards state that all transactions and significant events need to be clearly documented and that the documentation should be readily available for examination.<sup>1</sup> Without readily available documentation, the agencies could not determine whether any of these vehicles should be eliminated from agency fleets.

In addition to the vehicles for which agencies could not locate justifications in a timely manner, three agencies kept vehicles that did not pass their justification process. While regulations do not require agencies to take any action for unjustified vehicles, federal internal control standards call for agencies to be accountable for stewardship of government resources.<sup>2</sup> All five selected agencies in GAO's review have established approaches to address unjustified vehicles, which can include placing them in a shared pool, transferring them to a new mission, rotating them with higher-mileage vehicles, or eliminating them from their fleet. All five agencies took actions to reduce vehicles that did not meet utilization criteria or pass the justification process, but two agencies still cumulatively retained over 500 unjustified vehicles.<sup>3</sup>

- NPS retained 109 vehicles that did not meet the agency-defined utilization criteria and did not pass the agency's justification process. The agency paid GSA \$0.4 million for these vehicles in fiscal year 2014.

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<sup>1</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>2</sup>[GAO/AIMD-00-21.3.1](#).

<sup>3</sup>A third agency retained one vehicle.

- VHA retained 393 vehicles that did not meet agency-defined utilization criteria and did not pass the agency's justification process. The agency paid GSA \$1.3 million for these vehicles in fiscal year 2014. VHA policy does not require justification for all vehicles that do not meet utilization criteria. As a result, these 393 vehicles were never subject to a justification process, even though they did not meet utilization criteria.

By not taking corrective action to eliminate or reassign vehicles that did not meet utilization criteria or pass a justification review, agencies could be spending federal tax dollars on vehicles that may not be needed.

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## Actions Needed and Potential Financial or Other Benefits

In its January 2016 report, GAO recommended the following actions:

- The Secretaries of the Department of Defense and the Department of Veterans Affairs should modify their current processes to ensure that each leased vehicle in the agencies' fleets meets the agencies' utilization criteria or has readily available justification documentation. Such action could lead to these agencies identifying unneeded vehicles and reducing costs by eliminating vehicles from their fleets.
- The Secretaries of the Department of the Interior and Veterans Affairs should take corrective action to address each leased vehicle that has not met the agencies' utilization criteria or passed the justification process. This corrective action could include eliminating unneeded vehicles, which would reduce costs.
- The Administrator of GSA should examine the FPMR to determine if these regulations should be amended to require that vehicle justifications are clearly documented and readily available, and adjust them accordingly. Such action could lead to agencies identifying unneeded vehicles and reducing costs by eliminating vehicles from their fleets.

GAO was not able to quantify the financial benefits of these actions because potential savings would depend on how many vehicles were eliminated from the federal fleet as a result. In fiscal year 2014, selected agencies paid about \$8.7 million for leased vehicles that did not meet agency-set utilization criteria and did not have readily available individual justifications. Costs paid may not equal cost savings from eliminating vehicles because agencies may need to spend resources on other means to accomplish the work performed by these vehicles. However, without justifications and corrective actions, agencies could be spending taxpayer dollars on vehicles that may not be needed.

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## Agency Comments and GAO's Evaluation

GAO provided a draft of its January 2016 report to GSA; the Departments of Defense, Interior and Veterans Affairs; and NASA. GSA and the Departments of Defense, Interior, and Veterans Affairs provided written comments in which they concurred with GAO's recommendations. These agencies also provided technical comments, which were incorporated as appropriate. NASA provided no comments. GSA stated that it was developing a comprehensive plan to address the recommendations. Interior stated that NPS and BIA both plan to develop processes to ensure that vehicle justifications are readily available. The Department of Veterans Affairs set a target date of January 2017 to implement both of GAO's recommendations.

GAO provided a draft of this report section to GSA, the Departments of Defense, Interior, and Veterans Affairs, and to NASA for review and comment. The agencies did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product in the related GAO product section. GAO reviewed the leased vehicle fleets at five agencies: Air Force, BIA, NASA, NPS, and VHA. GAO selected these five agencies to include a mix of (1) fleet sizes, but none smaller than 1,000 vehicles; (2) military and civilian fleets; (3) fleets with varying annual mileage compared to federal miles-traveled guidelines; and (4) agencies' use of telematics, among other considerations. Telematics is a technology that sends, receives, and stores information related to remote objects, such as vehicles. Agencies that use telematics may have more opportunities to measure utilization than agencies that do not use such technology.

For each agency, GAO analyzed the agencies' policies and other relevant documentation on their utilization review processes. GAO compared agency processes to standards for internal control in the federal government. GAO also obtained fiscal year 2014 data from GSA for each agency's leased passenger vehicles and light trucks. GAO excluded certain vehicles, such as those that were leased by more than one agency during fiscal year 2014, emergency responder and law enforcement vehicles, and vehicles outside the continental United States. GAO determined which vehicles did not meet the miles-traveled guidelines in the FPMR and sent a list of these vehicles to each agency. GAO asked each agency to identify if the vehicles had justification documentation or had passed a justification review. GAO then analyzed the costs paid to GSA for any unjustified vehicles.

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## Related GAO Product

*Federally Leased Vehicles: Agencies Should Strengthen Assessment Processes to Reduce Underutilized Vehicles.* [GAO 16-136](#). Washington, D.C.: January 14, 2016.

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## Contact Information

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# 21. Financing of Improvements to Federally Leased Space

In order to achieve millions in potential cost savings, the General Services Administration should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates.

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## Why This Area Is Important

Within the federal government's portfolio of civilian real property holdings—which costs billions of dollars annually to rent, operate, and maintain—the General Services Administration (GSA) plays the role of broker and property manager to many civilian agencies. Although some agencies have independent authority to lease real property, others lease space through GSA. As of fiscal year 2014, the most recent year for which GSA published portfolio information, GSA had a total of 377 million rentable square feet of space in its inventory—slightly more than half of which was leased from the private sector.<sup>1</sup> Due to complex and long-standing issues related to the federal government's management of real property, including an overreliance on leasing of privately-owned space in situations where ownership for stable agency needs would be more cost-efficient in the long run, the issue remains on GAO's high-risk list.<sup>2</sup>

Because leasing is likely to be a stable or growing part of agencies' building portfolios—due in part to capital limitations—it is important to identify opportunities that could increase the efficiency of the GSA leasing process and result in federal cost savings. One such opportunity would be to reduce the amount of interest that agencies pay to private lessors to cover the costs of improving newly leased space.

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## What GAO Found

In January 2016, GAO found that new GSA leases often involve costs related to the customization of a space for an agency to fulfill its mission, such as changes to walls, electrical outlets, and secure rooms. These changes are made by a lessor—typically the private-sector owner of a property—between GSA's execution of a lease and the point when a tenant agency takes occupancy. These tenant improvement costs are

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<sup>1</sup>GSA's government-owned properties constitute the remaining 183 million rentable square feet in the Public Buildings Service portfolio. GSA Public Buildings Service, *FY2014 State of the Portfolio* (Washington, D.C.: 2014).

<sup>2</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

usually amortized over the term of the lease and are paid by the tenant to the lessor through GSA. Tenant agencies can fund these costs in two ways: (1) pay for the improvements at the outset, prior to moving into the space, when negotiations between GSA and a property owner permit,<sup>3</sup> or (2) amortize the costs of the improvements over time, during the lease, with costs being financed by the property owner.

GSA regional officials have stated that nearly all tenants choose to amortize their basic tenant improvements over the firm term of the lease, and GAO's January 2016 analysis of GSA leases supports this assertion.<sup>4</sup> Nearly 60 percent of leases in a sample of 4,285 leases analyzed by GAO involved tenant improvement costs, and all of these tenants opted to amortize at least some of these costs during the lease. Because private owners that lease to the federal government assume this responsibility and obtain the resources required to construct, operate, and maintain the space being altered, they charge federal agencies private-sector interest rates over the firm term of their GSA lease.

The federal government's overall cost of leasing space increases considerably when agencies opt to amortize their tenant improvement costs instead of paying them at the outset. When agencies amortize their tenant improvements during their lease, they pay substantial sums to private lessors in the form of interest based on the rates that GSA negotiates with private lessors on agencies' behalf. In this approach, tenant agencies pay the principal, interest, and additional GSA fees—either 5 or 7 percent—typically over the firm term of the lease.<sup>5</sup> Nine of the 11 leases GAO reviewed in detail had tenant improvement costs, and more than one-third of the improvement costs will be due to interest fees over the lease term, as the tenants in all 9 cases amortized these costs. In total, these 9 leases will incur a total of \$39 million in tenant

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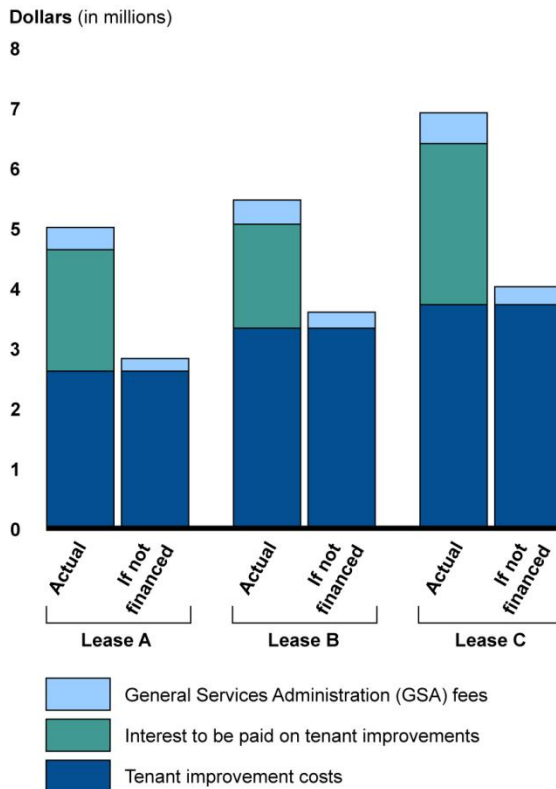
<sup>3</sup>One tenant agency stated that GSA does not always permit them the option to make a lump sum payment for their tenant improvements; they said this is dependent upon the stage of GSA's negotiations with the property owner.

<sup>4</sup>Many GSA leases have a "firm" and "soft" term. While GSA considers 80 percent of the 4,258 leases GAO reviewed to be 10-year leases or longer, many of these leases have a 5-year guaranteed ("firm") term followed by an optional ("soft") term. GAO found that 70 percent of the new GSA leases analyzed, finalized from 2008 through 2014, have firm terms of 5 years or less. The private sector views leases structured in this way as 5-year leases because that is the only part that is guaranteed.

<sup>5</sup>Included in federal agencies' monthly rent is a monthly fee to GSA for its services related to leased space; as of 2015, tenants paid 5 or 7 percent of their lease value in a fee to GSA based on the level of flexibility the agency had in canceling the agreement. GSA officials told GAO that this fee is 7 percent when the ability to cancel the occupancy agreement prior to lease expiration—with a 120-day notice—is included in the occupancy agreement and 5 percent when it is not. Space is deemed to be non-cancelable when there is a low probability that the Public Buildings Service would be able to find a backfill tenant due to specific qualities of the space. GSA guidance states that the agency reviews each space assignment and uses certain specified criteria to designate space as cancelable or non-cancelable.

improvement costs, of which nearly 40 percent (\$15 million) will be due to interest paid to private lessors. For example, in one lease GAO reviewed, the tenant agency chose to amortize its \$2.1 million of tenant improvement costs over the life of a 15-year lease at a 9 percent interest rate, which will ultimately cost \$4.0 million after including both the \$1.7 million to be paid in interest charges and GSA’s 5 percent fee on those charges. The agency could have saved 45 percent, more than \$1.8 million, over the term of its GSA lease if these costs had been paid at the outset. Additional examples from GAO’s analysis are illustrated in the figure below.

**Total Tenant Improvement Costs If Not Paid at the Outset of the Lease for Three Selected General Services Administration (GSA) Leases Executed between 2000 and 2014**



Source: GAO analysis of GSA data. | GAO-16-375SP

Although GSA officials stated that agencies typically lack the resources to fund improvements at the outset of a lease, opportunities may exist to reduce overall federal leasing costs by identifying funds to reduce the amount of interest paid to private lessors. The Federal Management Regulation states that the basic real estate acquisition policy is to acquire real estate in an efficient and cost-effective manner.<sup>6</sup> GAO reported in January 2008 that lack of capital to finance real property investments has

<sup>6</sup>41 C.F.R. § 102-73.10.

been a long-standing challenge for GSA and other federal agencies.<sup>7</sup> However, identifying sources of capital to fund tenant improvement costs at the outset of leases would reduce federal agencies' costs.

One possible option to reduce the costs paid by tenant agencies could be to provide budget authority for GSA to finance the capital needed for tenant improvements to be paid at the outset of a new lease and have the tenant pay it back over the term, without the private interest charges that tenant agencies currently pay. GSA could potentially use available balances from the Federal Buildings Fund (FBF) to fund tenant improvement costs, with sufficient controls in place, at the outset of a lease. The FBF is administered by GSA and was established in 1972 as the primary source of funds for operating and capital costs associated with federal space. GSA collects rent from tenant agencies, deposits it into the FBF, and uses that money—as authorized by Congress—to fund real property acquisition, operation, maintenance, and disposal. The FBF has contained unobligated balances for several years and, as of February 2015, the fund had an unobligated balance of \$3.6 billion.<sup>8</sup> However, GSA does not currently have the budget authority to use the unobligated balances in the FBF to fund tenant improvements. GSA officials said that the concept of funding agencies' tenant improvements using unobligated FBF balances has potential, but they also said that GSA has not formally considered this approach. They said that applying unobligated balances in this way has the potential to save substantial amounts of money on interest charges that are currently passed on to federal tenants, but that the potential risks and opportunities would need to be fully studied.

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## Actions Needed and Potential Financial or Other Benefits

GAO recommended in January 2016 that the Administrator of the General Services Administration take the following action:

- Explore, with relevant stakeholders, the possibility of loaning unobligated Federal Buildings Fund balances to agencies to cover tenant improvement costs that would otherwise have to be financed for new leases. If GSA finds that, with sufficient controls in place,

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<sup>7</sup>GAO, *Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing*, [GAO-08-197](#) (Washington, D.C.: Jan. 24, 2008).

<sup>8</sup>As GAO reported in 2012, this balance has primarily resulted from the growing difference between the resources deposited into the FBF and use of these funds as determined through the budgeting and appropriations process. Specifically, the total available balance is a function of the resources deposited into the fund, the amount of obligational authority requested by GSA as part of the President's Budget Request, and the actual obligational authority provided by Congress. See GAO, *Federal Real Property: GSA Could Decrease Leasing Costs by Encouraging Competition and Reducing Unneeded Fees*, [GAO-12-646](#) (Washington, D.C.: Jan. 13, 2016).

tenant improvements can be safely funded this way, it should participate in the development of a legislative proposal to request that Congress make the necessary budget authority available.

If GSA determines that it could safely loan unobligated FBF balances to cover tenant improvement costs for new leases that would otherwise have to be financed at private-sector rates by the owner, it could reduce costs. GAO's review of nine GSA leases involving tenant improvement costs found that these leases will incur \$15 million in interest fees to be paid to private owners—nearly 40 percent of their tenant improvement costs. The magnitude of potential government-wide savings depends on the future amount of tenant improvements. For this reason, GAO has not yet quantified the potential financial benefits associated with the recommended action.

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## Agency Comments and GAO's Evaluation

GAO provided a draft of its January 2016 report to GSA. In response, GSA agreed with GAO's recommendation to seek to reduce tenant agencies' interest costs, stating that it would evaluate its existing authorities to determine whether it is able to loan unobligated FBF balances to agencies to cover tenant improvement costs for new leases, which would otherwise have to be financed. GAO continues to track GSA's actions related to this recommendation.

GAO provided a draft of this report section to GSA for review and comment. GSA did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the report listed in the related GAO products section. GAO contracted with a real estate consulting firm chosen through a competitive process to compare a sample of GSA leases executed between 2008 and 2014 with private-sector leases of similar location, size, and quality in the same markets during the same period to assess the extent to which GSA achieves market leasing rates. GAO also assessed how GSA's cost estimates compare with the actual costs of leasing paid by federal tenants by analyzing documentation and estimating the actual costs for a non-generalizable selection of leases from each of GSA's 11 regions. GAO also interviewed key GSA staff for all selected leases, interviewed officials from GSA headquarters about its leasing process, and interviewed officials from all 11 GSA regional offices, as well as two tenant agencies represented in the sample.

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## Related GAO Products

*Federal Real Property: GSA Could Decrease Leasing Costs by Encouraging Competition and Reducing Unneeded Fees.* [GAO-16-188](#). Washington, D.C.: January 13, 2016.

*High-Risk Series: An Update.* [GAO-15-290](#). Washington, D.C.: February 11, 2015.

*Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities.* [GAO-12-646](#). Washington, D.C.: July 12, 2012.

*Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing.* [GAO-08-197](#). Washington, D.C.: January 24, 2008.

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## Contact Information

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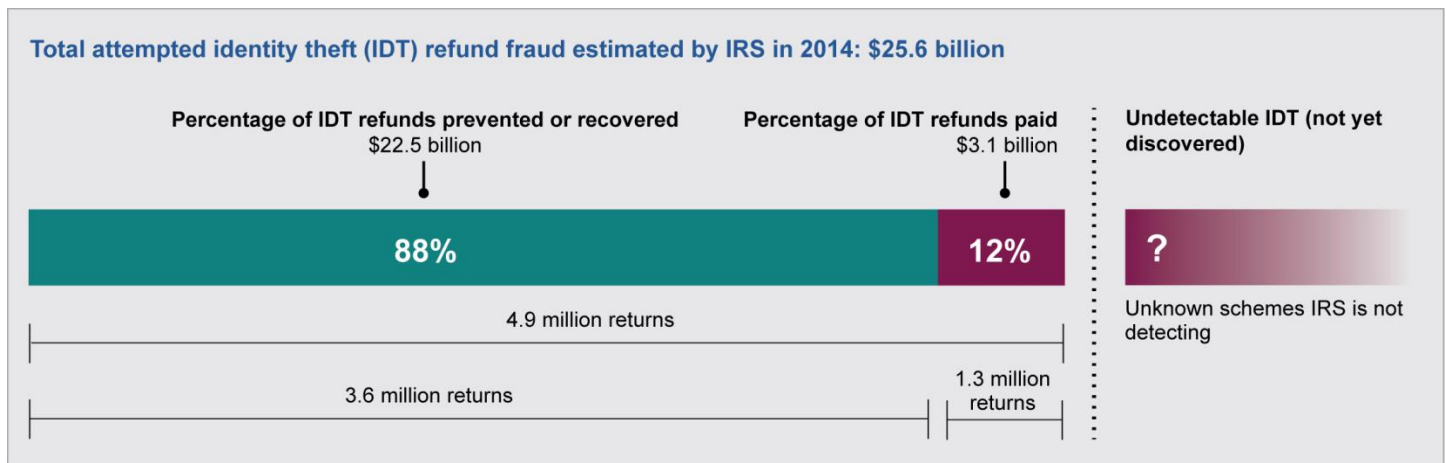
# 22. Identity Theft Refund Fraud

The Internal Revenue Service and Congress could potentially save billions of dollars in fraudulent refunds by improving the agency’s efforts to prevent refund fraud associated with identity theft.

## Why This Area Is Important

Tax refund fraud associated with identity theft (IDT) is a complex and rapidly changing threat facing the nation’s tax system. IDT refund fraud occurs when a refund-seeking identity thief obtains an individual’s identifying information and uses it to file a fraudulent tax return. IDT refund fraud burdens honest taxpayers who have had fraudulent tax returns filed in their name because they must deal with delayed refunds as they authenticate their identities with the Internal Revenue Service (IRS). Additionally, IDT refund fraud is an attractive target for criminals with a potentially high payoff. While its preliminary estimates have inherent uncertainty, IRS estimated that it prevented or recovered \$22.5 billion in fraudulent IDT refunds in filing season 2014 (see figure).<sup>1</sup> However, IRS also estimated, where data were available, that it paid \$3.1 billion in fraudulent IDT refunds. Because of the difficulties in knowing the amount of undetected fraud, the actual amount could differ from these estimates. GAO has designated IRS’s enforcement of tax laws—which includes the agency’s efforts to combat IDT—as a high-risk area.<sup>2</sup>

### IRS Estimates of Attempted Identity Theft Refund Fraud, 2014



Source: GAO analysis of IRS data. | GAO-16-375SP

<sup>1</sup>IRS’s 2014 estimates cannot be compared to those of previous years because of substantial methodology changes to better reflect new IDT refund fraud schemes and to improve the accuracy of its estimates, according to IRS officials. GAO is reviewing IRS’s IDT refund fraud estimates as part of ongoing work.

<sup>2</sup>GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015).

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## What GAO Found

While IRS has taken steps to address this problem, IDT refund fraud remains a persistent and evolving threat. Without additional action by IRS and Congress, the risk of issuing fraudulent IDT refunds could grow. Recovering a fraudulent refund after it is issued can be challenging—if not impossible—because identity thieves often spend or transfer the funds immediately, making them very difficult to collect.

While there are no simple solutions to combating IDT refund fraud, GAO identified various options in its August 2014 and January 2015 reports that could realize cost savings, some of which would require legislative action. Because some of these options represent a significant change to the tax system that could likely burden taxpayers and impose significant costs to IRS for systems changes, it is important for IRS to assess the relative costs and benefits of the options. Such an assessment can help ensure an informed discussion among IRS and relevant stakeholders—including Congress—on the best option (or set of options) for preventing IDT refund fraud. IRS has taken steps to assess various options for combating IDT refund fraud, such as conducting a study of the costs and benefits of accelerating the deadlines of Form W-2 (*Wage and Tax Statement*). Building on this progress, IRS can thoroughly assess and quantify the costs, benefits, and risks of its authentication options for combating IDT refund fraud. The administration requested an additional \$90 million and 491 full-time equivalents for fiscal year 2017 to prevent IDT refund fraud and reduce improper payments. IRS estimates that this \$90 million would help IRS protect an additional \$612 million in revenue in fiscal year 2017, as well as protect future revenue in future years.

**Accelerate W-2 deadlines.** In August 2014, GAO reported that the wage information that employers report on Form W-2 is not available to IRS until after it issues most refunds. If IRS had access to W-2 data earlier, it could match such information to taxpayers' returns and identify discrepancies before issuing billions of dollars of fraudulent IDT refunds. Such matching could also provide potential benefits for other IRS enforcement programs, such as preventing improper payments via the Earned Income Tax Credit.

The Consolidated Appropriations Act, 2016, amended the tax code to accelerate W-2 filing deadlines to January 31.<sup>3</sup> According to IRS, a program that would match W-2 data to tax returns before refunds are issued would save revenue by protecting a substantial part of the billions currently paid to fraudsters.

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<sup>3</sup>Pub. L. No. 114-113, div. Q, § 201, 129 Stat. 2242 (Dec. 18, 2015). This change goes into effect for W-2s reporting payments made in 2016 and filed in 2017.



In August 2014, we reported that IRS had not fully assessed the costs and benefits of having available W-2 information for pre-refund matching, which could involve challenges such as a potential increase in W-2s that need to be corrected; required upgrades to IRS's information technology systems; costs to employers and payroll providers; and logistical challenges for the Social Security Administration (SSA), which processes W-2 data before transmitting them to IRS.<sup>4</sup> Further, GAO found that pre-refund W-2 matching may require other policy changes, such as delaying refunds or delaying the start of the filing season. In response to GAO's recommendation, in September 2015, IRS provided GAO a report discussing (1) adjustments to IRS systems and work processes needed to use accelerated W-2 information, (2) potential impacts on internal and external stakeholders, and (3) other changes needed to match Form W-2 data to tax returns prior to issuing refunds, such as delaying refunds until W-2 data are available. This report will help IRS determine how best to implement pre-refund W-2 matching, given the new January 31 deadline for filing W-2s.

**Increase electronic filing of W-2s.** In August 2014, GAO reported that increased electronic filing would allow IRS to obtain timely, accurate data from a significant number of additional employers. It also could further enhance the benefits IRS could obtain from the accelerated W-2 deadline and pre-refund W-2 matching. Treasury requested the authority to reduce the current, 250-return annual threshold for employers required to file information returns electronically.<sup>5</sup> SSA estimated that to meaningfully increase electronic W-2 filing, the threshold would have to be lowered to include those filing from 5 to 10 W-2s. In addition, SSA estimated an administrative cost savings of about 50 cents per electronically filed W-2. Based on these cost savings and the ancillary benefits they provide in supporting IRS's efforts to conduct more pre-refund matching, a change in the electronic filing threshold is warranted. Without this change, IRS efforts to prevent fraudulent refunds could be hindered because some employers' paper W-2s could be unavailable for matching until much later in the year due to the additional time needed to process paper forms. Increasing electronic filing of W-2s would support IRS's strategic objectives to encourage compliance while minimizing costs and taxpayer burden.

**Improve external leads programs.** IRS partners with financial institutions and other external parties to obtain valuable information about

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<sup>4</sup>In February 2016, SSA officials commented that they believe the earlier January 31 filing date will minimally affect W-2 processing, although they are still reviewing this change. Officials further noted that prior to the passage of the Consolidated Appropriations Act, 2016, SSA had built the capacity to receive and process W-2 information with filing dates prior to February 28 as part of its modernization efforts. SSA officials plan to meet with IRS officials to discuss changes to W-2 processes.

<sup>5</sup>26 U.S.C. § 6011(e)(2)(A). According to SSA officials, the agency would be able to easily process W-2s regardless of the threshold requirement for electronic filing of W-2s.

emerging IDT refund trends and fraudulent returns that have passed through IRS detection systems. In August 2014, GAO reported that weaknesses in IRS's external leads programs limit post-refund fraud detection. Specifically, IRS provides limited feedback to external parties on IDT external leads they submit and offers external parties limited general information on IDT refund fraud trends. Without accurate, timely, and actionable feedback, external parties do not know if the leads they provide to IRS are useful and have difficulty improving their own detection tools. While Section 6103 of the Internal Revenue Code limits the types of information IRS can share with external parties, IRS is able to share aggregated information. Communicating with third parties is consistent with federal internal control standards and IRS's strategic plan objective to implement a robust enterprise risk management program by establishing routine reporting procedures to inform external stakeholders about operational risks. Of the requested \$90 million increase for fiscal year 2017 described above, the administration requested about \$1 million to improve the external leads program.

**Enhance taxpayer authentication.** In January 2015, GAO reported that IRS's current authentication tools have limitations. For example, individuals can obtain an e-file personal identification number (PIN) by providing their name, Social Security number, date of birth, address, and filing status. Identity thieves can easily find this information, allowing them to bypass some, if not all, of IRS's current automatic checks for IRS's e-file PIN application, according to GAO analysis and interviews with tax software and return preparer associations and companies. After filing an IDT return using an e-file PIN, the fraudulent return would proceed through IRS's normal return processing and would be subject to IRS's IDT and fraud defenses, such as IDT filters.

IRS recently created a group aimed at centralizing several prior ad-hoc efforts to authenticate taxpayers across its systems. Planning documentation from the authentication group contains goals and short- and long-term priorities (including implementation plans).<sup>6</sup> However, a commitment to cost, benefit, and risk analysis is not documented in the group's short- and long-term priorities. The draft planning documentation makes no mention of where such analyses would be included in IRS's priorities. Office of Management and Budget (OMB) guidance states that agencies should use cost-benefit analyses that consider alternatives to promote efficient resource allocation. As detailed in OMB and National Institute of Standards and Technology (NIST) guidance, agencies should also ensure that authentication processes provide the appropriate level of assurance by assessing risks. Without analysis of costs, benefits, and risks, IRS and Congress may not have quantitative information that could inform decisions about whether and how much to invest in the various authentication options.

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<sup>6</sup>The authentication group later became the Identity Assurance Office.

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## Actions Needed and Potential Financial or Other Benefits

In August 2014, GAO suggested that Congress should:

- consider providing the Secretary of the Treasury with the regulatory authority to lower the threshold for electronic filing of W-2s from 250 returns annually to between 5 to 10 returns, as appropriate.

In August 2014, GAO recommended that IRS take the following two actions to provide timely, accurate, and actionable feedback to all relevant lead-generating external parties:

- provide aggregated information on (1) the success of external party leads in identifying suspicious returns, and (2) emerging trends; and
- develop a set of metrics to track external leads by the submitting third party.

To ensure relevant information is available to decision makers, in January 2015, GAO recommended that IRS

- estimate and document the costs, benefits, and risks of possible options for taxpayer authentication, in accordance with OMB and NIST guidance.

IRS and Congress could potentially prevent a substantial portion of the estimated \$3.1 billion in IDT refund fraud by taking these actions. However, estimating specific savings is challenging because the deceptive nature of fraud makes it difficult to measure outcomes of fraud prevention activities in a reliable way.

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## Agency Comments and GAO's Evaluation

With regard to GAO's August 2014 recommendations on external leads, IRS reported in November 2014 that it would implement GAO's recommendations. In November 2015, IRS reported that it had developed a database to track leads submitted by financial institutions and the results of those leads. IRS also stated that it had held two sessions with financial institutions to provide feedback on external leads provided to IRS. In December 2015, IRS officials stated that the agency recently sent a customer satisfaction survey asking financial institutions for feedback on the external leads process and is considering other ways to provide feedback to financial institutions. GAO is following up with IRS to understand future planned activities for IRS to provide feedback on leads to other financial institutions. Upon review of relevant IRS documentation and follow-up conversations with IRS officials, GAO will determine the extent to which IRS has addressed this recommendation.

In commenting on the January 2015 report, IRS agreed with GAO's recommendation. According to IRS, the agency was creating an authentication group aimed at centralizing efforts to authenticate taxpayers across IRS channels (e.g., online, telephone, walk-in). This group later became the Identity Assurance Office. In November 2015, IRS officials told us that the agency has developed guidance for the Identity Assurance Office to assess costs, benefits, and risk, and that its analysis will inform decision making on authentication-related issues. IRS also noted that the methods of analysis for the authentication tools will vary depending on the different costs and other factors for authenticating taxpayers in different channels, such as online, phone, or in-person. While IRS is making progress, it has yet to analyze the costs, benefits, and risks of its range of authentication options and has not used analysis to select which authentication options to use for specific types of taxpayer interactions.

GAO provided a draft of this report section to IRS and SSA for review and comment. In response, IRS and SSA provided technical comments and in response GAO made changes to this report when appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products in the related GAO products section. For the related products listed, GAO analyzed agency documents and interviewed officials from IRS, SSA, and other parties. GAO also analyzed budget data from IRS, reviewed related budget documents and IRS's efforts to implement past recommendations, and interviewed IRS budget officials.

Table 12 in appendix V lists the activities GAO identified that may help IRS realize cost savings related to IDT.

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## Related GAO Products

*Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks and Estimate of Costs, Benefits and Risks.* [GAO-15-119](#). Washington, D.C.: January 20, 2015.

*Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud.* [GAO-14-633](#). Washington, D.C.: August 20, 2014.

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## Contact Information

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## 23. National Park Service Fees

The National Park Service could potentially increase revenues from the recreation fees it collects by millions of dollars annually if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees.

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### Why This Area Is Important

The National Park Service (Park Service) has reported that its funding does not cover the full cost of its mission to preserve the 409 park units it manages. The result has been the growth of a maintenance backlog for the buildings, trails, and artifacts for which the agency is responsible. As of September 30, 2014, the Park Service estimated this maintenance backlog had grown to about \$11.5 billion.<sup>1</sup> Funding for the Park Service is generally composed of annual appropriations along with revenues generated from fees and donations that the Park Service is authorized to collect and use. In fiscal year 2014, the Park Service had about \$3.1 billion in total funding, of which 84 percent (\$2.6 billion) came from annual appropriations and 15 percent (\$473 million) from fees, donations, and other funding sources.<sup>2</sup> From fiscal year 2005 through fiscal year 2014, annual appropriations declined by 8 percent after adjusting for inflation, while fees, donations, and other funding sources increased 39 percent after adjusting for inflation.

Among these fees, donations, and other funding sources, the largest portion comes from recreation fees that the Park Service is authorized to collect and use by the Federal Lands Recreation Enhancement Act (FLREA).<sup>3</sup> Recreation fees are generally comprised of entrance fees and amenity fees for certain equipment and services, such as campgrounds. In fiscal year 2014, the Park Service collected about \$186 million in recreation fees, of which about 76 percent came from entrance fees. However, certain parks are prohibited by law from charging entrance fees. According to Park Service data, 58 park units are prohibited by law from charging entrance fees. For example, the Alaska National Interest Lands Conservation Act prohibits the Park Service from charging entrance fees at all park units in Alaska.<sup>4</sup> In addition, at some park units, collecting recreation fees is precluded by the configuration of the parks or is not economically advantageous. For example, at parks with few visitors, the costs of administering the fee collection program would be a

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<sup>1</sup>National Park Service, *Fiscal Year 2014 Deferred Maintenance Reports* (Mar. 23, 2015).

<sup>2</sup>Percentages do not add up to 100 percent because of rounding.

<sup>3</sup>Pub. L. No. 108-447, div. J, tit. VIII, 118 Stat. 3377 (2004) (codified as amended at 16 U.S.C. §§ 6801-6814 (2015)).

<sup>4</sup>16 U.S.C. § 410hh-2 (2015). FLREA excepts Denali National Park and Preserve from this prohibition. 16 U.S.C. § 6802(d)(3)(G) (2015).

significant portion of the total fees collected, and these parks may choose not to charge an entrance fee.

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## What GAO Found

In August 2014, the Director of the Park Service issued a memorandum that ended a moratorium on entrance fee increases that had been in place since 2008 and updated the agency's entrance fee rate schedule for the first time since 2006. According to this memorandum, the goal was for parks that collected entrance fees to align with the schedule by 2017 if these changes were supported by the public. In response to the 2014 memo, 111 park units increased recreation fees, as of September 2015. However, in its December 2015 report, GAO found that several park units that were collecting some type of entrance fee in 2015 did not increase entrance fees and may not align with the fee schedule by 2017. In addition, the Park Service does not require park units to provide information supporting their decisions on not increasing entrance fee rates or increasing their fees by less than the fee schedule. According to a senior Park Service official, park units are not required to provide this information because it was not compulsory that park units increase their fees. By not requiring that parks provide information on decisions that deviate from the fee schedule, the Park Service may not have relevant information that would help to manage changes to recreation fees more effectively and ensure that park units are taking steps to determine whether entrance fees are set at a reasonable level. Such information is generally required by *Federal Internal Control Standards*, which state that for an agency to run its operations, it must have reliable and timely communication and that information is needed throughout the agency to achieve its objectives.<sup>5</sup>

Unlike amenity fees, which the Park Service expects park units to review annually, Park Service officials stated they had no plans to periodically review entrance fees to determine if they should be increased. GAO's 2008 guide on federal user fees states that if federal user fees are not reviewed and adjusted regularly, federal agencies run the risk of undercharging or overcharging users.<sup>6</sup> Moreover, Park Service guidance directs the agency to ensure its fees are set at a reasonable level, but this guidance does not direct that these fees be periodically reviewed.<sup>7</sup> In a

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<sup>5</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>6</sup>GAO, *Federal User Fees: A Design Guide*, [GAO-08-386SP](#) (Washington, D.C.: May 29, 2008).

<sup>7</sup>Park Service guidance states that fees should not be collected in instances where the costs of collection exceed revenue from the fees. National Park Service, *Management Policies* (2006).

2015 report, the Department of the Interior Inspector General recommended that the Park Service establish intervals for periodic reviews of its entrance fees to ensure that the fee schedule remains up to date.<sup>8</sup> Park Service officials stated they were hesitant to commit to such reviews until FLREA is reauthorized because they were unsure if they would continue to have the authority to continue charging entrance fees.<sup>9</sup> However, the Park Service has not required periodic reviews of entrance fees for the 11 years that FLREA has been in place. By not regularly reviewing its entrance fee schedule, the Park Service is missing an opportunity to better ensure that these fees are reasonable.

In addition, the Park Service's ability to further increase revenues from recreation fees is limited by certain factors, including legislation. For example, FLREA directed the Secretary of the Interior to establish an interagency pass that covers entrance fees and certain amenity fees for all federal recreational lands. The price of the pass is \$80 annually, as of November 2015, and covers national park units as well as recreational lands managed by the U.S. Forest Service, Bureau of Reclamation, Bureau of Land Management, and the U.S. Fish and Wildlife Service. However, FLREA limits these agencies' ability to increase revenue from recreation fees.<sup>10</sup> For example, FLREA requires the Secretary of the Interior to offer a lifetime interagency pass for a one-time \$10 price to senior citizens, defined as being over 62 years of age. While under FLREA the price of the annual interagency pass can be changed by the agencies that administer it, the law does not provide this flexibility for the \$10 lifetime senior pass. Because of the limitations in FLREA, the Park Service and the other agencies that administer the recreation fee program do not have the flexibility to periodically reassess and change the price of the lifetime senior pass. Providing this flexibility to these agencies would allow them to consider adjusting fees periodically, which is consistent with GAO's guide on federal user fees.<sup>11</sup>

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<sup>8</sup>Office of Inspector General, U.S. Department of the Interior, *Review of National Park Service's Recreation Fee Program*, C-IN-NPS-0012-2013 (February 2015).

<sup>9</sup>FLREA is currently set to expire September 30, 2016. 16 U.S.C. § 6809 (2015).

<sup>10</sup>Of these agencies, the Park Service collects the majority of recreation fees. In fiscal year 2011, the Park Service collected about two-thirds of the total recreation fees collected (\$172.4 million of \$260.6 million). See Department of the Interior and Department of Agriculture, *Implementation of the Federal Lands Recreation Act: Triennial Report to Congress* (May 2012).

<sup>11</sup>[GAO-08-386SP](#).

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## Actions Needed and Potential Financial or Other Benefits

To increase the flexibility that the Park Service has to change entrance fees, GAO suggested in December 2015 that Congress take the following action:

- Consider amending FLREA to give authority to the Park Service and the other four agencies that implement the recreation fee program—Bureau of Reclamation, Bureau of Land Management, the U.S. Fish and Wildlife Service, and the U.S. Forest Service—to adjust the price of a lifetime senior pass.

The price of the senior pass has been \$10 since 1993, but a bill introduced in September 2015 would increase this price to a one-time amount matching the price of the annual interagency pass, which is \$80, as of November 2015.<sup>12</sup> If this change occurred, it could generate about another \$35 million in revenue annually, assuming that the same number of senior passes was sold as in fiscal year 2014, which was about 500,000.<sup>13</sup>

In addition, to help improve the management of recreation fees, GAO also recommended in December 2015 that the Secretary of the Interior direct the Director of the Park Service to take the following two actions:

- Revise the Park Service's guidance on recreation fees so that the agency periodically reviews its entrance fees to determine whether the fees are reasonable.
- Direct that park units provide information to headquarters on why they are choosing to not increase entrance fees or increase them by an amount less than the fee schedule.

If the Park Service were to take these two actions, it is possible that the agency would realize additional revenues from entrance fees to the extent that having park units periodically review entrance fees and provide additional information on entrance fee decisions led park units to conclude that they could raise their entrance fees. Because the potential increase in revenues depends on a host of factors—including how much parks choose to increase fees and the impact these increased fees may have on visitation—GAO was unable to develop an estimate.

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<sup>12</sup>National Park Service Centennial Act, H.R. 3556, § 602 114<sup>th</sup> Cong. (2015).

<sup>13</sup>The amount of additional revenue could be lower if the amount of the price increase deters seniors from purchasing the pass.



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## Agency Comments and GAO's Evaluation

In commenting on the December 2015 report on which this analysis is based, Interior agreed with each of GAO's recommendations, and Interior also noted that the Park Service is planning to address these recommendations. Specifically, in 2016, the Park Service is planning to revise its guidance on recreation fees to require periodic evaluation of the entrance fee pricing structure. In addition, beginning in 2016, Interior indicated the Park Service will require park units to provide information on their decisions to not increase entrance fees.

GAO provided a draft of this report section to Interior for review and comment. Interior reviewed this report section and did not have any comments on it.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product listed in the related GAO products section. GAO analyzed budget data from fiscal years 2005 through 2014 on the Park Service's overall funding and fee revenues. GAO also reviewed laws and Park Service policies and compared this information with GAO's design guide for federal user fees<sup>14</sup> and *Standards for Internal Control in the Federal Government*.<sup>15</sup> In addition, GAO interviewed Park Service officials at the headquarters, regional, and park unit levels.

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## Related GAO Product

*National Park Service: Revenues from Fees and Donations Increased, but Some Enhancements Are Needed to Continue This Trend.*  
[GAO-16-166](#). Washington, D.C.: December 15, 2015.

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## Contact Information

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<sup>14</sup>[GAO-08-386SP](#).

<sup>15</sup>[GAO/AIMD-00-21.3.1](#).

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# 24. Unobligated Balances

To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts.

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## Why This Area Is Important

In fiscal year 2014, unobligated balances—the balance of available budget authority that has not yet been obligated as of the end of the fiscal year—made up about \$870 billion of the \$2.3 trillion in unexpended balances.<sup>1</sup> Unobligated balances can present agencies with an opportunity to better respond to unexpected events, but high levels of unobligated balances may highlight opportunities for funds to be used more efficiently elsewhere, such as through reprogramming funds to other activities or reducing future budget authority requests, as applicable.<sup>2</sup>

In September 2013, GAO reported that agency officials should answer key questions during their reviews of unexpended balances to provide insight into why a balance exists, what size balance is appropriate, and what opportunities for savings may exist. Furthermore, understanding an agency's processes for managing these balances provides information to assist decision makers in assessing how effectively agencies are in anticipating program needs and helping ensure the most efficient use of resources.

In October 2015, GAO reported that actively managing unobligated balances may include estimating projected annual unobligated balances and identifying the amount of unobligated balances that should be retained the following year. If an agency does not have a robust strategy in place to manage unobligated balances or is unable to adequately explain or support the reported unobligated balances, then a more in-depth review is warranted. If unobligated balances fall too low, agencies may not be able to efficiently manage operations. In contrast, if balances

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<sup>1</sup>Unexpended balances are the sum of obligated and unobligated balances. Obligated balances are the amount of obligations already incurred for which payment has not yet been made, while an unobligated balance is the portion of available budget authority that has not yet been obligated. An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services or a legal duty that could mature into a legal liability by virtue of actions that are beyond the control of the United States. For example, an agency incurs an obligation when it places an order, signs a contract, awards a grant, or purchases a service. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005).

<sup>2</sup>Reprogramming is the shifting of funds from one program activity to another within an appropriation account for purposes other than those contemplated at the time of appropriation. See [GAO-05-734SP](#).

rise to unnecessarily high levels, there may be potential opportunities for those funds to be used more efficiently elsewhere.

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## What GAO Found

In October 2015, GAO reported that four agencies—the Departments of Commerce, Energy, and State and the National Aeronautics and Space Administration—generally managed and tracked unobligated balances to ensure the effective use of program resources in the eight reviewed budget accounts.<sup>3</sup> However, GAO found that for two of the reviewed accounts at the Department of Energy (Energy) and the Department of State (State), the agencies exceeded target levels of unobligated balances for fiscal year 2014. These target levels were set by agency officials, who explained that the target balances were necessary to properly execute activities and manage financial risk for certain programs within the accounts.

**Energy’s Western Area Power Administration’s (WAPA) Construction, Rehabilitation, Operation and Maintenance (CROM) account.** The unobligated balances in the CROM account exceeded the level officials said was necessary to maintain certain activities and manage risk for those activities. Specifically, for the annual expense fund within the account, officials set a target to retain up to 25 percent of the yearly budget requirement as contingency funds against unexpected events. The unobligated balance in the annual expense fund in fiscal year 2014 accounted for \$92 million, or about 44 percent of the fund’s budget requirement. This exceeded the 25 percent target, which officials estimated to be about \$52 million, by about \$40 million. According to WAPA officials, the annual expense fund’s unobligated balance for fiscal year 2014 was higher than the predetermined target partially because they forecasted a 3 percent cost of living increase for personnel, which did not occur.

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<sup>3</sup>GAO reviewed data for each of the 24 Chief Financial Officers Act agencies and selected these agencies based on their use of balances to address sequestration and large or significant changes in the balances from fiscal years 2012 to 2014. The Department of Defense was excluded from selection because of ongoing GAO work.

**Unobligated Balances within the Western Area Power Administration's Construction, Rehabilitation, Operation and Maintenance Account**

<b>Agency:</b>	Department of Energy, Western Area Power Administration
<b>Account:</b>	Construction, Rehabilitation, Operation and Maintenance
<b>Funding use category:</b>	Annual expense fund
<b>Agency target for unobligated balances:</b>	Up to 25 percent of the yearly budget requirement (or \$52 million for fiscal year 2014)
<b>Actual unobligated balances (end of fiscal year 2014):</b>	\$92 million
<b>Excess unobligated balances (end of fiscal year 2014):</b>	\$40 million

Source: GAO-16-26. | GAO-16-375SP

WAPA officials explained that WAPA's mission—to market hydroelectric power to multiple regions across the western United States—can be affected by a number of environmental factors, such as drought, animal breeding seasons, and flood prevention, all of which may affect the function of power generating dams and introduce financial risk. WAPA officials reported addressing these environmental factors and potential financial risks by carrying over unobligated balances from one fiscal year to the next. WAPA officials told GAO that while a carryover of up to 25 percent in unobligated balances is the current target for the annual expense fund, they are continuing to refine and evaluate the necessary level of unobligated balances. These officials said that they do not have a model or formula for estimating anticipated environmental factors and how those factors may have a fiscal impact on the agency.

WAPA officials reported that they developed a strategy in fiscal year 2013 for managing unobligated balances in the annual expense fund. According to officials, the draft strategy includes three alternatives for reducing unobligated balances in the annual expense fund, including one to decrease future budget requests and to instead rely on existing unobligated balances to cover expenses. Officials said that this alternative was approved by WAPA senior management. However, officials acknowledged that this strategy would not be fully implemented until officials assess the outcomes of the strategy. WAPA officials also reported that they are considering other strategies for reducing unobligated balances to determined targets. According to WAPA, the strategy for managing its unobligated balances will be completed and implemented by the end of calendar year 2016.

**State's Consular and Border Security Programs (CBSP) within the Diplomatic and Consular Programs (D&CP) account.** In fiscal year 2014, unobligated balances for the D&CP account exceeded State's target to carry over approximately 25 percent of projected program expenditures for CBSP for the next year to manage complex global visa

and passport operations. CBSP is fully fee funded, which means that all appropriations for the program are offsetting collections from consular fees and surcharges. These fees and surcharges include the Passport Security Surcharge, the Diversity Visa Lottery fee, and the Machine Readable Visa fee, among others. Congress has permanently appropriated these collections to State as no-year authority for CBSP's use.<sup>4</sup> State set the carryover target of 25 percent based on activity-specific analysis using historical data and projections.

The unobligated balances for CBSP in fiscal year 2014 accounted for approximately \$1.3 billion, or 38 percent of projected program expenditures for fiscal year 2015. This exceeded the 25 percent target of approximately \$850 million by approximately \$440 million. Similarly, in fiscal years 2012 and 2013, unobligated balances for CBSP accounted for approximately 40 percent of program expenditures for the next fiscal year. State officials reported that unobligated balances were higher than the predetermined target, in part, because some fees collected under CBSP may only be used for limited purposes. In particular, fees collected for fraud prevention and detection on certain types of visas can only be spent on specific fraud activities, which State officials said limits the opportunities they have to expend funds and decrease the balances. State officials reported that annual revenue from this fee is usually higher than the cost of these activities, resulting in an annual increase in unobligated balances. However, the unobligated balance from this fee accounts for only about 22 percent of the total excess unobligated balances (approximately \$97 million of the total excess unobligated balance of \$440 million in fiscal year 2014).

<b>Unobligated Balances within the Diplomatic and Consular Programs Account</b>	
<b>Agency:</b>	Department of State
<b>Account:</b>	Diplomatic and Consular Programs
<b>Program:</b>	Consular and Border Security Programs
<b>Agency target for unobligated balances:</b>	25 percent of projected program expenditures for the next year (or \$850 million for fiscal year 2014)
<b>Actual unobligated balances (end of fiscal year 2014):</b>	\$1,300 million
<b>Excess unobligated balances (end of fiscal year 2014):</b>	\$440 million

Source: GAO-16-26. | GAO-16-375SP

<sup>4</sup>No-year budget authority is available for obligation until expended, in contrast with multiyear budget authority, which is available for obligation for a fixed period of time in excess of 1 fiscal year, or one-year budget authority, which is available for obligation only in a specific fiscal year and expires at the end of that fiscal year. See [GAO-05-734SP](#).

State officials within the Bureau of Consular Affairs said that they began drafting a plan in 2013 for managing and monitoring funding for each program within CBSP. According to officials, this plan is to include a strategy for tracking and managing unobligated balances to reach the identified target of 25 percent. Officials said that they are waiting on leadership to approve the plan and they anticipate that it will be finalized by June 2016. While unobligated balances for CBSP were greater than the 25 percent target in recent years, State officials reported that they have taken steps to regulate and reduce unobligated balances. According to officials, these steps included decreasing fees or delaying fee increases when unobligated balances were adequate to cover costs. For example, officials reported that since fiscal year 2012, the cost of the Passport Security Surcharge service was higher than the \$40 fee charged; however, State did not implement an increase of the fee to \$60 until 2015. Officials said that this delay of the fee increase allowed them to spend down existing unobligated balances from fiscal years 2012 through 2014. According to data provided by State, unobligated balances for the Passport Security Surcharge decreased from 95 percent of the next year's program expenditures in fiscal year 2012 to 72 percent in fiscal year 2014. Officials also reported realigning spending, consistent with authorities, to better coincide with actual costs and improving internal coordination to better track and model revenues and obligations. However, unobligated balances for CBSP remained greater than the agency's 25 percent target, indicating that further action is needed to reduce excess unobligated balances.

Without finalized and fully implemented strategies for reducing unobligated balances in excess of the agencies' predetermined targets for the identified programs or activities in these two accounts, Energy and State are missing opportunities to actively manage unobligated balances and help ensure effective use of resources.

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## Actions Needed and Potential Financial or Other Benefits

To better ensure effective use of federal funds and management of unobligated balances, in October 2015 GAO recommended the following two actions:

- The Secretary of Energy should direct WAPA's Administrator and Chief Executive Officer to finalize and implement a strategy to reduce excess unobligated balances within the CROM account.
- The Secretary of State should direct the Assistant Secretary of State for Consular Affairs to finalize Consular Affairs' strategy for the management of its unobligated balances, and to continue efforts to reduce excess unobligated balances allocated to CBSP in the D&CP account.

Financial benefits could be as much as the \$40 million and \$440 million in excess unobligated balances GAO identified in the Energy and State accounts, respectively, at the end of fiscal year 2014. Energy and State could use various methods to reduce the excess unobligated balances, as appropriate, such as reprogramming or transferring funds to other activities, to the extent allowed by appropriations law; reevaluating fees to ensure that fee revenues match program needs; or reducing budget authority requests where applicable in future years.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's October 2015 report on which this analysis is based, Energy and State concurred with GAO's recommendations. Energy said that it agrees with the need to avoid excess unobligated balances and reported that WAPA is finalizing a plan to better manage unobligated balances in the CROM account. While State concurred with the recommendation, officials noted that they disagreed with the use of "excess" to describe the unobligated balances in CBSP. State said that it plans to continue efforts to better align unobligated balances and finalize the plan for CBSP to maintain balances at optimal levels. GAO maintained that the unobligated balances for CBSP are "excess" because they are above the agency's own target of 25 percent of projected program expenditures for the next year.

GAO provided a draft of this report section to Energy and State for review and comment. Energy provided comments on February 17, 2016 stating it agrees with the need to manage its unobligated balances, but said it does not agree that the \$40 million in unobligated balances identified in GAO's October 2015 report should be considered in "excess" or characterized as a potential cost savings or revenue enhancement area. GAO maintains that the balances are "excess" because they are above the agency's own target of 25 percent of the yearly budget requirement and opportunities exist for potential financial benefits if the excess balances were reduced. State provided comments on February 17, 2016 stating that the Bureau of Consular Affairs is on track to complete its plan to maintain its balances at optimal levels by June 2016.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products in the related GAO products section. To examine agencies' management of carryover balances across the federal government, GAO analyzed agency budget reports and guidance, congressional budget justifications, and congressional notifications, among other things. GAO also interviewed agency officials at selected department (or agency), bureau, and account levels about account management policy and practice, especially with regard to unobligated balances. To describe unexpended balances government-wide, GAO analyzed data across all

federal budget accounts from the Office of Management and Budget's MAX database.

Table 13 in appendix V lists the programs GAO identified that might have opportunities for cost savings.

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## Related GAO Products

*2013 Sequestration and Shutdown: Selected Agencies Generally Managed Unobligated Balances in Reviewed Accounts, but Balances Exceeded Target Levels in Two Accounts.* [GAO-16-26](#). Washington, D.C.: October 30, 2015.

*Budget Issues: Key Questions to Consider When Evaluating Balances in Federal Accounts.* [GAO-13-798](#). Washington, D.C.: September 30, 2013.

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## Contact Information

For additional information about unobligated balances, contact Susan J. Irving at (202) 512-6806 or [irvings@gao.gov](mailto:irvings@gao.gov).



## 25. Distribution of Medicaid Supplemental Payments

The Centers for Medicare & Medicaid Services should provide written guidance to state Medicaid programs clarifying its policies that the distribution of Medicaid supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share—actions that could result in substantial cost savings.

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### Why This Area Is Important

Medicaid, a joint federal-state health care program that provides coverage for low-income and medically needy individuals, involves significant and growing expenditures for the federal government and states.<sup>1</sup> In fiscal year 2015, Medicaid was estimated to cover, on average, approximately 69 million beneficiaries at an estimated cost of \$529 billion.<sup>2</sup> In addition to regular payments for covered services, states often make supplemental payments, up to certain limits, for which the federal government also shares in the cost.<sup>3</sup> GAO reported in November 2012 that 39 states made supplemental payments in 2007 that resulted in 505 hospitals having Medicaid payment surpluses—that is, total Medicaid payments in excess of the hospitals' total costs of providing Medicaid services—totaling about \$2.7 billion. GAO designated Medicaid as a high-risk program in 2003, in part due to the program's size and growth and to concerns about the transparency and oversight of supplemental payments.

Medicaid supplemental payments are typically made under a Medicaid state plan. Each state's plan is required to be reviewed and approved by the Centers for Medicare & Medicaid Services (CMS), the agency within the Department of Health and Human Services (HHS) responsible for overseeing state Medicaid programs at the federal level. Payments under a state plan, including supplemental payments, must be economical and efficient and within the Medicaid Upper Payment Limit (UPL), which caps federal matching of certain Medicaid payments at the level Medicare

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<sup>1</sup>Under a statutory formula, the federal government reimburses from 50 to 83 percent of a state's Medicaid expenditures for services for most Medicaid beneficiaries. States with lower per capita incomes receive higher federal matching rates. 42 U.S.C. §§ 1396b(a), 1396d(b).

<sup>2</sup>Department of Health and Human Services, *2014 Actuarial Report on the Financial Outlook for Medicaid* (Washington, D.C.: 2015).

<sup>3</sup>States generally make three types of supplemental payments. States are required to make disproportionate share hospital payments to hospitals that serve a large number of Medicaid and uninsured low-income patients. The other two types of supplemental payments that states make, which are the subject of GAO's February 2016 report, are those made under the Medicaid upper payment limit regulations and those made under approved Medicaid demonstration projects.

would pay for comparable services.<sup>4</sup> The UPL is typically a limit applied to institutional providers, particularly hospitals and nursing facilities. The UPL is not a provider-specific limit, for example, a limit on payments made to any particular hospital, but is instead applied on an aggregate basis for certain provider ownership types (local government, state government, and private) and categories of service (e.g., hospital inpatient, hospital outpatient, and nursing facility). States can estimate the UPL for a category of service for all services provided, for example, by local government hospitals, and make payments up to the UPL. Under the flexibility of the Medicaid UPL, states can make supplemental payments under the UPL—known as UPL supplemental payments—to only a portion of the providers providing a service type. Some states have targeted their UPL supplemental payments to a small number of providers within a particular category—for example, local government hospitals—resulting, in some cases, in Medicaid surpluses. Medicaid payments that greatly exceed costs raise questions about the purpose of the payments, including how they relate to Medicaid services and if they are economical and efficient, as required by law.

In addition, in recent years states have increasingly made another type of supplemental payment under section 1115 of the Social Security Act, which authorizes the Secretary of Health and Human Services to approve funds for Medicaid demonstration projects—including for costs that would not otherwise be eligible for federal matching funds—if, in the Secretary’s judgment, such spending is likely to assist in promoting Medicaid objectives.<sup>5</sup> Some states have received approval to make these payments—known as demonstration supplemental payments—and ended their UPL supplemental payments. HHS has authorized demonstration supplemental payments for purposes such as paying hospitals for uncompensated care costs and incentive payments for broad health care improvements.

States finance the nonfederal share of their Medicaid programs primarily with state general funds; however, they may, within certain limits, use other sources of funds, including funds from local government providers, such as county-owned hospitals, or from local governments on behalf of government providers. GAO reported in July 2014 that states have increasingly relied on local governments to fund the nonfederal share of state Medicaid payments, particularly for supplemental payments. Trends toward increasing reliance on Medicaid providers and local governments to finance the nonfederal share of Medicaid payments can shift costs to the federal government, changing the nature of the federal-state

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<sup>4</sup>Medicare is the federal health program that covers seniors aged 65 and over, individuals with end-stage renal disease, and certain disabled persons.

<sup>5</sup>42 U.S.C. § 1315(a). Medicaid demonstrations are intended to allow states to test and evaluate new approaches for delivering Medicaid services to beneficiaries.

partnership.<sup>6</sup> GAO has found, for example, that states have established complex payment arrangements involving increased Medicaid payments to certain institutional providers, such as local government hospitals, and sought funds to finance the nonfederal share of those payment increases from the same providers receiving the payments, or the local government operating them. By increasing the providers' Medicaid payments and requiring the providers receiving the payments, or the local governments operating them, to supply all or most of the nonfederal share, the states have effectively shifted more of the cost of payments made to those providers to the federal government. The net payment to those providers may largely be made up of federal funds. Such financing arrangements can be within federal rules; however, states may not lower the amount, duration, scope, or quality of Medicaid services provided due to a lack of funds from local sources.<sup>7</sup>

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## What GAO Found

In February 2016, GAO found that, in three of four states it reviewed that made supplemental payments resulting in Medicaid payment surpluses, states distributed Medicaid supplemental payments to hospitals largely based on the availability of local government funds to finance the nonfederal share, rather than on the volume of services each hospital provided. While CMS has recently acted to curtail one state's supplemental payments that were distributed based on availability of local financing, it has not clarified or broadly communicated guidance regarding appropriate payment distribution methods. The absence of CMS guidance on how to distribute Medicaid supplemental payments may be leading to inconsistent application among states and the distribution of supplemental payments that are counter to agency policies, resulting in payments to providers that are not commensurate with the level of Medicaid services provided, or overpayments to providers that contributed local financing. This lack of clarity may partly explain why states have often made supplemental payments that were based on the availability of local financing rather than on their services for Medicaid beneficiaries and why states have increasingly relied on local financing for supplemental payments, which has the effect of shifting state costs to the federal government.

GAO reported that, for three of four selected states—which were selected on the basis of having made the largest Medicaid payments in excess of costs in 2009—the bulk of the supplemental payments to hospitals were made contingent on these hospitals, or the relevant local governments,

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<sup>6</sup>GAO reported that in state fiscal year 2012, across all states, 70 percent of the nonfederal share of UPL supplemental payments was financed by funds from local governments, including local government hospitals, which represented an increase of 13 percentage points since state fiscal year 2008.

<sup>7</sup>42 U.S.C. § 1396a(a)(2); 42 C.F.R. § 433.53(c)(2) (2015).

providing funds to finance the nonfederal share of the payments the hospitals received, rather than on the Medicaid services they provided. Based on its review of applicable state laws, regulations, or Medicaid documents that established the rules regarding which hospitals would receive payments and the amounts of the payments, GAO reported that in 2009 over \$3.2 billion—or 92 percent of \$3.5 billion the three states made in supplemental payments in total that year—was based on contributions of local funds. For 2012, GAO reported that \$4.9 billion—or 97 percent of \$5.0 billion the three states made in supplemental payments in total that year—was based on contributions of local funds. GAO reported on several examples of hospitals that did not receive a supplemental payment, or received a smaller payment, because the hospital or local government did not provide the funds, or provided a smaller contribution to the nonfederal share than expected. In one state, for example, GAO found that 18 rural hospitals did not receive UPL payments under a program specifically for hospitals in rural counties because they did not provide local funds for the nonfederal share of the payments.

While states are permitted to use local funds to finance the nonfederal share of their Medicaid programs, GAO findings from its February 2016 report show that distributing payments only to hospitals that are capable of financing the nonfederal share can result in payments not being made to otherwise eligible hospitals that lack the ability either to finance the expected nonfederal share of the payment or to obtain local government support for such financing. In addition, GAO reported that basing the distribution of supplemental payments on the availability of local funding can result in payments that are not aligned with hospitals' workload of low-income patients, as measured by their uncompensated care costs associated with serving low-income or uninsured individuals. For example, the report highlighted a hospital for which local funding was provided that had \$352 million in uncompensated care costs, yet received \$384 million in demonstration supplemental payments for those costs, in addition to \$77 million in Disproportionate Share Hospital payments.<sup>8</sup> However, another hospital with about \$121 million in uncompensated care costs—which was the fourth-highest amount of uncompensated care costs among the state's hospitals that year—but that had no local funding provided on its behalf received no supplemental payments. GAO also reported in 2014 that reliance on local funds may incentivize states to make Medicaid payments in excess of hospitals' Medicaid costs because those hospitals are able to provide or secure local financing for the nonfederal share of the payments, which can effectively reduce the state's obligation for Medicaid payments and shift costs for Medicaid to the federal government.

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<sup>8</sup>States are required by federal law to make Disproportionate Share Hospital payments to certain hospitals, which are payments designed to help offset these hospitals' uncompensated care costs for serving large numbers of Medicaid and uninsured low-income individuals. See 42 U.S.C. §§ 1396a(13)(A), 1396r-4.

Federal law requires states to ensure that a lack of local funds will not result in lowering the amount, duration, scope, or quality of Medicaid services,<sup>9</sup> and CMS officials told GAO that the agency interprets this requirement as prohibiting arrangements where Medicaid payments are contingent on local financing. CMS officials also told GAO that the agency's policy requires that supplemental payments be distributed based on the hospitals' provision of services to Medicaid and uninsured individuals. However, GAO reported that CMS had not clearly or broadly communicated its policies about appropriate distribution methodologies to states. Federal standards for internal control stress that management should ensure there are adequate means of communicating information to external stakeholders that may have a significant impact on the agency's achieving its goals.<sup>10</sup> GAO reported that CMS communicated key principles in writing to one state regarding how the state should distribute its demonstration supplemental payments for uncompensated care costs, including that (1) payments should support the provision of services to Medicaid beneficiaries and low-income uninsured individuals, and (2) payments should not be made based on the availability of local financing. In addition, CMS officials told GAO in October 2015 that the agency plans to issue a proposed rule to specify appropriate methodologies for state distribution of UPL supplemental payments under their state plans, and they plan to publish a proposed rule for comment in fall of 2016. However, CMS has not issued written guidance to articulate and broadly communicate its demonstration supplemental payment requirements to all states. Additionally, because the proposed rule was under development as of March 2016, details regarding the UPL supplemental payment distribution methodologies were not available.

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## Actions Needed and Potential Financial or Other Benefits

To promote consistency in the distribution of supplemental payments among states and with CMS policy, GAO recommended in its February 2016 report that the Administrator of CMS take the following two actions:

- Issue written guidance clarifying its policy that requires a link between the distribution of supplemental payments and the provision of Medicaid-covered services.
- Issue written guidance clarifying its policy that payments should not be made contingent on the availability of local funding.

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<sup>9</sup>42 U.S.C. § 1396a(a)(2); 42 C.F.R. § 433.53(c)(2).

<sup>10</sup>GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Currently it is not possible to estimate the potential cost savings that may result from CMS taking these actions because the total amount of supplemental payments that are distributed based on the availability of local funding is unknown, as is the extent to which payment amounts would be reduced in response to CMS's clarification of its policies. Previous GAO reports (for example, reports issued in July 2014 and April 2015) have shown that states often make large Medicaid supplemental payments to a small number of providers, increasingly relying on local funding for the nonfederal share of supplemental payments, and effectively shifting costs for Medicaid payments to the federal government in doing so. A November 2012 GAO report found that states had made supplemental payments to hospitals that contributed to about \$2.7 billion in Medicaid payment surpluses among hospitals receiving them, suggesting that states were often overpaying hospitals when making supplemental payments. GAO's February 2016 report provides new information related to why a state might make large supplemental payments in excess of Medicaid costs by financing these payments using local or provider funds. Curtailing the practice of basing payments on the availability of local funding, and instead clarifying that they be distributed based on the level of Medicaid-covered services provided, may result in substantial savings through the reduction of these surpluses.

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## Agency Comments and GAO's Evaluation

In commenting on the February 2016 report on which this analysis is based, HHS concurred with one recommendation and agreed with concerns raised by the other. Specifically, HHS concurred with GAO's recommendation to articulate in written guidance to all states the agency's current policy that supplemental payments be distributed based on the provision of services to Medicaid and low-income uninsured individuals. HHS cited the rule it plans to propose in the spring of 2016 that would set forth additional requirements to better ensure that supplemental payments are consistent with the statutory principles of economy, efficiency, and quality of care. HHS also cited its effort to apply new criteria to the approval of demonstrations that contain supplemental payments for uncompensated care, which it has communicated to Florida and other affected states. In responding to GAO's second recommendation, HHS agreed that Medicaid payments that are contingent on the availability of local funding are a concern, and it referenced again its plans for a proposed rule, indicating that the rule is to highlight the issue. Although HHS did not explicitly concur with GAO's recommendation, it did state it is considering additional options to address the issue. In light of its findings, GAO plans to continue to monitor HHS actions on these issues.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. To determine the basis on which states distributed supplemental payments, GAO reviewed documents authorizing the payments, including state plan provisions, the terms and conditions of Medicaid demonstrations, state administrative code provisions, and other state documents. GAO obtained payment data from the four selected states to analyze the extent to which states' supplemental payments were contingent on local funding and, along with available cost data, to compare hospitals' payments to their uncompensated care costs.

Table 14 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*Medicaid: Federal Guidance Needed to Address Concerns about Distribution of Supplemental Payments.* [GAO-16-108](#). Washington, D.C.: February 5, 2016.

*Medicaid Demonstrations: Approval Criteria and Documentation Need to Show How Spending Furthers Medicaid Objectives.* [GAO-15-239](#). Washington, D.C.: April 13, 2015.

*Medicaid: CMS Oversight of Provider Payments Is Hampered by Limited Data and Unclear Policy.* [GAO-15-322](#). Washington, D.C.: April 10, 2015.

*Medicaid Financing: States Increased Reliance on Funds from Health Care Providers and Local Governments Warrants Improved CMS Data Collection.* [GAO-14-627](#). Washington, D.C.: July 29, 2014.

*Medicaid Demonstration Waivers: Approval Process Raises Cost Concerns and Lacks Transparency.* [GAO-13-348](#). Washington, D.C.: June 25, 2013.

*Medicaid: More Transparency of and Accountability for Supplemental Payments Are Needed.* [GAO-13-48](#). Washington, D.C.: November 26, 2012.

*Medicaid: States Reported Billions More in Supplemental Payments in Recent Years.* [GAO-12-694](#). Washington, D.C.: July 20, 2012.

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## Contact Information

For additional information about this area, contact Katherine Iritani at (202) 512-7114 or [iritanik@gao.gov](mailto:iritanik@gao.gov).

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## 26. Eligibility of Medicare Providers and Suppliers

The Centers for Medicare & Medicaid Services could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the billions of dollars in improper payments that the program has paid out in recent years.

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### Why This Area Is Important

In fiscal year 2015, Medicare paid \$568.9 billion for health care and health care-related services. According to the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) that administers the Medicare program—an estimated \$59.6 billion (10.5 percent) of that total was paid improperly.<sup>1</sup> Due to the large dollar amount involved in improper payments, the Office of Management and Budget has placed Medicare on its list of high-error programs. Further, because of its size, complexity, and susceptibility to mismanagement and improper payments, GAO has designated Medicare as a high-risk program.

CMS requires prospective Medicare providers and suppliers to be listed in the Provider Enrollment, Chain and Ownership System (PECOS) to enroll in Medicare and to bill for services provided to Medicare beneficiaries.<sup>2</sup> PECOS is a centralized database that contains enrollment information for providers and suppliers. According to CMS, about 1.9 million providers and suppliers were listed in PECOS as of December 2015. CMS is responsible for developing provider and supplier enrollment procedures to help safeguard the program from fraud, waste, and abuse. CMS requires providers and suppliers to resubmit and recertify the accuracy of their enrollment information every 5 years and durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) suppliers every 3 years in order to maintain billing privileges.

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<sup>1</sup>This amount represents the Medicare Fee-for-Service, Medicare Advantage (Part C), and Medicare prescription Drug Benefit (Part D) programs. An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, and any payment that does not account for credit for applicable discounts.

<sup>2</sup>The term “provider” refers collectively to institutional providers such as hospitals and health-care facilities, as well as physicians and nonphysician practitioners who provide health-care services to Medicare beneficiaries. Providers also include organ-procurement organizations, skilled-nursing facilities, hospice, and end-stage renal disease centers. The term “supplier” refers to certain Part B entities such as ambulance-service providers, mammography centers, and portable X-ray facilities. Suppliers also include entities that supply Medicare beneficiaries with Medicare-durable medical equipment, prosthetics, orthotics, and supplies, such as walkers and wheelchairs.



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## What GAO Found

In June 2015, GAO reported weaknesses in two key screening procedures CMS implemented to prevent and detect ineligible or potentially fraudulent providers and suppliers from enrolling in PECOS: (1) verification of practice location and (2) verification of licensure status.

Federal regulations stipulate the type of physical practice required for applicants enrolling into the Medicare program. Providers and suppliers must be “operational” to furnish Medicare-covered items or services.<sup>3</sup> Federal regulations define “operational” as having a qualified physical practice location, being open to the public for the purpose of providing health care-related services, being prepared to submit valid Medicare claims, and being properly staffed, equipped, and stocked to furnish these items or services.<sup>4</sup> Medicare providers are required to submit the address of the actual practice location from which they offer services.<sup>5</sup>

GAO examined practice location addresses of providers and suppliers listed in PECOS as of March 2013 and DMEPOS as of April 2013 and found that an estimated 23,400 (22 percent) of 105,234 addresses were potentially ineligible.<sup>6</sup> Of the 23,400 potentially ineligible addresses, GAO estimated that, from 2005 to 2013, about 2,600 were associated with

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<sup>3</sup>42 C.F.R. § 424.510.

<sup>4</sup>42 C.F.R. § 424.502.

<sup>5</sup>Once enrolled in PECOS, providers and suppliers have the responsibility to self-report changes to their practice locations. CMS requires providers, suppliers, and DMEPOS suppliers to report a change in practice location within 30 days.

<sup>6</sup>Potentially ineligible addresses include those that are associated with a certain type of Commercial Mail Receiving Agency (CMRA), or vacant or invalid addresses. PECOS provider and supplier data were current as of March 2013 and DMEPOS as of April 2013. As part of the initial analysis using the USPS software, GAO identified 105,234 of the 980,974 addresses that were listed in PECOS that appeared in the USPS software as a CMRA, a vacant address, or an invalid address. GAO selected a generalizable stratified sample of 496 addresses from the population of the 105,234 that appeared in the USPS software as a CMRA, a vacant address, or an invalid address. For each selected address, GAO conducted further analysis to confirm whether the address was an ineligible practice location. On the basis of GAO’s additional analysis of the generalizable sample, GAO estimated that 23,400 of 105,234 addresses were potentially ineligible. This estimate represents about 22 percent of the 105,234 questionable addresses and is about 2.3 percent of the entire population of 980,974 addresses. These estimates have a margin of error at the 95 percent confidence level of plus or minus 10 percentage points or fewer.

providers that had Medicare claims that were \$500,000 or more per address.<sup>7</sup>

GAO utilized a software package that provides more detailed information on the PECOS practice location addresses than that used by CMS. GAO checked PECOS practice location addresses using the United States Postal Service (USPS) Address Matching System Application Program Interface. This is a commercially available software package that standardizes addresses and provides specific flags, such as whether the location is a Commercial Mail Receiving Agency (CMRA) or whether it is vacant or invalid.<sup>8</sup> This software is not currently being used by CMS. Instead, CMS uses *Finalist* computer software to standardize applicants' practice location addresses.<sup>9</sup> However, the *Finalist* software does not provide data on whether the address is a CMRA, vacant, or invalid—in other words, whether the location is potentially ineligible to qualify as a legitimate practice location. CMS does not have these flags in *Finalist* because the agency added coding in PECOS that prevents post office box addresses from being entered, and incorrectly assumed that this step would prevent these types of ineligible practice locations from being accepted. CMS officials agreed, however, that adding flags to the *Finalist* software to identify attributes that might make the practice location address ineligible, such as a CMRA, would be of value.

In June 2015, GAO found that 46 out of the 496 generalizable sample addresses examined during the review were allowed to enroll in Medicare with a practice location that was inside a mailing store, such as a UPS

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<sup>7</sup>The claims amount was calculated based on all claims associated with the National Provider Identifier that was listed on the matched address. Because some providers are associated with more than one address, it is possible that some of the claim amounts reported may be associated with a different, valid practice location. Due to how GAO obtained compiled claims by the National Provider Identifier, GAO was unable to determine how much, if any, of the claim amount may be associated with a different, valid address.

<sup>8</sup>USPS standardizes an address by converting it to a standard format through correcting the address, including adding missing information such as directional or zip code information, to provide a complete address. Addresses that generally would not be considered a valid practice location include post office boxes, and those associated with a certain type of CMRA, such as a United Parcel Service (UPS) store. Based on USPS guidance, a CMRA is a third-party agency that receives and handles mail for a client. USPS would flag a location as vacant if it used to deliver mail there and has not delivered mail there in more than 90 days. An invalid address is an address that is not recognized by USPS, was incorrectly entered in PECOS, or was missing a street number. Not all addresses flagged by the USPS software are ineligible addresses. However, the software provides an initial indicator that an address warrants a closer review.

<sup>9</sup>According to CMS, *Finalist* is integrated into PECOS to standardize addresses and does so by comparing the address listed on the application to USPS records. It then corrects any misspellings in street and city names, standardizing directional markers (NE, West, etc.) and suffixes (Ave, Lane, etc.), and correcting errors in the zip code.

store.<sup>10</sup> These providers' addresses did not appear in PECOS as a post office box, but instead were listed as a suite or other number, along with the street address of the store. Businesses can purchase a post office box that is listed to the public as a suite number in a business district from some commercial mailing businesses, allowing the businesses to mask the identity of the address as a post office box. For example, GAO identified a particular provider that used a mailbox-rental store as its practice location and where services are not actually rendered. As of January 2015, this provider was listed in PECOS under a suite number. According to GAO analysis of CMS records, this provider was paid approximately \$592,000 by Medicare from the date it enrolled in PECOS with this address to December 2013, the latest date for which CMS had claims data. GAO referred this provider to CMS for further review and action.

The fact that providers can submit an address that is not an actual practice location is a potential indicator of fraud. Without having flags in *Finalist* to better indicate the validity of the providers' or suppliers' practice locations, CMS is missing an opportunity to identify an address that could potentially be an illegitimate practice location. Further, CMS is missing an opportunity to better ensure that payment is limited to legitimate providers.

Another screening weakness GAO identified was verification of physician licenses. Physicians applying to participate in the Medicare program must hold an active license in the state in which they plan to practice and also must self-report any final adverse actions, such as a suspension or revocation by a state licensing authority. In June 2015, GAO reported the following:

- Of approximately 1.3 million physicians listed as eligible to bill Medicare, 147 had received an adverse action from a state medical board for committing a crime against a person, a financial crime, or another type of felony.<sup>11</sup> These physicians were not revoked from the Medicare program until months after the adverse action and, in some cases, were never removed.
- Of the 147 physicians identified, 47 have been paid a total of approximately \$2.6 million in Medicare funds during the time that CMS could have potentially barred them.<sup>12</sup>

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<sup>10</sup>GAO selected a generalizable stratified random sample of 496 addresses from the population of 105,234 that appeared in the USPS Address Matching System Application Program Interface as a CMRA, a vacant address, or an invalid address.

<sup>11</sup>42 C.F.R § 424.535 (a)(3)(i).

<sup>12</sup>The time period for potential debarment from the Medicare program was between March 29, 2003, and March 29, 2013.

CMS requires its contractors to verify any self-reported final adverse action directly with the state medical board website. In March 2014, CMS began providing the License Continuous Monitoring (LCM) report to its Medicare contractors to improve their oversight of physician license reviews. However, the LCM report only includes the medical license number that the providers use to enroll into the Medicare program; it does not list any other medical licenses or adverse-action history that a provider may have in another state, which leaves open the possibility that a provider could enroll into Medicare despite having another license with an adverse-action history.

GAO used data with more detailed licensure history for all medical licenses than that used by CMS. GAO obtained data from the Federation of State Medical Boards (FSMB).<sup>13</sup> Unlike the database used by CMS, the FSMB database includes a provider's entire history of license revocations and suspensions for all medical licenses, while the LCM report only includes the current license status of the licenses reported by providers in PECOS. By focusing on the license numbers used to enroll in PECOS and relying on applicants to self-report final adverse actions on the application, CMS and its contractors are missing an opportunity to develop a more complete picture of individual providers. CMS could prevent potentially ineligible physicians from enrolling into the Medicare program if it obtains all license numbers associated with the individual providers, including licenses outside of the state for which a provider seeks Medicare privileges. Further, CMS is missing an opportunity to better ensure that payment is limited to eligible physicians.

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## Actions Needed and Potential Financial or Other Benefits

To help improve the Medicare provider and supplier enrollment-screening procedures, GAO recommended in June 2015 that the Acting Administrator of CMS take the following two actions:

- Modify the CMS software integrated into PECOS to include specific flags to help identify potentially questionable practice location addresses, such as CMRA, vacant, and invalid addresses.

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<sup>13</sup>FSMB is a nonprofit organization that serves state medical boards in all U.S. states, Puerto Rico, Guam, and the Northern Mariana Islands; and 14 state boards of osteopathic medicine. According to CMS, it does not use the FSMB data because FSMB only updates the total number of licenses included in its master license file every 2 years. According to FSMB, it compiles this list of licensed physicians every 2 years and receives an update on these specific medical licenses on a weekly, monthly, or quarterly basis from 65 state and territorial medical boards in the United States. The vendor that CMS currently uses updates the total number of licenses included in its master list of licenses continuously. However, GAO found the LCM report provided by this vendor only provides the current license status and not the history of the license, while FSMB provides the license history as well as disciplinary actions.

- Collect information on all licenses held by providers that enroll into PECOS by using data sources that contain this information, including licenses obtained from other states, and expand the LCM report to include all licenses; and at least annually review databases, such as that of the FSMB, to check for disciplinary actions.

Estimating the total amount of improper payments is not possible without CMS conducting a detailed review of each potential ineligible provider. However, modifying CMS's software and collecting all license information would allow CMS to better prevent ineligible providers from enrolling into the Medicare program and obtaining Medicare funds, thus potentially reducing the amount of improper payments.

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## Agency Comments and GAO's Evaluation

In their comments to the June 2015 report on which this analysis is based, HHS agreed with the two recommendations and noted that it plans to take steps to address them. For example, HHS plans to configure the provider and supplier address-verification system in PECOS to flag CMRAs, vacancies, invalid addresses, and other potentially questionable practice locations. Because HHS has not yet initiated specific actions to implement GAO's recommendations, it is too early for GAO to determine whether the actions the agency outlined in its official comments on a draft of this report would fully address the intent of the recommendations. However, if effectively implemented, the actions could prevent ineligible providers from enrolling into the Medicare program and obtaining Medicare funds, thus potentially reducing the amount of improper payments. GAO plans to continue to monitor the agency's efforts in this area.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on the report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product listed in the related GAO products section. To assess the extent to which two enrollment screening procedures—CMS's verification of medical providers' and suppliers' practice locations and verification of physicians' licensure status—are designed to prevent and detect the enrollment of ineligible or potentially fraudulent Medicare providers and suppliers into PECOS, GAO reviewed CMS procedural manuals and

directives, interviewed CMS officials, and conducted interviews with five Medicare Administrative Contractors (MAC).<sup>14</sup>

To assess the extent to which CMS's enrollment-screening procedure for verifying medical providers' and suppliers' practice locations was implemented to prevent and detect the enrollment of ineligible or potentially fraudulent Medicare providers and suppliers into PECOS, GAO matched the list of 980,974 providers and suppliers present in PECOS on March 29, 2013, and DMEPOS suppliers on April 6, 2013, to the USPS Address Matching System Application Program Interface. Of the 980,974 addresses, 105,234 (about 11 percent) appeared in the USPS software as a CMRA, a vacant address, or an invalid address. For those addresses, GAO selected a generalizable stratified random sample of 496 addresses and confirmed the eligibility of each of the 496 sampled practice location addresses using Google Maps, Internet searches, or physical site visits. To calculate and report on the amount of Medicare claims paid to these potentially ineligible providers and suppliers, GAO matched their provider and supplier National Provider Identifier number with claims paid from 2005 to 2013, the period for which CMS had claims data available.

To assess the extent to which CMS's verification of physicians' licensure status was implemented to prevent and detect the enrollment of ineligible or potentially fraudulent Medicare providers into PECOS, GAO matched the list of physicians (who are categorized as providers) present in PECOS to the FSMB licensure data from March 31, 2014. GAO calculated Medicare claims paid from 2005 to 2013 for those physicians that received a suspension or revocation of their medical license while enrolled in PECOS. This analysis included the time the physician was actively suspended or revoked and in some cases the time when the provider could have been barred from the Medicare program for not reporting an adverse action.

Table 15 in appendix V lists the programs GAO identified that might have opportunities for cost savings.

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## Related GAO Product

*Medicare Program: Additional Actions Needed to Improve Eligibility Verification of Providers and Suppliers.* [GAO-15-448](#). Washington, D.C.: June 25, 2015.

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<sup>14</sup>The five MACs were selected to include some with larger numbers of physicians serviced, some that met and some that did not meet the accuracy threshold in CMS's provider enrollment performance evaluation, some that participated in the automated screening process, and some that did not (to capture additional possible checks that some MACs performed on providers' enrollment information through this process), and some that served more than one jurisdiction to maximize the number of states included in the review.

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## Contact Information

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# 27. Medicaid Demonstration Approved Spending

The Secretary of Health and Human Services could potentially curtail spending growth of Medicaid demonstrations, which have resulted in the authorization of billions of dollars in federal spending, by establishing specific criteria for assessing whether demonstration spending furthers Medicaid objectives and taking other steps to improve the transparency and accountability of the approval process.

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## Why This Area Is Important

Medicaid is a joint federal-state program that is now one of the largest sources of health care coverage and financing for tens of millions of low-income and medically needy individuals, with estimated spending over \$500 billion in fiscal year 2015. Under the program, states claim federal matching funds for Medicaid expenditures from the Department of Health and Human Services (HHS), which oversees the program at the federal level. Within the Medicaid program, the Secretary of Health and Human Services has broad authority, provided under section 1115 of the Social Security Act, to waive certain federal Medicaid requirements and allow costs that would not otherwise be eligible for federal matching funds for experimental, pilot, or demonstration projects that in the Secretary's judgment, are likely to assist in promoting Medicaid objectives.<sup>1</sup> Section 1115 demonstrations provide a way for states to test and evaluate new approaches to delivering services outside of Medicaid's traditional rules, and they have become a significant and rapidly growing share of Medicaid expenditures. In fiscal year 2011, Medicaid demonstrations accounted for about one-fifth of Medicaid expenditures, rising to about one-fourth in fiscal year 2013, and increasing to almost one-third of Medicaid expenditures in fiscal year 2014, an estimated \$89 billion in federal funds. Medicaid is on GAO's list of high-risk programs, in part because of concerns about inadequate fiscal oversight, including fiscal oversight of section 1115 Medicaid demonstrations.

Historically, many states have sought section 1115 demonstrations to provide health coverage to individuals who could not be covered under traditional Medicaid rules; however, in recent years, HHS has approved demonstration spending for many other purposes not otherwise allowed under Medicaid. For example, states have obtained approval under demonstrations to claim federal matching funds for supplemental payments made to providers to help cover their uncompensated care

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<sup>1</sup>42 U.S.C. § 1315(a). Although the Secretary of Health and Human Services has delegated the administration of the Medicaid program, including the approval of section 1115 demonstrations, to the Centers for Medicare & Medicaid Services, this report section refers to HHS throughout because authority for section 1115 demonstrations ultimately resides with the Secretary.



costs associated with providing care to individuals without insurance. A key aspect of section 1115 demonstrations is that under HHS policy they must be budget neutral; that is, they should not increase the cost of the Medicaid program to the federal government.<sup>2</sup>

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## What GAO Found

In April 2015, GAO reported that although section 1115 of the Social Security Act provides HHS with broad authority in approving expenditure authorities for demonstrations that in the Secretary's judgment are likely to promote Medicaid objectives, HHS has not issued specific criteria for assessing whether demonstration expenditures meet this broad statutory requirement. Federal standards for internal control stress that management should ensure that there are adequate means of communicating with, and obtaining information from, external stakeholders, such as states in the case of Medicaid demonstrations, that may have a significant impact on the agency achieving its goals.<sup>3</sup> In GAO's view, the criteria HHS uses for approving expenditure authorities would be subject to such a communication requirement. However, HHS officials told GAO that the agency has not issued specific criteria for assessing Medicaid demonstration expenditures. The officials said that for a demonstration to be approved, its goals and purposes must provide an important benefit to the Medicaid program, but they did not provide more explicit criteria for determining whether approved demonstration expenditures would provide an important benefit or promote Medicaid objectives. GAO reported that given the breadth of the Secretary's authority under section 1115, explicit criteria are needed to illuminate how HHS determines that new demonstrations promote Medicaid objectives. Having such criteria would make the basis for HHS's decisions to approve expenditure authorities in section 1115 demonstrations—which can result in billions of dollars of federal expenditures for costs not otherwise allowed under Medicaid—more transparent and could potentially achieve cost savings by avoiding spending on programs and purposes that do not promote Medicaid objectives.

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<sup>2</sup>To comply with HHS's budget neutrality policy, generally a state must establish that the cost of the demonstration's planned changes will be offset by savings or other available Medicaid funds. For example, individuals not previously eligible for Medicaid could be covered under a state's demonstration without additional costs if the state were saving Medicaid funds through efficiencies under the demonstration, such as by implementing managed care. GAO has concerns about HHS's process for ensuring that demonstrations will be budget neutral. In June 2013 and August 2014, GAO determined that spending limits approved by HHS for demonstrations in five states were tens of billions of dollars higher than what they would have been had HHS used methods to calculate spending limits that were consistent with its own budget neutrality policy.

<sup>3</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

GAO also reported in April 2015 that how demonstration spending would further Medicaid objectives was not always clear in HHS's approval documents. This was evident, for example, in recently approved demonstrations allowing expenditures for state programs, which were significant in terms of the amounts approved.<sup>4</sup> In five states, HHS approved demonstrations that allowed the states to spend \$9.5 billion in Medicaid funding (federal and state) to support more than 150 state-operated programs.<sup>5</sup> While many of the state programs approved offered health-related services, overall they were wide-ranging in nature and included, for example, programs supporting health care workforce development and programs subsidizing private health coverage purchased through exchanges. The programs were operated or funded by a wide range of state agencies, such as state departments of mental health, public health, corrections, youth services, developmental disabilities, and aging and state educational institutions.<sup>6</sup>

GAO found that HHS's approval documents for these state programs did not consistently include information indicating the specific purposes of the approved expenditures; therefore, how the programs would likely promote Medicaid objectives was not clear. The state programs were generally listed by program name in the approval documents but often without any further detailed information. Several state programs approved for Medicaid funds appeared, based on information in the approvals, to be only tangentially related to improving health coverage for low-income individuals and lacked documentation explaining how their approval was likely to promote Medicaid objectives. For example, the purposes of some approved programs included funding health insurance for fishermen and their families at a reduced rate, constructing supportive housing for the homeless, and recruiting and retaining health care workers. For two of the five states with approvals to cover their state programs under their demonstrations, HHS's approval documents included additional details beyond the program names—including program descriptions and target populations—in what HHS calls claiming protocols. Such information can help explain how programs may promote Medicaid objectives; however, in some instances, even when such information was included, HHS's basis for approving expenditure authorities for some state programs was not apparent. Approvals for three states, which accounted for nearly half

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<sup>4</sup>GAO raised similar concerns about approved demonstrations that allowed five states to make up to nearly \$18.8 billion (federal and state) in supplemental payments to hospitals or their partners to make delivery system or infrastructure improvements. How this approved spending would likely promote Medicaid objectives was not consistently documented in HHS's approvals.

<sup>5</sup>The \$9.5 billion approved was for programs in all five states during their current demonstration approval periods, which ranged from 2.5 to 5 years.

<sup>6</sup>Prior to the demonstrations, these programs could have been funded with state or other funding sources, including other federal funding sources. Under the demonstrations, federal matching funds could replace some of the states' expenditures for the programs, freeing up state funding for other purposes, including addressing state budget shortfalls.

of the more than 150 state programs approved, did not include claiming protocols for most programs and otherwise lacked clear information on how the programs would promote Medicaid objectives, such as how they would benefit low-income populations. Identifying the linkages between state programs and Medicaid objectives in approval documents could potentially help HHS avoid spending on programs that do not further Medicaid's objectives. Without this information, HHS may be missing opportunities to achieve cost savings.

GAO also found that HHS's approvals did not consistently provide assurances that Medicaid demonstration funding would not unnecessarily duplicate other federal funding received by states. In 2012, HHS established an application template that states could opt to use to apply for section 1115 demonstrations. The template included instructions for states to identify other federal funds used for the demonstration, in part to help HHS identify potential areas of duplicative effort. HHS's approvals in five states reviewed, however, did not consistently document potential areas of duplicative efforts. In two of the five states reviewed, the approvals included claiming protocols that identified all other federal and nonfederal funding sources for each state program and included specific instructions on how states should "offset" other revenues received by the state programs related to eligible expenditures. The approval for a third state had a general program integrity provision requiring the state to have processes in place to ensure no duplication of federal funding. In contrast, the remaining two states did not identify other federal and nonfederal funding sources for approved state programs and lacked language expressly prohibiting the states' use of federal funding for the same purposes. Furthermore, it was not always clear from HHS's approval documents that it considered whether Medicaid demonstration funds would unnecessarily duplicate other federal funding sources. The resulting potential for duplicative federal funding may represent a missed opportunity to achieve cost savings.

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## Actions Needed and Potential Financial or Other Benefits

To improve the transparency and accountability of HHS's section 1115 Medicaid demonstration approval process, and to ensure that federal Medicaid funds for the demonstrations do not duplicate other federal funds, GAO recommended in April 2015 that the Secretary of Health and Human Services take the following three actions:

- issue criteria for assessing whether section 1115 expenditure authorities are likely to promote Medicaid objectives;
- ensure the application of these criteria is documented in all HHS's approvals of section 1115 demonstrations; and
- take steps to ensure Medicaid demonstration approval documentation consistently provides assurances—such as through claiming

protocols—that states will avoid duplicative spending by offsetting as appropriate all other federal revenues received when claiming federal Medicaid matching funds.

The actual cost savings associated with these actions is unknown because HHS has not issued specific criteria upon which GAO could assess whether existing expenditure authorities should have been approved. Also, the cost of future proposed expenditure authorities that might be avoided as a result of HHS issuing specific criteria is unknown. As a result, GAO cannot quantify potential financial benefits associated with the recommended actions. GAO estimates that savings could potentially be significant, given the billions of dollars of spending approved under Medicaid demonstrations, including for new costs not otherwise eligible for federal Medicaid funds.

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## Agency Comments and GAO’s Evaluation

In commenting on the April 2015 report on which this analysis is based, HHS partially agreed with GAO’s recommendation that it issue criteria for assessing whether Medicaid demonstration expenditure authorities are likely to promote Medicaid objectives. HHS stated then and in subsequent correspondence submitted in July 2015 that the Centers for Medicare & Medicaid Services (CMS) reviews all demonstrations against four “general criteria” to determine whether the objectives of the Medicaid program will be or are being met.<sup>7</sup> HHS has since posted these criteria on its Medicaid.gov website, indicating that these are the criteria used to determine whether Medicaid program objectives are met in demonstrations. While this is a positive step, GAO continues to maintain that more specific guidance is needed to improve transparency.

HHS agreed with GAO’s recommendations that it improve the documentation around the basis for new approved spending and consistently include in approval documentation assurances that the new demonstration spending for state programs will not duplicate other federal funding streams. HHS stated that since the release of the report, CMS has been identifying in approval documents which of its “general criteria” each approved expenditure authority promotes. While this may add some transparency, GAO still regards the general criteria as not sufficiently specific to inform stakeholders of HHS’s interpretation of its section 1115 authority. HHS also stated that CMS has plans to require all future section 1115 demonstration approvals to include claiming protocols for both new

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<sup>7</sup>The four general criteria are whether the demonstration will (1) increase and strengthen overall coverage of low-income individuals in the state; (2) increase access to, stabilize, and strengthen providers and provider networks available to serve Medicaid and low-income populations in the state; (3) improve health outcomes for Medicaid and other low-income populations in the state; and (4) increase the efficiency and quality of care for Medicaid and other low-income populations through initiatives to transform service delivery networks.

and previously authorized state programs and to verify that there is no duplication of federal funding. Since GAO's report, HHS has taken action to improve transparency and oversight of demonstration approvals, including requiring states to submit claiming protocols as a condition of HHS's approving spending for state programs. A review of selected approvals found that not all protocols had been submitted as of January 2016. GAO will continue monitoring the implementation of recommendations in this area.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from GAO's April 2015 report noted in the related GAO products section. For this report, GAO examined new section 1115 demonstrations, as well as extensions or amendments to existing demonstrations, approved by HHS from June 2012 through mid-October 2013. GAO identified a total of 25 states that received such approvals during that time. GAO examined the approval documents for each demonstration, including the special terms and conditions, which set forth HHS's conditions and limitations for the demonstration; interviewed HHS officials; and obtained additional documents from HHS to identify the criteria used for approval and how the department documented that states' demonstrations met such criteria.

Table 16 in appendix V lists the program GAO identified that may have opportunities for cost savings.

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## Related GAO Products

*Medicaid Demonstrations: More Transparency and Accountability for Approved Spending Are Needed.* [GAO-15-715T](#). Washington, D.C.: June 24, 2015.

*Medicaid Demonstrations: Approval Criteria and Documentation Need to Show How Spending Furthers Medicaid Objectives.* [GAO-15-239](#). Washington, D.C.: April 13, 2015.

*Medicaid Demonstrations: HHS's Approval Process for Arkansas's Medicaid Expansion Waiver Raises Cost Concerns.* [GAO-14-689R](#). Washington, D.C.: August 8, 2014.

*Medicaid Demonstration Waivers: Approval Process Raises Cost Concerns and Lacks Transparency.* [GAO-13-384](#). Washington, D.C.: June 25, 2013.

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## Contact Information

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# 28. Medicaid Eligibility Determinations

The Centers for Medicare & Medicaid Services should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments.

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## Why This Area Is Important

States and the federal government share in the financing of Medicaid, a joint federal-state health care financing program for certain low-income and medically needy individuals. The federal government matches most state expenditures for Medicaid services on the basis of a statutory formula known as the Federal Medical Assistance Percentage (FMAP).<sup>1</sup> During fiscal year 2013, Medicaid covered about 72 million individuals at a cost of approximately \$431.1 billion.<sup>2</sup> Of this \$431.1 billion, the federal share was \$247.7 billion (57 percent), and the state share was \$183.4 billion (43 percent). The size and diversity of the Medicaid program make it particularly vulnerable to improper payments, including payments made for treatments or services that were not covered by program rules, that were not medically necessary, or that were billed for but never provided. Improper payments are a significant cost to Medicaid, totaling an estimated \$29 billion in fiscal year 2015, according to the Department of Health and Human Services (HHS). Due to concerns about Medicaid's improper payment rate and the sufficiency of federal and state oversight, GAO added Medicaid to its list of high-risk programs in 2003.<sup>3</sup>

Historically, Medicaid eligibility has been limited to certain categories of low-income individuals, but the Patient Protection and Affordable Care Act (PPACA), enacted on March 23, 2010, gave states the option to expand coverage to nearly all adults with incomes at or below 133 percent of the federal poverty level, beginning January 1, 2014.<sup>4</sup> States

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<sup>1</sup>The FMAP is calculated using a statutory formula based on the state's per capita income, with the federal government paying a larger portion of Medicaid expenditures in states with low per capita incomes relative to the national average and a smaller portion for states with higher per capita incomes.

<sup>2</sup>The number of enrollees represents the total number of individuals ever enrolled in the program in 2013; there were about 58 million individuals enrolled in the program at any one point in time. Medicaid and CHIP Payment and Access Commission, *MACStats: Medicaid and CHIP Program Statistics* (March 2014).

<sup>3</sup>See GAO, *Major Management Challenges and Program Risks: Department of Health and Human Services*, [GAO-03-101](#) (Washington, D.C.: January 2003).

<sup>4</sup>Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (2010). For purposes of this report section, references to PPACA include the amendments made by HCERA. PPACA also provides for a 5 percent disregard when calculating income for determining Medicaid eligibility, which effectively increases this income level to 138 percent of the federal poverty level. See 42 U.S.C. § 1396a(a)(10)(A)(i)(VIII), (e)(14)(I).

that choose to expand their programs receive an increased federal match for expenditures incurred as a result of providing services to individuals whom the state had not previously covered. Some of these states may also receive an increased federal matching rate for their expenditures incurred as a result of providing care to individuals the state covered under a qualifying expansion of coverage prior to PPACA's enactment. In addition to expanding eligibility standards, PPACA also required the establishment of a coordinated eligibility and enrollment process for Medicaid and the health insurance exchanges—whether federally facilitated or state-based exchanges—to streamline the eligibility determination process. If a state elected not to create and operate its own exchange, PPACA directed HHS to establish and operate a federally facilitated exchange in the state. As of November 2015, 34 states had federally facilitated exchanges, and among these, 8 had delegated authority to those exchanges to make Medicaid eligibility determinations.

These eligibility, funding, and process changes could have significant effects on Medicaid enrollment and expenditures. Further, implementing these changes requires states to adapt their systems, policies, and procedures, resulting in a complex realignment of processes and necessitating careful review by the Centers for Medicare & Medicaid Services (CMS)—the agency within HHS that oversees Medicaid—to ensure that determinations of eligibility are accurate and to protect against improper payments.

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## What GAO Found

In October 2015, GAO reported that CMS had a gap in its interim measures for assessing the accuracy of eligibility determinations. Under PPACA's coordinated eligibility determination process, enrollees may apply for Medicaid coverage through multiple channels, including applying to the state's Medicaid agency or through the state's health insurance exchange, whether federally facilitated or state-based. CMS has implemented interim efforts to assess states' Medicaid eligibility determinations by requiring states to conduct pilot eligibility reviews. However, CMS has excluded from these reviews federal Medicaid eligibility determinations in the states that have delegated authority to the federal government to make Medicaid eligibility determinations through the federally facilitated exchanges. According to CMS officials, the agency excluded federal determinations from the pilot eligibility reviews states must conduct because these states do not have the resources to fully review the federal determinations, among other reasons.

CMS has established another mechanism—termed the eligibility support contractor pilot program—to assist in developing new methodologies for assessing eligibility determinations. According to CMS officials, this program was intended to inform revisions to the eligibility component of



the Payment Error Rate Measurement (PERM) program, under which CMS measures and reports Medicaid improper payment rates to Congress.<sup>5</sup> However, although the eligibility support contractor program assesses methodologies for reviewing eligibility determinations, the program generally does not assess federal determinations for accuracy. Consequently, GAO determined that a gap exists in efforts to ensure that only eligible individuals are enrolled into Medicaid.

Federal internal control standards require that federal agencies identify and assess risks associated with achieving agency objectives.<sup>6</sup> One method for identifying the risk of inaccurate eligibility determinations could include consideration of findings from audits and other assessments. However, neither of the interim measures implemented by CMS—the pilot eligibility reviews or the eligibility support contractor program—will identify erroneous federal determinations, creating the potential risk for improper payments in the states that have delegated authority to the federal government to make eligibility determinations through the exchanges.

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## Actions Needed and Potential Financial or Other Benefits

To improve the effectiveness of CMS's oversight of eligibility determinations, GAO recommended that the Administrator of CMS take the following action:

- Conduct reviews of federal Medicaid eligibility determinations to ascertain the accuracy of these determinations and institute corrective action plans where necessary.

Because GAO found that CMS did not have a process in place to identify the number of erroneous federal eligibility determinations and their associated payments, the extent to which Medicaid was at risk for improper payments in 2014 could not be determined. As a result, GAO is unable to calculate the potential financial benefits associated with this action. However, taking this action should help CMS improve the effectiveness of its oversight of eligibility determinations, thus helping protect the Medicaid program from improper payments and resulting in potential cost savings to the federal government.

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<sup>5</sup>The eligibility component of the PERM has been suspended while CMS and the states implement the pilot eligibility reviews and is to be resumed in 2018.

<sup>6</sup>See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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## Agency Comments and GAO's Evaluation

In commenting on the October 2015 report on which this analysis is based, HHS generally concurred with GAO's recommendations and highlighted the actions the department has already taken to ensure the accuracy of Medicaid eligibility determinations made through the exchanges, citing the multilayer verification processes in place to assess applicant eligibility. HHS concurred with GAO's recommendation to review the accuracy of federal Medicaid eligibility determinations and institute corrective action plans where necessary. HHS noted that federal eligibility determinations in two states are currently being reviewed by the eligibility support contractor and stated that federal determinations are to be included as part of the future PERM eligibility review. However, the eligibility component of the PERM will not be resumed until 2018, and in the interim, without a systematic assessment of federal eligibility determinations, GAO remains concerned that CMS lacks a mechanism to identify and correct federal eligibility determination errors and associated payments.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. To examine CMS efforts to ensure that states are accurately verifying eligibility and that expenditures for Medicaid enrollees in different eligibility groups are appropriately matched by federal funds, GAO examined (1) relevant laws and federal regulations and CMS policy documents describing the different eligibility groups, (2) guidance to states on eligibility and expenditure reviews, and (3) instructions for eligibility and expenditure reviews conducted by states and CMS. GAO also reviewed the results of CMS's CMS-64 expenditure reviews, state eligibility reviews, and regional office reports for nine selected states.<sup>7</sup> In evaluating this information, GAO considered GAO's *Standards for Internal Control in the Federal Government*, which provides guidance to federal agencies on ensuring

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<sup>7</sup>GAO selected states to review based on their expansion status; size of the program as indicated by recent enrollment and expenditure reports; whether the state established its own state-based exchange, as authorized by PPACA, or used an exchange established by HHS, known as a federally facilitated exchange; and geographic diversity. The states selected were California, Hawaii, Kentucky, Minnesota, New Mexico, New York, North Dakota, Ohio, and West Virginia.

accountability.<sup>8</sup> In addition, GAO interviewed CMS officials about CMS's eligibility and expenditure reviews.

Table 14 in appendix V lists the programs GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*Medicaid: Additional Federal Controls Needed to Improve Accuracy of Eligibility Determinations and for Coordination with Exchanges.* [GAO-16-157T](#). Washington, D.C.: October 23, 2015.

*Medicaid: Additional Efforts Needed to Ensure that State Spending is Appropriately Matched with Federal Funds.* [GAO-16-53](#). Washington, D.C.: October 16, 2015.

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<sup>8</sup>[GAO/AIMD-00-21.3.1](#).

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# 29. Medicaid Payments to Institutional Providers

The Centers for Medicare & Medicaid Services should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of hundreds of millions of dollars.

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## Why This Area Is Important

Medicaid is a joint federal-state program that is one of the largest sources of health care coverage and financing for tens of millions of low-income and medically needy individuals, with federal and state spending estimated at over \$500 billion in fiscal year 2015.<sup>1</sup> A significant share of Medicaid program payments is made to institutional providers, such as hospitals. For example, Medicaid paid an estimated \$194 billion to hospitals in 2015.<sup>2</sup>

States pay hospitals and other providers for covered services delivered to Medicaid beneficiaries, and the federal government shares in the cost of these payments. Under federal law, federal funding is available when payments (1) are made for covered Medicaid items and services; (2) are consistent with economy, efficiency, and quality of care; and (3) do not exceed the Medicaid upper payment limit (UPL), which is a reasonable estimate of what Medicare would pay for comparable services.<sup>3</sup> States administer their individual Medicaid programs, within broad federal requirements, under individual state Medicaid plans, under which, among other things, the states set payment rates that different providers are to receive for various covered services and pay providers for claims submitted for services rendered. States often make separate monthly, quarterly, or annual supplemental lump-sum payments to institutional providers, not based on claims, for which states also receive federal matching funds. GAO has designated Medicaid a high-risk program, in part due to concerns about excessively large payments to certain providers and gaps in federal oversight.

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<sup>1</sup>Office of the Actuary, Centers for Medicare & Medicaid Services, *United States Department of Health and Human Services: 2014 Actuarial Report on the Financial Outlook for Medicaid* (Washington, D.C.: 2014).

<sup>2</sup>Office of the Actuary, Centers for Medicare & Medicaid Services, *National Health Expenditures (NHE), Amounts by Type of Expenditure and Source of Funds: Calendar Years 1960-2024*, accessed March 201, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>.

<sup>3</sup>Medicare is the federal health program that covers seniors aged 65 and over, individuals with end-stage renal disease, and certain disabled persons.

The Centers for Medicare & Medicaid Services (CMS), an agency within the Department of Health and Human Services (HHS), is responsible for overseeing state Medicaid programs at the federal level. CMS's responsibilities include reviewing and approving state Medicaid plans to help ensure that state Medicaid payments are for Medicaid-covered services and beneficiaries and comply with Medicaid payment requirements, including, in particular, that payments to providers are consistent with economy and efficiency.

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## What GAO Found

In April 2015, GAO concluded that federal oversight of Medicaid payments is limited in part by insufficient federal information on payments and also by the lack of a policy and process for determining that payments are economical and efficient. As a result, excessive payments states make to individual providers may not be identified or examined by CMS. These findings were based on GAO's review of CMS processes and policies for overseeing payments to individual providers and analysis of payments to individual inpatient hospitals in two states with large Medicaid programs.

GAO reported that Medicaid payments for hospital inpatient services ranged widely in 2011—the latest time frame for which data were available at the time of GAO's review—with payments in excess of costs for some hospitals. Federal law does not limit Medicaid payments to the costs of providing services;<sup>4</sup> nevertheless, payments that greatly exceed costs raise questions about the appropriateness of these payments to individual institutional providers, as well as questions about CMS's oversight of state Medicaid payments. GAO's analysis of the 16 hospitals with the highest daily Medicaid payment in the two selected states showed that 10 of these hospitals had total Medicaid inpatient payments—regular plus supplemental—that exceeded those hospitals' total costs of providing these services; the excess payments ranged from \$273,000 to over \$210 million in 2011.<sup>5</sup> GAO also reported that some hospitals' total Medicaid payments exceeded the hospitals' total operating costs—that is, costs for all hospital services provided to all patients the hospital served. For example, in one state, two of these hospitals

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<sup>4</sup>The UPL regulations establish a ceiling on the amount of federal matching funds a state can claim. The UPL, which is based on the amount that Medicare would pay for comparable services, is an aggregate limit that applies to groups of providers based on category of service and provider ownership. The UPL does not limit the amount of payment a particular provider can receive as long as the aggregate payment amount to the group does not exceed the UPL. See, e.g., 42 C.F.R. § 447.272.

<sup>5</sup>GAO compared hospitals' estimated Medicaid payments received to hospitals' Medicaid costs and operating costs in 16 hospitals. GAO selected the three hospitals in each of the following ownership groups—state government, local government, and private—that had the highest daily payments, for a total of 9 in one state and 7 in the other state, which only had one state government hospital.

received payments that were \$75 million and \$69 million, respectively, in excess of the hospitals' total operating costs for the year. These two hospitals received a combined total of over \$486 million in total Medicaid payments. According to CMS officials, CMS was unaware of the total amount of payments these two hospitals received and that the payments exceeded the hospitals' costs. In the fall of 2014, CMS took action to reduce Medicaid payments to these two hospitals. Earlier GAO reports indicated that excessive provider payments may not be limited to a small number of selected states. For example, in November 2012, GAO reported that in 39 states, a total of 505 hospitals received total regular Medicaid and UPL supplemental payments that were in total about \$2.7 billion in excess of the hospitals' Medicaid costs in 2007.<sup>6</sup>

CMS's oversight of Medicaid payments is limited, in part, by insufficient information on provider-specific payments and by the lack of a policy and process for determining whether these payments are economical and efficient. GAO's analysis of payments at the provider level in the two selected states illustrates the need for provider-specific payment data. However, CMS does not collect information on payments to individual providers in its two Medicaid payment data systems, CMS-64 and the Medicaid Statistical Information System (MSIS). CMS-64 is an expenditure data system that only provides aggregate information. MSIS is CMS's national eligibility and claims system and is the agency's only source of provider-specific payment data reported by the states. However, states are not required to report UPL supplemental payments that are not paid on claims in MSIS. Thus, CMS cannot identify and assess payments at the provider level.

GAO also reported in April 2015 that CMS does not have a policy that specifies criteria to use in determining when payments made to individual providers are economical and efficient, and it does not have a process to identify payments to individual providers that appear questionable. Instead, the agency ensures states aggregate payments for a group of providers are within the UPL and will follow up on payments that are identified as questionable by reviews conducted by oversight agencies, such as HHS's Office of Inspector General. Without complete and accurate information on provider-specific payments, a policy specifying criteria to determine when payments to individual providers comply with statutory requirements that payments be economical and efficient, and a process for identifying and assessing payments at the provider level, CMS cannot ensure that payments to individual providers are economical and efficient. As a result, the federal government could be paying states hundreds of millions of dollars in federal matching funds for payments made to certain providers that are not consistent with federal requirements.

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<sup>6</sup>UPL supplemental payments are Medicaid payments that are above the regular Medicaid payments but within the UPL, defined as the estimated amount that Medicare would pay for comparable services.

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## Actions Needed and Potential Financial or Other Benefits

To improve CMS's oversight of Medicaid and better ensure that the federal government does not provide federal funds for excessive state payments made to certain providers, GAO recommended in its April 2015 report that the Administrator of CMS take the following three actions:

- Take steps to ensure that states report accurate provider-specific payment data for all payments.
- Develop a policy establishing criteria to determine when provider-specific payments are economical and efficient.
- Once criteria are established, develop a process for identifying and reviewing payments to individual providers to determine if such payments meet the criteria.

Currently, it is not possible to estimate the potential cost savings that may result from ensuring that the federal government is not providing matching funds for Medicaid provider payments that exceed federal limits because CMS has neither the criteria nor a process to identify payment amounts that are excessive and should not be allowed. In addition, the agency does not have the data necessary to identify the amount of payments that would exceed the criteria once they are established. As a result, it is difficult to determine with specificity the potential cost savings. However, GAO reports suggest that curtailing excessive payments to individual providers could result in savings in the hundreds of millions of dollars.

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## Agency Comments and GAO's Evaluation

In commenting on a draft of the April 2015 report on which this analysis is based, HHS concurred with GAO's recommendations and noted efforts to address them. HHS stated that it was evaluating ways to improve its oversight, including gathering information from states to better inform future policies. HHS noted that information being collected should better inform the agency's efforts to establish criteria, policies, and procedures to evaluate whether payments at the provider level are economical and efficient. In March 2015, CMS officials stated that they are developing a proposed rule to improve the oversight of supplemental payments made to individual providers, and they plan to publish a proposed rule for comment in fall of 2016.

GAO provided a draft of this report section to HHS. In commenting on this submission HHS provided technical comments, which were incorporated, as appropriate.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products in the related GAO products section. To determine the extent to which CMS oversees Medicaid payments to government providers, GAO interviewed CMS officials, including representatives from the CMS regional offices, and obtained and reviewed documentation of CMS review and approval of state Medicaid payments, relevant federal laws, regulations, and guidance. To analyze payment and cost information for selected hospitals in two states, GAO obtained and analyzed state fiscal year 2011 information from the states, CMS's national claims data, and Medicaid cost reports that the hospitals submit to the states.

Table 14 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*Medicaid: CMS Oversight of Provider Payments Is Hampered by Limited Data and Unclear Policy.* [GAO-15-322](#). Washington, D.C.: April 10, 2015.

*Medicaid: Completed and Preliminary Work Indicate that Transparency around State Financing Methods and Payments to Providers Is Still Needed for Oversight.* [GAO-14-817T](#). Washington, D.C.: July 29, 2014.

*Medicaid: More Transparency of and Accountability for Supplemental Payments Are Needed.* [GAO-13-48](#). Washington, D.C.: November 26, 2012.

*Medicaid: States Reported Billions More in Supplemental Payments in Recent Years.* [GAO-12-694](#). Washington, D.C.: July 20, 2012.

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## Contact Information

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# 30. Medicare Payments by Place of Service

Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.

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## Why This Area Is Important

Medicare, which remains on GAO's High Risk List, spent nearly \$40 billion on hospital outpatient department services in 2013. Medicare spending on such services has grown rapidly—faster than the growth in total Medicare Part B spending and the growth in the national economy from 2007 through 2013.<sup>1</sup> Some of the growth in hospital outpatient department spending is attributable to the fact that services that were typically performed in physician offices have shifted to hospital outpatient departments. Some services can be performed in multiple settings, including physician offices and hospital outpatient departments, and Medicare's total payment rates are often higher when services are performed in hospital outpatient departments compared to physician offices. For example, the total Medicare payment rate for one common service—a mid-level evaluation and management office visit for an established patient—was \$51 higher when the service was performed in a hospital outpatient department instead of a physician office in 2013.<sup>2</sup> One reason services may shift to hospital outpatient departments is an arrangement health care experts commonly refer to as vertical consolidation—when hospitals acquire physician practices or hire physicians directly as employees. After such consolidation occurs, the same services that were once reimbursed at a lower total payment rate can be classified as hospital outpatient department services and reimbursed by Medicare at a higher total payment rate.

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## What GAO Found

In a December 2015 report, GAO's analysis of American Hospital Association survey data showed that from 2007 through 2013, the number of vertically consolidated hospitals and physicians increased substantially. Out of the approximately 4,700 surveyed hospitals included in GAO's study, 1,408 reported having a vertical consolidation arrangement with physicians in 2007. This number increased to 1,707 in 2013, an increase of 21 percent. In addition, GAO found that the number

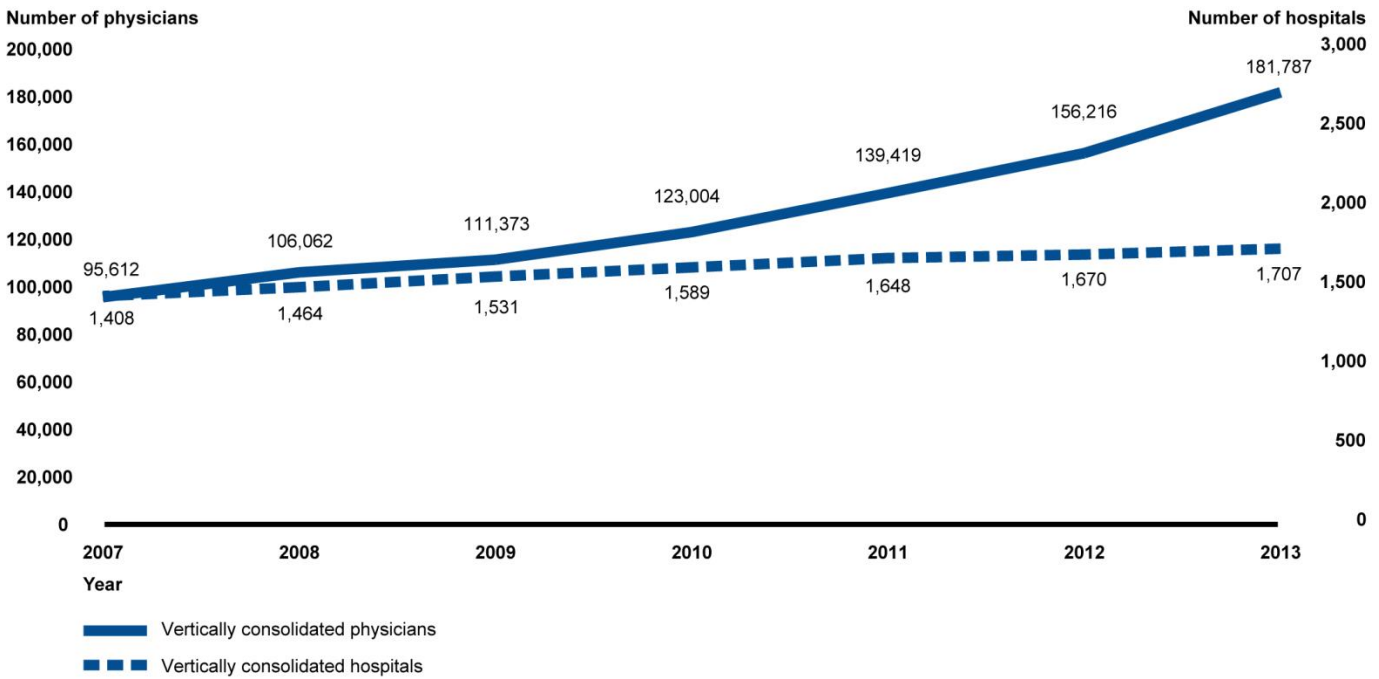
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<sup>1</sup>Medicare Part B covers certain hospital outpatient department services, physician, and laboratory services, among other services.

<sup>2</sup>Evaluation and management office visits are provided by physicians and nonphysicians to assess patients' health and manage their care. In general, Medicare pays roughly 80 percent of the payment rate for evaluation and management office visits under Medicare Part B, and the beneficiary is responsible for the remaining 20 percent.

of vertically consolidated physicians nearly doubled between 2007 and 2013, going from approximately 96,000 in 2007 to 182,000 in 2013.

**Number of Vertically Consolidated Hospitals and Physicians, 2007 through 2013**

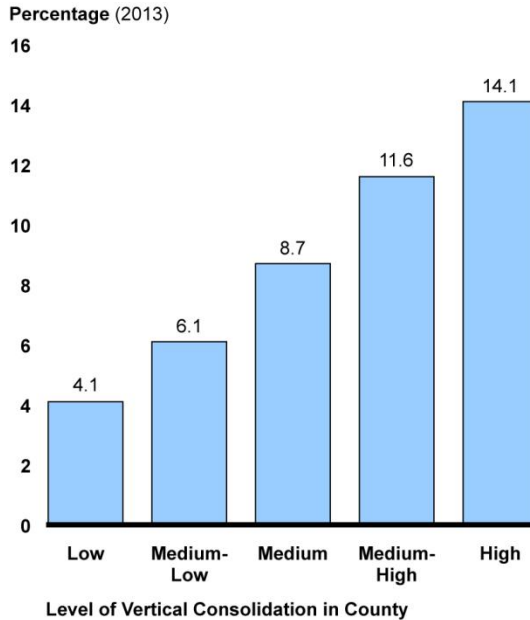


Source: GAO analysis of American Hospital Association data. | GAO-16-375SP

Note: GAO limited its analysis to hospitals that served Medicare beneficiaries on an inpatient basis based on an analysis of Medicare claims data.

GAO’s analysis of American Hospital Association survey data and Medicare claims data showed that the percentage of evaluation and management office visits—as well as the number of office visits per beneficiary—performed in hospital outpatient departments was generally higher in counties with higher levels of vertical consolidation from 2007 through 2013. For example, after dividing counties into five equal groups based on their 2013 level of consolidation, GAO found that the median percentage of evaluation and management office visits performed in hospital outpatient departments in the group of counties with the lowest levels of vertical consolidation was 4.1 percent. In contrast, this rate was 14.1 percent for the counties with the highest levels of consolidation.

### Median Percentage of Medicare Evaluation and Management Office Visits Performed in Hospital Outpatient Departments, by County Level of Vertical Consolidation, 2013



Source: GAO analysis of Centers for Medicare & Medicaid Services and American Hospital Association data. | GAO-16-375SP

Note: Counties were sorted into quintiles based on their level of vertical consolidation in 2013. Specifically, the counties in the lowest quintile were considered to have low levels of vertical consolidation, and the next four quintiles were considered to have medium-low, medium, medium-high, and high levels of vertical consolidation, respectively.

The association GAO found between higher levels of vertical consolidation and higher utilization of evaluation and management office visits in hospital outpatient departments remained after using regression analyses to control for other factors that could affect the setting in which evaluation and management office visits were performed. Specifically, GAO's regression analyses found that the level of vertical consolidation in a county was significantly and positively associated with a higher number and percentage of evaluation and management office visits performed in hospital outpatient departments—that is, as vertical consolidation increased in a given county, the number and percentage of evaluation and management office visits performed in hospital outpatient departments in that county also tended to be higher.

GAO concluded that rapid growth of vertical consolidation, and with it the higher utilization of evaluation and management office visits in hospital outpatient departments from 2007 through 2013, resulted in Medicare paying more for these services than necessary. Such excess payments are inconsistent with Medicare's role as an efficient purchaser of health care services. According to the Centers for Medicare & Medicaid Services, the agency does not have the statutory authority to equalize total payment rates between hospital outpatient departments and physician offices without legislation. Further, the agency lacks the authority to return the associated savings from any rate changes to the Medicare program. Therefore, absent legislative intervention, the

Medicare program will likely continue to pay more than necessary for certain services.

The Bipartisan Budget Act of 2015, enacted in November 2015, effectively limits certain providers from billing at the higher hospital outpatient department rates. Specifically, the legislation excludes services furnished by off-campus hospital outpatient departments from reimbursement under Medicare's hospital outpatient prospective payment system, effective January 1, 2017.<sup>3</sup> According to the Congressional Budget Office, this action could save the Medicare program \$9.3 billion over 10 years. However, the Act does not apply to services furnished by providers billing as hospital outpatient departments prior to enactment of the legislation—which includes providers billing as hospital outpatient departments during GAO's study period—as well as hospital outpatient departments located on hospital campuses. This means that, even in 2017 and beyond, many providers will not be affected by the Act, and Medicare will continue to pay more than necessary for certain services.

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## Actions Needed and Potential Financial or Other Benefits

To prevent the shift of services from physician offices to hospital outpatient departments from increasing costs for the Medicare program and its beneficiaries, GAO recommended in December 2015 that Congress consider the following action:

- Direct the Secretary of Health and Human Services (HHS) to equalize payment rates between settings for evaluation and management office visits—and other services that the Secretary deems appropriate—and return the associated savings to the Medicare program.

Several organizations, such as the Bipartisan Policy Center and Medicare Payment Advisory Commission, have estimated that equalizing payment rates between physician offices and hospital outpatient departments for evaluation and management office visits would save billions of dollars, with some estimates predicting savings of nearly \$1 billion to \$2 billion a year.

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## Agency and Third-Party Comments and GAO's Evaluation

Other than technical comments, which were incorporated as appropriate, HHS did not comment on GAO's December 2015 report on which this

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<sup>3</sup>See Bipartisan Budget Act of 2015, Pub. L. No. 114-74, § 603, 129 Stat. 584, 597-598 (2015).

analysis is based. However, the American Hospital Association noted several reasons why, in their opinion, a service performed in a hospital outpatient departments should receive a higher Medicare reimbursement compared to when the same service is performed in other settings. GAO recognizes that it might be inappropriate to equalize the total Medicare payment rate in all circumstances. However, Medicare aims to be a prudent purchaser of health care services, and that goal is not achieved if Medicare's total payment rate is substantially higher simply because hospitals have acquired physician practices.

GAO provided a draft of this report section to HHS for review and comment. The department did not provide comments on this report section.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product in the related GAO products section. To examine trends in vertical consolidation between hospitals and physicians from 2007 through 2013, GAO analyzed American Hospital Association survey data, in which hospitals report the types of financial arrangements they have with physicians and the number of physicians in those relationships. This analysis was limited to hospitals that served Medicare beneficiaries during this period, which were identified using Medicare claims data. To examine the extent to which higher levels of vertical consolidation were associated with more evaluation and management office visits being performed in hospital outpatient departments instead of physician offices, GAO first determined the (1) the level of vertical consolidation in counties using American Hospital Association survey data and Medicare claims data and (2) the setting in which evaluation and management office visits were performed based on Medicare claims data. GAO then analyzed how the utilization of evaluation and management office visits differed among counties with varying levels of consolidation. To ensure that the relationship observed in this analysis was not due to other factors, GAO developed regression models that controlled for county and hospital characteristics.

Table 17 in appendix V lists the program GAO identified that might have opportunities for costs savings.

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## Related GAO Product

*Medicare: Increasing Hospital-Physician Consolidation Highlights Need for Payment Reform.* [GAO-16-189](#). December 18, 2015.

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## Contact Information

For additional information about this area, contact James Cosgrove at (202) 512-7114 or [cosgrovej@gao.gov](mailto:cosgrovej@gao.gov).

# 31. Disability Insurance and Federal Workers' Compensation

The Social Security Administration should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.

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## Why This Area Is Important

Both the Social Security Disability Insurance (DI) program and Department of Labor's (DOL) Federal Employees' Compensation Act (FECA) program provide an important safety net for workers by providing wage-loss compensation for workers with disabilities. The DI program, which is administered by the Social Security Administration (SSA), is the nation's largest cash assistance program for workers with disabilities. In fiscal year 2014, the DI program paid more than \$142 billion in benefits to approximately 11 million beneficiaries.<sup>1</sup> The FECA program, which is administered by DOL's Office of Workers' Compensation Programs, provides wage-loss, medical, and rehabilitation compensation to federal employees who suffer work-related injuries and illnesses. In fiscal year 2012, the FECA program provided nearly 243,000 federal workers and survivors over \$3 billion in benefits for work-related injuries, illnesses, or deaths.<sup>2</sup>

SSA must offset DI benefits if the sum of an individual's monthly DI and FECA benefit payments exceeds a certain statutory limit.<sup>3</sup> If SSA does not obtain timely and accurate information about an individual's FECA benefits, overpayments can accrue. SSA officials reported that the agency made an estimated \$371.5 million in DI overpayments stemming from concurrent FECA benefits from fiscal year 2009 through fiscal year 2013, but GAO was unable to determine how much of these funds SSA

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<sup>1</sup>Social Security Administration, *Agency Financial Report, Fiscal Year 2014* (Nov. 10, 2014).

<sup>2</sup>Department of Labor, Office of Workers' Compensation Programs, *Annual Report to the Congress, Fiscal Year 2012* (Washington, D.C.: February 2014). This fiscal year 2012 report was the most recent available at the time of GAO's July 2015 report.

<sup>3</sup>42 U.S.C. § 424a(a); 5 U.S.C. § 8116(d)(1). The applicable limit referred to here is the higher of either (1) 80 percent of the individual's average current earnings or (2) total family benefits. SSA calculates the average current earnings based, in part, on previous wages earned. For more information on average current earnings, see SSA Program Operations Manual System (POMS), section DI 52150.010. SSA's calculation of total family benefits includes the total of all monthly benefits for the primary beneficiary and any auxiliaries, such as spouses and children. For more information on total family benefits, see SSA POMS, section DI 52150.005.

has recovered. The estimated \$371.5 million in FECA-related overpayments accounts for about 6 percent of the total DI overpayments of more than \$6.1 billion that the agency recognized during that period. Overpayments adversely affect program integrity and may also create economic hardship for individuals who have to repay overpayment debts once they have been detected. Further, overpayments in the DI program weaken the financial status of the DI trust fund. Based on provisions in the Bipartisan Budget Act of 2015, SSA projects that the DI trust fund reserves will be exhausted in 2022.

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## What GAO Found

In a July 2015 report, GAO analyzed DI and FECA beneficiary data and found that SSA detected concurrent FECA payments received by some, but not all individuals who received these concurrent payments during at least 1 calendar month of the period from July 1, 2011 through June 30, 2014, which was the time frame for GAO's analysis.<sup>4</sup> Federal law requires SSA to reduce DI benefits for some individuals receiving workers' compensation payments, including FECA payments, and SSA risks overpaying benefits if it does not do so. GAO found the following:

- SSA successfully detected FECA payments for approximately 4,090 individuals, or about 52 percent of the approximately 7,860 individuals who received concurrent FECA and DI payments during that period.
- SSA did not detect concurrent FECA payments for approximately 1,040 individuals, or about 13 percent of the population of individuals who received concurrent FECA and DI payments during that period.<sup>5</sup> These 1,040 individuals received a total of \$48 million in DI benefits during this period, but the electronic data GAO received did not contain the detailed information necessary for GAO to determine the exact amount of DI overpayments that SSA may have made if the

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<sup>4</sup>The period of July 1, 2011, through June 30, 2014, represents DOL's chargeback years 2012 through 2014. The term "chargeback" refers to the process by which DOL bills employing agencies for their compensation costs incurred during the preceding year. A single chargeback year is from July 1 through June 30. GAO's analysis may understate the population of individuals receiving concurrent DI and FECA benefits for several reasons that are described in the July 2015 report on which this text is based. GAO identified whether SSA detected concurrent benefits using a specific variable in SSA's data, in accordance with instruction from SSA officials.

<sup>5</sup>GAO's analysis of the DI data GAO received also indicates that, at the time of GAO's July 2015 review, SSA had not offset the DI benefits for these approximately 1,040 individuals who received concurrent FECA payments that the agency did not detect. SSA officials confirmed that GAO's analysis indicates that the agency had not offset DI benefits for the approximately 1,040 individuals that the agency did not know were receiving FECA benefits at the time of GAO's July 2015 review.



agency did not offset these overlapping benefits in accordance with federal law.<sup>6</sup>

- Due to limitations in the SSA data GAO received, GAO was unable to determine whether SSA detected concurrent FECA benefits for about 2,730 individuals (about 35 percent) who received concurrent FECA and DI payments during that period.

GAO's nongeneralizable case studies showed that SSA's internal controls did not detect and prevent potential DI overpayments to any of the 20 beneficiaries GAO selected for additional review.<sup>7</sup> SSA's internal controls for helping to prevent DI overpayments due to the concurrent receipt of FECA benefits rely on beneficiaries to self-report any workers' compensation benefits, including FECA benefits. SSA officials agreed that relying on beneficiaries to self-report benefits presents a challenge in identifying overpayments related to the concurrent receipt of FECA benefits. Further, GAO has previously concluded that agencies' reliance on self-reported data poses an internal-control weakness that affects program integrity.<sup>8</sup> For 7 of the 20 individuals GAO reviewed, SSA did not detect and prevent potential overpayments for more than a decade, resulting in potential overpayments totaling more than \$100,000 for each of these 7 individuals. GAO's analysis of the nongeneralizable case

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<sup>6</sup>SSA's rules for calculating the DI offset for FECA benefits stipulate that certain benefit increases, such as cost of living adjustments (COLA), are to be protected from offset. To do this, SSA must identify the first possible month that an individual received both FECA and DI—that is, the first possible month of offset, regardless of whether the offset is actually imposed—and exclude from offset any COLAs to the DI benefit that occur in subsequent months (DI 52150.055). Because the DI and FECA payment data GAO used to perform this work are limited to July 1, 2011, through June 30, 2014, GAO was unable to identify any DI or any FECA payments prior to July 1, 2011. Further, the FECA payment data do not contain a variable that indicates the first date that FECA benefits are payable, meaning that GAO could not use the data to identify whether the first possible month of offset occurred before the time frame of GAO's data extracts. Thus, GAO could not use the electronic data GAO received to identify the first possible month of offset for all individuals in GAO's population, and consequently GAO could not calculate the exact amount of potential DI benefit overpayments that occurred during this period in accordance with SSA policy.

<sup>7</sup>As part of the work described here, GAO reviewed case files for a nongeneralizable sample of 20 individuals, selected based on their risk of DI overpayments. Specifically, we randomly selected 10 individuals who received 15 or more concurrent FECA payments during a single calendar year that were not detected by SSA. Individuals who received 15 or more undetected concurrent FECA and DI payments in a single calendar year represent approximately the top 5 percent of individuals who received undetected concurrent payments for a single calendar year. We believe the number of undetected concurrent payments these individuals received in a single year suggests that they may be at a higher risk of receiving overpayments. We also randomly selected 10 individuals who received 14 or fewer undetected concurrent FECA payments during a single calendar year. We then consulted with SSA staff to determine whether SSA overpaid these beneficiaries due to the concurrent receipt of FECA benefits. Because we selected a small number of individuals for further review, these examples cannot be generalized to the population of individuals receiving concurrent DI and FECA payments.

<sup>8</sup>GAO, *Federal Employees' Compensation Act: Preliminary Observations of Fraud-Prevention Controls*, [GAO-12-402](#) (Washington, D.C.: Jan. 25, 2012).

studies also found that SSA made potential overpayments to 8 individuals who reported their workers' compensation payments to SSA because agency staff did not obtain sufficient proof of the workers' compensation payments, as required by SSA policy, to offset their DI benefits and prevent these potential overpayments.<sup>9</sup> GAO referred these 20 cases to SSA for further review. However, GAO describes these as potential overpayments because SSA had not yet established overpayments for these individuals at the time of GAO's July 2015 report.

SSA has not compared the costs and benefits of routinely matching SSA and FECA data, but it might benefit from doing so. SSA officials told GAO that they have spent more than a decade exploring the best way to match DOL's FECA data with SSA data to prevent DI overpayments, but SSA is not currently performing a routine match of these data. SSA previously stated that it would not be cost-effective to perform a routine match of FECA data with SSA data to help prevent DI overpayments, but SSA did not consider specific cost and benefit information in making this determination. *Standards for Internal Control in the Federal Government* state that management should design and implement internal controls based on the related cost and benefits.<sup>10</sup> Additionally, the Office of Management and Budget (OMB) has issued guidance stating that a program may be justified if its benefits outweigh its costs. In this context, making such a determination would involve comparing the costs and benefits of alternatives to SSA's current approach for reducing these overpayments, which relies on beneficiaries to self-report any FECA benefits they receive. These alternatives may include, among others, obtaining available FECA data to prevent overpayments. Comparing alternatives for reducing these overpayments would help SSA to determine which option presents the best opportunity to detect and prevent DI overpayments related to FECA benefits.

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## Actions Needed and Potential Financial or Other Benefits

To improve SSA's ability to detect, prevent, and recover potential DI benefit overpayments due to the concurrent receipt of FECA benefits, GAO recommended in July 2015 that the Commissioner of Social Security take the following four actions:

- Review the potential DI overpayments resulting from FECA benefits identified in GAO's case studies, as well as any indicators of

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<sup>9</sup>SSA POMS, section DI 52140.010, requires agency staff to document all allegations of workers' compensation and public disability benefits and obtain all relevant payment rates, dates, lump-sum settlements, and any subsequent changes to these workers' compensation or public disability payments.

<sup>10</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

fraudulent activity related to FECA benefits that were not self-reported by DI beneficiaries, and establish debt-collection efforts and fraud-related penalties, as appropriate.

- Review the instances described in GAO's report in which SSA staff did not obtain proof of FECA benefits that were reported by DI beneficiaries and (1) determine the reasons for these occurrences and whether this is a pervasive problem; and (2) if necessary, design appropriate controls or make other efforts, such as staff training, to help ensure SSA staff obtain proof of workers' compensation payments, as required by SSA policy.
- In accordance with OMB guidance, compare the costs and benefits of alternatives to SSA's current approach for reducing the potential for overpayments that result from the concurrent receipt of FECA benefits, which relies on beneficiaries to self-report any FECA benefits they receive. These alternatives could include, among others, routinely matching DOL's FECA program data with DI program data to detect potential DI overpayments.
- Strengthen internal controls designed to prevent DI overpayments due to the concurrent receipt of FECA benefits by implementing the alternative that provides the greatest net benefits.

Due to limitations in the data GAO received, GAO was not able to determine the exact amount of DI overpayments that SSA may have made if the agency did not offset DI benefits in accordance with federal law for the population of individuals GAO identified as receiving potential overpayments. As such, GAO cannot quantify the exact amount of savings that SSA could realize by properly offsetting DI benefits for those individuals.

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## Agency Comments and GAO's Evaluation

In commenting on the July 2015 report on which this analysis is based, SSA stated that although the agency believes improper payments caused by DI beneficiaries receiving FECA benefits represent a small portion of all DI overpayments, it agreed with all four recommendations GAO made. SSA said it would review the cases that GAO identified where SSA did not detect the receipt of FECA benefits. SSA also proposed reviewing a sample of individuals that GAO's report identifies as being at risk of overpayments due to the concurrent receipt of FECA benefits, including some individuals receiving FECA payments that SSA had not detected at the time of GAO's July 2015 report. Additionally, SSA said it will analyze alternatives to its current FECA benefit processes by December 31, 2015. SSA also stated that the agency is working with DOL on a new data exchange to access data on FECA payments. SSA said that once it conducts the analysis and case reviews, as described above, it will identify and decide on additional steps needed to strengthen internal controls on the concurrent receipt of DI and FECA benefits. Because SSA has not yet initiated specific actions to implement GAO's

recommendations, it is too early for GAO to determine whether the actions the agency outlined in its official comments on a draft of GAO's July 2015 report would fully address the intent of the recommendations. However, if effectively implemented, the actions could prevent overlapping payments in the two programs and reduce the amount of improper payments made to recipients. GAO plans to continue to monitor the agency's efforts in this area. In an e-mail GAO received on June 16, 2015, DOL's Fiscal Branch Chief, Division of Federal Employees' Compensation, did not provide comments on the findings but noted that SSA had contacted DOL to set up a meeting to discuss exchanging data, including FECA data.

GAO provided a draft of this report section to SSA and DOL for their review and comment. In response, SSA stated that the agency is continuing to have discussions with DOL to reach a data matching agreement that would allow SSA to obtain FECA data for DI beneficiaries who receive concurrent FECA payments. SSA also stated that the agency is reviewing its internal controls related to concurrent FECA payments. Finally, the agency stated that it expects to complete its reviews of the cases GAO referred to the agency and establish debt-collection efforts and any fraud related penalties as appropriate by June 30, 2016. Because SSA has not completed its work in this area, it is too early to determine whether these actions will address the problems GAO identified. GAO will continue to monitor SSA's work in this area. DOL had no comments on this section of the report.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the July 2015 report listed in the related GAO products section. For that work, GAO compared DI beneficiary data to FECA beneficiary data to identify individuals who received concurrent DI and FECA benefits in at least 1 month from July 1, 2011, through June 30, 2014—the most current data available at the time GAO began its work. GAO reviewed agency documentation and interviewed officials to identify relevant internal controls. GAO also reviewed case files for a nongeneralizable sample of 20 individuals, selected based on their risk of DI overpayments. GAO also reviewed information on DI overpayments and recovery efforts.

Table 18 in appendix V lists the programs GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*GAO, Disability Insurance: Actions Needed to Help Prevent Potential Overpayments to Individuals Receiving Concurrent Federal Workers' Compensation.* [GAO-15-531](#). Washington, D.C.: July 8, 2015.

GAO, *Federal Employees' Compensation Act: Preliminary Observations of Fraud-Prevention Controls*. [GAO-12-402](#). Washington, D.C.: January 25, 2012.

GAO, *Workers' Compensation: Action Needed to Reduce Payment Errors in SSA Disability and Other Programs*. [GAO-01-367](#). Washington, D.C.: May 4, 2001.

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# 32. Disability Insurance Overpayments

To help prevent the loss of billions of dollars, the Social Security Administration should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.

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## Why This Area Is Important

The Social Security Administration's (SSA) Disability Insurance (DI) program is one of the nation's largest cash assistance programs for workers with disabilities. In fiscal year 2014, about 11 million individuals with disabilities and their dependents received approximately \$143 billion in DI benefits. During the same year, SSA reported detecting \$1.3 billion in new DI benefit overpayments, which occur when SSA pays benefits in excess of what is due or continues to pay those who are no longer eligible.<sup>1</sup> Overpayments often result when a beneficiary returns to work and starts earning income above a certain level, but the earnings activity is not properly reported to or processed by SSA. Overpayments can pose a financial hardship for beneficiaries responsible for repaying the debt. They may also result in the loss of taxpayer dollars when beneficiaries do not repay their overpayments or when SSA grants a waiver of the overpayment. Further, overpayments can contribute to the weakened financial status of the DI trust fund.<sup>2</sup>

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## What GAO Found

In October 2015, GAO found that over the last 10 years, more than half of DI overpayment debt resulted from SSA paying benefits to individuals whose earnings exceeded program limits (referred to hereafter as "work-related" overpayments). According to data provided by SSA, the agency overpaid DI beneficiaries a total of about \$20 billion during fiscal years 2005 through 2014, of which \$11.5 billion was work related.<sup>3</sup> These data also showed that, on average, 28 percent of all overpaid beneficiaries received excess benefits because their work activity exceeded program

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<sup>1</sup>SSA provided GAO summary data on new DI beneficiary debt detected each fiscal year for fiscal years 2005 through 2014. SSA cites the source of these data as the agency's fourth quarter report for the Treasury Report on Receivables (TROR) for each fiscal year.

<sup>2</sup>According to SSA, the DI trust fund reserves will be exhausted in 2022.

<sup>3</sup>SSA provided data on all DI overpayments that were work related for each year in the 10-year period. SSA cites the source of these data as the agency's Recovery of Overpayments, Accounting and Reporting (ROAR) system, which reflects the current amount of beneficiary overpayments and the date established. This differs from the TROR that SSA used to provide data on new DI beneficiary debt, which indicated a total of \$14 billion in new SSA legally defined overpayments to beneficiaries. Specifically, SSA officials explained that TROR does not include what SSA characterizes as nonlegally-defined overpayments, such as benefits issued for the month of death.

limits.<sup>4</sup> The average work-related overpayment per beneficiary was almost \$12,000 during this period, compared to about \$3,300 for other types of overpayments.

SSA's process for handling work reports by beneficiaries has internal control and other weaknesses that increase the risk of overpayments, even when DI beneficiaries follow program rules and report work and earnings. These weaknesses include the following:<sup>5</sup>

- **Processing weaknesses.** GAO found that, due to unclear guidance and other process vulnerabilities, SSA staff may bypass established procedures and not (1) initiate tracking of work activity in eWork, which would help prevent overpayments and (2) issue a receipt to the beneficiary—as required by law—that proves the beneficiary's work was reported.<sup>6</sup> For example, GAO found that SSA's 800-number teleservice staff may send work reports to the field office for manual entry and processing, rather than directly entering the information into eWork. Work reports handled this way can be more easily missed or overlooked and are at risk of being deleted or marked as completed without action being taken. In addition, insufficient automation coupled with weak procedures for monitoring alerts may result in work information submitted by concurrent beneficiaries—i.e., those receiving both Supplemental Security Income (SSI) and DI benefits—being tracked for one but not both programs.<sup>7</sup> Data are not available to determine the full extent to which such vulnerabilities result in overpayments.
- **Limited oversight.** While SSA tracks timeliness of staff action on work reports, it lacks procedures for how staff should screen such reports and oversight procedures to help ensure that the actions taken were appropriate.

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<sup>4</sup>Tracking beneficiaries over a 10-year period, a recent SSA Office of the Inspector General (OIG) study found that within a national sample of 985 DI beneficiaries it reviewed, 26 percent (259) of DI beneficiaries were assessed overpayments and of these, about 12 percent (32) was due to work activity or changes in income. For this longitudinal study, see Social Security Administration, Office of the Inspector General, *Overpayments in the Social Security Administration's Disability Programs—A 10-Year Study A-01-14-24114* (June 4, 2015) at <http://oig.ssa.gov/sites/default/files/audit/full/pdf/A-01-14-24114.pdf>.

<sup>5</sup>GAO reviewed relevant federal laws, regulations, and guidance. In addition, GAO identified agency policies and procedures for processing work reports and making overpayment waiver decisions, and assessed these against the *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>6</sup>In 2004, SSA implemented the eWork system, which is the primary system for capturing beneficiary work-related information and processing work continuing disability review cases in headquarters and field locations.

<sup>7</sup>SSA's SSI program is a means-tested disability benefits program.

- **No automated reporting options.** The DI program lacks automated tools to report work, such as an automated telephone system and a smartphone application.<sup>8</sup> Although SSA officials said there is an internal proposal to automate DI work reports, they did not provide details on how or when this would occur. Without automation, SSA must rely on its current approach of manually entering into its systems work reports provided by beneficiaries in person or by phone, mail, or fax, which is vulnerable to error. Automated reporting options similar to those currently used in the SSI program could help minimize the potential effect of vulnerabilities.
- **Inadequate beneficiary guidance.** GAO found that beneficiaries may receive inadequate and inconsistent guidance on when to report their work due to (1) unclear work reporting requirements and complex rules that SSA staff may not fully understand and (2) infrequent reminders and limited information sent to beneficiaries about potential liability for overpayments.<sup>9</sup> SSA provides some additional written materials to beneficiaries to inform them about their benefits, but this information is only distributed upon request and does not clarify requirements for reporting work.

GAO also found that over the last 10 years, \$2.4 billion in overpayment debt was permanently waived by SSA, and more than half (60 percent) of those waivers were for work-related overpayments.<sup>10</sup> The average number of waivers based on work activity annually was about 16,200, or 36 percent of the total. Moreover, a higher percentage of work-related overpayments was waived compared to the percentage of nonwork-related overpayments (17 percent versus 12 percent). The average annual work-related waiver amount was about \$8,800 during the 10-year period compared to about \$3,400 for nonwork-related waivers.

SSA's processes for handling requests to waive overpayments lack sufficient controls to help ensure appropriate decisions are made, especially those involving low dollar amounts. Two recent reviews—conducted by SSA and SSA's Office of Inspector General (OIG)—found high error rates in documenting DI and other waivers. For example,

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<sup>8</sup>By contrast, SSA's SSI program has both of these automated reporting options.

<sup>9</sup>SSA informs DI beneficiaries of reporting requirements when their benefit application is initially approved, and it reminds them of reporting responsibilities in annual cost-of-living adjustment letters. In contrast, for the SSI program, SSA implemented a web-based service in 2014 that uses e-mails and text messages to remind recipients to report wages. Although DI beneficiaries are not prevented from using this service, SSA does not systematically inform DI beneficiaries of this service.

<sup>10</sup>A beneficiary may request a waiver of an overpayment that is not in dispute, and SSA may grant that waiver request if two conditions are met: (1) the agency finds the beneficiary was not at fault, and (2) recovery or adjustment would either defeat the purpose of the program or be against equity and good conscience, as determined by SSA. 20 C.F.R. § 404.506. However, for overpayment amounts under \$1,000, administrative waivers may be granted on the sole basis that the beneficiary was not at fault.



although SSA's Debt Management System<sup>11</sup> is supposed to prevent staff from administratively waiving overpayments over \$1,000, a 2015 SSA quality review report noted that the system currently inappropriately allows SSA staff to do so.<sup>12</sup> A 2015 SSA OIG study found significant variation in DI and other waiver documentation and approval rates among field offices. The study also noted that some field offices with high waiver approval rates also had a high incidence of waivers under \$1,000, which require less documentation. In response to the reviews, SSA has already taken some steps to improve waiver policy and training. Nevertheless, SSA's quality reviews conducted at the discretion of local offices do not target the appropriateness of DI waiver decisions—especially those under \$2,000, which do not require supervisory review and comprise almost a third of all waiver decisions—for the purpose of performance monitoring and improvement. Further, for waivers under \$1,000, SSA's practice is to document the waiver decision as a remark in the beneficiary's Debt Management System record, then delete such remarks after 6 months. Without additional oversight, such as targeted reviews of DI waivers, staff may systematically waive overpayments incorrectly, particularly for waivers involving low dollar amounts.

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## Actions Needed and Potential Financial or Other Benefits

To improve SSA's handling of overpayments, work reports, and waivers, in October 2015 GAO recommended that SSA's Commissioner take the following six actions:

- To minimize the potential effect of vulnerabilities in the work reporting process, SSA should take steps to help ensure that work information is entered directly into eWork, the system of record for work information, and issue required receipts. Such steps could include: improving and issuing guidance and training to field and 800-number staff to help ensure they log information into eWork and issue required receipts, and establishing policies to monitor alerts to help ensure that work information for concurrent beneficiaries is reflected in SSI and DI systems, and take steps to monitor and make enhancements to systems or guidance, as needed.

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<sup>11</sup>The Debt Management System is SSA's financial management system. It consolidates the agency's program debt activities, including overpayments and actions against the debts, amounts collected and written off (e.g., waivers), and methods of collection and debtor requests for due process.

<sup>12</sup>Social Security Administration, *Continuous Quality Area Director Review: Data Analysis Report Findings and Recommendations* (Baltimore, MD: January 2015). In this report, 2,849 Title II initial waiver decisions and 1,152 personal conference waiver decisions were reviewed.

- To further ensure the effective screening of work reports, SSA should monitor its process for handling work reports to determine whether staff are taking action on work reports in accordance with proper procedures, and provide feedback to staff as needed.
- To enhance the ease and integrity of the work reporting process, SSA should study the costs and benefits of automated reporting options, including options similar to those currently available for SSI recipients but that do not go as far as automating the continuing disability review process.
- To enhance beneficiary understanding of work reporting requirements, SSA should: clarify work reporting requirements provided to beneficiaries, and explore options for increasing the frequency of reporting reminders to DI beneficiaries, similar to those currently available to SSI recipients.
- To improve compliance with waiver policies, SSA should develop a timetable for implementing updates to its Debt Management System to: align system controls with SSA policy so that waivers over \$1,000 cannot be administratively waived, and ensure that evidence supporting waiver decisions is sufficiently maintained to allow for subsequent monitoring and oversight.
- To improve compliance with waiver policies, SSA should take steps to regularly assess the accuracy of DI waiver decisions, particularly for administrative waivers and for some waivers under \$2,000. This could include periodically reviewing approved and denied DI waivers through its continuous quality initiative.

Due to limitations in the data and information GAO received, GAO was not able to determine the exact amount of DI overpayments that SSA may have made when the agency did not take prompt action to adjust DI benefits for individuals who work, or the amount of DI overpayments that may have been waived in error. As such, GAO cannot quantify the amount of savings that SSA could realize by promptly adjusting DI benefits for individuals who work, improving beneficiary work reporting, or ensuring that overpayments are not improperly waived.

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## Agency Comments and GAO's Evaluation

In its comments on GAO's October 2015 report on which this analysis is based, SSA agreed with all of GAO's recommendations except the recommendation that SSA assess the quality and accuracy of work reports and provide feedback to staff as needed. In its response, SSA stated that work information provided by beneficiaries is not verified when provided in a work report, but instead during the process of conducting a work continuing disability review (CDR). In the report, GAO acknowledged the role of the work CDR process, but also noted that if a work report were improperly closed when a work CDR should have been conducted, an overpayment could result. GAO also noted that SSA staff

do not receive feedback on their handling of work reports and that SSA lacks procedures for reviewing work reports that are closed without a work CDR. GAO clarified the recommendation to reflect these issues.

The Bipartisan Budget Act of 2015 included two provisions related to GAO's October 2015 recommendations.<sup>13</sup> Specifically, sections 824 and 826 of the Act address the recommendation on automated reporting options. Under section 824 of the Act, SSA is allowed to obtain wage data for DI recipients, among others, from payroll providers. Individuals who provide authorization to SSA to obtain these data are exempt from any penalty for omissions or errors with respect to their payroll data as reported by their payroll provider. In addition, under section 826 of the Act, SSA must establish and implement a system by September 30, 2017, to allow DI beneficiaries to report wages by telephone and Internet, similar to options available under SSI.

GAO provided a draft of this report section to SSA for review and comment. In its response, SSA stated it is taking a number of steps to reduce overpayments, including expanding its use of quarterly earnings data from the Office of Child Support Enforcement to improve its disability enforcement operation. According to SSA, these data will reduce overpayments by allowing it to identify and make work continuing disability review determinations sooner. The agency also stated that the Bipartisan Budget Act of 2015 will aid its efforts to reduce improper payments. Specifically, SSA stated that the Act provides another source of more timely earnings data by allowing the agency to contract with third-party payroll providers, and allows SSA to use evidence of earnings when paid to determine when work was performed.

SSA, also stated that it is taking steps to address GAO's finding that staff may bypass established procedures and not (1) initiate tracking of work activity in eWork, which would help prevent overpayments, and (2) issue a receipt to the beneficiary—as required by law—that proves the beneficiary's work was reported. Specifically, SSA issued an Operational Bulletin with a reminder on the processing of Title II Disability Work Reports via eWork on December 14, 2015. SSA also reported that it is evaluating the possibility of conducting refresher training to provide guidance to agents on handling DI work reports via eWork. Finally, SSA stated that it will work to incorporate clear reporting language that explains work reporting requirements into the online and telephone wage applications that it is required to develop under Section 826 of the Bipartisan Budget Act.

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<sup>13</sup>Pub. L. No. 114-74, 129 Stat 584, (Nov. 2, 2015).

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. GAO analyzed 10 years of SSA data on overpayments and waivers; reviewed relevant laws, regulations, guidance, and studies; interviewed staff at SSA headquarters and several field offices and teleservice centers in three SSA regions, selected to represent a range of relevant DI workloads; and reviewed 10 nongeneralizable DI cases involving waived overpayments.

Table 19 in appendix V lists the program that GAO identified that might have opportunities for cost savings.

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## Related GAO Products

*Disability Insurance: SSA Could Do More to Prevent Overpayments or Incorrect Waivers to Beneficiaries.* [GAO-16-34](#). Washington, D.C.: October 29, 2015.

*Disability Insurance: Preliminary Observations on Overpayments and Beneficiary Work Reporting.* [GAO-15-673T](#). Washington, D.C.: June 16, 2015.

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## 33. Disability Reviews

The Social Security Administration may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.

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### Why This Area Is Important

The Social Security Administration (SSA) administers two disability programs that provide monthly cash benefits to eligible individuals: Disability Insurance (DI) and Supplemental Security Income (SSI). DI provides benefits to individuals (and their dependents) who have paid into the Disability Insurance Trust Fund.<sup>1</sup> SSI provides assistance to low-income individuals. To be eligible for DI or SSI benefits based on a disability, an individual must have a severe long-term disability. In December 2015, SSA made payments to 8.1 million individuals receiving only DI benefits, 4.6 million individuals receiving only SSI benefits, and 1.5 million individuals receiving both DI and SSI benefits.

To help ensure that only eligible individuals continue to receive benefits, SSA is generally required to conduct periodic continuing disability reviews (CDR).<sup>2</sup> These reviews assess individuals' continued eligibility for benefits based on several criteria, including whether they demonstrate medical improvement. For cases with a low likelihood of medical improvement, SSA sends individuals a low-cost questionnaire, called a mailer. Other cases receive more in-depth full medical reviews. When an individual's benefits are ceased as the result of a CDR, the forgone benefits represent savings to the federal government. In fiscal year 2013, the most recent year for which data are available, SSA conducted more than 1.5 million CDRs, including over 400,000 full medical reviews, which saved the federal government an estimated \$7.1 billion in forgone lifetime program benefits. When CDRs are not conducted as scheduled, some recipients may receive benefits for which they are no longer eligible, potentially costing taxpayers billions of dollars. As GAO reported in February 2016, SSA has had difficulty completing timely reviews since 2003 and, as a result, amassed a backlog of more than 900,000 pending CDRs by the end of fiscal year 2014. SSA officials cited resource limitations and competing priorities as driving factors for the CDR backlog.

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<sup>1</sup>The Disability Insurance Trust Fund is generally funded by revenues from payroll taxes, interest on the trust fund, and income tax on benefits.

<sup>2</sup>For DI, the legal requirements to conduct CDRs can be found at 42 U.S.C. § 421(i). For SSI, the legal authority and requirements to conduct CDRs can be found at 42 U.S.C. § 1382c(a)(3)(H).

In a June 2012 report—which was featured in GAO’s 2015 annual report on fragmentation, overlap, and duplication—GAO identified conducting additional reviews of children receiving SSI benefits as a potential source of cost savings, estimating that SSA could save the federal government \$3.1 billion over 5 years by becoming and remaining current on reviews of SSI children with mental impairments who are likely to improve.<sup>3</sup> By contrast, this report section, which is based on a report GAO issued in February 2016, more broadly considers reviews of individuals receiving benefits in either of SSA’s disability programs and focuses on how cases are prioritized for review.

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## What GAO Found

In February 2016, GAO found that because SSA does not complete all CDRs as scheduled, it uses a range of inputs to prioritize the order in which it conducts CDRs. SSA selects cases to receive a CDR first using a set of priorities based on legal requirements and agency policies and then statistical models that score each case for the likelihood of medical improvement. Certain types of beneficiaries are designated as high priority using a range of considerations. For example, reviews of SSI children at age 18 and reviews of SSI children up to 1 year old who are receiving benefits due in part to low birth weight are legally required, and therefore these reviews are prioritized above all other groups of CDRs. Cases not included in a high-priority group are prioritized first by benefit program (DI, SSI Other Children, and SSI Adults) and then within benefit program by statistical scores developed by SSA to identify cases with the highest likelihood of medical improvement.<sup>4</sup> CDRs for the lower-priority groups are initiated as resources permit. Any cases that do not receive a mailer or full medical review are backlogged for future review.

GAO reported that although SSA considers cost savings to some degree when prioritizing CDR cases, it does not do so in a manner that maximizes potential savings. GAO found that the order in which SSA prioritizes beneficiary groups for CDRs does not fully align with the average savings per full medical review for those groups. Specifically, although the SSI Other Children group has higher average savings in forgone disability benefits than DI beneficiaries, SSI Other Children are prioritized after DI beneficiaries for CDRs. According to SSA, DI cases have been given priority over SSI Other Children partly to protect the Disability Insurance Trust Fund, which is the source of benefit payments

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<sup>3</sup>See GAO, *2015 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-15-404SP](#) (Washington, D.C.: Apr. 14, 2015), as well as the June 2012 report in the related products section.

<sup>4</sup>SSI Other Children refers to children receiving SSI benefits who are not currently eligible for reviews at age 18 or for low birth weight. SSI Adults refers to adults receiving SSI benefits because of disability.

to most DI recipients. However, recent action to address the solvency of the Disability Insurance Trust Fund somewhat mitigates this rationale.<sup>5</sup> In addition, GAO found that SSA does not fully capture differences in average savings among beneficiary subgroups in its prioritization process. For example, the average lifetime savings per full medical review among four DI subgroups (i.e., workers receiving only DI, survivors receiving only DI, workers receiving DI and SSI, and survivors receiving DI and SSI) differed by as much as approximately \$3,000 in fiscal years 2012 and 2013, but SSA does not distinguish between these subgroups when selecting cases for review.<sup>6</sup>

Furthermore, GAO reported that SSA does not take into account differences in savings across individual cases when selecting cases for review. The amount of potential savings associated with an individual case depends on various factors that affect how much SSA would have paid if the individual continued to receive disability benefits over time, including the individual's age, life expectancy, and monthly benefit payment. For example, two individuals who are different ages but are otherwise similar (e.g., live in the same state, have the same benefit amount, and have the same likelihood of medical improvement as determined by SSA's statistical models) would generate different expected savings from a CDR because the younger individual would likely receive benefits for a longer period of time. Similarly, two individuals who have different benefit amounts but are otherwise similar would generate different expected savings from a CDR because the individual with higher monthly benefits would likely receive greater total benefits over time. Prioritizing the CDR for the younger individual or the individual with a higher benefit amount could result in greater savings for SSA. However, SSA lacks a mechanism for factoring expected savings from benefit cessation into its CDR prioritization process on a case-specific basis, despite the fact that federal internal control standards instruct federal agencies to ensure effective stewardship of public resources.<sup>7</sup>

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<sup>5</sup>According to the Congressional Budget Office, the Bipartisan Budget Act of 2015 is expected to delay the exhaustion of the Disability Insurance Trust Fund until fiscal year 2021. Previously, the fund was projected to be able to pay DI benefits in full on a timely basis until the fourth quarter of 2016.

<sup>6</sup>In DI, workers are those beneficiaries who paid into the Disability Insurance Trust Fund through payroll taxes. Survivors are workers' dependents and surviving family members who are eligible to receive DI benefits.

<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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## Action Needed and Potential Financial or Other Benefits

To promote more efficient use of SSA's resources, GAO recommended in February 2016 that the Acting Commissioner of Social Security direct the Deputy Commissioner of Operations to take the following action:

- Further consider cost savings as part of SSA's prioritization of full medical reviews. Options could include considering the feasibility of prioritizing different types of beneficiaries on the basis of their estimated average savings and, as appropriate, integrating case-specific indicators of potential cost savings, such as beneficiary age and benefit amount, into its modeling or prioritization process for lower-priority cases.

If SSA further incorporates cost savings into its process for selecting which CDRs to conduct, the agency could realize greater savings for the federal government by targeting cases with the highest potential savings among those with the highest likelihood of benefit cessation. GAO was unable to quantify the potential financial benefits of incorporating case-specific indicators of potential cost savings because it lacked information to inform the range of actuarial assumptions necessary to make such a calculation.

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## Agency Comments and GAO's Evaluation

In commenting on the February 2016 report on which this analysis is based, SSA partially agreed with GAO's recommendation to further consider cost savings when prioritizing full medical reviews. SSA stated that although it could do more to increase the return on its CDRs, the agency's statistical models and prioritization already do much of what was recommended. GAO noted that the models predict medical improvement and are not designed to take expected cost savings into account. Therefore, GAO maintains that to maximize expected cost savings, SSA could refine its prioritization process by factoring in actuarial considerations apart from its existing statistical models.

GAO provided a draft of this report section to SSA for its review. SSA did not provide comments on this issue.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the reports in the related GAO products section. GAO reviewed legal requirements for conducting certain types of CDRs and analyzed data on the number and type of CDRs conducted for fiscal years 2003 through 2013 (the most recent year for which complete data were available). GAO reviewed documentation about how SSA prioritizes which CDRs to



conduct each year and about the statistical models that SSA uses to help prioritize CDRs, and interviewed SSA officials about these practices.

Table 20 in appendix V lists the programs GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

*Social Security Disability: SSA Could Increase Savings by Refining Its Selection of Cases for Disability Review.* [GAO-16-250](#). Washington, D.C.: February 11, 2016.

*Supplemental Security Income: Better Management Oversight Needed for Children's Benefits.* [GAO-12-497](#). Washington, D.C.: June 26, 2012.

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## 34. VA's Individual Unemployability Benefit

To potentially achieve cost savings, the Department of Veterans Affairs should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated \$15 billion in savings from 2015 through 2023, according to the Congressional Budget Office.

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### Why This Area Is Important

The Department of Veterans Affairs (VA) provides monthly disability compensation, based on a disability rating ranging from 0 to 100 percent, to veterans with disabling conditions caused or aggravated by their military service. In recognition of its position that there are cases where this benefit does not adequately compensate individual veterans in their particular circumstances, VA provides supplemental compensation for veterans with a demonstrated need. Specifically, Total Disability Individual Unemployability (TDIU) benefits are generally provided to disabled veterans, irrespective of age, who are unable to maintain “substantially gainful employment”—that is, employment with earnings above the federal poverty guidelines—due to service-connected disabilities.<sup>1</sup> The TDIU supplement increases an eligible veteran’s disability rating to 100 percent.

In fiscal year 2013, over 330,000 of the approximately 3.7 million veterans VA compensated for disabilities incurred during active military service received TDIU benefits. From fiscal years 2009 through 2013, the number of TDIU beneficiaries increased by 22 percent and payments to those receiving TDIU benefits (i.e., the base disability payment plus the TDIU supplement) increased by 30 percent. TDIU payments reached \$11 billion in fiscal year 2013. The population of veterans who receive these supplemental benefits has been growing, which has led to questions about TDIU benefits, including whether this supplement to the regular disability compensation benefit should be provided to veterans past retirement age. Because of the challenges agencies face in keeping their criteria for evaluating disability and determining compensation consistent with advances in medicine, technology, and changes in the labor market and society, GAO has designated federal disability programs a government-wide high-risk area.<sup>2</sup>

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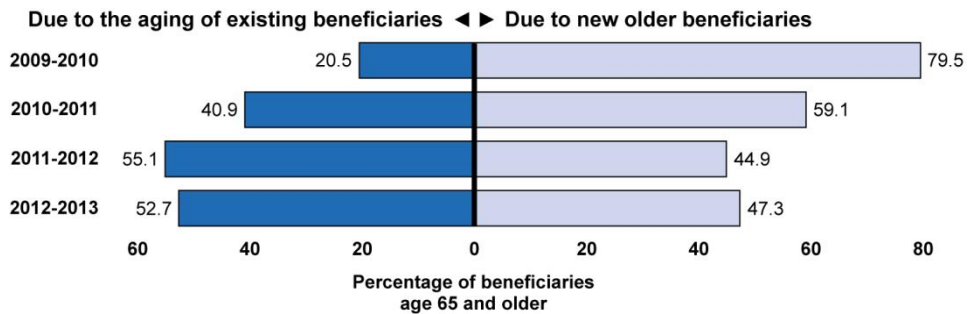
<sup>1</sup>Veterans who are eligible for TDIU do not actually receive separate TDIU payments. Instead, TDIU serves as a method by which veterans can have their disability rating raised to 100 percent and receive larger disability payments.

<sup>2</sup>See GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

## What GAO Found

In a June 2015 report, GAO found that in fiscal year 2013, older beneficiaries (aged 65 and older) represented the majority (54 percent) of the TDIU population—a 73 percent increase from fiscal year 2009. Further, nearly 57,000 were 75 years of age and older, while 10,567 were 90 years of age and older. The increase in the share of beneficiaries over age 65 was mostly attributed to new beneficiaries who received the benefit for the first time, as shown in the figure below. From fiscal years 2009 through 2013, the number of older beneficiaries receiving the benefit for the first time more than doubled to 13,259. Of these new older beneficiaries, 2,801 were aged 75 and over, while 408 were 90 and over.

**Sources of the Increase in the Older Total Disability Individual Unemployability (TDIU) Beneficiary Population, Fiscal Years 2009-2013**



Source: GAO analysis of Department of Veterans Affairs. | GAO-16-375SP

Veterans of all ages are eligible for TDIU benefits so long as they meet the eligibility criteria and have a single service-connected disability rated at least 60 percent or multiple disabilities with a combined rating of at least 70 percent (with at least one disability rated at 40 percent or higher). In addition, the veteran must be unable to obtain or maintain “substantially gainful employment,” which VA refers to as unemployability, as a result of these service-connected disabilities. Unlike other benefit programs, such as Social Security Disability Insurance (SSDI), VA does not consider reaching retirement age to be a cause for ineligibility and has established that age is not to be a factor in evaluating entitlement to TDIU. In SSDI, once program beneficiaries reach their full retirement age,<sup>3</sup> the amount of their benefit payment remains the same although their benefit converts to a Social Security retirement benefit.

A number of options have been proposed by disability compensation committees and research organizations to revise the TDIU eligibility requirements and benefit structure, including setting age limits for those eligible for the benefit. The Congressional Budget Office (CBO), as part of

<sup>3</sup>Full retirement age, which ranges from ages 65 to 67 depending on an individual's year of birth, is the age at which Social Security pays unreduced retirement benefits.

a broader examination to reduce the federal deficit in 2013, proposed that VA no longer make TDIU payments to veterans who are past their full Social Security retirement age, and that such veterans' disability payments revert to the amount associated with the veteran's rated disability level. CBO also noted most TDIU beneficiaries began collecting TDIU benefits later in life and had therefore likely worked enough to earn Social Security benefits which they would receive during retirement in addition to their VA disability-level payment. CBO concluded that because most veterans who are older than retirement age would not be in the labor force because of their age, a lack of earnings for those veterans would probably not be attributable to service-connected disabilities. CBO estimated that providing TDIU benefits only to those veterans younger than their full Social Security retirement age would reduce costs by \$15 billion from 2015 through 2023.<sup>4</sup> In addition, in its 2012 report, the Advisory Committee on Disability Compensation made recommendations to VA on potential revisions to the TDIU benefit.<sup>5</sup> The committee recommended that the agency study whether age should be considered when deciding if a veteran is unemployable. In its comments to the committee, VA concurred with the recommendation to study whether age should be considered. However, at the time of GAO's June 2015 report, VA did not have a plan for conducting such a study. As a result, VA may be missing an opportunity to achieve significant cost savings.

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## Actions Needed and Potential Financial or Other Benefits

In light of VA's agreement with the recommendations of the Advisory Committee on Disability Compensation, GAO recommended in June 2015 that the Secretary of Veterans Affairs direct the Under Secretary for Benefits to take the following action:

- Develop a plan to study whether age should be considered when deciding if veterans are unemployable.

A change to the TDIU benefit eligibility standards could result in cost savings. Specifically, if VA determined that Individual Unemployability benefits should be restricted to veterans younger than their full Social

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<sup>4</sup>Congressional Budget Office, *Options for Reducing the Deficit: 2014 to 2023* (Washington, D.C.: November 2013), 48.

<sup>5</sup>The Advisory Committee is composed of experts with experience in the provision of VA disability compensation or who are leading medical or scientific experts in relevant fields. The committee is required to issue reports no less than every 2 years and include recommendations deemed to be appropriate. In addition, the committee, when consulted by the Secretary of Veterans Affairs, is required to provide, among other things, an ongoing assessment of the effectiveness of the schedule for rating disabilities and advice on the most appropriate means of responding to the needs of veterans with respect to disability compensation.

Security retirement age, the agency could save an estimated \$15 billion from 2015 through 2023, according to the Congressional Budget Office.

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## Agency Comments and GAO's Evaluation

GAO provided a draft of its June 2015 report to VA. VA concurred with GAO's recommendations and stated that the agency had initiated a review of TDIU policies and procedures in April 2015, including consideration of age in claim decisions. VA's Veterans Benefits Administration expected to complete an action plan to initiate any studies, legislative proposals, or proposed regulations deemed necessary by July 2015. In August 2015, VA reported that its disability compensation policy staff was in the process of completing a review of TDIU policies and procedures. As of December 24, 2015, VA reported it had tentatively defined the scope of an internal study on TDIU, which is pending department-level review and approval. If this internal study on TDIU is approved, VA anticipates that the study will begin in fiscal year 2016 with a target completion date of September 30, 2017. GAO continues to track VA's actions related to the recommendation.

GAO provided a draft of this report section to VA for review and comment. VA responded and indicated that the proposed internal study on TDIU, which is to include the consideration of age and vocational assessments, was approved in late December 2015. A workgroup is focusing on obtaining data sets related to TDIU. VA maintained the target completion date of September 30, 2017.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. GAO obtained and analyzed data from VA on new and continuing beneficiaries covering fiscal years 2009 through 2013 (the most recently available data); examined relevant federal laws, regulations, and procedures for new and continuing claim determination decisions; conducted interviews with VA and Veterans Benefits Administration officials in their central office and regional offices, as well as disability experts familiar with TDIU benefits and representatives of veterans service organizations; and reviewed options presented for revising the TDIU eligibility and benefit structure. GAO also conducted a total of 11 in-person discussion groups with rating specialists across five of the regional offices; each discussion group consisted of two to three rating specialists, for a total of 29 rating specialists.

Table 21 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Products

Veterans' Disability Benefits: *VA Can Better Ensure Unemployability Decisions Are Well Supported*. [GAO-15-464](#). Washington, D.C.: June 2, 2015.

Veterans' Disability Benefits: *Improvements Needed to Better Ensure VA Unemployability Decisions are Well Supported*. [GAO-15-735T](#). Washington, D.C.: July 15, 2015.

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## Contact Information

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# 35. Federal Mobile Telecommunications

In order to achieve substantial government-wide savings, federal agencies should establish better controls on mobile device spending, and the Office of Management and Budget should monitor progress in achieving these savings.

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## Why This Area Is Important

In 2012, the Office of Management and Budget (OMB) reported that the federal government spent approximately \$1.2 billion annually on about 1.5 million mobile devices and associated services.<sup>1</sup> Federal agencies use mobile devices to provide their employees and contractors flexibility to perform their work anywhere at any time. Given that the use of mobile technology in the federal government was expected to increase, OMB identified the potential for achieving efficiencies and reducing spending in this area. Specifically, OMB identified potential savings of about \$388 million in fiscal years 2013 through 2015 by consolidating or eliminating mobile device contracts.

An executive order and OMB strategy provided direction and guidance on controlling mobile device spending. Specifically, in November 2011, the President issued an executive order on promoting efficient spending, which required agencies to, among other things, assess current federal employee IT device inventories and usage, including mobile devices, and establish controls to ensure they are not paying for unused or underused devices or services.<sup>2</sup> In May 2012, OMB issued a strategy, known as the Digital Government Strategy, a key objective of which is to move agencies away from purchasing mobile technology in a fragmented manner at the component level to purchasing the technology at an agency-wide level (i.e., centralized) and eventually government-wide level.<sup>3</sup> To help achieve this objective, OMB required agencies to develop, by November 2012, an enterprise-wide inventory of their wireless service contracts and to maintain it. Federal internal control standards<sup>4</sup> and

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<sup>1</sup>OMB has not reported an updated estimate of the federal government's spending on mobile devices and services.

<sup>2</sup>Exec. Order No. 13589, Promoting Efficient Spending, 76 Fed. Reg. 70863 (Nov. 15, 2011).

<sup>3</sup>OMB, *Digital Government: Building a 21<sup>st</sup> Century Platform to Better Serve the American People* (Washington, D.C.: May 2012), commonly referred to as the Digital Government Strategy.

<sup>4</sup>OMB, Circular A-123, *Management's Responsibility for Internal Control* (Dec. 21, 2004); GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999); and GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001). See also GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014), which is effective beginning fiscal year 2016.

GAO’s June 2006 work on telecommunications inventories provide agencies guidance on implementing these requirements.<sup>5</sup>

## What GAO Found

In May 2015, GAO reported on weaknesses in 15 selected agencies’ controls on mobile device spending.<sup>6</sup> GAO found that most of the agencies reviewed did not have an inventory of mobile devices and associated services that could be used to assess device usage. Only 5 of the 15 agencies had complete device and service inventories at either the enterprise level or at the components GAO reviewed. The remaining agencies either did not have inventories, or those inventories did not account for all devices and services. Similarly, only 1 of the 15 agencies had documented procedures for monitoring spending by reviewing devices and associated service plans for overuse, underuse, or zero use, which are key indicators of potential inefficient use. Eleven agencies had procedures that either addressed some of the potential aspects of inefficient use or were incompletely documented. Three agencies did not have documented procedures. The table below shows the number of agencies that followed guidance related to (1) establishing a mobile device and service inventory, and (2) procedures for monitoring mobile technology spending.

**Number of 15 Selected Agencies That Followed Guidance on Managing Mobile Devices and Services**

	Fully satisfied	Met some but not all	Did not satisfy
Inventory (devices and services)	5	7	3
Procedures	1	11	3

Source: GAO analysis of agency data as reported in [GAO-15-431](#). | GAO-16-375SP

GAO also reported that of the 15 agencies reviewed, 6 agencies collected mobile device contract information and reported it to OMB in the quarters between May and November 2014, in accordance with OMB’s 2012 strategy and guidance. The remaining 9 agencies’ reports were missing key data or were not adequately maintained.

<sup>5</sup>In June 2006, GAO identified establishing a telecommunications inventory as a key telecommunications transition planning practice and noted the importance of establishing and maintaining an inventory for purposes in addition to transition planning. GAO identified the transition planning practices through research of literature and interviews with those with experience in telecommunications transitions, including industry experts, telecommunications vendors, and other private sector companies.

<sup>6</sup>The agencies were selected based on reported telecommunications spending and include the Departments of Agriculture, Commerce, Defense, Health and Human Services, Homeland Security, the Interior, Justice, State, Transportation, the Treasury, and Veterans Affairs; the Environmental Protection Agency; the General Services Administration; the National Aeronautics and Space Administration; and the Social Security Administration.



Agencies cited several reasons for these weaknesses, including a lack of understanding of the relevant guidance, the use of unwritten procedures, and a continued belief in the effectiveness of decentralized management. Without an inventory that includes each device and associated service limits and rates, as well as documented procedures to assess device usage relative to service rate plans, agencies have a limited ability to monitor device usage and determine if a device should be canceled or moved to a more cost-effective service plan. Further, without a reliable inventory of mobile service contracts, agencies are less likely to identify opportunities for consolidation, and thus are less likely to achieve cost savings.

Highlighting the potential to reduce costs, GAO also found a variance in the rates that agencies paid for the same services. Specifically, there was a variance of about \$53 between the lowest and highest rates the selected agencies paid for unlimited voice, data, and text. Given the variance, cost savings could be realized by taking steps such as consolidating contracts and leveraging economies of scale to reduce costs.

Finally, although OMB identified a goal for financial savings related to mobile devices and services, it has not measured progress toward that goal, as called for by leading practices in performance management.<sup>7</sup> Instead, an OMB analyst said that OMB provides agencies information, quarterly, on rates paid by other agencies because it believes such information is more effective at convincing agencies to achieve savings. As of November 2015, OMB reported that 11 agencies had action items related to mobile contracts. OMB further reported that it has seen prices fall across the government, and that some agencies have made significant progress. However, without measuring progress toward its goal, OMB has little assurance that its approach is effective.

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## Actions Needed and Potential Financial or Other Benefits

In May 2015, GAO made recommendations to each of the agencies reviewed to help ensure their ability to effectively manage spending on

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<sup>7</sup>GAO, *Data Center Consolidation: Reporting Can Be Improved to Reflect Substantial Planned Savings*, [GAO-14-713](#) (Washington, D.C.: Sept. 25, 2014); *Aviation Weather: Agencies Need to Improve Performance Measurement and Fully Address Key Challenges*, [GAO-10-843](#) (Washington, D.C., Sept. 9, 2010); *NextGen Air Transportation System: FAA's Metrics Can Be Used to Report on Status of Individual Programs, but Not of Overall NextGen Implementation or Outcomes*, [GAO-10-629](#) (Washington, D.C.: July 27, 2010); OMB, *Guide to the Program Assessment Rating Tool* (Washington, D.C.: January 2008); and General Services Administration, *Performance-Based Management: Eight Steps To Develop and Use Information Technology Performance Measures Effectively* (Washington, D.C.: 1996).

mobile devices and services. Specifically, GAO recommended the following:

- Ten of the 15 agencies should ensure that an inventory of mobile devices and services is established agency-wide (i.e., all components' devices and associated services are accounted for).<sup>8</sup>
- Nine of the 15 agencies should ensure that a reliable and current agency-wide inventory of mobile service contracts is developed and maintained.<sup>9</sup>
- Fourteen of the 15 agencies should ensure that procedures to monitor and control spending on mobile devices and services are established agency-wide. Specifically, they should ensure that procedures include assessing devices for zero, under, and over usage; personnel with authority and responsibility for performing the procedures are identified; and the specific steps to be taken to perform the process are documented.<sup>10</sup>

In addition, to better enable OMB to oversee agency efforts to consolidate mobile telecommunications contracts, GAO recommended the following:

- OMB should measure and report progress in achieving its goal of mobile device and service cost savings through consolidation.

The actual cost savings associated with these actions is unknown, as the 2012 estimate from OMB of about \$388 million in potential savings during fiscal years 2013 through 2015 has not been updated or reassessed. As a result, GAO cannot quantify potential financial benefits associated with the recommended actions. GAO believes savings could potentially be significant, given OMB's original estimate.

Taking these actions—34 across the selected agencies and OMB—should better position agencies to meet OMB's goal of reducing costs by moving toward a less fragmented approach to acquiring the technology. Further, by measuring and reporting progress agencies are making in meeting this goal, OMB could enhance its ability to oversee these efforts and improve agencies' management of their spending on mobile devices and services.

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<sup>8</sup>GAO did not make recommendations to the Departments of Health and Human Services, Justice, Transportation, and Veterans Affairs; and the General Services Administration.

<sup>9</sup>GAO did not make recommendations to the Departments of Agriculture, Transportation, the Treasury, and Veterans Affairs; the General Services Administration; and the Social Security Administration.

<sup>10</sup>GAO did not make a recommendation to the Department of Defense.

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## Agency Comments and GAO's Evaluation

In commenting on GAO's May 2015 report, 13 of the 15 selected agencies generally agreed with GAO's recommendations, 1 agency (the Department of Defense) partially agreed, and 1 (the Department of the Treasury) stated that it did not have any comments. In addition, OMB generally agreed with GAO's recommendation. The Department of Defense stated that it agreed with the merits of establishing an inventory of mobile devices and services but that maintaining it comes at considerable expense and effort. GAO disagreed and noted that the inventory need not be generated centrally at the headquarters level; the department can compile a comprehensive inventory using components' complete inventories. Accordingly, GAO maintained that a comprehensive inventory is critical to managing mobile device costs.

Since GAO issued its report, one agency, the General Services Administration, has addressed the recommendation made to it by including in its procedures steps to assess devices for under and over usage. By including these steps in its procedures, the General Services Administration is better able to ensure that it is sufficiently controlling spending on mobile services.

Recently, GAO provided a draft of this report section to OMB and the 15 selected agencies for review and comment. In response, OMB stated that it generally concurred, nine of the agencies stated that they have no comment, and four described steps they are taking and plan to take to address GAO's recommendations. In addition, OMB and the Departments of Homeland Security and the Treasury provided technical comments, which were incorporated, as appropriate. One agency (the Environmental Protection Agency) did not provide comments.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the May 2015 report listed in the related GAO products section. GAO selected 15 major agencies based on reported telecommunications spending. It compared each agency's mobile device and service inventory to an executive order on promoting efficient spending and sound telecommunications transition practices identified in a June 2006 GAO report. GAO also evaluated the extent to which agencies developed and maintained mobile service contract inventories, relative to OMB requirements. In addition, GAO assessed the agencies' procedures for monitoring and controlling mobile device and services spending relative to the executive order and OMB internal control standards. GAO also compared OMB's oversight of agencies' progress toward meeting the Digital Government Strategy's goal of purchasing mobile technology at the agency level (and ultimately government-wide) with leading management practices. To determine the rates agencies were paying for mobile services, GAO analyzed the agencies' most recent quarterly

mobile service contract reports to OMB, as of November 2014. To assess the reliability of the cost data in the reports, GAO identified obvious issues, such as missing or questionable values, and reviewed each agency's responses to questions about efforts to ensure the reports are accurate and complete. GAO determined the cost data were sufficiently reliable for the purposes of its report. GAO also interviewed agency and OMB officials.

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## Related GAO Products

*Telecommunications: Agencies Need Better Controls to Achieve Significant Savings on Mobile Devices and Services.* [GAO-15-431](#). Washington, D.C.: May 21, 2015.

*Telecommunications: Full Adoption of Sound Transition Planning Practices by GSA and Selected Agencies Could Improve Planning Efforts.* [GAO-06-476](#). Washington, D.C.: June 6, 2006.

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## 36. Cargo Preference for Food Aid

A clearer definition of “geographic area” in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.

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### Why This Area Is Important

The United States shipped more than 1 million metric tons of food aid in fiscal year 2013, intended to benefit 46.2 million people in 56 countries, at a cost of around \$1.7 billion, which included commodity and freight cost.<sup>1</sup> Under U.S. cargo preference laws, a minimum share of U.S. government cargo, including food aid, must be shipped on U.S.-flag vessels. Statutory objectives for cargo preference, which in addition to food aid are also applied to other government cargo, include the development and maintenance of a merchant marine—both vessels and mariners—capable of providing sealift in time of war or national emergency. Sealift is the process of transporting Department of Defense (DOD) and other federal agency equipment and supplies required during peacetime and war. The percentage requirement of cargo preference for food aid (CPFA) has fluctuated since Congress established the requirement in 1954, from the original 50 percent to 75 percent in 1985, and back to 50 percent in 2012.

The U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) administer food aid programs; the cost of transporting food aid is covered by the funding for these programs. In fiscal year 2014, USAID provided an estimated 1.18 million metric tons of food aid at a total cost of more than \$1.5 billion, of which about \$150 million was the ocean freight shipping costs. In fiscal year 2014, USDA provided nearly 195,900 metric tons of food aid at a total cost of more than \$127.5 million, which included about \$37.9 million ocean freight shipping costs, for its Food for Progress program; and 78,860 metric tons of food aid, at a total cost of more than \$164.8 million, which included about \$22.5 million ocean freight shipping costs, for its McGovern-Dole International Food for Education and Child Nutrition program. The Department of Transportation’s (DOT) Maritime Administration (MARAD) is responsible for monitoring USAID’s and USDA’s adherence to CPFA.

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### What GAO Found

Cargo preference laws require that a percentage of U.S. government cargo, including international food aid, be transported on U.S.-flag

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<sup>1</sup>As of October 2015, fiscal year 2013 data were the most recent data reported to Congress on the U.S. government’s international food assistance as a whole, but GAO obtained and reported on fiscal year 2014 data for specific food aid programs.

vessels, which usually charge higher shipping rates than foreign-flag vessels, according to geographic area of destination and vessel type. However, the term “geographic area” is not defined by statute, and USAID and USDA use different interpretations of how to implement CPFA requirements. Pursuant to a court order following a lawsuit filed against USDA, USDA must measure compliance with cargo preference laws for Food for Progress and certain other programs on a country-by-country basis to the extent practicable unless MARAD revises cargo preference regulations or policy to allow a different method for defining geographic area, or unless USDA determines that a change in method is necessary following good faith negotiations on the matter with MARAD.<sup>2</sup> The country-by-country basis is a more narrow interpretation of the geographic area requirement than what USAID applies. USAID— which was not part of the lawsuit, so is not bound by the court order— currently interprets the CPFA requirement in a manner that gives it substantially more flexibility. For example, USAID defines geographic area on a global basis for its packaged food aid. For bulk food aid, USAID uses a modified country basis where it can broaden the interpretation of geographic area to the regional level when it determines that there is limited availability of U.S.-flag vessels for a particular route.

In an August 2015 report, GAO found that USDA pays higher shipping rates than USAID partly because of the different application of the CPFA requirements between the two agencies. Following the 2012 reduction in the minimum percentage of food aid to be carried on U.S.-flag vessels, USAID was able to substantially increase the proportion of food aid awarded to foreign-flag vessels, which on average have lower rates, helping to reduce its average shipping rate. In contrast, USDA was able to increase the proportion of food aid awarded to foreign-flag vessels by only a relatively small amount such that it utilized foreign-flag vessels far below the 50 percent allowed by the 2012 law, and its average shipping rate did not decrease. GAO’s analysis of USAID’s and USDA’s food aid shipments from fiscal years 2009 through 2014 found that USAID shipped an average of 82 percent of food aid on U.S.-flag vessels before the change and 54 percent after the change. In contrast, USDA shipped an average of 89 percent of food aid on U.S.-flag vessels before the change and 76 percent after the change.

GAO found that a clearer definition of geographic area could provide USDA more flexibility in how it interprets the CPFA requirement, which could potentially allow it to achieve greater cost savings on shipping of food aid. The 1954 Act specified that at least 50 percent of the gross tonnage of U.S. food aid commodities be shipped on U.S.-flag vessels “in a manner that will ensure a fair and reasonable participation of commercial vessels of the United States in those cargoes by geographic

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<sup>2</sup>The parties to the lawsuit agreed to the court order to settle the litigation.

areas.”<sup>3</sup> However, neither this Act and subsequent laws modifying the CPFA minimum percentage requirement nor the cargo preference regulations promulgated by MARAD define geographic area. GAO recommended in April 2007 and again in May 2009 that USAID and USDA work with DOT and relevant parties to expedite updating a memorandum of understanding (MOU) between U.S. food assistance agencies and DOT to minimize the cost impact of cargo preference regulations on food aid transportation expenditures and to resolve uncertainties associated with the application of CPFA requirements.<sup>4</sup> Pursuant to the terms of the court order requiring USDA to comply with CPFA on a country-by-country basis, an MOU embodying an agreement between USDA and MARAD on a consistent definition of “geographic area” would allow USDA to administer CPFA using a method other than country-by-country. However, the agencies did not fully implement GAO’s recommendation; their signed MOU in 2009 did not resolve some uncertainties among agencies, including the definition of geographic area. A clearer definition of geographic area could potentially allow USDA to reduce costs by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.

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## Actions Needed and Potential Financial or Other Benefits

Prior to August 2015, GAO twice recommended that agencies agree on consistent interpretation of cargo preference for food aid requirements through an MOU, but agencies have not addressed the definition of “geographic area.” As a result, GAO suggested in August 2015 that Congress take the following action:

- While recognizing that cargo preference serves policy goals established by Congress with respect to the U.S. merchant marine, including maintenance of a fleet capable of serving as a naval and military auxiliary in time of war or national emergency, Congress should consider clarifying cargo preference legislation regarding the definition of “geographic area” to ensure that agencies can fully utilize the flexibility Congress granted to them when it lowered the cargo preference for food aid requirement.

If Congress takes the action GAO describes to clarify language in cargo preference legislation, cost savings could result from potentially lowering the overall shipping rates USDA pays to ship food aid for its two food aid

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<sup>3</sup>Act of Aug. 26, 1954, ch.936, 68 Stat. 832.

<sup>4</sup>GAO, *Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid*, [GAO-07-560](#) (Washington, D.C.: Apr. 13, 2007), and *International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation*, [GAO-09-570](#) (Washington, D.C.: May 29, 2009).

programs by transporting a higher proportion of commodities on foreign-flag carriers, which on average charge lower rates than U.S.-flag carriers. Calculating definitive cost savings in this area is challenging because food aid shipping data needed to calculate cost savings are not readily available. Nonetheless, assuming that a congressional action to clarify the definition of “geographic area” would reduce USDA’s costs to something more comparable to USAID’s, GAO estimates that this action could potentially result in millions of dollars of savings.<sup>5</sup>

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## Agency Comments and GAO’s Evaluation

GAO provided a draft of the report on which this analysis is based to DOT, USDA, and USAID, among other agencies, for review and comment but did not receive agency comments on its matter for congressional consideration.

GAO provided a draft of this report section to DOT, USDA, and USAID for review and comment. DOT, USDA, and USAID provided technical comments, which were incorporated as appropriate. In response to this report section, a USDA official noted that in 2015, MARAD has submitted a draft notice of proposed rulemaking to the Office of Management and Budget (OMB) that would amend the current cargo preference regulations. A DOT official also confirmed, in an email received by GAO in February 2016, that MARAD was working through the interagency process to issue this notice of proposed rulemaking proposal that would update its cargo preference regulations and provide definitions and clarity to implement cargo preference requirements consistent with the cargo preference statute. According to the USDA official, USDA and USAID met with MARAD and OMB on several occasions and provided comments on the proposed language that addressed, among other issues, the expansion of the geographic regions for the USDA food assistance programs. USDA officials further informed us that OMB and MARAD were scheduled to meet in early March 2016 to discuss USDA’s and USAID’s comments. As of March 8, 2016, the agencies had not reached consensus on changes to cargo preference regulations, no notice of proposed rulemaking has been published in the Federal Register, and agency officials had not confirmed whether or how any proposed rule would address the definition of “geographic area.”

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<sup>5</sup>GAO estimated for its August 2015 report that the CPFA requirements increased USAID’s costs by 16 percent and USDA’s costs by 36 percent over the period from April 2011 through fiscal year 2014. GAO further estimated that if USDA’s costs had only increased by 16 percent over that period, USDA would have avoided millions of dollars of spending on ocean shipping in fiscal year 2014.



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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section. GAO interviewed USAID and USDA officials and analyzed cargo preference legislation, as well as USAID's and USDA's guidance and data on CPFA. To determine CPFA requirements' impact on food aid shipping cost, GAO analyzed food aid procurement data for both USAID and USDA from April 2011 through fiscal year 2014, including some bulk food commodities and all packaged food commodities and shipment data for fiscal years 2011 through 2014. During this time period, CPFA requirement levels changed from 75 to 50 percent. Furthermore, GAO obtained data on bids received to ship all USDA food aid and USAID's packaged food commodities and used regression analysis to identify the impact of the changes in cargo preference for food aid requirement on the cost of shipping U.S. food aid.

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## Related GAO Products

*International Food Assistance: Cargo Preference Increases Food Aid Shipping Costs, and Benefits Are Unclear.* **Error! Hyperlink reference not valid..** Washington, D.C.: August 26, 2015.

*International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation.* [GAO-09-570](#). Washington, D.C.: May 29, 2009.

*Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid.* [GAO-07-560](#). Washington D.C.: April 13, 2007.

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## 37. Post-9/11 GI Bill Overpayments

The Department of Veterans Affairs could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.

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### Why This Area Is Important

The Post-9/11 GI Bill provides education benefits to eligible veterans and their beneficiaries. The Department of Veterans Affairs (VA) administers the program and pays schools for tuition and fees on behalf of veterans and sends additional payments for housing and books directly to veterans. Overpayments most often occur when VA pays benefits based on a student's enrollment at the beginning of the school term and the student later drops one or more classes (or withdraws from school altogether). Students therefore receive benefits for classes they did not complete, and the "overpayment" must be paid back to VA. VA identified \$416 million in Post-9/11 GI Bill overpayments in fiscal year 2014, or 4 percent of the \$10.8 billion in education benefits paid during that period. Overpayments affected one out of four beneficiaries in fiscal year 2014—more than 225,000 veterans—and about 6,000 schools. Given the size and projected future growth of the Post-9/11 GI Bill program, these overpayments can result in a substantial loss of taxpayer dollars if they are not recovered. In addition, overpayment debts can create financial hardships for veterans and administrative burdens for schools.

VA generally holds veterans liable for repaying any overpayments resulting from enrollment changes during the school term, in accordance with statutory requirements.<sup>1</sup> Schools are only responsible for repaying tuition payments to VA in certain circumstances, such as when the veteran completely withdraws from the school on or before the first day of the term. Most overpayment debts are collected relatively quickly, but VA had \$262 million in outstanding debts, as of November 2014. Veterans are responsible for the vast majority of these outstanding debts, in part because VA has less success collecting debts from veterans than from schools.

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### What GAO Found

In October 2015, GAO reported on the effectiveness of VA's efforts to reduce and collect Post-9/11 GI Bill overpayments. GAO found that VA lacked adequate guidance and controls that could reduce overpayments from enrollment changes, which accounted for around \$247 million of

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<sup>1</sup>38 U.S.C. § 3685(a).

high-dollar overpayments (i.e., overpayments greater than \$1,667) in fiscal year 2014, according to GAO estimates.<sup>2</sup>

First, many veterans may not realize they can incur overpayments as a result of enrollment changes because VA provides limited guidance to veterans on its policies. For example, VA does not explain in its guidance to veterans how to avoid creating debts once enrolled in school or disclose its formula for calculating overpayments. As a result, veterans can be unaware of the consequences of enrollment changes until after they have already incurred their first overpayment debt, according to school officials. According to federal internal control standards, agencies should use adequate means of communicating with external stakeholders who may have a significant impact on the agency achieving its goals.<sup>3</sup> However, VA's lack of sufficient guidance may cause some veterans to incur debts that could have been avoided.

In addition, unlike in most other GI bill programs, VA has generally not required veterans using the Post-9/11 GI Bill to regularly verify their enrollment throughout the school term, which can also impact their housing payments. Therefore, some veterans continue to receive thousands of dollars in housing overpayments between the time they drop courses and when the enrollment change is reported to VA by school officials. VA officials said they would like to require veterans using the Post-9/11 GI Bill to verify their monthly enrollment but would need to develop a new verification process. Such an effort could provide substantial long-term savings for VA in comparison with the current system by reducing housing overpayments, and it could help VA comply with federal requirements to establish practices that help ensure funds are safeguarded against waste or loss.<sup>4</sup> For example, \$125 million of the \$416 million in overpayments VA made in fiscal year 2014 were for housing overpayments, some of which would have been avoided if veterans using the Post-9/11 GI Bill were required to verify their monthly enrollment.

School officials also create overpayments when they make errors, such as reporting enrollment information incorrectly, which VA officials said is sometimes attributable to a lack of training. For example, some school officials routinely made systematic errors reporting enrollment

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<sup>2</sup>GAO calculated these dollar estimates using VA's required quarterly reports on high-dollar overpayments. Exec. Order No. 13,520, § 3(f), 74 Fed. Reg. 62,201, 62,203 (Nov. 20, 2009). For the fiscal year 2013 and 2014 reports, VA reviewed a sample of overpayments each quarter that were over \$1,667. GAO's dollar estimates are based on a sample with 95 percent confidence intervals of \$226 million to \$267 million for student enrollment changes and \$259 million to \$301 million for the total high-dollar overpayments.

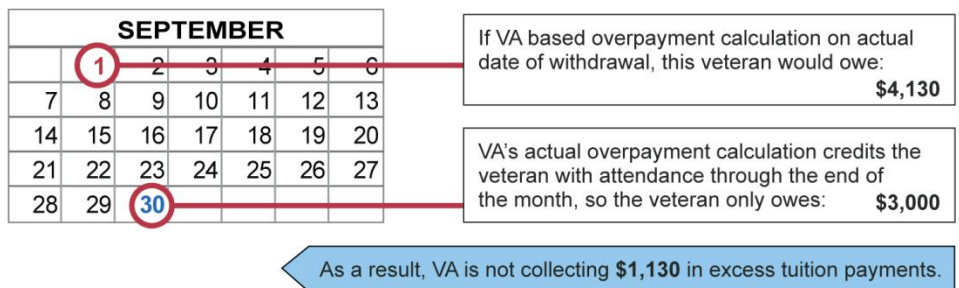
<sup>3</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999).

<sup>4</sup>31 U.S.C. § 3512(c) and [GAO/AIMD-00-21.3.1](#).

information. In total, school reporting errors accounted for around \$28 million in Post-9/11 GI Bill high-dollar overpayments in fiscal year 2014, according to GAO estimates.<sup>5</sup> VA officials said the agency offers a variety of training opportunities, including an online course, but the number of school officials that have completed the training course remains low. Although VA officials said they would like to be able to require school officials to complete a minimum level of training on how to implement the program, they indicated that the agency lacks authority to do so. Since school officials have essential duties in processing Post-9/11 GI Bill payments, they need to possess and maintain a level of competence to do their job, which includes receiving training, consistent with federal internal control standards.<sup>6</sup>

As for collection of overpayments, GAO found that two aspects of VA’s formula for prorating tuition overpayments reduce total collection. First, VA’s formula for prorating overpayments gives veterans credit for extra days of attendance after they drop a class. When a Post-9/11 GI Bill beneficiary drops a class during the term, VA prorates the resulting overpayment as though the veteran attended class through the end of the month rather than using the actual date of the withdrawal. This in effect credits students for up to 30 extra days of classes they did not attend, which can reduce the overpayment amount subject to collection by hundreds of dollars per veteran, as shown in the figure below. VA officials said this policy was designed for monthly housing benefits, and then also applied to tuition benefits, which are paid separately under the Post-9/11 GI Bill. However, since VA’s overpayment calculation is crediting veterans for school days they did not attend, it inappropriately increases the cost of the program, particularly since the law stipulates that education benefits shall only be paid for the period of time during which the veteran is enrolled.<sup>7</sup>

**Effect of Prorating Overpayments Based on the End of the Month**



Source: GAO analysis of VA guidance. | GAO-16-375SP

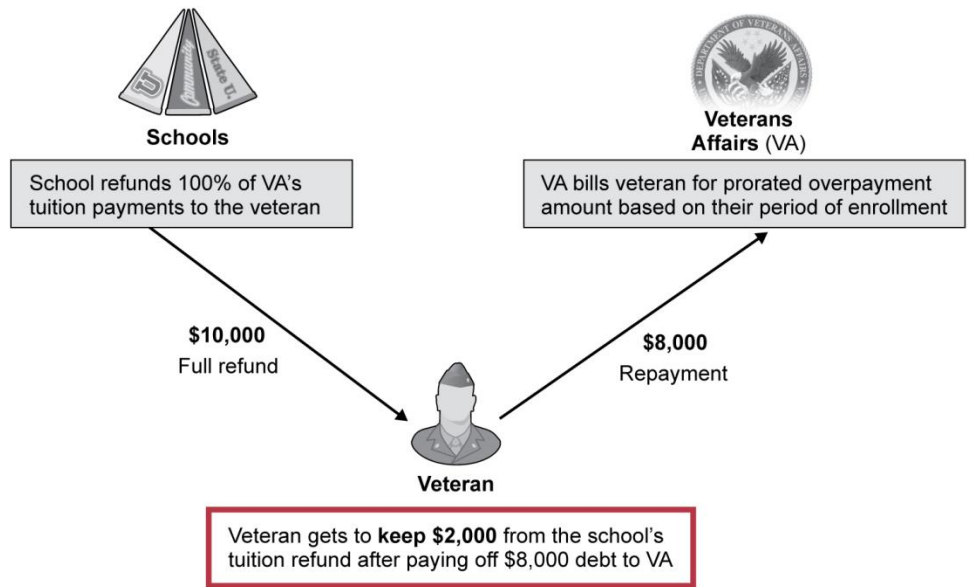
<sup>5</sup>GAO’s dollar estimates are based on a sample with 95 percent confidence intervals of \$19 million to \$36 million for school errors.

<sup>6</sup>GAO/AIMD-00-21.3.1.

<sup>7</sup>38 U.S.C. § 3680(a).

Second, VA's formula for prorating overpayment amounts does not account for schools' own internal refund policies, and can sometimes result in veterans receiving surplus funds that VA is not collecting. Some schools have fairly generous tuition refund policies when students drop a class or withdraw from school early in the term. In these cases, a school may send the veteran a tuition refund that is larger than the overpayment amount the veteran owes to VA, leaving the veteran with a potential financial gain, as shown in the figure below. For example, officials at one school estimated that the difference between their refund policy and VA's overpayment calculations had resulted in VA making over \$136,000 in excess tuition payments for 53 veterans between 2009 and 2014, averaging over \$2,500 per veteran. These officials said they had attempted to return these excess funds to VA, but VA would not accept them. VA officials said they cannot accept funds in excess of the overpayment debt that is billed to veterans. The Post-9/11 GI Bill's authorizing statute specifies that benefits are only payable for the actual tuition and fees charged by a school.<sup>8</sup> However, in these cases VA's tuition and fees payments exceed the amounts charged by the schools once the refund policies are accounted for—that is, VA is making payments for tuition amounts that were not charged by the school. As a result, VA is overpaying for tuition and these excess funds are being retained by schools or returned to veterans rather than collected by VA.

**Overpayment Example when Veteran Withdraws during School's 100 Percent Refund Period**



Source: GAO analysis of VA guidance; GAO (images). | GAO-16-375SP

<sup>8</sup>38 U.S.C. § 3313(c)(1)(A).

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## Actions Needed and Potential Financial or Other Benefits

To address Post-9/11 GI Bill overpayments resulting from school errors, in October 2015, GAO suggested that Congress take the following action:

- Consider granting VA explicit authority to require a minimum level of training for appropriate school officials.

To reduce the occurrence of Post-9/11 GI Bill overpayments and increase debt collections, GAO also recommended in October 2015 that the Secretary of Veterans Affairs take the following four actions:

- Provide guidance to educate student veterans about their benefits and the consequences of changing their enrollment.
- Identify and implement a cost-effective way to allow Post-9/11 GI Bill beneficiaries to verify their enrollment status each month, and require monthly reporting.
- Revise the policy for calculating overpayments by prorating tuition overpayments when veterans reduce their enrollment during the term based on the actual date of the enrollment change rather than paying additional benefits through the end of the month during which the reduction occurred.
- Ensure VA is recovering the full amount of tuition and fee payments if a school does not charge a veteran for any tuition or fees after dropping a class or withdrawing from school.

Although GAO cannot estimate the potential savings that would result from these actions, the potential exists for substantial savings from addressing overpayments that amounted to over \$400 million in fiscal year 2014 alone. If VA does not take action, the amount of annual overpayments will likely continue to increase as more veterans use their GI Bill benefits, accumulating more uncollected debts each year. It is not reasonable to expect VA to eliminate overpayments entirely, since some overpayments are an inevitable byproduct of veteran enrollment changes. However, VA could achieve substantial savings that would increase over time by reducing the number and dollar amount of Post-9/11 GI Bill overpayments and increasing collections of debts.

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## Agency Comments and GAO's Evaluation

In commenting on the October 2015 report on which this analysis is based, VA agreed with each of GAO's recommendations and identified steps it plans to take to implement them. To address overpayments resulting from enrollment changes, VA plans to provide information on the consequences of enrollment changes in benefit letters and veteran guidance and to develop a system for verifying veterans' monthly

enrollment. To address collection issues, VA plans to adjust its regulations and procedures for prorating overpayments and accounting for school refund policies.

GAO provided a draft of this report section to VA for review and comment. VA reviewed the draft and did not have any comments.

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## How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product in the related GAO products section. In developing those findings, GAO reviewed available Post-9/11 GI Bill financial data from fiscal years 2013 and 2014. GAO also examined the causes of overpayments from a generalizable sample of high-dollar overpayments (greater than \$1,667) from fiscal years 2013 and 2014 as well as an in-depth review of a nongeneralizable sample of 20 overpayment cases. In addition, GAO reviewed relevant federal laws, regulations, and policy guidance for processing and collecting VA debts, interviewed senior VA officials, and visited one of VA's four Regional Processing Offices as well as VA's debt collection office to interview management and frontline staff. Furthermore, GAO interviewed representatives from several veterans service organizations, higher education associations, and administrators at nine schools about the effects of overpayments on veterans and schools. The nine schools were selected to include a mix of program lengths (2-year and 4-year schools), sectors (public, nonprofit, and for-profit), and student veteran populations.

Table 22 in appendix V lists the program GAO identified that might have opportunities for cost savings or revenue enhancement.

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## Related GAO Product

*Post-9/11 GI Bill: Additional Actions Needed to Help Reduce Overpayments and Increase Collections.* [GAO-16-42](#). Washington, D.C.: October 21, 2015.

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## Contact Information

For additional information about this area, contact Melissa Emrey-Arras at (617) 788-0534 or [emreyarrasm@gao.gov](mailto:emreyarrasm@gao.gov).

# Appendix I: List of Congressional Addressees

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The Honorable Thad Cochran  
Chairman  
The Honorable Barbara A. Mikulski  
Vice Chairwoman  
Committee on Appropriations  
United States Senate

The Honorable Mike Enzi  
Chairman  
The Honorable Bernie Sanders  
Ranking Member  
Committee on the Budget  
United States Senate

The Honorable Ron Johnson  
Chairman  
The Honorable Thomas R. Carper  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Harold Rogers  
Chairman  
The Honorable Nita M. Lowey  
Ranking Member  
Committee on Appropriations  
House of Representatives

The Honorable Tom Price  
Chairman  
The Honorable Chris Van Hollen  
Ranking Member  
Committee on the Budget  
House of Representatives

The Honorable Jason Chaffetz  
Chairman  
The Honorable Elijah E. Cummings  
Ranking Member  
Committee on Oversight and Government Reform  
House of Representatives

The Honorable Claire McCaskill  
United States Senate



The Honorable Mark R. Warner  
United States Senate

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# Appendix II: Objectives, Scope, and Methodology

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Section 21 of Public Law 111-139, enacted in February 2010, requires GAO to conduct routine investigations to identify federal programs, agencies, offices, and initiatives with duplicative goals and activities within departments and government-wide. This provision also requires GAO to report annually to Congress on its findings, including the cost of such duplication, with recommendations for consolidation and elimination to reduce duplication and specific rescissions (legislation canceling previously enacted budget authority) that Congress may wish to consider. As agreed with the key congressional committees, our objectives in this report are to (1) identify what potentially significant areas of fragmentation, overlap, and duplication as well as opportunities for cost savings and enhanced revenues exist across the federal government; and (2) identify what options, if any, exist to address fragmentation, overlap, and duplication in these areas and take advantage of opportunities for cost savings and enhanced revenues.

For the purposes of our analysis, we used the term “fragmentation” to refer to those circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and there may be opportunities to improve how the government delivers these services. We used the term “overlap” when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. We considered “duplication” to occur when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.<sup>1</sup> This report presents 12 areas of fragmentation, overlap, or duplication where greater efficiencies or effectiveness in providing government services may be achievable. We also highlighted 25 other opportunities for potential cost saving or revenue enhancements.

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## GAO’s Approach

Over the course of our 2011 through 2013 annual reports we conducted a systematic and practical examination across the federal government to provide reasonable coverage for areas of potential fragmentation, overlap, and duplication government-wide.<sup>2</sup> Since then, we have

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<sup>1</sup>We recognize that there could be instances where some degree of program fragmentation, overlap, or duplication, may be warranted due to the nature or magnitude of the federal effort.

<sup>2</sup>See [GAO-13-279SP](#).

considered a variety of factors to determine whether such potential instances or opportunities identified in our routine audit work warrant inclusion in this annual report. Such factors included, but were not limited to, the extent of potential cost savings, opportunities for enhanced program efficiency or effectiveness, the degree to which multiple programs may be fragmented, overlapping, or duplicative, whether issues had been identified by GAO or external sources, and the level of coordination among agency programs.<sup>3</sup>

Each issue area contained in Sections II and III of this report lists any respective GAO reports and publications upon which it is based. Those prior GAO reports contain more detailed information on our supporting work and methodologies. For issues that update prior GAO work, we provide additional information on the methodologies used in that update in the section entitled “How GAO Conducted Its Work” of each issue area.

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## Identifying Actions

To identify what actions, if any, exist to address fragmentation, overlap, and duplication and take advantage of opportunities for cost savings and enhanced revenues, we reviewed and updated prior GAO work and recommendations to identify what additional actions agencies may need to take and Congress may wish to consider. For example, we used a variety of prior GAO work identifying leading practices that could help agencies address challenges associated with interagency coordination and collaboration and evaluating performance and results achieving efficiencies.<sup>4</sup>

To identify the potential financial and other benefits that might result from actions addressing fragmentation, overlap, or duplication, we collected and analyzed data on costs and potential savings to the extent it was available. Estimating the benefits that could result from eliminating unnecessary fragmentation, overlap, or duplication was not possible in some cases because information about the extent of duplication among certain programs was not available. Further, the financial benefits that can be achieved from eliminating fragmentation, overlap or duplication

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<sup>3</sup>Because this report is based on previously issued GAO products, in many cases we cite November 1999 internal control standards as criteria (GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999)). When cited, these criteria were effective at the time of our review. However, new internal control standards for the federal government became effective beginning October 1, 2015 (GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C. September 2014)). Any corrective action that agencies plan to take should be in accordance with the new standards.

<sup>4</sup>GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005) and *Managing for Results: A Guide for Using the GPRA Modernization Act to Help Inform Congressional Decision Making*, [GAO-12-621SP](#) (Washington, D.C.: June 15, 2012).

were not always quantifiable in advance of congressional and executive branch decision making, and needed information was not readily available on, among other things, program performance, the level of funding devoted to overlapping programs, or the implementation costs and time frames that might be associated with program consolidations or terminations.

When possible, we also included tables in appendix V that provide a detailed listing of federally-funded program names and associated budgetary information. There is no standard definition for what constitutes a program; they may include grants, tax expenditures, centers, loans, funds, and other types of assistance. A wide variety of budgetary information may be used to convey the federal commitment to these programs, and we provided the most relevant and up to date information available. For example, when available, we collected obligations information for fiscal year 2015 for reporting across issue areas. In some instances, obligations data were not available, but we were able to report other budgetary information, such as appropriations. In other issue areas, we did not report any budgetary information, because such information was either not available or sufficiently reliable. For example, some agencies could not isolate budgetary information for some programs, because the data were aggregated at higher levels.

We assessed the reliability of any computer-processed data that materially affected our findings, including cost savings and revenue enhancement estimates. The steps that we take to assess the reliability of data vary but are chosen to accomplish the auditing requirement that the data be sufficiently reliable given the purposes for which it is used for in our products. GAO analysts review published documentation about the data system and Inspector General or other reviews of the data. We may interview agency or outside officials to better understand system controls and to assure ourselves that we understand how the data are produced and any limitations associated with the data. We may also electronically test the data to see if values in the data conform to agency testimony and documentation regarding valid values, or compare data to source documents. In addition to these steps we often compare data with other sources as a way to corroborate our findings. Per GAO policy, when data do not materially affect findings and are presented for background purposes only, we may not have assessed the reliability depending upon the context in which the data are presented.

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## Assessing Status of Actions

To examine the extent to which the Congress and executive branch agencies have made progress in implementing the 544 actions in the 213 areas we have reported on in previous annual reports on fragmentation, overlap, and duplication, we reviewed relevant legislation and agency

documents such as budgets, policies, strategic and implementation plans, guidance, and other information.<sup>5</sup> We also analyzed, to the extent possible, whether or not financial or other benefits have been attained, and included this information as appropriate. (See discussion below on the methodology we used to estimate financial benefits). In addition, we discussed the implementation status of the actions with officials at the relevant agencies.

Using the legislation and documentation collected from agencies, GAO analysts and specialists working on defense, domestic, and international areas assessed progress for each of the 544 actions within their areas of expertise. A core group of GAO staff examined all assessments to ensure consistent and systematic application of the criteria, and made adjustments, as appropriate.

We used the following criteria in assessing the status of actions.<sup>6</sup>

- In assessing legislative branch actions, we applied the following criteria: “addressed” means relevant legislation is enacted and addresses all aspects of the action needed; “partially addressed” means a relevant bill has passed a committee, the House of Representatives, or the Senate, or relevant legislation has been enacted but only addressed part of the action needed; and “not addressed” means a bill may have been introduced but did not pass out of a committee, or no relevant legislation has been introduced.
- In assessing executive branch actions we applied the following criteria: “addressed” means implementation of the action needed has been completed; “partially addressed” means the action needed is in development, started but not yet completed; and “not addressed” means the administration, the agencies, or both have made minimal or no progress toward implementing the action needed.

We provided drafts of these assessments to the agencies involved for their technical comments and incorporated these comments, as

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<sup>5</sup>To provide a more accurate picture of the progress made in the identified areas, we are reporting the status of each action under each area (see appendix IV). New actions are assessed as pending. To identify relevant legislation, we requested that agencies inform us of legislation impacting the actions and we searched key legislation related to the actions.

<sup>6</sup>This year, 4 actions were categorized as “consolidated or other” for a total of 24 actions in this category from 2011-2015. Actions categorized as “consolidated or other” are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as “consolidated or other” may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa. In addition, we added 6 new actions to areas on which we reported in 2011-2015; these newly added actions are listed in appendix III. The status of these new actions has not yet been assessed.

appropriate. In providing the drafts to the agencies for review, we communicated that we would use an as of date of March 2, 2016, for all assessments. In addition to summarizing any comments received on our assessments, we incorporated a summary of comments on the prior GAO work upon which each issue area is based. Consistent with GAO policy, we are not reprinting copies of agencies' comment letters with this report, as the work included is based predominantly on previously issued GAO reports. Copies of agency comment letters associated with previous reports can be found in those reports, if applicable.

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## Methodology for Generating Cost Savings Estimates

In order to calculate the total financial benefits resulting from actions already taken and potential financial benefits from actions that are not fully addressed, GAO analysts compiled available estimates for all of the actions from [GAO's Action Tracker](#), from 2011 through 2015, and from reports identified for inclusion in the 2016 annual report, and linked supporting documentation to those estimates. Each estimate was reviewed by a GAO technical specialist to ensure that estimates were based on reasonably sound methodologies. The savings estimates came from a variety of sources, including GAO analysis, Congressional Budget Office estimates, individual agencies, the Joint Committee on Taxation, and others. Due to differences in time frames, underlying assumptions, quality of data, and methodologies among these individual estimates, any attempt to generate a total will be associated with uncertainty that limits the precision of this calculation. As a result, our totals represent a rough estimate of financial benefits, rather than an exact total.

For actions that have already been taken, individual estimates of realized cost savings covered a range of time periods stretching from 2010 through 2025. In order to calculate the total amount of realized financial benefits that have already accrued, and those that are expected to accrue, we separated those that accrued from 2010 through 2015, and those expected to accrue between 2016 and 2025. For individual estimates that span both periods, we assumed that financial benefits were distributed evenly over the period of the estimate.<sup>7</sup> For each category, we summed the individual estimates in order to generate a total. To account for uncertainty and imprecision resulting from the differences in individual estimates, we present these realized savings to the nearest billion dollars, rounded down.

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<sup>7</sup>For example, if an individual estimate was for \$10 billion dollars to accrue from 2014-2023, we assumed that \$1 billion would be earned each year. As a result, \$2 billion would be counted as "already accrued" through 2015, while the other \$8 billion would be counted as "expected to accrue" from 2016 and later.

Estimates of potential financial benefits that could accrue from actions not yet taken have a higher level of uncertainty, because these estimates are dependent on whether, how, and when agencies and Congress take our recommended actions. As a result, many estimates of potential savings are notionally stated using terms like million, tens of millions, or billions, to demonstrate a magnitude without providing a more precise estimate. Further, many of these estimates are not tied to specific time frames, for the same reason. In order to calculate a total for potential savings, with a conservative approach, we used the minimum number associated with each term.<sup>8</sup> To account for the increased uncertainty of potential estimates and the imprecision resulting from differences among individual estimates, we calculated potential financial benefits to the nearest \$10 billion, rounded down, and presented our results using a notional term.

This report is based upon work GAO previously conducted in accordance with generally accepted government auditing standards, or GAO's quality assurance framework. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>8</sup>For example, if GAO had stated that an agency could potentially save "hundreds of millions," we would use \$100 million as part of our calculation of the total.

# Appendix III: New Actions Added to Existing Areas in 2016

As part of our April 2016 update of [GAO's Action Tracker](#), we are adding six new actions based on GAO reports that fall within the scope of two existing areas identified in prior annual reports. These actions are summarized in table 1.

**Table 1: New Actions Added to Existing Areas in 2016**

Mission	Annual Report	Area	Associated GAO Product	Actions Identified
General Government	2013	Area 23: Agencies' Use of Strategic Sourcing	GAO-15-549	Action 1: The Secretary of the Army should direct appropriate officials to conduct a comprehensive analysis of information technology services spending to reduce duplicative contracts; implement policies encouraging the use of strategically sourced contracts and metrics to measure use of these contracts at the military department level; develop guidance, goals, and metrics for the resulting savings; and review the benefits and disadvantages of standardized labor categories for services contracts.
				Action 2: The Secretary of the Navy should direct appropriate officials to conduct a comprehensive analysis of information technology services spending to reduce duplicative contracts and to implement utilization metrics and monitor agency efforts to comply with the Navy's existing use policies for IT services.
				Action 3: The Secretary of the Air Force should direct appropriate officials to conduct a comprehensive analysis of information technology services spending to reduce duplicative contracts; implement metrics to measure use of strategically sourced contracts at the military department level; develop guidance, goals, and metrics for the resulting savings; and review the benefits and disadvantages of standardized labor categories for services contracts.
				Action 4: The Administrator of the National Aeronautics and Space Administration (NASA) should direct the appropriate officials to use existing analyses of spending to reduce duplicative contracts; implement use policies and metrics to measure use of strategically sourced contracts; and develop guidance, goals, and metrics for the resulting savings.
				Action 5: The Secretary of Homeland Security should direct the appropriate officials to establish utilization and savings goals for the portfolio of strategic sourcing contracts related to information technology services.
Homeland Security/Law Enforcement	2012	Area 17: Homeland Security Grants	GAO-16-38	Action 1: The Federal Emergency Management Agency (FEMA) should develop a plan with time frames, goals, metrics, and milestones to address longstanding coordination issues associated with its existing hybrid grants management model, which divides responsibilities for the management of preparedness grants between regional and headquarters staff.

Source: GAO. | GAO-16-375SP



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# Appendix IV: Areas Identified in 2011-2016 Annual Reports, by Mission

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This appendix presents the areas we identified in our 2011-2016 annual reports. It also includes our assessment of the progress made in each of the 544 actions that we identified in our 2011-2015 annual reports in which Congress and the executive branch could take actions to reduce, eliminate, or better manage potential fragmentation, overlap, and duplication or achieve other potential financial benefits.<sup>1</sup> We have not yet made any assessments of progress for 2016 actions.

Table 1 presents our assessment of the progress made in implementing the actions needed in the areas related to fragmentation, overlap, or duplication. Table 2 presents our assessment of the progress made in implementing the actions needed in the areas related to cost savings or revenue enhancement.<sup>2</sup>

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<sup>1</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011); *2012 Annual Report: Opportunities to Reduce Duplication, Overlap, and Fragmentation, Achieve Savings, and Enhance Revenue*, [GAO-12-342SP](#) (Washington, D.C.: Feb. 28, 2012); *2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-13-279SP](#) (Washington, D.C.: Apr. 9, 2013); *2014 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-14-343SP](#) (Washington, D.C.: Apr. 8, 2014); and *2015 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-15-404SP](#) (Washington, D.C.: Apr. 14, 2015).

<sup>2</sup>The information in these tables is consistent with what is reported on [GAO's Action Tracker](#). Tables 1 and 2 provide a snapshot of the overall action status for each area; however, the ordering of the action status assessments may not correlate with the action numbering on [GAO's Action Tracker](#). For more information on the status of individual actions, please see [GAO's Action Tracker](#).

**Table 1: GAO Identified Areas and Assessment of Actions of Fragmentation, Overlap, and Duplication in 2011 – 2016 Annual Reports**

<b>Mission</b>	<b>Annual Report</b>	<b>Area</b>	<b>Area summary and assessment of actions</b>
<b>Agriculture</b>	2011	Area 1: Food Safety	Fragmented food safety system has caused inconsistent oversight, ineffective coordination, and inefficient use of resources. Actions: Addressed, Partially addressed, Not addressed, Consolidated or other
	2012	Area 1: Protection of Food and Agriculture	Centrally coordinated oversight is needed to ensure more than nine federal agencies effectively and efficiently implement the nation's fragmented policy to defend the food and agriculture systems against potential terrorist attacks and major disasters. Actions: Addressed, Addressed, Addressed, Addressed, Addressed, Addressed
	2013	Area 1: Catfish Inspection	Repealing provisions of the 2008 Farm Bill that assigned U.S. Department of Agriculture's (USDA) Food Safety and Inspection Service responsibility for examining and inspecting catfish and for creating a catfish inspection program would avoid duplication of federal programs and save taxpayers millions of dollars annually without affecting the safety of catfish intended for human consumption. Actions: Not addressed
	2015	Area 1: EPA's and FDA's Laboratory Inspections	To avoid potential duplication of certain types of laboratory inspections and better leverage limited resources, the Environmental Protection Agency (EPA) and the Food and Drug Administration should develop a formal process to collaborate and share information on planned inspections. Actions: Partially addressed
<b>Defense</b>	2011	Area 2: DOD's Military Medical Command	Realigning the Department of Defense's (DOD) military medical command structures and consolidating common functions could increase efficiency and result in projected savings ranging from \$281 million to \$460 million annually. Actions: Addressed
	2011	Area 3: Warfighter Urgent Needs	Opportunities exist for consolidation and increased efficiencies to maximize response to warfighter urgent needs. Actions: Addressed
	2011	Area 4: DOD's Coordination of Counter-Improvised Explosive Device Efforts	Opportunities exist to avoid unnecessary redundancies and improve the coordination of counter-improvised explosive device efforts. Actions: Addressed
	2011	Area 5: Intelligence, Surveillance, and Reconnaissance	Opportunities exist to avoid unnecessary redundancies and maximize the efficient use of intelligence, surveillance, and reconnaissance capabilities. Actions: Addressed, Partially addressed, Partially addressed, Partially addressed
	2011	Area 6: Tactical Wheeled Vehicles	A department-wide acquisition strategy could reduce DOD's risk of costly duplication in purchasing Tactical Wheeled Vehicles. Reducing the number of joint light tactical vehicles DOD procures could result in billions of dollars in cost savings. Actions: Not addressed
	2011	Area 7: Prepositioning Programs	Improved joint oversight of DOD's prepositioning programs for equipment and supplies may reduce unnecessary duplication. Actions: Partially addressed, Partially addressed, Partially addressed
	2011	Area 8: DOD's Business Systems	DOD's business systems modernization: opportunities exist for optimizing business operations and systems. Actions: Partially addressed, Partially addressed, Partially addressed, Partially addressed

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 2: Electronic Warfare	Identifying opportunities to consolidate DOD airborne electronic attack programs could reduce overlap in the department's multiple efforts to develop new capabilities and improve the department's return on its multibillion-dollar acquisition investments. Actions: Addressed, Not addressed
	2012	Area 3: Unmanned Aircraft Systems	Ineffective acquisition practices and collaboration efforts in the DOD unmanned aircraft systems portfolio creates overlap and the potential for duplication among a number of current programs and systems. Actions: Partially addressed, Partially addressed, Not addressed
	2012	Area 4: DOD's Timeline for Counter-Improvised Explosive Device Database Implementation	DOD continues to risk duplication in its multibillion-dollar counter-improvised explosive device efforts because it does not have a comprehensive database of its projects and initiatives Actions: Addressed, Addressed
	2012	Area 5: Defense Language and Culture Training	DOD needs a more integrated approach to reduce fragmentation in training approaches and overlap in the content of training products acquired by the military services and other organizations Actions: Addressed, Addressed, Addressed
	2012	Area 6: Stabilization, Reconstruction, and Humanitarian Assistance Efforts	Improving DOD's evaluations of stabilization, reconstruction, and humanitarian assistance efforts, and addressing coordination challenges with the Department of State (State) and the U.S. Agency for International Development (USAID), could reduce overlapping efforts and result in the more efficient use of taxpayer dollars. Actions: Addressed, Partially addressed, Not addressed
	2013	Area 2: Combat Uniforms	DOD's fragmented approach to developing and acquiring uniforms could be more efficient, better protect servicemembers, and result in up to \$82 million in development and acquisition cost savings through increased collaboration among the military services. Actions: Addressed, Addressed, Addressed
	2013	Area 3: Defense Foreign Language Support Contracts	DOD should explore opportunities to gain additional efficiencies in contracts for foreign language support, which is estimated to cost more than \$1 billion annually, by addressing fragmentation in the department's acquisition approach. Actions: Addressed
	2014	Area 1: Army Workforce Planning	To address potential overlap between two Army information systems that support workforce planning for weapon system maintenance, manufacturing, and other industrial operations, the Army should increase leadership attention to the issue and establish a fully developed and documented approach for completing a timely assessment of unnecessary overlap, which could lead to millions of dollars in annual savings. Actions: Addressed, Addressed
	2014	Area 2: Contracting for Defense Health Care Professionals	DOD should develop a consolidated agency-wide strategy to contract for health care professionals to reduce fragmentation and achieve greater efficiencies. Actions: Partially addressed,
	2014	Area 3: Defense Satellite Control Operations	Increased use of shared satellite control networks and leading practices within DOD could reduce fragmentation and potential duplication associated with dedicated systems, resulting in millions of dollars in savings annually. Actions: Partially addressed, Partially addressed,
	2014	Area 4: Defense Studies and Analysis Research	To address fragmentation in the processes used across the department to request studies and analysis research and limit the potential for overlap and duplication in research activities, DOD should establish a mechanism that requires the military services and other departmental offices to formally coordinate their annual research requests. Actions: Partially addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2014	Area 5: POW MIA Mission	DOD should minimize overlapping and duplicative efforts by examining options to reduce fragmentation and clarify guidance on roles and responsibilities among the eight organizations that account for missing persons and improve the effectiveness of the mission. Actions: Addressed, Not addressed, Not addressed, Not addressed
	2015	Area 2: Ground Radar and Guided Munitions Programs	DOD should take steps to minimize the risk of future duplication within its ground radar and guided munitions weapons systems. Actions: Not addressed, Not addressed
	2015	Area 3: Weapon System Milestone Decision Process	To improve efficiency, the Secretary of Defense should streamline DOD's milestone decision process used for major weapon system acquisition programs by eliminating reviews that can be duplicative and are not highly valued by acquisition officials. Actions: Partially addressed,
	2016	Area 1: DOD Commercial Satellite Communication Procurement	Enforcing existing acquisition policy and identifying opportunities to centralize DOD's procurement of commercial satellite communications services could create opportunities to potentially save tens of millions of dollars annually. Actions: Pending
	2016	Area 2: DOD's Storage of Occupational and Environmental Health Surveillance Data	Inconsistencies among the policies of DOD and the military services have contributed to fragmented and duplicative efforts to store occupational and environmental health surveillance data needed to track and assess service-related health conditions of returning servicemembers and veterans. Actions: Pending
	2016	Area 3: Weapon System Portfolio Management	By using portfolio management more effectively, DOD could help ensure that the more than \$100 billion it spends annually on weapon system acquisitions contributes to its strategic goals and could reduce the potential for overlapping and unnecessarily duplicative investments. Actions: Pending
<b>Economic development</b>	2011	Area 9: Economic Development Programs	The efficiency and effectiveness of fragmented economic development programs are unclear. Actions: Addressed, Partially addressed, Partially addressed,
	2011	Area 10: Surface Transportation	The federal approach to surface transportation is fragmented, lacks clear goals, and is not accountable for results. Actions: Addressed
	2011	Area 11: Water Needs in U.S.-Mexico Border Region	Fragmented federal efforts to meet water needs in the U.S.-Mexico border region have resulted in an administrative burden, redundant activities, and an overall inefficient use of resources. Actions: Addressed
	2012	Area 7: Support for Entrepreneurs	Overlap and fragmentation among the economic development programs that support entrepreneurial efforts require the Office of Management and Budget (OMB) and other agencies to better evaluate the programs and explore opportunities for program restructuring, which may include consolidation, within and across agencies. Actions: Partially addressed, Partially addressed, Consolidated or other
	2012	Area 8: Surface Freight Transportation	Fragmented federal programs and funding structures are not maximizing the efficient movement of freight. Actions: Addressed, Addressed, Partially addressed,
	2016	Area 4: Manufacturing Loan Guarantees	The Economic Development Administration could better ensure that the activities carried out under the Innovative Technologies in Manufacturing program do not duplicate the efforts of other federal loan guarantee programs by working with other agencies to identify and target capital access gaps not filled by other programs. Actions: Pending

<b>Mission</b>	<b>Annual Report</b>	<b>Area</b>	<b>Area summary and assessment of actions</b>
<b>Energy</b>	2011	Area 12: Federal Fleet Energy Goals	Resolving conflicting requirements could more effectively achieve federal fleet energy goals. Actions: Not addressed,
	2011	Area 13: Domestic Ethanol Production	Addressing duplicative federal efforts directed at increasing domestic ethanol production could reduce revenue losses by more than \$5.7 billion annually. Actions: Addressed
	2012	Area 9: Department of Energy Contractor Support Costs	The Department of Energy (DOE) should assess whether further opportunities could be taken to streamline support functions, estimated to cost over \$5 billion, at its contractor-managed laboratory and nuclear production and testing sites, in light of contractors' historically fragmented approach to providing these functions. Actions: Addressed
	2012	Area 10: Nuclear Nonproliferation	Comprehensive review needed to address strategic planning limitations and potential fragmentation and overlap concerns among programs combating nuclear smuggling overseas. Actions: Not addressed, Not addressed
	2013	Area 4: Renewable Energy Initiatives	Federal support for wind and solar energy, biofuels, and other renewable energy sources, which has been estimated at several billion dollars per year, is fragmented because 23 agencies implemented hundreds of renewable energy initiatives in fiscal year 2010—the latest year for which GAO developed these original data. Further, the DOE and USDA could take additional actions—to the extent possible within their statutory authority—to help ensure effective use of financial support from several wind initiatives, which GAO found provided duplicative support that may not have been needed in all cases for projects to be built. Actions: Addressed
<b>General government</b>	2011	Area 14: Enterprise Architectures	Enterprise architectures: key mechanisms for identifying potential overlap and duplication. Actions: Partially addressed,
	2011	Area 15: Federal Data Centers	Consolidating federal data centers provides opportunity to improve government efficiency. Actions: Partially addressed, Partially addressed,
	2011	Area 16: Interagency Contracting	Collecting improved data on interagency contracting to minimize duplication could help the government leverage its vast buying power. Actions: Addressed, Addressed, Addressed, Partially addressed,
	2011	Area 17: Tax Expenditures	Periodic reviews could help identify ineffective tax expenditures and redundancies in related tax and spending programs, potentially reducing revenue losses by billions of dollars. Actions: Addressed, Partially addressed, Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed, Not addressed, Not addressed
	2012	Area 11: Personnel Background Investigations	OMB should take action to prevent agencies from making potentially duplicative investments in electronic case management and adjudication systems. Actions: Partially addressed,
	2012	Area 12: Cybersecurity Human Capital	Government-wide initiatives to enhance cybersecurity workforce in the federal government need better structure, planning, guidance, and coordination to reduce duplication. Actions: Addressed, Addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 13: Spectrum Management	Enhanced coordination of federal agencies' efforts to manage radio frequency spectrum and an examination of incentive mechanisms to foster more efficient spectrum use may aid regulators' attempts to jointly respond to competing demands for spectrum while identifying valuable spectrum that could be auctioned for commercial use, thereby generating revenues for the U.S. Department of the Treasury (Treasury). Actions: Addressed, Partially addressed,
	2015	Area 4: Consumer Product Safety Oversight	More formal and comprehensive coordination among federal agencies is needed to help increase efficiency and effectiveness related to consumer product safety oversight and address challenges related to fragmentation and overlap. Actions: Addressed, Not addressed, Not addressed
	2015	Area 5: Nonemergency Medical Transportation	To mitigate the effects of overlap, the Department of Transportation (DOT) should take steps to enhance federal, state and local coordination among 42 programs that provide nonemergency medical transportation to individuals who cannot provide their own transportation due to age, disability, or income constraints. Actions: Partially addressed, Not addressed, Not addressed
	2016	Area 5: Financial Regulatory Structure	To reduce or better manage fragmentation and overlap, Congress should consider changes to the financial regulatory structure, and the Board of Governors of the Federal Reserve System and the Office of Financial Research should take steps to improve collaboration in monitoring systemic risk. Actions: Pending
	2016	Area 6: IRS's Public Referral Programs	The Internal Revenue Service could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes. Actions: Pending
<b>Health</b>	2011	Area 18: DOD and VA Electronic Health Records Systems	Opportunities exist for DOD and the U.S. Department of Veterans Affairs (VA) to jointly modernize their electronic health records systems. Actions: Partially addressed, Partially addressed, Not addressed, Consolidated or other Consolidated or other Consolidated or other
	2011	Area 19: VA-DOD Drug Joint Contracting	VA and DOD need to control drug costs and increase joint contracting wherever it is cost-effective. Actions: Addressed, Addressed, Addressed
	2011	Area 20: Public Health Information Systems	The U.S. Department of Health and Human Services (HHS) needs an overall strategy to better integrate nationwide public health information systems. Actions: Partially addressed,
	2012	Area 14: Health Research Funding	The National Institutes of Health (NIH), DOD, and VA can improve sharing of information to help avoid the potential for unnecessary duplication. Actions: Addressed
	2012	Area 15: Military and Veterans Health Care	DOD and VA need to improve integration across care coordination and case management programs to reduce duplication and better assist servicemembers, veterans, and their families. Actions: Partially addressed,
	2013	Area 5: Joint Veterans and Defense Health Care Services	VA and DOD should enhance their collaboration to reduce costs, overlap, and potential duplication in the delivery of health care services. Actions: Partially addressed, Partially addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2013	Area 6: Medicaid Program Integrity	The Centers for Medicare & Medicaid Services (CMS) needs to take steps to eliminate duplication and increase efficiency in two Medicaid Integrity Program activities—provider audits and the collection of state program integrity data. Actions: Addressed, Addressed
	2014	Area 6: Federal Autism Research	Because much of the \$1.2 billion that federal agencies spent on autism research from fiscal years 2008 through 2012 had the potential to be duplicative, the Interagency Autism Coordinating Committee and federal agencies should improve coordination and monitoring of autism research to help avoid unnecessary duplication. Actions: Partially addressed, Partially addressed,
	2014	Area 7: Minority AIDS Initiative	Consolidating the fragmented funding of HHS’s Minority AIDS Initiative into core HIV/AIDS funding would likely reduce grantees’ administrative burden and help the agency more efficiently and effectively provide services to minority populations who are disproportionately affected by HIV/AIDS, with the approximately \$3 billion used for this purpose. In addition to fragmentation, we found that the services provided by Minority AIDS Initiative grantees overlapped with those provided by core HIV/AIDS grantees and were provided to similar populations; this overlap increases the administrative costs associated with participating in the programs. Actions: Not addressed, Not addressed,
	2015	Area 6: DOD US Family Health Plan	To potentially save millions of dollars and eliminate duplication within DOD’s health care system, Congress should terminate the statutorily required US Family Health Plan because it offers military beneficiaries the same health care benefit offered by other DOD health care contractors. Actions: Not addressed,
	2015	Area 7: Medicare Postpayment Claims Reviews	To prevent inappropriate duplicative postpayment claims reviews by contractors, CMS should monitor the Recovery Audit Data Warehouse—the database developed in part to prevent duplicative reviews—and develop more complete guidance on contractors’ responsibilities. Actions: Partially addressed, Not addressed
	2015	Area 8: Programs for Serious Mental Illness	To help ensure that the eight federal agencies administering over 100 programs supporting individuals with serious mental illness are able to develop an overarching perspective in order to understand the breadth of programs and resources used—including any potential gaps or overlap—greater coordination of federal efforts is needed from HHS, and within it, the Substance Abuse and Mental Health Services Administration, which is required to promote coordination of programs relating to mental illness throughout the federal government. Actions: Not addressed
	2016	Area 7: Medicaid and Exchange Coordination	CMS should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage. Actions: Pending
Homeland security/law enforcement	2011	Area 21: Biological Threats	Strategic oversight mechanisms could help integrate fragmented interagency efforts to defend against biological threats. Actions: Addressed, Not addressed
	2011	Area 22: Securing the Northern Border	Area 22: Department of Homeland Security (DHS) oversight could help eliminate potential duplicating efforts of interagency forums in securing the northern border. Actions: Not addressed, Not addressed
	2011	Area 23: Explosives Investigations	The Department of Justice (DOJ) plans actions to reduce overlap in explosives investigations, but monitoring is needed to ensure successful implementation. Actions: Addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2011	Area 24: TSA's Security Assessments	The Transportation Security Administration's (TSA) security assessments on commercial trucking companies overlap with those of another agency, but efforts are under way to address the overlap. Actions: Addressed, Consolidated or other Consolidated or other
	2011	Area 25: Sharing Security-Related Information with Public Transit Agencies	DHS could streamline mechanisms for sharing security-related information with public transit agencies to help address overlapping information. Actions: Addressed, Consolidated or other
	2011	Area 26: FEMA Grants	Area 26: The Federal Emergency Management Agency (FEMA) needs to improve its oversight of grants and establish a framework for assessing capabilities to identify gaps and prioritize investments. Actions: Addressed, Partially addressed, Partially addressed, Not addressed,
	2012	Area 16: Department of Justice Grants	DOJ could improve how it targets more than \$3 billion to reduce the risk of potential unnecessary duplication across the more than 11,000 grant awards it makes annually. Actions: Addressed, Partially addressed,
	2012	Area 17: Homeland Security Grants	DHS needs better project information and coordination among four overlapping grant programs. <sup>a</sup> Actions: Partially addressed, Partially addressed, Not addressed,
	2012	Area 18: Federal Facility Risk Assessments	Agencies are making duplicate payments for facility risk assessments by completing their own assessments, while also paying DHS for assessments that the department is not performing. Actions: Addressed, Partially addressed, Partially addressed
	2013	Area 7: Department of Homeland Security Research and Development	Better policies and guidance for defining, overseeing, and coordinating research and development investments and activities would help DHS address fragmentation, overlap, and potential unnecessary duplication. Actions: Partially addressed,
	2013	Area 8: Field-Based Information Sharing	To help reduce inefficiencies resulting from overlap in analytical and investigative support activities, DOJ and DHS and the Office of National Drug Control Policy could improve coordination among five types of field-based information sharing entities that may collect, process, analyze, or disseminate information in support of law enforcement and counterterrorism-related efforts—Joint Terrorism Task Forces, Field Intelligence Groups, Regional Information Sharing Systems centers, state and major urban area fusion centers, and High Intensity Drug Trafficking Areas Investigative Support Centers. Actions: Partially addressed, Partially addressed
	2013	Area 9: Justice and Treasury Asset Forfeiture	Conducting a study to evaluate the feasibility of consolidating DOJ's and Treasury's multimillion dollar asset forfeiture activities could help the departments identify the extent to which consolidation of potentially duplicative activities would help increase the efficiency and effectiveness of the programs and achieve cost savings. Actions: Addressed,
	2015	Area 9: Vulnerability Assessments of Critical Infrastructure	DHS could mitigate potential duplication or gaps by consistently capturing and maintaining data from overlapping vulnerability assessments of critical infrastructure and improving data sharing and coordination among the offices and components involved with these assessments. Actions: Partially addressed, Partially addressed
	2016	Area 8: Department of Homeland Security's Human Resources Systems	To address issues related to fragmented systems and duplicative processes, DHS should take steps to (1) ensure that its Human Resources Information Technology investment receives necessary oversight and attention from its steering committee and (2) evaluate and update the investment's strategic planning document. Actions: Pending



<b>Mission</b>	<b>Annual Report</b>	<b>Area</b>	<b>Area summary and assessment of actions</b>
	2016	Area 9: Security of Federal Facilities	The Federal Protective Service and General Services Administration need to improve collaboration in key areas to better manage fragmentation and enhance the agencies' ability to protect federal facilities. Actions: Pending
<b>Income security</b>	2014	Area 8: Disability and Unemployment Benefits	Congress should consider passing legislation to prevent individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits that cover the same period, which could save \$1.9 billion over 10 years in the Social Security Disability Insurance program according to the Congressional Budget Office. Actions: Not addressed
	2014	Area 9: Federal Employees' Compensation and Unemployment Benefits	Changes to enhance the sharing of compensation and wage information between state and federal agencies could improve the Department of Labor's ability to identify potentially improper payments, including inappropriately overlapping payments from the Federal Employees' Compensation Act program and the Unemployment Insurance program administered by the states. Actions: Partially addressed, Not addressed, <sup>b</sup>
<b>Information technology</b>	2012	Area 19: Information Technology Investment Management	OMB, DOD, and DOE need to address potentially duplicative information technology investments to avoid investing in unnecessary systems. Actions: Addressed, Addressed, Addressed, Addressed, Addressed
	2013	Area 10: Dissemination of Technical Research Reports	Congress should consider whether the fee-based model under which the National Technical Information Service currently operates for disseminating technical information is still viable or appropriate, given that many of the reports overlap with similar information available from the issuing organizations or other sources for free. Actions: Partially addressed
	2013	Area 11: Geospatial Investments	Better coordination among federal agencies that collect, maintain, and use geospatial information could help reduce duplication of geospatial investments and provide the opportunity for potential savings of millions of dollars. Actions: Addressed, Addressed, Addressed, Addressed, Addressed, Addressed, Partially addressed, Partially addressed, Partially addressed, Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed
	2014	Area 10: Interoperable Radio Communications Systems	Better collaboration among agencies that rely on radio communications solutions for mission-critical operations would help to address fragmentation in their approach to improving the interoperability of radio communications systems and has the potential to achieve savings. Actions: Partially addressed,
	2015	Area 10: DHS Processing of FOIA Requests	To address duplication in the processing of Freedom of Information Act requests, DHS should determine the viability of re-establishing an agreement between two of its component agencies that process immigration files. Actions: Partially addressed,
	2016	Area 10: Tribal Internet Access	Greater coordination among the Federal Communications Commission's Universal Service Fund subsidy programs and USDA's Rural Utilities Service grant programs could result in more efficient and effective support of Internet access for tribal communities. Actions: Pending
	<b>International affairs</b>	2011	Area 27: Development Efforts in Afghanistan
2011		Area 28: Arms Control and Nonproliferation Bureaus	Despite restructuring, overlapping roles and functions still exist at State's Arms Control and Nonproliferation Bureaus. Actions: Addressed, Addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 20: Overseas Administrative Services	U.S. government agencies could lower the administrative cost of their operations overseas by increasing participation in the International Cooperative Administrative Support Services system and by reducing reliance on American officials overseas to provide these services. Actions: Addressed, Addressed, Not addressed
	2012	Area 21: Training to Identify Fraudulent Travel Documents	Establishing a formal coordination mechanism could help reduce duplicative activities among seven different entities that are involved in training foreign officials to identify fraudulent travel documents. Actions: Addressed,
	2013	Area 12: Export Promotion	Enhanced collaboration between the Small Business Administration (SBA) and two other agencies could help to limit overlapping export-related services for small businesses. Actions: Partially addressed, Partially addressed,
	2013	Area 13: International Broadcasting	The Broadcasting Board of Governors—with a budget of \$752 million in fiscal year 2012—has recognized the need to reduce overlap and reallocate limited resources to broadcasts that will have the greatest impact, but the agency could do more to achieve this goal, such as systematically considering overlap of language services in its annual language services review. Actions: Addressed,
	2014	Area 11: International Religious Freedom	To promote international religious freedom more effectively, State and the U.S. Commission on International Religious Freedom should define how they are to interact in their efforts; the lack of defined roles has at times created tensions with foreign government officials. Actions: Not addressed
	2015	Area 11: Federal and States' Export Promotion	Because federal and state export promotion efforts overlap, the Department of Commerce should take steps to enhance collaboration among them to promote economic development while ensuring the most efficient use of limited federal resources. Actions: Partially addressed, Partially addressed, Not addressed
	2016	Area 11: U.S. Embassy Kabul Construction	A strategic facilities plan for construction projects in Kabul, Afghanistan, could enhance the planning and coordination among State bureaus and reduce the likelihood of fragmented construction efforts and duplicative facilities. Actions: Pending
	2016	Area 12: U.S.-Funded Development Innovation Programs	USAID should establish a joint approach to collaboration among its Development Innovation Ventures program and other similar U.S.-funded programs in India to better manage overlap. Actions: Pending
Science and the environment	2012	Area 22: Coordination of Space System Organizations	Fragmented leadership has led to program challenges and potential duplication in developing multibillion-dollar space systems. Actions: Partially addressed,
	2012	Area 23: Space Launch Contract Costs	Increased collaboration between DOD and the National Aeronautics and Space Administration could reduce launch contracting duplication. Actions: Addressed, Addressed,
	2012	Area 24: Diesel Emissions	Fourteen grant and loan programs at DOE, DOT, and EPA, and three tax expenditures fund activities that have the effect of reducing mobile source diesel emissions; enhanced collaboration and performance measurement could improve these fragmented and overlapping programs. Actions: Partially addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 25: Environmental Laboratories	EPA needs to revise its overall approach to managing its 37 laboratories to address potential overlap and fragmentation and more fully leverage its limited resources. Actions: Addressed, Addressed, Addressed, Addressed, Addressed, Addressed, Partially addressed,
	2012	Area 26: Green Building	To evaluate the potential for overlap or fragmentation among federal green building initiatives, the Department of Housing and Urban Development (HUD), DOE, and EPA should lead other federal agencies in collaborating on assessing their investments in more than 90 initiatives to foster green building in the nonfederal sector. Actions: Partially addressed,
	2013	Area 14: Rural Water Infrastructure	Additional coordination by the EPA and the USDA could help three water and wastewater infrastructure programs with combined funding of about \$4.3 billion avoid potentially duplicative application requirements, as well as associated costs and time developing engineering reports and environmental analyses. Actions: Addressed, Partially addressed, Consolidated or other
	2015	Area 12: Oceanic and Atmospheric Observing Systems Portfolio	The National Oceanic and Atmospheric Administration should analyze its portfolio of observing systems to determine the extent to which unnecessary duplication may exist. Actions: Addressed,
<b>Social services</b>	2011	Area 29: Domestic Food Assistance	Actions needed to reduce administrative overlap among domestic food assistance programs. Actions: Addressed, Not addressed,
	2011	Area 30: Homelessness Programs	Better coordination of federal homelessness programs may minimize fragmentation and overlap. Actions: Addressed, Addressed,
	2011	Area 31: Transportation-Disadvantaged Persons	Further steps needed to improve cost-effectiveness and enhance services for transportation-disadvantaged persons. Actions: Addressed, Partially addressed,
	2012	Area 27: Social Security Benefit Coordination	Benefit offsets for related programs help reduce the potential for overlapping payments but pose administrative challenges. Actions: Partially addressed,
	2012	Area 28: Housing Assistance	Examining the benefits and costs of housing programs and tax expenditures that address the same or similar populations or areas, and potentially consolidating them, could help mitigate overlap and fragmentation and decrease costs. Actions: Not addressed, Consolidated or other Consolidated or other
	2013	Area 15: Drug Abuse Prevention and Treatment Programs	More fully assessing the extent of overlap and potential duplication across the fragmented 76 federal drug abuse prevention and treatment programs and identifying opportunities for increased coordination, including those programs where no coordination has occurred, would better position the Office of National Drug Control Policy to better leverage resources and increase efficiencies. Actions: Addressed,
<b>Training, employment, and education</b>	2011	Area 32: Employment and Training Programs	Multiple employment and training programs: providing information on colocating services and consolidating administrative structures could promote efficiencies. Actions: Addressed, Addressed,
	2011	Area 33: Teacher Quality	Teacher quality: proliferation of programs complicates federal efforts to invest dollars effectively. Actions: Addressed, Addressed, Addressed
	2011	Area 34: Financial Literacy	Fragmentation of financial literacy efforts makes coordination essential. Actions: Addressed, Addressed, Addressed, Addressed

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 29: Early Learning and Child Care	The Departments of Education and HHS should extend their coordination efforts to other federal agencies with early learning and child care programs to mitigate the effects of program fragmentation, simplify children's access to these services, collect the data necessary to coordinate operation of these programs, and identify and minimize any unwarranted overlap and potential duplication. Actions: Addressed
	2012	Area 30: Employment for People with Disabilities	Better coordination among 45 programs in nine federal agencies that support employment for people with disabilities could help mitigate program fragmentation and overlap, and reduce the potential for duplication or other inefficiencies. Actions: Partially addressed, Partially addressed,
	2012	Area 31: Science, Technology, Engineering, and Mathematics Education	Strategic planning is needed to better manage overlapping programs across multiple agencies. Actions: Addressed, Addressed, Addressed, Addressed
	2012	Area 32: Financial Literacy	Overlap among financial literacy activities makes coordination and clarification of roles and responsibilities essential, and suggests potential benefits of consolidation. Actions: Addressed, Addressed, Partially addressed, Not addressed, Consolidated or other
	2013	Area 16: Higher Education Assistance	Federal agencies providing assistance for higher education should better coordinate to improve program administration and help reduce fragmentation. Actions: Addressed, Addressed, Addressed, Addressed, Partially addressed,
	2013	Area 17: Veterans' Employment and Training	The Departments of Labor, Veterans Affairs, and Defense need to better coordinate the employment services each provides to veterans, and Labor needs to better target the Disabled Veterans' Outreach Program so that it does not overlap with other programs. Actions: Addressed, Addressed, Partially addressed, Partially addressed,

Source: GAO. | GAO-16-375SP

<sup>a</sup>See appendix III for new actions added to this area.

<sup>b</sup>In our 2015 annual report, we inadvertently counted this action as partially addressed but it was not addressed.

**Table 2: GAO Identified Areas and Assessment of Cost-Savings and Revenue-Enhancement Opportunities in 2011 – 2016 Annual Reports**

Mission	Annual Report	Area	Area summary and assessment of actions
Agriculture	2011	Area 35: Farm Program Payments	Reducing some farm program direct payments could result in savings from \$800 million over 10 years to up to \$5 billion annually. Actions: Addressed
	2013	Area 18: Agricultural Quarantine Inspection Fees	The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service could have achieved as much as \$325 million in savings (based on fiscal year 2011 data, as reported in GAO's March 2013 report) by more fully aligning fees with program costs; although the savings would be recurring, the amount would depend on the cost-collections gap in a given fiscal year and would result in a reduced reliance on U.S. Customs and Border Protection's annual Salaries and Expenses appropriations used for agricultural inspection services. Actions: Addressed Addressed Addressed Partially addressed, Not addressed
	2013	Area 19: Crop Insurance	To achieve up to nearly \$2 billion per year in cost savings in the Federal Crop Insurance program, Congress could consider limiting the subsidy for premiums that an individual farmer can receive each year, reducing the subsidy, or some combination of limiting and reducing these subsidies. Actions: Not addressed

Mission	Annual Report	Area	Area summary and assessment of actions
Defense	2011	Area 36: Overseas Military Presence	<p>The Department of Defense (DOD) should assess costs and benefits of overseas military presence options before committing to costly personnel realignments and construction plans, thereby possibly saving billions of dollars.</p> <p>Actions: Addressed Addressed Partially addressed,</p>
	2011	Area 37: Military Personnel Costs	<p>Total compensation approach is needed to manage significant growth in military personnel costs.</p> <p>Actions: Partially addressed,</p>
	2011	Area 38: Weapon Systems Acquisition Programs	<p>Employing best management practices could help DOD save money on its weapon systems acquisition programs.</p> <p>Actions: Addressed Partially addressed, Partially addressed,</p>
	2011	Area 39: DOD's Spare Parts	<p>More efficient management could limit future costs of DOD's spare parts inventory.</p> <p>Actions: Partially addressed, Partially addressed</p>
	2011	Area 40: Sustaining Weapon Systems	<p>More comprehensive and complete cost data can help DOD improve the cost-effectiveness of sustaining weapons systems.</p> <p>Actions: Addressed Addressed Addressed Addressed Addressed Addressed</p>
	2011	Area 41: Corrosion Prevention	<p>Improved corrosion prevention and control practices could help DOD avoid billions in unnecessary costs over time.</p> <p>Actions: Consolidated or other</p>
	2012	Area 33: Air Force Food Service	<p>The Air Force has opportunities to achieve millions of dollars in cost savings annually by reviewing and renegotiating food service contracts, where appropriate, to better align with the needs of installations.</p> <p>Actions: Addressed</p>
	2012	Area 34: Defense Headquarters	<p>DOD should review and identify further opportunities for consolidating or reducing the size of headquarters organizations.</p> <p>Actions: Addressed Partially addressed, Partially addressed, Partially addressed, Partially addressed</p>
	2012	Area 35: Defense Real Property	<p>Ensuring the receipt of fair market value for leasing underused real property and monitoring administrative costs could help the military services' enhanced use lease programs realize intended financial benefits.</p> <p>Actions: Addressed Addressed</p>
	2012	Area 36: Military Health Care Costs	<p>To help achieve significant projected cost savings and other performance goals, DOD needs to complete, implement, and monitor detailed plans for each of its approved health care initiatives.</p> <p>Actions: Addressed Partially addressed,</p>
	2012	Area 37: Overseas Defense Posture	<p>DOD could reduce costs of its Pacific region presence by developing comprehensive cost information and re-examining alternatives to planned initiatives.</p> <p>Actions: Addressed Addressed Addressed Addressed Addressed</p>
	2012	Area 38: Navy's Information Technology Enterprise Network:	<p>Better informed decisions are needed to ensure a more cost-effective acquisition approach for the U.S. Navy's Next Generation Enterprise Network.</p> <p>Actions: Addressed Not addressed</p>
	2013	Area 20: Joint Basing	<p>DOD needs an implementation plan to guide joint bases to achieve millions of dollars in cost savings and efficiencies anticipated from combining support services at 26 installations located close to one another.</p> <p>Actions: Addressed Addressed Not addressed, Not addressed</p>

Mission	Annual Report	Area	Area summary and assessment of actions
	2014	Area 12: Combatant Command Headquarters Costs	DOD could potentially achieve tens of millions or more in cost savings annually if it (1) more systematically evaluates the sizing and resourcing of its combatant commands and (2) conducts a more comprehensive analysis of options for the location of U.S. Africa Command's headquarters. Actions: Addressed Partially addressed, Partially addressed, Not addressed,
	2015	Area 13: Defense Facilities Consolidation and Disposal	To help identify opportunities for saving costs by consolidating or disposing of unutilized or underutilized facilities, DOD should ensure that data on the utilization of DOD facilities—which were collectively valued at around \$880 billion in fiscal year 2014—are complete and accurate. Actions: Addressed Partially addressed
	2015	Area 14: DOD Headquarters Reductions and Workforce Requirements	DOD could potentially achieve hundreds of millions of dollars in cost savings and help to ensure that headquarters organizations are properly sized to meet their assigned missions by reevaluating its ongoing headquarters-reductions efforts and conducting periodic reassessments of workforce requirements. Actions: Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed
	2016	Area 13: Defense Excess Property Disposal	Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of DOD's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier. Actions: Pending
	2016	Area 14: DOD's Eligibility Determinations for Living Quarters Allowance	DOD could potentially achieve cost savings by monitoring its components' reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance. Actions: Pending
	2016	Area 15: DOD Excess Ammunition	DOD could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies. Actions: Pending
	2016	Area 16: DOD Leases and Use of Underutilized Space at Military Installations	DOD could potentially achieve millions of dollars in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies. Actions: Pending
<b>Economic development</b>	2011	Area 42: Essential Air Service	Revising the essential air service program could improve efficiency and save over \$20 million annually. Actions: Addressed Addressed Partially addressed, Not addressed
	2011	Area 43: Universal Service Fund	Improved design and management of the universal service fund as it expands to support broadband could help avoid cost increases for consumers. Actions: Addressed Partially addressed,
	2011	Area 44: Corps of Engineers Unobligated Balances	The U.S. Army Corps of Engineers should provide Congress with project-level information on unobligated balances. Actions: Addressed

Mission	Annual Report	Area	Area summary and assessment of actions
	2012	Area 39: Auto Recovery Office	<p>Unless the Secretary of Labor can demonstrate how the Auto Recovery Office has uniquely assisted auto communities, Congress may wish to consider prohibiting the Department of Labor from spending any of its appropriations on the Auto Recovery Office and instead require that the department direct the funds to other federal programs that provide funding directly to affected communities.</p> <p>Actions: Addressed Consolidated or other</p>
	2016	Area 17: Treasury's Foreclosure Prevention Efforts	<p>The Department of the Treasury could potentially achieve billions in financial benefits by reviewing the potential for unexpended balances for the Making Home Affordable Program and deobligating excess funds, which Congress could rescind and direct to other priorities.</p> <p>Actions: Pending</p>
<b>Energy</b>	2011	Area 45: Oil and Gas Resources	<p>Improved management of federal oil and gas resources could result in approximately \$1.7 billion of additional revenues over 10 years, according to the Department of the Interior.</p> <p>Actions: Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed</p>
	2012	Area 40: Excess Uranium Inventories	<p>Marketing the Department of Energy's (DOE) excess uranium could provide substantial revenue for the government.</p> <p>Actions: Not addressed, Not addressed</p>
	2013	Area 21: Department of Energy's Isotope Program	<p>Assessing the value of isotopes to customers, and other factors such as prices of alternatives, may show that DOE could increase prices for isotopes that it sells to commercial customers to create cost savings by generating additional revenue.</p> <p>Actions: Partially addressed</p>
	2014	Area 13: Advanced Technology Vehicles Manufacturing Loan Program	<p>Unless DOE can demonstrate demand for new Advanced Technology Vehicles Manufacturing loans and viable applicants, Congress may wish to consider rescinding all or part of the remaining \$4.2 billion in credit subsidy appropriations.</p> <p>Actions: Not addressed</p>
	2015	Area 15: Strategic Petroleum Reserve	<p>DOE could potentially realize savings by reexamining the appropriate size of the Strategic Petroleum Reserve—which was valued at about \$22 billion as of January 2016—and depending on the outcome of the analysis, selling crude oil from the reserve and using the proceeds to fund other national priorities.</p> <p>Actions: Partially addressed,</p>
	2015	Area 16: U.S. Enrichment Corporation Fund	<p>Congress may wish to consider permanent rescission of the entire \$1.6 billion balance of the U.S. Enrichment Corporation Fund—a revolving fund in the U.S. Treasury—because its purposes have been fulfilled.</p> <p>Actions: Not addressed</p>
	<b>General government</b>	2011	Area 46: Government-wide Improper Payments
2011		Area 47: Competition for Federal Contracts	<p>Promoting competition for the over \$500 billion in federal contracts could potentially save billions of dollars over time.</p> <p>Actions: Addressed Partially addressed</p>
2011		Area 48: Strategic Sourcing	<p>Applying strategic sourcing best practices throughout the federal procurement system could save billions of dollars annually.</p> <p>Actions: Consolidated or other</p>
2011		Area 49: Award Fee Contracts	<p>Adherence to new guidance on award fee contracts could improve agencies' use of award fees to produce savings.</p> <p>Actions: Addressed</p>

Mission	Annual Report	Area	Area summary and assessment of actions
	2011	Area 50: Federal Real Property	Agencies aimed to save at least \$3 billion by the end of fiscal year 2012 through the continued disposal of unneeded federal real property. Actions: Partially addressed, Consolidated or other
	2011	Area 51: Federal Facility Ownership and Leasing	Improved cost analysis used for making federal facility ownership and leasing decisions could save millions of dollars. Actions: Consolidated or other
	2011	Area 52: IT Dashboard	The Office of Management and Budget's IT Dashboard reportedly has already resulted in savings and can further help identify opportunities to invest more efficiently in information technology. Actions: Addressed Addressed
	2011	Area 53: Electronic Filing of Tax Returns	Increasing electronic filing of individual income tax returns could reduce IRS's processing costs and increase revenues by hundreds of millions of dollars. Actions: Addressed Addressed Addressed Addressed
	2011	Area 54: Return on Investment	Using return on investment information to better target Internal Revenue Service (IRS) enforcement could reduce the tax gap; for example, a 1 percent reduction would increase tax revenues by \$3.8 billion. Actions: Addressed Addressed Addressed
	2011	Area 55: Tax Debt Collection	Better management of tax debt collection may resolve cases faster with lower IRS costs and increase debt collected. Actions: Addressed Partially addressed,
	2011	Area 56: Simple Tax Return Errors	Broadening IRS's authority to correct simple tax return errors could facilitate correct tax payments and help IRS avoid costly, burdensome audits. Actions: Partially addressed,
	2011	Area 57: Mortgage Interest Information	Enhancing mortgage interest information reporting could improve tax compliance. Actions: Addressed Partially addressed,
	2011	Area 58: Forgiven Mortgage Debt	More information on the types and uses of canceled debt could help IRS limit revenue losses of forgiven mortgage debt. Actions: Partially addressed,
	2011	Area 59: Real Estate Tax Deductions	Better information and outreach could help increase revenues by tens or hundreds of millions of dollars annually by addressing overstated real estate tax deductions. Actions: Addressed Not addressed
	2011	Area 60: Form 1098-T	Revisions to content and use of Form 1098-T could help IRS enforce higher education requirements and increase revenues. Actions: Addressed Addressed
	2011	Area 61: Sole Proprietors	Many options could improve the tax compliance of sole proprietors and begin to reduce their \$68 billion portion of the tax gap. Actions: Partially addressed, Not addressed
	2011	Area 62: Businesses Not Filing Tax Returns	IRS could find additional businesses not filing tax returns by using third-party data, which show such businesses have billions of dollars in sales. Actions: Addressed Addressed Addressed Not addressed, Not addressed
	2011	Area 63: S Corporations	Congress and IRS can help S corporations and their shareholders be more tax compliant, potentially increasing tax revenues by hundreds of millions of dollars each year. Actions: Addressed Not addressed,
	2011	Area 64: Networks of Businesses	IRS needs an agency-wide approach for addressing tax evasion among the at least 1 million networks of businesses and related entities. Actions: Addressed Partially addressed,



Mission	Annual Report	Area	Area summary and assessment of actions
	2011	Area 65: Research Tax Credit	Opportunities exist to improve the targeting of the \$6 billion research tax credit and reduce forgone revenue. Actions: Not addressed,
	2011	Area 66: New Markets Tax Credit	Converting the new markets tax credit to a grant program may increase program efficiency and significantly reduce the \$4 billion 5-year revenue cost of the program. Actions: Addressed Addressed Partially addressed, Partially addressed, Partially addressed, Addressed
	2011	Area 67: Governmental Bonds	Limiting the tax-exempt status of certain governmental bonds could yield revenue. Actions: Not addressed,
	2011	Area 68: Civil Tax Penalties	Adjusting civil tax penalties for inflation potentially could increase revenues by tens of millions of dollars per year, not counting any revenues that may result from maintaining the penalties' deterrent effect. Actions: Addressed
	2011	Area 69: Nonresident Aliens	IRS may be able to systematically identify nonresident aliens reporting unallowed tax deductions or credits. Actions: Addressed
	2011	Area 70: Undisbursed Balances in Expired Grant Accounts	Tracking undisbursed balances in expired grant accounts could facilitate the reallocation of scarce resources or the return of funding to the Treasury. Actions: Addressed
	2012	Area 41: General Services Administration Schedules Contracts Fee Rates	Re-evaluating fee rates on the General Services Administration's Multiple Award Schedules contracts could result in significant cost savings government-wide. Actions: Addressed
	2012	Area 42: U.S. Currency	Legislation replacing the \$1 note with a \$1 coin would provide a significant financial benefit to the government over time. Actions: Consolidated or other
	2012	Area 43: Federal User Fees	Regularly reviewing federal user fees and charges can help the Congress and federal agencies identify opportunities to address inconsistent federal funding approaches and enhance user financing, thereby reducing reliance on general fund appropriations. Actions: Partially addressed, Not addressed, Not addressed,
	2012	Area 44: Internal Revenue Service Enforcement Efforts	Enhancing IRS's enforcement and service capabilities can help reduce the gap between taxes owed and paid by collecting billions in tax revenue and facilitating voluntary compliance. Actions: Addressed Addressed Partially addressed, Partially addressed, Not addressed, Not addressed,
	2013	Area 22: Additional Opportunities to Improve Internal Revenue Service Enforcement of Tax Laws	IRS can realize cost savings and increase revenue collections by billions of dollars by, among other things, using more rigorous analyses to better allocate enforcement and other resources. Actions: Addressed Addressed Partially addressed, Partially addressed, Partially addressed, Partially addressed, Not addressed,
	2013	Area 23: Agencies' Use of Strategic Sourcing	Selected agencies could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategically sourced contracts and further expanding strategic sourcing practices to their highest spending procurement categories—savings of 1 percent from selected agencies' procurement spending alone would equate to over \$4 billion. <sup>a</sup> Actions: Addressed Partially addressed, Partially addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2013	Area 24: Opportunities to Help Reduce Government Satellite Program Costs	Government agencies could achieve considerable cost savings on some missions by leveraging commercial spacecraft through innovative mechanisms such as hosted payload arrangements and sharing launch vehicle costs. Selected agencies have reported saving hundreds of millions of dollars to date from using these innovative mechanisms. Actions: Addressed Addressed Partially addressed,
	2014	Area 14: Coin Inventory Management	The Federal Reserve should develop a process to assess factors influencing coin management costs and identify practices that could potentially lead to millions of dollars in revenue enhancement. Actions: Addressed
	2014	Area 15: Collection of Unpaid Federal Taxes	The federal government can increase tax revenue collections by hundreds of millions of dollars over a 5-year time period by identifying and taking actions to limit issuance of passports to applicants, levy payments to Medicaid providers, or identify security-clearance applicants with unpaid federal taxes. Actions: Addressed Partially addressed, Partially addressed,
	2014	Area 16: Federal Real Property Ownership and Leasing	The General Services Administration (GSA) could potentially achieve millions of dollars in savings by using capital-planning best practices to create a long-term strategy for targeted ownership investments to replace some high-value leases. Actions: Partially addressed, Partially addressed, Not addressed,
	2014	Area 17: Online Taxpayer Services	IRS could potentially realize hundreds of millions of dollars in cost savings and increased revenues by enhancing its online services, which would improve service to taxpayers and encourage greater tax law compliance. Actions: Addressed Addressed Partially addressed, Partially addressed,
	2014	Area 18: Real Estate-Owned Properties	By improving its practices for disposing of the real estate-owned properties it acquires through foreclosures of mortgages that it insured, the Department of Housing and Urban Development's (HUD) Federal Housing Administration could further reduce losses by increasing sales proceeds and reducing maintenance and other expenses associated with holding these properties. The agency has already realized cost savings by using alternative means for resolving troubled mortgages. Actions: Addressed Partially addressed, Partially addressed,
	2014	Area 19: Reverse Auctions in Government Contracting Including Commercial Items	Due to increasing government use of reverse auctions—with over \$1 billion awarded in contracts in fiscal year 2012—additional guidance may help maximize opportunities to increase competition and improve the accuracy of estimated cost savings. Actions: Addressed Partially addressed,
	2014	Area 20: Tax Policies and Enforcement	IRS can realize cost savings and increase revenue by, among other things, identifying continued offshore tax evasion and evaluating whether the agency's streamlined corporate audit process is meeting its goals. Actions: Addressed Addressed Addressed Addressed Addressed Partially addressed, Partially addressed, Partially addressed,
	2015	Area 17: Tax Policies and Enforcement	By more effectively using data to manage various enforcement programs, IRS could bolster tax compliance and potentially collect hundreds of millions of dollars in additional revenue. Actions: Addressed Addressed Addressed Partially addressed, Partially addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed, Not addressed,
	2016	Area 18: Bridge Contracts	When bridge contracts—which include extensions to existing contracts and short-term noncompetitive contracts to avoid a gap in service—are used frequently or for prolonged periods of time, the government is at risk of paying more than it should for goods and services. Actions: Pending

Mission	Annual Report	Area	Area summary and assessment of actions
	2016	Area 19: Federal Supply Schedules	Agencies are paying insufficient attention to prices when using the Federal Supply Schedules program and may be missing opportunities for cost savings. Actions: Pending
	2016	Area 20: Federally Leased Vehicles	GSA and selected agencies could potentially reduce costs by improving the processes for justifying the use of vehicles in the federal fleet and taking actions for any vehicles that may be underutilized. Actions: Pending
	2016	Area 21: Financing of Improvements of Federally Leased Space	In order to achieve millions in potential cost savings, GSA should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates. Actions: Pending
	2016	Area 22: Identity Theft Refund Fraud	IRS and Congress could potentially save billions of dollars in fraudulent refunds by improving the agency's efforts to prevent refund fraud associated with identity theft. Actions: Pending.
	2016	Area 23: National Park Service Fees	The National Park Service could potentially increase revenues from the recreation fees it collects by millions of dollars annually if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees. Actions: Pending
	2016	Area 24: Unobligated Balances	To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts. Actions: Pending
<b>Health</b>	2011	Area 71: Medicaid Improper Payments	Preventing billions in Medicaid improper payments requires sustained attention and action by CMS. Actions: Addressed Consolidated or other
	2011	Area 72: Medicaid Supplemental Payments	Federal oversight over Medicaid supplemental payments needs improvement, which could lead to substantial cost savings. Actions: Partially addressed,
	2011	Area 73: Medicare Improper Payments	Better targeting of Medicare's claims review could reduce improper payments. Actions: Addressed Addressed Partially addressed, Partially addressed,
	2011	Area 74: Medicare's Health Care Payments	Potential savings in Medicare's payment for health care. Actions: Addressed Addressed Addressed Addressed Addressed Addressed Partially addressed,
	2012	Area 45: Medicare Advantage Payment	The Centers for Medicare & Medicaid Services (CMS) could achieve billions of dollars in additional savings by better adjusting for differences between Medicare Advantage plans and traditional Medicare providers in the reporting of beneficiary diagnoses. Actions: Partially addressed,
	2012	Area 46: Medicare and Medicaid Fraud Detection Systems	CMS needs to ensure widespread use of technology to help detect and recover billions of dollars of improper payments of claims and better position itself to determine and measure financial and other benefits of its systems. Actions: Addressed Addressed Addressed Partially addressed, Partially addressed, Partially addressed, Not addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
	2013	Area 25: Medicare Prepayment Controls	<p>More widespread use of prepayment edits could reduce improper payments and achieve other cost savings for the Medicare program, as well as provide more consistent coverage nationwide.</p> <p>Actions: Addressed Addressed Addressed Partially addressed, Partially addressed,</p>
	2013	Area 26: Medicaid Supplemental Payments	<p>To improve the transparency of and accountability for certain high-risk Medicaid payments that annually total tens of billions of dollars, Congress should consider requiring CMS to take steps that would facilitate the agency's ability to oversee these payments, including identifying payments that are not used for Medicaid purposes or are otherwise inconsistent with Medicaid payment principles, which could lead to cost savings. GAO's analysis of providers for which data are available suggests that savings could be in the hundreds of millions, or billions, of dollars.</p> <p>Actions: Partially addressed, Partially addressed, Not addressed,</p>
	2013	Area 27: Medicare Advantage Quality Bonus Payment Demonstration:	<p>Rather than implementing the Medicare Advantage quality bonus payment program specifically established by law, CMS is testing an alternative bonus payment structure under a broad demonstration authority through a 3-year demonstration that has design flaws, raises legal concerns, and is estimated to cost over \$8 billion; about \$2 billion could be saved if it were canceled for its last year, 2014.</p> <p>Actions: Not addressed,</p>
	2014	Area 21: Medicaid Demonstration Waivers	<p>Federal spending on Medicaid demonstrations could be reduced by billions of dollars if the Department of Health and Human Services (HHS) were required to improve the process for reviewing, approving, and making transparent the basis for spending limits approved for Medicaid demonstrations. GAO's work has shown that HHS approved several demonstrations without ensuring that they would be budget neutral to the federal government.</p> <p>Actions: Not addressed, Not addressed,</p>
	2015	Area 18: DOD TRICARE Improper Payments	<p>To achieve potential cost savings associated with billions of dollars of improper payments, DOD should implement a more comprehensive improper payment measurement methodology and develop more robust corrective action plans for the military health care program known as TRICARE.</p> <p>Actions: Not addressed, Not addressed,</p>
	2015	Area 19: Medicare Payments to Certain Cancer Hospitals	<p>To achieve almost \$500 million per year in program savings, Congress should consider modifying how Medicare pays certain cancer hospitals.</p> <p>Actions: Not addressed,</p>
	2015	Area 20: State Medicaid Sources of Funds	<p>To potentially save hundreds of millions of dollars, CMS should ensure that states report accurate and complete data on state Medicaid sources of funds so that it may better oversee states' financing arrangements that can increase costs for the federal government.</p> <p>Actions: Not addressed,</p>
	2016	Area 25: Distribution of Medicaid Supplemental Payments	<p>CMS should provide written guidance to state Medicaid programs clarifying its policies that the distribution of Medicaid supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share—actions that could result in substantial cost savings.</p> <p>Actions: Pending</p>
	2016	Area 26: Eligibility of Medicare Providers and Suppliers	<p>CMS could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the billions of dollars in improper payments that the program has paid out in recent years.</p> <p>Actions: Pending</p>

Mission	Annual Report	Area	Area summary and assessment of actions
	2016	Area 27: Medicaid Demonstration Approved Spending	The Secretary of Health and Human Services could potentially curtail spending growth of Medicaid demonstrations, which have resulted in the authorization of billions of dollars in federal spending, by establishing specific criteria for assessing whether demonstration spending furthers Medicaid objectives and taking other steps to improve the transparency and accountability of the approval process. Actions: Pending
	2016	Area 28: Medicaid Eligibility Determinations	CMS should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments. Actions: Pending
	2016	Area 29: Medicaid Payments to Institutional Providers	CMS should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of hundreds of millions of dollars. Actions: Pending
	2016	Area 30: Medicare Payments by Place of Service	Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed. Actions: Pending
<b>Homeland security/law enforcement</b>	2011	Area 75/76: DHS' Management of Acquisitions	DHS' management of acquisitions could be strengthened to reduce inefficiencies, cost overruns, and schedule and performance shortfalls. Actions: Addressed Partially addressed, Partially addressed, Partially addressed, Partially addressed,
	2011	Area 77: TSA's Behavior-Based Screening	Validation of the Transportation Security Administration's (TSA) behavior-based screening program is needed to justify future funding. Actions: Addressed Addressed Partially addressed, Consolidated or other, Consolidated or other, Consolidated or other
	2011	Area 78: Baggage Screening Systems	More efficient baggage screening systems could result in about \$470 million in reduced TSA personnel costs over the next 5 years. Actions: Addressed
	2011	Area 79: Customs Fee Collections	Clarifying availability of certain customs fee collections could produce a one-time savings of \$640 million. Actions: Addressed
	2012	Area 47: Border Security	Delaying proposed investments for future acquisitions of border surveillance technology until the Department of Homeland Security better defines and measures benefits and estimates life-cycle costs could help ensure the most effective use of future program funding. Actions: Addressed Addressed Partially addressed, Partially addressed,
	2012	Area 48: Passenger Aviation Security Fees	Options for adjusting the passenger aviation security fee could further offset billions of dollars in civil aviation security costs. Actions: Addressed
	2012	Area 49: Immigration Inspection Fee	The air passenger immigration inspection user fee should be reviewed and adjusted to fully recover the cost of the air passenger immigration inspection activities conducted by the Department of Homeland Security's U.S. Immigration and Customs Enforcement and U.S. Customs and Border Protection rather than using general fund appropriations. Actions: Addressed Addressed Partially addressed, Not addressed,
	2013	Area 28: Checked Baggage Screening	By reviewing the appropriateness of the federal cost share TSA applies to agreements financing airport facility modification projects related to the installation of checked baggage screening systems, TSA could, if a reduced cost share was deemed appropriate, achieve cost efficiencies and be positioned to install a greater number of optimal baggage screening systems than it currently anticipates. Actions: Not addressed, Not addressed,

Mission	Annual Report	Area	Area summary and assessment of actions
Income security	2011	Area 80: Social Security Offsets	<p>Social Security needs data on pensions from noncovered earnings to better enforce offsets and ensure benefit fairness, resulting in estimated \$2.4-\$7.9 billion savings over 10 years if enforced both retrospectively and prospectively. If Social Security only enforced the offsets prospectively, the overall savings would be less as it would not reduce benefits already received.</p> <p>Actions: Not addressed,</p>
	2014	Area 22: Disability Insurance	<p>The Social Security Administration (SSA) could prevent significant potential cash benefit overpayments in the Disability Insurance program by obtaining more-timely earnings data to identify beneficiaries' work activity that is beyond program limits and suspend benefits appropriately.</p> <p>Actions: Not addressed,</p>
	2014	Area 23: Veterans' and Survivors' Benefits	<p>The Department of Veterans Affairs' (VA) direct spending could be reduced—by an average of about \$4 million annually, according to the Congressional Budget Office—if new statutory provisions were enacted, namely, a look-back review and penalty period for claimants who transfer assets for less than fair market value prior to applying for pension benefits that are available to low-income wartime veterans who are at least 65 years old or have disabilities unrelated to their military service. This action would help to ensure that only those in financial need receive benefits and make the program more consistent with other federal programs for low-income individuals.</p> <p>Actions: Partially addressed,</p>
	2015	Area 21: Children's Disability Reviews	<p>To prevent an estimated \$3.1 billion dollars in potential overpayments over 5 years, SSA needs to conduct timely disability reviews to better ensure that only eligible children receive cash benefits from the Supplemental Security Income program.</p> <p>Actions: Partially addressed,</p>
	2015	Area 22: Supplemental Nutrition Assistance Program Fraud and Abuse	<p>States should be able to more effectively fight fraud among beneficiaries of the Supplemental Nutrition Assistance Program—which provided more than \$76 billion in benefits in fiscal year 2013—by using data to better focus investigative efforts on high-risk households.</p> <p>Actions: Partially addressed,</p>
	2016	Area 31: Disability Insurance and Federal Workers' Compensation	<p>SSA should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.</p> <p>Actions: Pending</p>
	2016	Area 32: Disability Insurance Overpayments	<p>To help prevent the loss of billions of dollars, SSA should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.</p> <p>Actions: Pending</p>
	2016	Area 33: Disability Reviews	<p>SSA may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.</p> <p>Actions: Pending</p>

Mission	Annual Report	Area	Area summary and assessment of actions
	2016	Area 34: VA's Individual Unemployability Benefit	<p>To potentially achieve cost savings, VA should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated \$15 billion in savings from 2015 through 2023, according to the Congressional Budget Office.</p> <p>Actions: Pending</p>
<b>Information technology</b>	2013	Area 29: Cloud Computing	<p>Better planning of cloud-based computing solutions provides an opportunity for potential savings of millions of dollars.</p> <p>Actions: Partially addressed, Partially addressed,</p>
	2013	Area 30: Information Technology Operations and Maintenance	<p>Strengthening oversight of key federal agencies' major information technology investments in operations and maintenance provides opportunity for savings on billions in information technology investments.</p> <p>Actions: Partially addressed, Partially addressed,</p>
	2014	Area 24: Information Technology Investment Portfolio Management	<p>The Office of Management and Budget and multiple agencies could help the federal government realize billions of dollars in savings by taking steps to better implement PortfolioStat, a process to help agencies manage their information technology investments.</p> <p>Actions: Addressed Partially addressed, Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed,</p>
	2015	Area 23: Federal Software Licenses	<p>In order to achieve hundreds of millions in government-wide savings, federal agencies should apply better management of software licenses and the Office of Management and Budget should issue a directive to assist agencies in doing so.</p> <p>Actions Partially addressed, Partially addressed, Partially addressed, Partially addressed, Partially addressed, Not addressed, Not addressed,</p>
	2016	Area 35: Federal Mobile Telecommunications	<p>In order to achieve substantial government-wide savings, federal agencies should establish better controls on mobile device spending, and the Office of Management and Budget should monitor progress in achieving these savings.</p> <p>Actions: Pending</p>
<b>International affairs</b>	2011	Area 81: Antidumping and Countervailing Duties	<p>Congress could pursue several options to improve collection of antidumping and countervailing duties.</p> <p>Actions: Addressed Not addressed,</p>
	2012	Area 50: Iraq Security Funding	<p>When considering new funding requests to train and equip Iraqi security forces, Congress should consider the government of Iraq's financial resources, which afford it the ability to contribute more toward the cost of Iraq's security.</p> <p>Actions: Addressed Addressed</p>
	2013	Area 31: Tobacco Taxes	<p>Federal revenue losses were as much as \$615 million to \$1.1 billion between April 2009 and 2011 because manufacturers and consumers substituted higher-taxed smoking tobacco products with similar lower-taxed products. To address future revenue losses, Congress should consider modifying tobacco tax rates to eliminate significant tax differentials between similar products.</p> <p>Actions: Addressed Addressed</p>
	2016	Area 36: Cargo Preference for Food Aid	<p>A clearer definition of "geographic area" in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.</p> <p>Actions: Pending</p>

Mission	Annual Report	Area	Area summary and assessment of actions
<b>Social services</b>	2012	Area 51: Domestic Disaster Assistance	<p>The Federal Emergency Management Agency could reduce the costs to the federal government related to major disasters declared by the President by updating the principal indicator on which disaster funding decisions are based and better measuring a state's capacity to respond without federal assistance.</p> <p>Actions: Partially addressed, Consolidated or other, Consolidated or other</p>
	2014	Area 25: Better Data to Mitigate Foreclosures	<p>HUD's Federal Housing Administration, VA, and USDA could improve outcomes and better manage the costs associated with foreclosure mitigation efforts with additional data collection and analysis, potentially saving taxpayers millions of dollars on an annual and recurring basis.</p> <p>Actions: Partially addressed,</p>
	2014	Area 26: Housing Choice Vouchers Rent Reform	<p>By improving data collection and analysis efforts under the Moving to Work demonstration program, HUD would provide Congress with information to determine which rent reform option should be implemented program-wide and thereby potentially reduce program funding by millions of dollars or extend housing assistance to additional low-income households or some combination of these outcomes.</p> <p>Actions: Addressed Addressed Addressed</p>
	2015	Area 24: Disaster Relief Fund Administrative Costs	<p>Cost savings of millions of dollars could be realized if Federal Emergency Management Agency officials enhance their oversight of the agency's administrative costs obligated from the Disaster Relief Fund for major disasters.</p> <p>Actions: Addressed Addressed Partially addressed,</p>
<b>Training, employment, and education</b>	2016	Area 37: Post 9/11 GI Bill Overpayments	<p>VA could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.</p> <p>Actions: Pending</p>

Source: GAO. | GAO-16-375SP

<sup>a</sup>See appendix III for new actions added to this area.



# Appendix V: Lists of Programs Identified

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This appendix includes lists of federal programs or other activities related to issue areas in this report, and their obligations data, where such information was available. In some cases, we estimated the information, or we did not report it because it was either not available or sufficiently reliable. For some issue areas, agencies were not able to readily provide programmatic information needed to determine whether and to what extent programs are actually duplicative. Additionally, in some instances of fragmentation, overlap, or duplication, it may be appropriate for multiple agencies or entities to be involved in the same programmatic or policy area due to the nature or magnitude of the federal effort.

**Table 1: Department of Defense Commercial Satellite Communication Procurements**

Agency	Program name	Program description	Fiscal year 2012 expenditures
Department of Defense	Commercial Satellite Communications Procurement	Provides commercial satellite communication services to support a variety of mission critical needs.	\$1,160,000,000

Source: GAO analysis of Department of Defense data. | GAO-16-375SP

**Table 2: Defense Acquisition Programs: Program and Related Budgetary Information**

Agency	Program name	Program description	Total estimated acquisition costs (as of December 2014)
Department of Defense	Defense Acquisitions	Major Weapon Systems	\$1.4 trillion

Source: GAO analysis of Department of Defense data. | GAO-16-375SP

**Table 3: Examples of Loan Guarantee Programs Comparable to the Prospective Innovative Technologies in Manufacturing Program: List of Federal Programs**

Agency	Program name	Program description	Fiscal year 2016 estimated credit subsidy budget authority <sup>a</sup>
Department of Commerce	Innovative Technologies in Manufacturing	Provide loan guarantees to small- and medium-sized manufacturers for the use or production of innovative technologies.	\$5,000,000
Small Business Administration	7(a)	Provide loan guarantees to small businesses, including manufacturers, for a variety of purposes.	\$0 <sup>b</sup>
Department of Agriculture	Business and Industry	Provide loan guarantees to improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities.	\$43,000,000
Department of Agriculture	Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance	Provide loan guarantees to assist the development of advanced biofuels, renewable chemicals, and biobased products manufacturing facilities.	\$50,000,000
Department of Energy	Innovative Energy Technologies	Provide loan guarantees for projects that employ new or significantly improved technologies in energy projects that avoid, reduce, or sequester air pollutants or greenhouse gases.	\$28,000,000

Source: GAO analysis of Innovative Technologies in Manufacturing program review document submitted by Economic Development Administration to the Office of Management and Budget, and GAO analysis of program regulations and budget documents associated with each of the programs listed. | GAO-16-375SP

<sup>a</sup>Data on fiscal year 2016 estimated credit subsidy budget authority are rounded to the nearest million.<sup>b</sup>According to the Small Business Administration's fiscal year 2016 congressional budget justification, the Small Business Administration did not request a credit subsidy appropriation for the 7(a) loan program for fiscal year 2016 because it planned to rely on fees to cover the cost of supporting its lending authority.

**Table 4: Internal Revenue Service Referral Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 obligations
Internal Revenue Service (IRS)	Whistleblower Office	Accepts and routes within IRS information and allegations of noncompliance and, for certain whistleblowers, pays awards for information provided.	\$5,850,677
IRS	Information Referral Process	Accepts and routes within IRS reports of noncompliance by individual and business taxpayers.	Not available <sup>a</sup>
IRS	Identity Theft	Accepts reports of actual or potential incidents of identity theft and refund fraud.	\$469,983,766 <sup>b</sup>
IRS	Return Preparer Office	Accepts reports that a tax return preparer filed or altered a tax return without taxpayer consent.	\$758,528 <sup>c</sup>
IRS	Small Business/Self-Employed Abusive Transactions	Accepts allegations of suspected abusive tax avoidance schemes or tax return preparers who promote such schemes.	Not available <sup>d</sup>
IRS	Large Business and International Office of Tax Shelter Analysis	Accepts allegations of abusive tax shelters involving large numbers of taxpayers and posing greater compliance risk.	\$61,085 <sup>e</sup>
IRS	Tax Exempt and Government Entities, Exempt Organizations	Accepts reports of alleged violations by a tax-exempt organization.	\$287,129 <sup>f</sup>
IRS	Tax Exempt and Government Entities, Employee Plans	Accepts reports of abusive tax transactions by a retirement plan.	Not available <sup>g</sup>
IRS	Electronic Filing Program	Accepts reports by electronic filing providers of fraudulent and abusive tax returns.	Not available <sup>a</sup>

Source: GAO analysis of IRS data. | GAO-16-375SP

Notes: Total spending on intake and routing of public submissions to these nine IRS referral programs is unclear because IRS does not track comparable costs.

<sup>a</sup>IRS currently does not have tracking in place for these costs and did not provide an estimate.

<sup>b</sup>This amount includes costs for refund fraud and identity theft.

<sup>c</sup>IRS currently does not have tracking in place for these costs and provided an estimate.

<sup>d</sup>IRS was unable to isolate specific costs for acceptance of abusive transactions forms because referrals are also received through IRS staff and informal email submissions.

<sup>e</sup>This amount only includes the cost of monitoring the tax shelter hot line and email to receive referrals.

<sup>f</sup>IRS tracked costs for this referral program only for fiscal year 2014 and estimated the amount for fiscal year 2015.

<sup>g</sup>This referral program did not receive any abusive transaction referrals directly from the public in 2015 and IRS did not provide an estimate.

**Table 5: Medicaid and Exchange Coordination: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 estimated cost
Centers for Medicare & Medicaid Services	Medicaid	A joint federal-state program that finances health care for low-income individuals, including children, families, and aged or disabled individuals.	\$529,000,000,000
Internal Revenue Service	Premium Tax Credit	A subsidy available to help pay the cost of premiums for certain individuals enrolling in health insurance coverage through exchanges—that is, marketplaces where eligible individuals may compare and select among private health plans—and who are not eligible for other types of health insurance coverage and have household incomes between 100 and 400 percent of the federal poverty level.	23,560,000,000

Source: GAO analysis of Centers for Medicare & Medicaid Services and Internal Revenue Service data. | GAO-16-375SP

**Table 6: Tribal Internet Access: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2014 obligations
Federal Communications Commission's Universal Service Fund	The Connect America Fund	Provides subsidies to Internet providers to supplement their operating costs for providing high-speed Internet in unserved or high-cost areas.	\$3.7 billion, a portion of which went to tribal lands
Federal Communications Commission's Universal Service Fund	The Schools and Library Support Program	Provides discounts to eligible schools and libraries on telecommunications services, Internet access, and internal connections.	\$2 billion, a portion of which went to tribal lands
Federal Communications Commission's Universal Service Fund	The Healthcare Connect Fund	Provides assistance to ensure eligible rural health care providers have access to high-speed Internet services and supports the formation of regional health care provider networks.	About \$50 million, a portion of which went to tribal lands
U.S. Department of Agriculture's Rural Utilities Service	The Distance Learning and Telemedicine Program	Provides grants to rural communities to acquire technologies that use the Internet to link educational and medical professionals with people living in rural areas.	\$20 million, a portion of which went to tribal lands
U.S. Department of Agriculture's Rural Utilities Service	The Community Connect Program	Provides grants to rural communities to provide high-speed Internet service to unserved areas.	\$13.7 million, a portion of which went to tribal lands

Source: GAO analysis of Federal Communications Commission and U.S. Department of Agriculture data. | GAO-16-375SP

**Table 7: U.S.-Funded Development Innovation Programs in India**

Agency	Program name	Program description
U.S. Agency for International Development (USAID)	Development Innovation Ventures	Innovation fund supporting private or public sector solutions to development challenges to benefit poor urban and rural populations in developing countries.
USAID mission in India	Millennium Alliance	Innovation fund supporting private or public sector solutions to development challenges, focusing on small inventors and intending to benefit urban and rural populations in India.
USAID mission in India	India Partnerships Program	Public-private sector partnerships focused on overcoming development challenges to benefit urban and rural populations in India.
Department of State	U.S.-India Science and Technology Endowment Fund	Competitive grant program supporting joint research and development initiatives with a social impact for populations in India.

Source: GAO analysis of USAID and Department of State data. | GAO-16-375SP

**Table 8: Department of Defense Excess Property Disposal: List of Federal Programs**

Agency	Program name	Program description	Fiscal year 2015 budget
Department of Defense	Law Enforcement Support Office (management of 1033 Program)	Provides excess DOD personal property to federal, state, local, and tribal law enforcement agencies.	\$2,403,000

Source: GAO analysis of Department of Defense documentation. | GAO-16-375SP

**Table 9: Living Quarters Allowance: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2014 obligations
Department of Defense	Living Quarters Allowance	A recruiting incentive for eligible civilian employee who are assigned overseas.	Appx. \$504,000,000

Source: GAO analysis of Department of Defense data. | GAO-16-375SP

**Table 10: DOD Excess Ammunition: List of Federal Programs**

Agency	Program name	Program description	Fiscal year 2015 obligations
Department of Defense	Conventional Munitions Demilitarization Program	Provides for the demilitarization and disposal of conventional ammunition for all military services that is unserviceable, obsolete, unsafe, or excess to requirements.	\$118,000,000

Source: GAO analysis of Department of Defense data. | GAO-16-375SP

**Table 11: Treasury Foreclosure Prevention Efforts: Program and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2017 obligations
U.S. Department of the Treasury	Troubled Asset Relief Program - Making Home Affordable	Provides financial support to borrowers and mortgage servicers to prevent avoidable foreclosures.	\$27,800,000,000

Source: GAO analysis of Treasury data. | GAO-16-375SP

**Table 12: Internal Revenue Service's Refund Fraud Activities, Including the Identity Theft Prevention Program: Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 obligations
Internal Revenue Service	Refund Fraud	Prevents refund fraud, including identity theft refund fraud, and provides assistance to identity theft victims.	\$469,983,766

Source: GAO analysis of Internal Revenue Service data. | GAO-16-375SP

Note: Internal Revenue Service officials told us they do not track obligations for identity theft activities separately from other types of refund fraud.

**Table 13: Reviewed Accounts at the Departments of Energy and State with Excess Unobligated Balances: Programs and Related Budgetary Information**

Agency	Program name	Program description	Unexpired, unobligated balance, end of fiscal year 2015
Department of Energy	Western Area Power Administration's Construction, Rehabilitation, Operation and Maintenance account	Markets electric power in 15 central and western states from federally owned power plants, serving a diverse group of nearly 700 wholesale customers, including municipalities, cooperatives, public utility and irrigation districts, federal and state agencies, and Native American tribes.	\$638,000,000
Department of State	Diplomatic and Consular Programs account	Funds a broad range of activities, including operational support for U.S. embassies, consulates, and other diplomatic posts worldwide. Funds are allocated to four main categories: human resources, overseas programs, diplomatic policy and support, and security programs.	\$2,234,000,000

Source: GAO analysis of data from the President's Budget Appendix. | GAO-16-375SP

Note: Unexpired, unobligated balances are for the entire account indicated.

**Table 14: Medicaid Financing: Program and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 estimated cost
Centers for Medicare & Medicaid Services	Medicaid	A joint federal-state program that finances health care for low-income individuals, including children, and aged or disabled individuals.	\$529,000,000,000 <sup>a</sup>

Source: Centers for Medicare & Medicaid Services; Department of Health and Human Services, 2014 Actuarial Report on the Financial Outlook for Medicaid (Washington, D.C.: 2014).

<sup>a</sup>The \$529,000,000,000 includes about \$26,000,000,000 in administrative costs, \$320,000,000,000 in federal share of Medicaid payments, and \$209,000,000,000 in state share of Medicaid expenditures.

**Table 15: Medicare Providers and Suppliers Eligibility Verification: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 outlays
Centers for Medicare & Medicaid Services	Medicare	Medicare is the federal health insurance program for individuals aged 65 or over, certain individuals with disabilities, and individuals with end-stage renal disease.	\$568,900,000,000 <sup>a</sup>

Source: GAO analysis of Centers for Medicare & Medicaid Services data. | GAO-16-375SP

<sup>a</sup>The \$568,900,000,000 represents \$358,300,000,000 for Medicare Fee-for-Service, \$148,600,000,000 for Medicare Advantage (Part C), and \$62,00,000,000 for Medicare Prescription Drug Benefit (Part D).

**Table 16: Medicaid Demonstrations: Program and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2014 federal expenditures
Health and Human Services (HHS)	Medicaid section 1115 demonstrations	State demonstrations approved by HHS to test new approaches for delivering Medicaid services that are likely to assist in promoting Medicaid objectives.	\$89,000,000,000 <sup>a</sup>

Source: GAO analysis of Centers for Medicare & Medicaid Services data. | GAO-16-375SP

<sup>a</sup>Data reflect federal expenditures only, as reported in Medicaid Budget and Expenditure System.

**Table 17: Medicare: Program and Related Budgetary Information**

Agency	Program name	Program description	Calendar year 2014 program cost
Centers for Medicare & Medicaid Services	Medicare's hospital outpatient prospective payment system	Payment system utilized by Medicare to pay for services provided to beneficiaries in hospital outpatient departments.	\$41,088,000,000
Centers for Medicare & Medicaid Services	Medicare's physician fee schedule	Payment system utilized by Medicare to pay physicians and certain other health professionals.	\$70,205,000,000

Source: The Boards of Trustees of the Medicare Trust Funds. | GAO-16-375SP

**Table 18: Disability Insurance and Federal Workers' Compensation: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 benefit disbursements
Social Security Administration	Disability Insurance	Disability Insurance provides benefits to eligible workers who have qualifying disabilities and their eligible family members.	\$144,102,000,000
Department of Labor	Federal Employees' Compensation Act (FECA) program	The FECA program provides monetary and medical benefits to federal workers who sustain work-related injury or disease.	\$3,152,650,000 <sup>a</sup>

Source: GAO analysis of Social Security Administration and Department of Labor data. | GAO-16-375SP

<sup>a</sup>Total FECA disbursements include benefits paid for compensation and medical benefits.**Table 19: Disability Insurance: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 benefits issued
Social Security Administration	Disability Insurance	Disability Insurance provides benefits to eligible workers who have qualifying disabilities and their eligible family members.	\$144,102,000,000

Source: GAO analysis of SSA data. | GAO-16-375SP

**Table 20: Continuing Disability Reviews: List of Federal Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 benefit payments
Social Security Administration	Disability Insurance	Disability Insurance provides benefits to eligible workers who have qualifying disabilities, and their eligible family members.	\$144,102,000,000
Social Security Administration	Supplemental Security Income	Supplemental Security Income provides benefits to low-income individuals who are disabled, blind, or aged. <sup>a</sup>	\$51,520,000,000

Source: GAO analysis of Social Security Administration data. | GAO-16-375SP

<sup>a</sup>Social Security Administration does not conduct continuing disability reviews on all individuals receiving Supplemental Security Income, such as those, for example, whose eligibility is based on age.**Table 21: Department of Veterans Affairs' Individual Unemployability Benefit: Program and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2015 obligations
Department of Veterans Affairs	Disability Compensation Program	Provides monetary benefits, including Total Disability Individual Unemployability benefits, to veterans with disabilities that are the result of a disease or injury incurred or aggravated during active military service.	\$73,192,481,000

Source: GAO analysis of Department of Veterans Affairs data. | GAO-16-375SP

**Table 22: Post-9/11 GI Bill Education Benefits: Programs and Related Budgetary Information**

Agency	Program name	Program description	Fiscal year 2014 obligations
Department of Veterans Affairs	Post-9/11 GI Bill	Provides education benefits, including tuition and monthly housing payments, to eligible veterans who served on active duty for at least 90 days on or after September 11, 2001.	\$10,754,649,000

Source: GAO analysis of Veteran Affairs data. | GAO-16-375SP



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