

# WASTE AND ABUSE: THE REFUSE OF THE FEDERAL SPENDING BINGE

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## HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT  
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

FEBRUARY 17, 2011

**Serial No. 112-30**

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.fdsys.gov>  
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

68-047 PDF

WASHINGTON : 2011

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Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
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## WASTE AND ABUSE: THE REFUSE OF THE FEDERAL SPENDING BINGE

THURSDAY, FEBRUARY 17, 2011

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:31 a.m., in room HVC-210, The Capitol Visitor Center, Hon. Darrell E. Issa (chairman of the committee) presiding.

Present: Representatives Issa, Platts, McHenry, Jordan, Walberg, Lankford, Amash, Gosar, Labrador, Meehan, DesJarlais, Gowdy, Ross, Guinta, Farenthold, Kelly, Cummings, Towns, Maloney, Norton, Kucinich, Tierney, Lynch, Connolly, Quigley, Welch, Yarmuth and Speier.

Staff present: Kurt Bardella, deputy communications director and spokesman; Michael R. Bebeau and Gwen D'Luzansky, assistant clerks; Robert Borden, general counsel; Molly Boyd, parliamentarian; Lawrence J. Brady, staff director; Sharon Casey, senior assistant clerk; Steve Castor, chief counsel, investigations; Benjamin Stroud Cole, policy advisor and investigative analyst; Drew Colliatie, staff assistant; John Cuaderes, deputy staff director; Adam P. Fromm, director of Member liaison and floor operations; Linda Good, chief clerk; Tyler Grimm and Tabettha C. Mueller, professional staff members; Christopher Hixon, deputy chief counsel, oversight; Sery E. Kim, counsel; Justin LoFranco, press assistant; Mark D. Marin, senior professional staff member; Laura L. Rush, deputy chief clerk; Jeff Wease, deputy CIO; Ronald Allen, minority staff assistant; Beverly Britton Fraser, minority counsel; Craig Fischer and Deborah Mack, minority professional staff members; Carla Hultberg, minority chief clerk; Lucinda Lessley, minority policy director; Scott Lindsay, minority counsel; Dave Rapallo, minority staff director; Suzanne Sachsman Grooms, minority chief counsel; Mark Stephenson, minority senior policy advisor/legislative director; Eddie Walker, minority technology director; and Zeita Merchant, minority fellow.

Chairman ISSA. A little housekeeping for everyone. Senator McCaskill is going to be here shortly. This is an unfortunate but inevitable situation in which we're going to have votes clearly get in the middle of this morning's hearing. So what we're going to do is we're going to start immediately.

When the Senator comes in, she will be on a panel by herself. She will speak, and, by agreement, she will not be able to remain. She doesn't have enough time for all the Members to question her.

What I would like to do, with the ranking member's approval, is allow the ranking member to make his opening statement now even before she arrives so it's covered. I'll withhold mine until the main panel. What we're hoping to do is get as much read into the record, but we will break for the Senator as soon as she arrives to ensure we get her before the vote.

With that, a quorum being present, this hearing has come to order, and I recognize the ranking member for his opening statement.

Mr. CUMMINGS. Mr. Chairman, I want to thank you very much, and I want to thank all the witnesses today for being a part of this hearing.

In particular, I would like to extend a special welcome to Senator Claire McCaskill, who has taken time out of her busy schedule to be with us today. As many of you know, Senator McCaskill is the chair of the Subcommittee on Contracting Oversight on the Senate Committee on Homeland Security and Governmental Affairs. And it's safe to say that no single Member of Congress has been more active than Senator McCaskill at rooting out waste, fraud and abuse in contracting across the Federal Government.

I am also thankful that Senator McCaskill could be here today because the committee made plans to review the 2011 High-Risk Report issued by the Government Accountability Office. This report has become a critical tool in focusing Congress' oversight efforts. It lists 30 government programs and spending areas most susceptible to waste, fraud or abuse.

I had the opportunity yesterday to join the Comptroller General Gene Dodaro and Chairman Issa when GAO issued this year's report. As in previous years, the massive issues surrounding Federal procurement are featured prominently.

Over the past decade, government contracting costs have escalated dramatically. In 2000, the Federal Government spent about \$209 billion on procurement. That number has now grown to more than \$500 billion in annual expenditures. During this same period, the number of sole-source and noncompetitive contracts have also expanded.

In this year's High-Risk Report, 6 of the 30 programs on the GAO list relate directly to Federal contracting. They involve contracting at the Department of Defense, the Department of Energy, NASA, and across multiple Federal agencies. Several other entries on the GAO list also have significant contracting components, such as transforming the Department of Homeland Security. When you examine all of these together, they have a massive impact, accounting for hundreds of billions of taxpayer dollars every year.

It's a real challenge to fully evaluate the extent of this problem. For example, during an interview last year, Defense Secretary Robert Gates offered what he called "a terrible confession." He stated, "I cannot get a number on how many contractors work for the Office of the Secretary of Defense."

In many cases congressional oversight of government contracting has led to meaningful reform. In 2007, when I became chairman of the Subcommittee on the Coast Guard and Maritime Transportation, I launched a series of hearings to examine the Coast Guard's multibillion-dollar acquisition program to modernize its

ships and aircraft. We found that the Coast Guard had little in-house capability to manage a major procurement effort when it initiated the Deepwater program. As a result, it outsourced many of its oversight responsibilities to private contractors doing the work. Based on these results, I introduced legislation to make comprehensive reforms in the Coast Guard's acquisition program, and this legislation passed the House unanimously.

In addition, Representative Tierney led an investigation in the last Congress into Defense Department contracts for supply chain trucking in Afghanistan. As a result of that investigation, General David Petraeus issued new contracting guidelines, created a task force to review contracting in Afghanistan, and moved to debar a major Federal contractor.

To its credit the Obama administration has made significant strides to improve government contracting. In 2009, the President directed Federal agencies to streamline their acquisition processes, and last year the amount of Federal contracting declined for the first time since 1997. The administration's initiative also resulted in a reduction of no-bid and other noncompetitive contracts last year.

Finally, moving forward, we have to continue this progress by conducting our oversight efforts in a sustained, dedicated and bipartisan way, and I know that the chairman is committed to that.

So I see that Senator McCaskill has arrived. And I want to thank you, Senator, again for coming. I know that you have a hearing with Secretary Gates this morning, so we really appreciate you coming over. And if you have time for one or two questions after your prepared remarks, I'd appreciate it if you would give us any thoughts about how we can keep this oversight effort going on the contracting front; what steps can we take maybe even together to try to avoid sitting here again in 2 years with the problems worse and not going anywhere fast.

Again, we thank you.

And Mr. Chairman, I really thank you for your courtesy.

Chairman ISSA. I thank the ranking member.

Chairman ISSA. And I am going to do my opening statement after the Senator has given her views on this.

Two things for all the Members. It is the rule of the committee that all witnesses be sworn. That rule is, by policy, not applicable to active Members of the House and the Senate—although if you want to be sworn for any reason, we would be happy to, Senator.

Senator MCCASKILL. I'll swear, but probably not that way.

Chairman ISSA. Then we will forego that.

One other policy of the committee—and I'll brief—as I said, I won't do my opening statement yet, but we do read our mission statement at the beginning of every one. And in case you are considering your subcommittee having one, I'll read this one for you today.

Oversight Committee Mission Statement: "We exist to secure two fundamental principles: First, Americans have a right to know that the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

“Our solemn responsibility is to hold government accountable to taxpayers because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people that bring genuine reform to the Federal bureaucracy.” This is the mission statement of the Oversight and Government Reform.

And with that, Senator, we are delighted to have you here. We realize that, second only to our 25 or so amendments coming up in about 15 minutes, you probably have the busiest schedule on the Hill.

And I now recognize the gentlelady.

**STATEMENT OF HON. CLAIRE McCASKILL, A U.S. SENATOR  
FROM THE STATE OF MISSOURI**

Senator McCASKILL. Thank you very much.

Thank you, Mr. Chairman. I want to thank both you and the ranking member for this invitation. I am honored to be here. In fact, I would hope that we would develop a strong working relationship. I think there are a lot of things we don't do right around here; one of them is we probably don't work together often enough across the hall, so to speak. And I would enjoy the opportunity of working very closely with this committee as we tackle the incredibly challenging job of contract oversight.

I think if there is one thing we can agree on, it's that we have to be smarter and better about the way we spend the public's money. And we can't have an honest conversation about restoring sanity to Federal spending if we don't take a hard look at Federal contracting.

There is a dirty little secret about Federal contracting; that is, there have been times that there has been some bragging going on about how we have shrunk the size of government. Well, when that bragging was going on, they weren't really being honest with the American people that the reason the government was shrinking in terms of government employees was not because we were spending less money, it was because we were contracting.

In many Federal agencies across this government, you can walk into a large office building and go down, and one cubicle is a Federal employee; the very next cubicle doing the exact same job is a contractor. Employee, employee, contractor, contractor, employee, contractor, contractor.

One of the challenges we have is to look at whether or not the contracting that has occurred in many agencies, whether we're getting value, whether or not we actually are saving money by the privatization that has occurred, and, most importantly, whether we're gaining any efficiencies by that contracting. And that is just in the area of personal services. I am not even getting to the huge, huge, mammoth problem of contracting for goods, which—whether it's in the Defense Department or any other department, we have a long, long list of problems that need to be addressed.

Of the 30 areas of government that the GAO Office identified being most vulnerable to waste, fraud and abuse, 5 have to do with the management of government contracts in weapons system acquisition management; the Defense Department; contract management at the Department of Energy's National Nuclear Security Adminis-

tration; acquisition management at NASA; and the management of interagency contracting.

Contracting is also a huge part of at least 10 more areas on the list, on the High-Risk List, including financial management and supply chain management at Department of Defense, implementing and transforming the Department of Homeland Security, and the Medicare and Medicaid programs. In total, at least half of the most wasteful, most mismanaged and most inefficient areas of government today involve major levels of contracting.

It will be impossible to have a real impact on wasteful spending without focusing on the Defense Department. The Defense Department alone is responsible for almost a quarter of the high-risk areas in GAO's list. DOD is also responsible for more than two-thirds of the government spending contracts. Holding government contractors and the Defense Department accountable for the way they spend money will help save the taxpayers real money, and actually will eliminate waste, fraud and abuse, and provide the men and women in uniform with the resources they need in a fiscally responsible way.

I would also like to take the opportunity to acknowledge the extraordinary contributions that GAO makes to our efforts through the High-Risk List and through the thousands of reports they release every year. GAO, along with the many agency inspectors general who work so hard to identify waste, fraud and abuse, are the best weapons Congress has against wasteful spending. They save the government more through identifying savings and recovering money than they cost us. They save us more than they cost us. We need to make sure they have the resources and tools they need.

In fact, we have a lot of discussions going on, which I think is very appropriate, about cutting the legislative budget. I support cutting the legislative budget, particularly when it comes to our offices and our committees. I think we need to be trimming our sails, just like most of America is trimming where they need to trim. But we must be careful that we do not trim those agencies that have the real opportunity of showing us the way to save even more money.

So I hope that through your influence, Mr. Chairman, and the influence of the ranking member and all the members of this committee, that we keep a watchful eye out for the resources that we dedicate to our government's auditors and, most importantly, to the Government Accountability Office. GAO's work should be our road map for places we need to cut spending and improve the efficiency of the Federal Government.

The time has come to be honest, to feel the pain and suffer the political consequences of making hard choices about when and where the government should spend taxpayer dollars. We should start with the programs on the GAO's High-Risk List. That is where we need to begin because that is where we know things are not being run well.

GAO acknowledged in their report that the Federal Government has made progress in many of the areas that they have identified. Part of that progress can be traced to the congressional actions taken in the last few years, including the Weapon Systems Acquisition Reform Act and other major pieces of contracting legislation

passed in the past few years, some of which originated from the members of this committee.

Some of the credit should also go to the increase in contracting oversight from this committee and others, which has helped drive substantial changes at Federal agencies. In fact, the Obama administration recently announced that for the first time in 13 years, overall contract spending actually declined last year, but this achievement cannot be sustained without ongoing aggressive oversight from Congress. It is one of our core responsibilities, which I know the members of this committee take very seriously.

And when it comes to oversight of government contracting, this is a bipartisan issue. Many of the agencies and programs on GAO's list have been there for decades under administrations of both parties. In the Senate, I have been fortunate to work with true leaders on this issue on both sides of the aisle, including Senator McCain, Senator Levin, Senator Lieberman, Senator Collins, and, more recently, the former ranking member on the subcommittee that I chair. Senator Scott Brown and I were able, through oversight hearings, to make, I think, a real difference in legislation that you helped us pass that are going to clean up the disgraceful problems in contracting that resulted in broken hearts at Arlington National Cemetery.

I look forward to my new ranking member. Senator Rob Portman will be the new ranking member of the Contracting Oversight Committee. He is an expert on government. He knows where there's a lot of problems that we need to be focusing on, and I am looking forward to a strong working relationship with him as we move forward on aggressive contract oversight.

In fewer than 2 years, the Subcommittee on Contracting Oversight in the Senate has held more than 15 hearings on government contracting. These hearings have addressed everything from improvements needed in Federal contract auditing, to Medicare contracts, to, as I mentioned, Arlington National Cemetery. We have questioned no-bid contracts and loopholes that cost the government literally billions of dollars. We plan to continue to hold regular hearings in subcommittee throughout this Congress and fight for legislation to address the abuses that we find.

But we could hold hearings once a week, every week, for the next 5 years and, frankly, still have plenty of fish in the barrel that we could shoot. That is why I am so encouraged that this committee will be continuing your important work in this area. I look forward to working with you and coordinating with you so that we can be very efficient in the way that we move forward on contracting oversight. If your committee has a good idea and doesn't have time on the hearing schedule, we would love to hear from you. Vice versa; we will track your work, and if there is something we're doing that we think would fit in nicely to some of the hearings that you are having, I would look forward to that kind of cooperation also.

We have a lot we can do here, and this really ought to be an area that we don't need to play political games. This shouldn't be about elections. This should be about how good can we make this government, how responsible can we make this government to the people who pay the bills. And most importantly, we can do better in terms

of how we run this government if we actually hold government officials more accountable for the way they're contracting.

I could tell you horror story after horror story—and I am sure, Mr. Chairman and ranking member, you could tell horror stories, too. I will tell you one anecdote that got me fired up, which is why this subcommittee was created. I went to Iraq on a government contracting oversight trip. My trip was only to look at the way they were contracting. I was a brand new Senator; I had come right out of a government auditing office. I had been the auditor in Missouri. So I was used to there being processes and procedures in government that made some kind of sense in terms of tracking the money.

I am in an office outside the outskirts of Baghdad, and I am asking about the LOGCAP contract. And any of you who have been involved in oversight of government knows that is the huge contract that did all the logistical support for our military in Iraq.

The estimate for the first year of the LOGCAP contract when it was let was \$700 million. It was a no-bid contract. It was a cost-plus contract. The first year that they estimated it was going to cost \$700 million, it actually cost \$20 billion. They put a PowerPoint up on the wall, and this poor woman in the room—she was the only one that didn't have a uniform on. I knew that she was the civilian that was in charge of doing all this. They looked to her to explain what had happened with this contract. And I was asking, as you might imagine, pretty aggressive questions.

So the first year was \$20 billion. The second year of spending on the contract went down, I want to say, \$16 or \$17 billion—and these figures may not be exactly right, I am trying to remember them from my memory. And then she went on with her presentation. I was feeling sorry for her, so I wanted to kind of throw her a bone. So I said, well, can you explain what you did that brought that level of contract down from \$20 billion to \$16 or \$17 billion? And with God as my witness, she looked across the table at me and she said, I don't know, Senator, it was a fluke. That is when I knew we had serious and significant problems with contracting, particularly in the defense space, particularly in contingency contracting.

The Defense Department is doing a little better in Afghanistan than we did in Iraq. We still have major problems, particularly when it relates to tracking the corruption issue. But there is plenty of work for all of us, and I am really honored that you asked me to come over this morning to be here. And I look forward to any questions you might have and a strong working relationship in the future.

Chairman ISSA. Well, thank you, Senator.

We're going to have very, very little time for questions, because not only do you have a hearing convening in 10 minutes, but we have about 6 minutes left on the clock for our own vote.

I would only ask one question—and I think the ranking member has one also—would you be willing to meet on a bicameral basis with your ranking member, and other members of your committee, and members of this committee on a periodic basis if our schedules can be put together?

Senator MCCASKILL. I think it would be terrific. If we just met for coffee once a month and talked over what you are doing and

what we're doing and see if we can coordinate, I think it would set a great example.

Chairman ISSA. We will have coffee, juice, and, if my personal account will settle for it, maybe even a couple of doughnuts.

With that, I'd recognize the ranking member for his question.

Mr. CUMMINGS. Just one quick question.

Senator, do you think the President is doing enough to address these issues? And what kind of cooperation do you think we will be able to get from him and his administration?

Senator MCCASKILL. I think Mr. Zients is trying very hard, the Performance Officer in the White House. He's really working at it. I think they're going to come up with some plans this year that will surprise people in terms of the way they're willing to look at organizing government and realizing more efficiencies.

The contracting piece is very hard because it's so stove-piped. Part of the problem, as you all know, we don't have the right data bases. We have spent so much money on IT and haven't really gotten a product that allows us to peer into the world of contracting in an efficient and effective way. I think they're trying, but I think they need our oversight to do it better.

Mr. CUMMINGS. Again, I want to thank you.

And, Mr. Chairman, again, I thank you for your courtesy to make sure that Senator McCaskill was able to testify within her schedule. But thank you very much.

Chairman ISSA. Well, thank you.

And I apologize to all the other Members, but the Senator has agreed to come back on an informal basis so that we can really have the one-on-one that I think will be helpful between the two bodies.

With fairness to our witnesses, I would swear you in, and then you would be all by yourself. So why don't we do this: We're going to break. We will come back immediately following the votes. For all the new Members on either side of the aisle, this is the most important thing we do every year is to really look at the new High-Risk, which, although cybersecurity is a big one, the \$80 billion we spent in IT and get less than we paid for obviously is important. We look forward to hearing that.

Senator, once again, thank you for your graciousness.

We stand in recess.

[Recess.]

Chairman ISSA. The hearing will come to order.

Today's hearing concerns one of the most basic responsibilities of the Oversight Committee: eliminating wasteful spending and fraud in the Federal Government. Yesterday's release of the latest GAO High-Risk List presents an occasion to renew our focus on this priority.

I look forward to hearing from the U.S. Comptroller Mr. Dodaro not only about the positive results and developments, but about the continuing struggle that affects 83 percent of all executive branch spending.

There really is no celebration for good news possible where we have a \$1.6 trillion deficit, but every dollar saved through elimination of waste, fraud and abuse of any sort that costs the Amer-

ican taxpayer money should be applauded, encouraged, and, as they say in Las Vegas, doubled-down on.

It is my intention to work closely with the GAO and watchdog groups in the days and weeks to come to ensure that the House and the Senate do everything possible to have the good news we will hear about today and the challenges that remain ahead be, in fact, our highest priority.

With deference to all the other Members who are returning, I would ask unanimous consent that all Members have 5 legislative days in order to place their opening statements in the record. Without objection.

The Chair now would like to swear in the first panel. Please raise your right hands.

[Witnesses sworn.]

Chairman ISSA. Let the record reflect that all members of the panel answered yes.

Please be seated.

Now, you may feel like the first panel, but my talking points say I am recognizing the second panel because of the Senator. So it's my pleasure to introduce the Honorable Gene Dodaro, who is the Comptroller of the United States; Ms. Debra Cammer Hines, who is vice president and partner of IBM Public Sector; Mr. Vincent Frakes, who is the Federal policy director at the Center for Health Transformation; and Dr. deRugy is a senior research fellow at Mercatus Center at George Mason University. Welcome.

And, Comptroller General, you've done this so many times, so it will be for anyone who hasn't, your entire written statements will be placed in the record. The goal of your opening statement is not to read it in its totality, but to use the 5 minutes in a way to enhance or augment. We will not stop you exactly at 5 minutes, but when it turns red, please find a way to wrap up your oral statements.

With that, we recognize the Comptroller General for 5 minutes.

**STATEMENTS OF GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; DEBRA CAMMER, VICE PRESIDENT AND PARTNER, IBM GLOBAL BUSINESS SERVICES, BETHESDA, MD; VINCENT L. FRAKES, FEDERAL POLICY MANAGER, CENTER FOR HEALTH TRANSFORMATION, WASHINGTON, DC; AND VERONIQUE DE RUGY, SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY, ARLINGTON, VA**

#### **STATEMENT OF GENE L. DODARO**

Mr. DODARO. Thank you, Mr. Chairman.

Good morning to you, Ranking Member Cummings, all the members of the committee.

I would like to commend you, Mr. Chairman, for holding this hearing in the committee. It is a good opportunity for us to discuss our High-Risk List that we keep updated and unveil at the beginning of each new Congress to help set the oversight agenda not only for the Congress, but also to give the administration a road map as well as to what areas they should be working diligently on.

The 30 areas that we have on the High-Risk List right now represent tremendous opportunities to save billions of dollars and, if actions are taken appropriately, to improve the performance and accountability of the Federal Government for the benefit of the American people. So they represent tremendous opportunities. I'll highlight a few areas that I think are apropos to this hearing and will be of interest, and I will be happy to talk about any of the areas.

First there are the Medicare and Medicaid programs. These are complex programs that are highly susceptible to billions of dollars in improper payments. When we first put these programs on the High-Risk List, there really were no measures of improper payments, and thanks to legislation and administrative initiatives, now there are estimates of the amount of improper payments. But the work is just beginning. There is a long way to go to bring these improper payments and the billions of dollars under control and to really provide the type of accountability.

A lot will depend on how successful agencies are in implementing the new Improper Payments Elimination and Recovery Act, which this committee sponsored and supported. And as you know, that act introduces a lot more rigor into the statistical nature of the estimates. It lowers the thresholds to make sure more things are reported appropriately. It requires corrective actions and identification of the causes of the improper payments, more rigorous reporting, accountability to be fixed, and it will also require recovery of those moneys where it's appropriate and possible to make the recovery. So this legislation has a lot of potential.

I would respectfully recommend that the committee figure out a way—and I know, I think it's already in your plans, in your oversight plans—to make sure you followup on how agencies are implementing this improper payments legislation. You know, in some areas like the Medicare Part D, prescription drug part of Medicare, there is not even an estimate yet. So the estimates that are being made to date aren't yet complete. So this has tremendous potential, and we would be happy to work with you in doing this. And it also has potential across government.

The second area has to do with unused Federal property. As we know, and has been reported, in 2009, the Federal agencies identified over 45,000 buildings, Federal buildings, that are either not being used or being underutilized. And the government is incurring an annual operating cost for these buildings of about \$1.7 billion a year. Clearly there is a need to move forward and to dispose of these buildings properly and eliminate this unnecessary operating cost. There's also costly leasing opportunities that could be revisited as well. So that is another target.

Also, DOD weapon systems acquisition. As Senator McCaskill mentioned, the Congress passed the Weapon Systems Acquisition Reform Act of 2009, and that included a lot of important reforms to come up with better cost estimates and also better accountability in terms of reporting on those areas. But our reviews of the weapon systems portfolios have shown billions of dollars in cost growth in those activities and longer periods of time to deliver the weapon systems. So it's costing a lot more than was originally expected, and it's delaying the implementation of this.

We made a number of recommendations to better prioritize the weapon systems portfolio, to put in more diligent business practices and business cases, technology maturity levels before investments are made, and also to make sure that there is proper oversight and control over that whole process.

As Senator McCaskill also mentioned, there are a wide range of other DOD business practices, whether they be in logistics support, contract management and other areas, that are also on the High-Risk List, that provide opportunities for more improvement, streamlining and eliminating the government's cost.

The bottom line is, Mr. Speaker, there are tremendous opportunities out there for correcting these high-risk problems that we have identified. Agencies are working on it. I am pleased to report that we have had a series of meetings with OMB and the agencies on the High-Risk List and GAO to talk about more specific actions that need to be taken to come off this list.

Congressional oversight is important. The only areas that we have taken off the list have been ones where Congress has been diligent conducting oversight. The two we took off this year, over a dozen congressional hearings were held on both the census area and the DOD personnel security clearance area since the time we put them on the list to them coming off the list.

So it's a major factor, but you need also top-level agency commitment on the part of the administration. I can assure you that is going to be a top priority at the GAO to continue to focus on these activities and to do what we can to try to help be specific, maintain our independence—we're not going to take anything off the list until it's deserved to be taken off the list. But our goal is to try to provide as much specificity as we can to how to get these problems fixed and remedied. We can't afford anymore to have these problems continue.

So thank you very much, and I look forward to answering questions.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Dodaro follows:]

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United States Government Accountability Office

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GAO

Testimony  
Before the House Committee on Oversight  
and Government Reform

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For Release on Delivery  
Expected at 9:30 a.m. EST  
Thursday, February 17, 2011

## GAO'S 2011 HIGH-RISK SERIES

### An Update

Statement of Gene L. Dodaro  
Comptroller General of the United States



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GAO-11-394T



Highlights of GAO-11-394T, a statement before the House Committee on Oversight and Government Reform

### Why GAO Did This Study

The federal government is the world's largest and most complex entity, with about \$3.5 trillion in outlays in fiscal year 2010 funding a broad array of programs and operations. GAO maintains a program to focus attention on government operations that it identifies as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.

This testimony summarizes GAO's 2011 High-Risk Update, which describes the status of high-risk areas listed in 2009 and identifies any new high-risk area needing attention by Congress and the executive branch. Solutions to high-risk problems offer the potential to save billions of dollars, improve service to the public, and strengthen the performance and accountability of the U.S. government.

### What GAO Recommends

The High-Risk update contains GAO's views on progress made and what remains to be done to bring about lasting solutions for each high-risk area. Perseverance by the executive branch in implementing GAO's recommended solutions and continued oversight and action by Congress are essential to achieving progress. GAO is dedicated to continue working with Congress and the executive branch to help ensure additional progress is made.

View GAO-11-394T or key components. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

February 17, 2011

## GAO'S 2011 HIGH-RISK SERIES

### An Update

### What GAO Found

This year, GAO removed the high-risk designation from two areas—the DOD Personnel Security Clearance Program and the 2010 Census—and designated one new high-risk area—Interior's Management of Federal Oil and Gas Resources. These changes bring GAO's 2011 High-Risk List to a total of 30 areas. While many positive developments have occurred, additional progress is both possible and needed in all 30 high-risk areas to save billions of dollars and further improve the performance of federal programs and operations. Congressional oversight and sustained attention by top administration officials are essential to ensuring further progress. The high-risk effort is a top priority for GAO. Working with Congress, agency leaders, and the Office of Management and Budget, GAO will continue to provide insights and recommendations on needed actions to solve high-risk areas.

Regarding the new high-risk area, Interior does not have reasonable assurance that it is collecting its share of billions of dollars of revenue from oil and gas produced on federal lands, and it continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters. Further, Interior recently began restructuring its oil and gas program, which is inherently challenging, and there are many open questions about whether Interior has the capacity to undertake this reorganization while carrying out its range of responsibilities, especially in a constrained resource environment.

While there has been some progress on nearly all of the issues that remain on the High-Risk List, the nation cannot afford to allow problems to persist. This statement discusses opportunities for savings that can accrue if progress is made to address high-risk problems. For example:

- Billions of dollars are estimated in Medicare and Medicaid improper payments. The effective implementation of recent laws, including the Improper Payments Elimination and Recovery Act of 2010, and administration guidance will be key factors in determining the overall effectiveness of reducing improper payments in the Medicare and Medicaid programs.
- Federal agencies' real property holdings include thousands of excess and/or underutilized buildings and cost over \$1.6 billion annually to operate. If this issue is not addressed, the costs to maintain these properties will continue to rise.
- Over the next 5 years, the Department of Defense (DOD) expects to invest over \$300 billion (in fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. DOD must get better value for its weapon system spending and find ways to deliver needed capability to the warfighter for less than it has spent in the past.

## GAO's 2011 High-Risk List

### Strengthening the Foundation for Efficiency and Effectiveness

- Management of Federal Oil and Gas Resources (New)
- Modernizing the Outdated U.S. Financial Regulatory System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Funding the Nation's Surface Transportation System
- Strategic Human Capital Management
- Managing Federal Real Property

### Transforming DOD Program Management

- DOD Approach to Business Transformation
- DOD Business Systems Modernization
- DOD Support Infrastructure Management
- DOD Financial Management
- DOD Supply Chain Management
- DOD Weapon Systems Acquisition

### Ensuring Public Safety and Security

- Implementing and Transforming the Department of Homeland Security
- Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
- Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Revamping Federal Oversight of Food Safety
- Protecting Public Health through Enhanced Oversight of Medical Products
- Transforming EPA's Process for Assessing and Controlling Toxic Chemicals

### Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
- NASA Acquisition Management
- Management of Interagency Contracting

### Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws
- IRS Business Systems Modernization

### Modernizing and Safeguarding Insurance and Benefit Programs

- Improving and Modernizing Federal Disability Programs
- Pension Benefit Guaranty Corporation Insurance Programs
- Medicare Program
- Medicaid Program
- National Flood Insurance Program

Source: GAO

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Mr. Chairman, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to discuss GAO's 2011 High-Risk update.<sup>1</sup> This year, GAO removed the high-risk designation from two areas—the DOD Personnel Security Clearance Program and the 2010 Census—and designated one new high-risk area—Interior's Management of Federal Oil and Gas Resources. These changes bring GAO's 2011 High-Risk List to a total of 30 areas, each of which is discussed in detail in our report and updated on our Web site.<sup>2</sup> Those discussions include the nature of the risk, progress made since our last High-Risk update in 2009, and the specific actions needed for additional progress.

While many positive developments have occurred, additional progress is both possible and needed in all 30 high-risk areas to save billions of dollars and further improve the performance of federal programs and operations. In that regard, I want to commend you, Mr. Chairman and the committee for holding this hearing to draw needed attention to these important problems. Congressional oversight and sustained attention by top administration officials are essential to ensuring further progress. Also, please be assured the high-risk effort is a top priority for GAO and we will continue to provide insights and recommendations on needed actions to address high-risk areas, working with Congress, agency leaders, and the Office of Management and Budget (OMB).

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## High-Risk Designation Removed

When legislative, administration, and agency actions, including those in response to our recommendations, result in significant progress toward resolving a high-risk problem, we remove the high-risk designation. The five criteria for determining if the high-risk designation can be removed are (1) a demonstrated strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures.

For our 2011 high-risk update, we determined that two areas warranted removal from the High-Risk List: the Department of Defense (DOD) Personnel Security Clearance Program and the 2010 Census. As we have

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<sup>1</sup>GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

<sup>2</sup>GAO's High-Risk and Other Major Government Challenges Web site, <http://www.gao.gov/highrisk/>.

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with areas previously removed from the High-Risk List, we will continue to monitor these areas, as appropriate, to ensure that the improvements we have noted are sustained. If significant problems again arise, we will consider reapplying the high-risk designation.

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Department of Defense  
Personnel Security  
Clearance Program

We are removing DOD's personnel security clearance program from the High-Risk List because of the agency's progress in timeliness and the development of tools and metrics to assess quality, as well as its commitment to sustaining progress. Importantly, continued congressional oversight and the committed leadership of the Suitability and Security Clearance Performance Accountability Council (Council)—which is responsible for overseeing security clearance reform efforts—have greatly contributed to the progress of DOD and governmentwide security clearance reform.<sup>3</sup>

DOD officials, in coordination with the Council, have demonstrated a strong commitment to, and a capacity for, addressing security clearance reform efforts in line with the Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004. Specifically, DOD (1) significantly improved the timeliness of security clearances and met the IRTPA objective for processing 90 percent of initial clearances on average within 60 days for fiscal year 2010, (2) worked with members of the Council to develop a strategic framework for clearance reform, (3) designed quality tools to evaluate completeness of clearance documentation, (4) issued guidance on adjudication standards, and (5) continues to be a prominent player in the overall security clearance reform effort, which includes entities within the Office of Management and Budget, the Office of Personnel Management, and the Office of the Director of National Intelligence. These efforts have yielded positive results.

Continued congressional oversight and the committed leadership of DOD have greatly contributed to the progress in addressing the problems with the personnel security clearance process. We will continue to monitor

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<sup>3</sup>The Council is comprised of the Director of National Intelligence as the Security Executive Agent, the Director of OPM as the Suitability Executive Agent, and the Deputy Director for Management, OMB as the chair with the authority to designate officials from additional agencies to serve as members. The current council includes representatives from the Department of Defense, Department of State, Federal Bureau of Investigation, Department of Homeland Security, Department of Energy, Department of Health and Human Services, Department of Veterans Affairs, and Department of the Treasury.

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DOD's efforts because security clearance reform is ongoing, and DOD needs to place a high priority on ensuring that timeliness improvements continue and quality is built into every step of the process using quantifiable and independently verifiable metrics.

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#### The 2010 Census

We removed the 2010 Census from our High-Risk List because the U.S. Census Bureau (Bureau) generally completed its peak census data collection activities consistent with its operational plans; released the state population counts used to apportion Congress on December 21, 2010, several days ahead of the legally mandated end-of-year deadline; and remaining activities appear to be on track, including, as required by law, delivering the data that states use for congressional redistricting by April 1, 2011.

A successful census is critical because the census is a constitutionally mandated program used to apportion and redistrict the U.S. House of Representatives, help allocate about \$400 billion yearly in federal financial assistance, and inform the planning and investment decisions of numerous public- and private-sector entities.

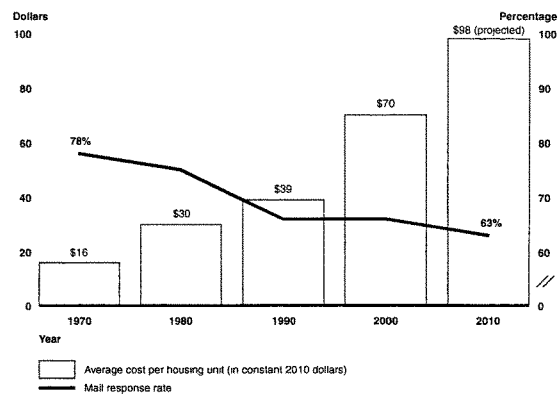
In March 2008, we designated the 2010 Census a high-risk area because of

- long-standing weaknesses in the Bureau's information technology (IT) acquisition and contract management function,
- problems with the performance of handheld computers used to collect data, and
- uncertainty over the ultimate cost of the census, which escalated from an initial estimate of \$11.3 billion in 2001 to around \$13 billion.

To address these issues and help secure a successful census, the Bureau demonstrated strong commitment and top leadership support to mitigate the risks, including bringing in experienced personnel to key positions and taking steps to implement our recommendations to strengthen its IT and other management and planning functions. At the same time, similar to the case with the DOD Personnel Security Clearance Program, active congressional oversight—including a dozen congressional hearings held after we added the census to our High-Risk List—helped ensure the Bureau effectively designed and managed operations and kept the enumeration on schedule.

Although every census has its decade-specific difficulties, societal trends—including growing concerns over personal privacy, more non-English speakers, and more people residing in makeshift and other nontraditional living arrangements—make each decennial inherently challenging. As shown in figure 1, the cost of enumerating each housing unit has escalated from an average of around \$16 in 1970 to around \$98 in 2010, an increase of over 500 percent (in constant 2010 dollars). At the same time, the mail response rate—a key indicator of a successful census—has declined from 78 percent in 1970 to 63 percent in 2010. Put another way, the Bureau has to invest substantially more resources each decade in an effort to keep pace with key results from prior enumerations.

**Figure 1: The Average Cost of Counting Each Housing Unit (in Constant 2010 Dollars) Has Escalated Each Decade While Mail Response Rates Have Declined**



Note: In the 2010 Census, the Bureau used only a short-form questionnaire. For our analysis, we use the 1990 and 2000 Census short-form mail response rate when comparing 1990, 2000, and 2010 mail-back response rates. Because Census short-form mail response rates are unavailable for 1980 and 1970, we use the overall response rate.

The bottom line is that the fundamental design of the enumeration—is no longer capable of delivering a cost-effective headcount given ongoing and newly emerging societal trends. Thus, while the 2020 Census may seem well over the horizon,

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research and planning activities need to start early in the decade to help ensure the 2020 Census is as cost-effective as possible. Indeed, the Bureau's past experience has shown that early investments in planning can help reduce the costs and risks of downstream operations.

Going forward, potential focus areas for Census reform include new data collection methods such as using administrative records from other government agencies, including driver's licenses; better leveraging innovations in technology and social media to more fully engage census stakeholders and the general public on census issues; reaching agreement on a set of criteria that could be used to weigh the trade-offs associated with the need for high levels of accuracy on the one hand, and the increasing cost of achieving that accuracy on the other hand; and ensuring that the Bureau's approach to human capital management, collaboration, capital decision-making, knowledge sharing, and other internal functions are aligned toward delivering a more cost-effective headcount.

Ongoing congressional oversight over the course of the decade will also be critical for ensuring the Bureau's reform efforts stay on track.

The Bureau recognizes that it needs to change its method of doing business and has already taken some important first steps in this regard. For example, the Bureau is rebuilding its research directorate to lead early planning efforts and has developed a strategic plan for 2020 and other related documents that, among other things, outline the Bureau's mission and vision for 2020.

Thus, in looking ahead toward the next Census, it will be vitally important to both identify lessons learned from the 2010 enumeration to improve existing census-taking activities, as well as to re-examine and perhaps fundamentally transform the way the Bureau plans, tests, implements, monitors, and evaluates future enumerations in order to address long-standing challenges.

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### New High-Risk Area: Management of Federal Oil and Gas Resources

We have designated the Department of the Interior's management of federal oil and gas on leased federal lands and waters as high risk because Interior (1) does not have reasonable assurance that it is collecting its share of revenue from oil and gas produced on federal lands; (2) continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters; and (3) is currently engaged in a broad reorganization of both its offshore oil and gas management and revenue collection

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functions. With regard to this organizational effort, there are many open questions about whether Interior has the capacity to undertake such a reorganization while continuing to provide reasonable assurance that billions of dollars of revenue owed the public are being properly assessed and collected and that oil and gas exploration and production on federal lands and waters is well-managed.

Federal oil and gas resources provide an important source of energy for the United States, create jobs in the oil and gas industry, and generate billions of dollars annually in revenues that are shared between federal, state, and tribal governments. Revenue generated from federal oil and gas production is one of the largest nontax sources of federal government funds, accounting for about \$9 billion in fiscal year 2009. Also, the explosion onboard the Deepwater Horizon and oil spill in the Gulf of Mexico in April 2010 emphasized the importance of Interior's management of permitting and inspection processes to ensure operational and environmental safety. The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling reported in January 2011 that this disaster was the product of several individual missteps and oversights by BP, Halliburton, and Transocean, which government regulators lacked the authority, the necessary resources, and the technical expertise to prevent.

Historically, Interior's Bureau of Land Management (BLM) managed onshore federal oil and gas activities, while the Minerals Management Service (MMS) managed offshore activities and collected royalties for all leases. Interior recently began restructuring its oil and gas program, transferring offshore oversight responsibilities to the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and revenue collection to a new Office of Natural Resource Revenue.

Interior faces ongoing challenges in three broad areas, including the following:

*Revenue collection.* In 2008, GAO reported that Interior collected lower levels of revenues for oil and gas production than all but 11 of 104 oil and gas resource owners whose revenue collection systems were evaluated in a comprehensive industry study—these resource owners included many other countries as well as some states. GAO recommended that Interior undertake a comprehensive reassessment of its revenue collection policies and processes. Interior has commissioned such a study in response to GAO's September 2008 report, and the study is expected to be completed in 2011. The results of the study may reveal the potential for greater

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revenues to the federal government. GAO also reported in 2010 that neither BLM nor MMS had consistently met their statutory requirements or agency goals for oil and gas production verification inspections. Without such verification, Interior cannot provide reasonable assurance that the public is collecting its legal share of revenue from oil and gas development on federal lands and waters. In addition, GAO reported in 2009 on numerous problems with Interior's efforts to collect data on oil and gas produced on federal lands, including missing data, errors in company-reported data on oil and gas production, sales data that did not reflect prevailing market prices for oil and gas, and a lack of controls over changes to the data that companies reported. As a result of Interior's lack of consistent and reliable data on the production and sale of oil and gas from federal lands, Interior could not provide reasonable assurance that it was assessing and collecting the appropriate amount of royalties on this production. GAO made a number of recommendations to Interior to improve controls on the accuracy and reliability of royalty data. Interior generally agreed with GAO's recommendations and is working to implement many of them, but these efforts are not complete and it is uncertain if they will be fully successful.

*Human capital.* GAO has reported that BLM and MMS have encountered persistent problems in hiring, training, and retaining sufficient staff to meet its oversight and management of oil and gas operations on federal lands and waters. For example, in 2010, GAO found that BLM and MMS experienced high turnover rates in key oil and gas inspection and engineering positions. As a result, Interior faces challenges meeting its responsibilities to oversee oil and gas development on federal leases, potentially placing both the environment and royalties at risk. GAO made recommendations to address these issues. While Interior's reorganization of MMS includes plans to hire additional staff with expertise in oil and gas inspections and engineering, these plans have not been fully implemented, and it remains unclear whether Interior will be fully successful in hiring, training, and retaining these staff. Further, human capital issues also exist in the BLM and the management of onshore oil and gas, and these issues have not been addressed in Interior's reorganization plans.

*Reorganization.* In May 2010, the Secretary of the Interior announced plans to reorganize MMS—its bureau responsible for overseeing offshore oil and gas activities and collecting royalties—into three separate bureaus. The Secretary of the Interior stated that dividing MMS's responsibilities among three separate bureaus will help ensure that each of the three newly established bureaus have a distinct and independent mission. While this reorganization may eventually lead to more effective operations, GAO

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has reported that organizational transformations are not simple endeavors and require the concentrated efforts of both leaders and employees to realize intended synergies and accomplish new organizational goals. One key practice that GAO has identified for effective organizational transformation is to balance continued delivery of services with transformational activities. However, we are concerned about Interior's capacity to find the proper balance given its history of management problems and challenges in the human capital area. Specifically, GAO is concerned about Interior's ability to undertake this reorganization while providing reasonable assurance that billions of dollars of revenues owed the public are being properly assessed and collected and that oversight of oil and gas exploration and production on federal lands and waters maintains an appropriate balance between efficiency and timeliness on one hand, and protection of the environment and operational safety on the other. In addition, Interior's reorganization efforts do not address BLM's ongoing challenges with its permitting and inspections programs and human capital challenges.

Interior must successfully address the challenges GAO has identified, implement open recommendations, and meet its routine responsibilities to manage federal oil and gas resources in the public interest, while managing a major reorganization that has the potential to distract agency management from other important tasks and put additional strain on Interior staff. While Interior recently began implementing a number of GAO recommendations, including those intended to improve the reliability of data necessary for determining royalties, the agency has yet to fully implement a number of recommendations, including those intended to (1) provide reasonable assurance that oil and gas produced from federal leases is accurately measured and that the public is getting an appropriate share of oil and gas revenues, and (2) address its long-standing human capital issues.

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### Remaining High-Risk Areas

While there has been some progress on nearly all of the issues that remain on the High-Risk List, the nation cannot afford to allow problems to persist. Addressing high-risk problems can save billions of dollars each year. Several areas on GAO's list illustrate both the challenges of addressing difficult and tenacious high-risk problems and the opportunities for savings that can accrue if progress is made to address high-risk problems.

**Medicare and Medicaid.** GAO designated Medicare as a high-risk program because its complexity and susceptibility to improper payments,

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added to its size, have led to serious management challenges. In 2010, Medicare covered 47 million elderly and disabled beneficiaries and had estimated outlays of \$509 billion. GAO also designated Medicaid as a high-risk program in part due to concerns about the adequacy of fiscal oversight, which is necessary to prevent inappropriate program spending. Medicaid, the federal-state program that covered acute health care, long-term care and other services for over 65 million low-income people in fiscal year 2009, consists of more than 50 distinct state-based programs that cost the federal government and states an estimated \$381 billion that year. The program accounts for more than 20 percent of states' expenditures and exerts continuing pressure on state budgets.

New directives, implementing guidance, and legislation will impact the Centers for Medicare & Medicaid Services' (CMS) efforts to reduce improper payments in the next few years. The administration issued Executive Order 13520 on Reducing Improper Payments in 2009 and related implementing guidance in 2010. In addition, the Improper Payments Elimination, and Recovery Act of 2010 (IPERA) amended the Improper Payment Information Act of 2002 (IPIA) and established additional requirements related to accountability, recovery auditing, compliance and noncompliance determinations, and reporting. In its fiscal year 2010 Agency Financial Report, the Department of Health and Human Services estimated that federal Medicare and Medicaid improper payments in fiscal year 2010 were more than \$70 billion.

CMS has taken actions to address some of the improper payment requirements. For example, recovery audit contractors identify improper payments and thus, help agencies to recover them. As required by law, CMS implemented a national Medicare Recovery Audit Contractors (RAC) program in 2009 and has provided guidance to the states for implementing Medicaid RACs. Other recent CMS program integrity efforts include issuing regulations tightening provider enrollment requirements. In addition, in compliance with the Executive Order, CMS has established reduction targets for the Medicare Fee-for-Service, Medicare Advantage, and Medicaid programs' improper payment rates.

We view these new laws, directives, and agency efforts as positive steps toward improving transparency over and reducing improper payments in the Medicare and Medicaid programs. However, it is too soon to determine whether the activities called for in recent laws and guidance will achieve their goals of reducing improper payments while continuing to ensure that federal programs serve and provide access to intended beneficiaries. CMS is still developing its improper payment rate methodology for its

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prescription drug program and has not been able to demonstrate sustained progress in lowering its improper payment rates for the other parts of Medicare. CMS needs a plan with clear measures and benchmarks for reducing Medicare's risk for improper payments and other issues that leave the programs at risk. For Medicaid, we continue to stress that more federal oversight of its fiscal integrity is needed.

Identifying the nature, extent and underlying causes of improper payments is an essential prerequisite to taking appropriate action to reduce them, as is implementing GAO's recommendation to develop an adequate corrective action process to address vulnerabilities. Further, CMS could take other actions to help better address the issue of improper payments in the Medicare and Medicaid programs. For Medicare, these include establishing policies to improve contract oversight and better target review of claims for services with high rates of improper billing. For Medicaid, these include (1) ensuring that states develop adequate corrective action processes to address vulnerabilities to improper Medicaid payments to providers, (2) issuing guidance to states to better prevent payment of improper claims for controlled substances, and (3) improving oversight of managed care payment rate setting and Medicaid supplemental payments. The level of importance CMS, HHS, and the administration place on the efforts to implement the requirements established by recent laws and guidance and implementation of our recommendations will be key factors in reducing improper payments in the Medicare and Medicaid programs and ensuring that federal funds are used efficiently and for their intended purposes.

**Managing Federal Real Property and DOD Support Infrastructure Management.** Since our 2009 update, sufficient progress has been made to narrow the scope of both the Managing Federal Real Property and DOD Support Infrastructure Management high-risk areas. However, in both areas, excess federal property remains a concern.

The federal real property portfolio is vast and diverse. It totals over 900,000 buildings and structures with a combined area of over 3 billion square feet. Progress has been made on many fronts, including significant progress with real property data reliability and managing the condition of facilities. Since 2004, both OMB and GSA have demonstrated commitment in promoting reform efforts through establishing and improving a centralized real property data base. Agencies have developed asset management plans, standardized data, and adopted performance measures. Further, a June 2010 presidential memorandum directed

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agencies to identify and eliminate excess properties to produce a \$3 billion cost savings by 2012.

However, federal agencies continue to face long-standing problems, such as overreliance on leasing, excess and underutilized property, and protecting federal facilities. For example, OMB has not developed a corrective action plan to address the fact that agencies increasingly rely on leasing. GSA, the government's principal landlord, leases more property than it owns. In addition, although efforts to dispose of unneeded assets have been made, a large number of excess and underutilized assets remain. Agencies reported 45,190 buildings as underutilized in fiscal year 2009—an increase of 1,830 such buildings from the previous fiscal year. Maintaining this unneeded space is costly. In fiscal year 2009, agencies reported underutilized buildings accounted for \$1.66 billion in annual operating costs. As GAO has reported over the years, attempted corrective action measures have not addressed the root causes that exacerbate these problems, such as various legal and budget-related limitations and competing stakeholder interests.

While the Department of Defense has made progress in better aligning its missions and facilities and disposing of unneeded facilities through the base realignment and closure process, the Department still has a significant amount of excess infrastructure. Senior Defense officials have stated that further reductions may be needed to ensure that its infrastructure is appropriately sized to carry out its missions in a cost-effective manner.

Federal agencies also have made limited progress and continue to face challenges in securing real property. GAO has reported that, since transferring to the Department of Homeland Security, the Federal Protective Service (FPS) experienced management and funding challenges that have hampered its ability to protect about 9,000 federal facilities. In particular, FPS has limited ability to allocate resources using risk management and lacks appropriate oversight and enforcement to manage its growing contract guard program. In 2010, GAO found that limited information about risks and the inability to control common areas pose challenges to protecting leased space.

As a result, the management of federal real property remains high risk, with the exceptions of governmentwide real property data reliability and management of condition of facilities, which GAO found to be sufficiently improved to be no longer considered high risk.

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Notwithstanding the progress in property data reliability which allows OMB to measure progress governmentwide, other actions need to occur to address root problems, including a strategy to address the continued reliance on leasing in cases where ownership would be less costly. This strategy should identify the conditions, if any, under which leasing is an acceptable alternative. In addition, OMB and the Federal Real Property Council should develop potential strategies to reduce the effect of competing stakeholder interests as a barrier to disposing of excess property.

**DOD Weapon Systems Acquisition.** Over the next 5 years, the Department of Defense (DOD) expects to invest almost \$343 billion (in fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. Defense acquisition programs usually take longer, cost more, and deliver fewer quantities and capabilities than DOD originally planned. Congress and DOD have taken steps to improve the acquisition of major weapon systems, yet some program outcomes continue to fall short of what was agreed to when the programs started. With the prospect of slowly growing or flat defense budgets for the foreseeable future, DOD must get better value for its weapon system spending and find ways to deliver needed capability to the warfighter for less than it has spent in the past.

While the performance of individual programs can vary greatly, GAO's work has revealed significant aggregate cost and schedule growth in DOD's portfolio of major defense acquisition programs. In 2009, GAO reported that the total cost growth on DOD's fiscal year 2008 portfolio of 96 major defense acquisition programs was over \$303 billion (fiscal year 2011 dollars) and the average delay in delivering initial capability was 22 months.

DOD has demonstrated a strong commitment, at the highest levels, to address the management of its weapon system acquisitions. At the strategic level, DOD has started to reprioritize and rebalance its weapon system investments. In 2009 and 2010, the Secretary of Defense proposed canceling or significantly curtailing weapon programs, such as the Army's Future Combat System Manned Ground Vehicles and the Navy's DDG-1000 Destroyer—which he characterized as too costly or no longer relevant for current operations. DOD plans to replace several of the canceled programs and has an opportunity to pursue knowledge-based acquisition strategies on the new programs. In addition, the Under Secretary of Defense for Acquisition, Technology, and Logistics has embraced an Army initiative to eliminate redundant programs within capability portfolios and make

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affordability a key requirement for weapon programs. These actions are consistent with past GAO findings and recommendations. However, if these initiatives are going to have a lasting, positive effect, they need to be translated into better day-to-day management and decision making. For example, GAO has recommended that DOD empower its capability portfolio managers at the departmentwide level to prioritize needs, make decisions about solutions, and allocate resources; and develop criteria to assess the affordability and capabilities provided by new programs in the context of overall defense spending.

At the program level, GAO's recent observations present a mixed picture of DOD's adherence to a knowledge-based acquisition approach, which is key for improving acquisition outcomes. For 42 programs GAO assessed in depth in 2010, there was continued improvement in the technology, design, and manufacturing knowledge the programs had at key points in the acquisition process. However, most programs were still proceeding with less knowledge than best practices suggest, putting them at higher risk for cost growth and schedule delays. DOD has begun to implement a revised acquisition policy and congressional reforms that address these and other common acquisition risks. If DOD consistently implements these reforms, the number of programs adhering to a knowledge-based acquisition approach should increase and the outcomes for DOD programs should improve. To help promote accountability for compliance with acquisition policies and address the factors that keep weapon acquisitions on the High-Risk list, DOD has worked with GAO and the Office of Management and Budget to develop a comprehensive set of process and outcome metrics to provide consistent criteria for measuring progress.

Due to actions by Congress, such as the Weapon Systems Acquisition Reform Act of 2009, and DOD, the department's policy for defense acquisition programs now reflects the basic elements of a knowledge-based acquisition approach and its weapon system investments are being rebalanced. However, to improve outcomes over the long-term, DOD should (1) develop an analytical approach to better prioritize capability needs; (2) empower portfolio managers to prioritize needs, make decisions about solutions, and allocate resources; and (3) enable well-planned programs by providing them the resources they need, while holding itself and its programs accountable for policy implementation via milestone and funding decisions and reporting on performance metrics.

**DOD Supply Chain Management.** We have identified Department of Defense (DOD) supply chain management as a high-risk area due to weaknesses in the management of supply inventories and responsiveness

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to warfighter requirements. Supply chain management is the operation of a continuous and comprehensive logistics process, from initial customer order for material or services to the ultimate satisfaction of the customer's requirements. DOD estimated that its logistics operations, including supply chain management, cost about \$194 billion in fiscal year 2009. Our work has identified three major areas of weakness in DOD supply chain management—requirements forecasting, asset visibility, and materiel distribution.

Since our last high-risk update, DOD has taken a major step toward improving management of supply inventories. In response to a legislative mandate,<sup>4</sup> the department submitted its Comprehensive Inventory Management Improvement Plan to Congress in November 2010. DOD reported that the total value of its secondary inventory was more than \$91 billion in 2009, and that \$10.3 billion (11 percent) of its secondary inventory has been designated as excess and categorized for potential reuse or disposal.<sup>5</sup> In its plan, DOD establishes goals for reducing this excess inventory, which could limit future costs associated with its supply inventories. Issuing the plan and establishing working groups and associated reporting structures will help resolve long-standing problems in requirements forecasting and other areas of inventory management. Nevertheless, DOD faces implementation challenges, including aggressive timelines and benchmarking; non-standard definitions, processes, procedures, and metrics across DOD components; and the need for coordination and collaboration among multiple stakeholders.

DOD will also need to place continued management emphasis on improving asset visibility and materiel distribution, the two other focus areas for improvement in supply chain management. Weaknesses in these focus areas can affect DOD's ability to support the warfighter. For example, we reported on supply support problems and shortages of critical items during the early operations in Iraq and on the numerous logistics challenges that DOD faces in supporting forces in Afghanistan. In July 2010, DOD issued its Logistics Strategic Plan, providing high-level

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<sup>4</sup>Section 328 of the National Defense Authorization Act (NDAA) for Fiscal Year 2010. Pub. L. No. 111-84 § 328 (2009).

<sup>5</sup>DOD defines secondary inventory items to include repairable components, subsystems, and assemblies other than major end items (e.g., ships, aircraft, and helicopters), consumable repair parts, bulk items and materiel, subsistence, and expendable end items (e.g., clothing and other personal gear).

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direction for supply chain management and other logistics areas. DOD, however, has not developed detailed corrective action plans that address the asset visibility and materiel distribution problems or their root causes and effective solutions.

DOD also will need to fully implement a program for monitoring and independently validating the effectiveness and sustainability of corrective actions and will need to demonstrate progress in all three of the key focus areas. Among other things, DOD could build on the performance management framework in the Logistics Strategic Plan and the inventory improvement plan to develop management processes to comprehensively guide and integrate its various improvement efforts, implement outcome-based performance measures, gather reliable performance data, and demonstrate progress towards its goals for effective and efficient supply chain management. DOD has acknowledged that it needs to track the speed, reliability, and overall efficiency of the supply chain.

**Enforcement of Tax Laws.** Internal Revenue Service (IRS) enforcement of the tax laws is vital to ensuring that all taxes owed are paid, which in turn can promote voluntary compliance by giving taxpayers confidence that others are paying their fair share. Typically, about 84 percent of taxes owed are paid voluntarily and timely. IRS last estimated the resulting tax gap to be \$345 billion for 2001. After late payments and IRS enforcement, the net tax gap was \$290 billion. Many experts believe that the tax gap was underestimated for 2001 and has grown since then.

Congress and IRS have taken innovative actions aimed at improving tax compliance, some based on GAO's work. In 2010, IRS began implementing a new regulatory regime for paid tax return preparers intended to help improve taxpayer compliance. Congress recently passed laws requiring financial institutions to report information on taxpayers' foreign bank accounts, taxpayers' securities' basis, and businesses' credit card receipts.

In reports and testimonies, we have said that because the tax gap arises from so many different types of taxes and taxpayers, multiple approaches will be needed to reduce it. Suggestions from our recent work include

- Continuing to perform compliance research and use it to identify and target areas of noncompliance;
- Developing a strategy for ensuring compliance by networks of related businesses;

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- Expanding IRS's legal authority to correct simple tax return errors before refunds are issued; and
  - Leveraging the new paid preparer requirements, new sources of information about taxpayers, and new technology to improve service and compliance.

If approaches like these could reduce the tax gap by 1 percent, the resulting revenue increase would be about \$3 billion annually.

The complexity of the tax code also contributes to noncompliance and therefore the tax gap. Complexity can cause taxpayer confusion and provide opportunities to hide willful noncompliance. Consequently, improved tax compliance and a smaller tax gap could be one of the benefits of tax reform and simplification.

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### Sustaining Progress on High-Risk Programs

Overall, the government continues to take high-risk problems seriously and is making long-needed progress toward correcting them. Congress has acted to address several individual high-risk areas through hearings and legislation. Continued perseverance in addressing high-risk areas will ultimately yield significant benefits. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, and strengthen public confidence and trust in the performance and accountability of our national government.

The GAO's high-risk update and High Risk and Other Major Government Challenges Web site, [www.gao.gov/highrisk/](http://www.gao.gov/highrisk/), can help inform the oversight agenda for the 112th Congress and guide efforts of the administration and agencies to improve government performance and reduce waste and risks.

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Thank you, Mr. Chairman, Ranking Member Cummings, and Members of the Committee. This concludes my testimony. I would be pleased to answer any questions you may have.

For further information on this testimony, please contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov). Contact points for the individual high-risk areas are listed in the report and on our high-risk Web site. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

Chairman ISSA. Ms. Cammer. Ma'am, is it Cammer?

Ms. CAMMER. It's Cammer.

Chairman ISSA. Cammer. OK. I will try to keep it correct. Thank you.

# **STATEMENT OF DEBRA CAMMER**

Ms. CAMMER. Thank you.

Mr. Chairman, Ranking Member Cummings, and members of the committee, thank you for inviting me to appear before you today to discuss how the IBM Corp. believes that Federal agencies can improve their efficiency and reduce costs through the application of commercial best practices.

My name is Debra Cammer Hines, and I am the public sector consulting leader for IBM in North America. In that role, I oversee all of IBM's consulting activities at the Federal, State and local level.

Prior to becoming a management consultant, I worked as a Federal credit policy analyst at the Office of Management and Budget. In this role I performed budgetary, credit, economic and policy analysis in their review of credit programs across the Federal Government.

We recently authored a report entitled Strategies to Cut Costs and Improve Performance. The purpose of this report was to help advance the ongoing national dialog about our Federal fiscal crisis by offering seven specific initiatives where technology-enabled productivity solutions can make a material difference in the performance of Federal programs.

These seven initiatives include: One, consolidate information technology infrastructure; two, streamline government supply chains; three, reduce energy use; four, move to shared services for mission-support activities; five, apply advanced business analytics to reduce improper payments; six, reduce field operations footprint and move to electronic self-service; and seven, monetize the government's assets.

We estimate that the aggressive implementation of these seven initiatives can generate \$1 trillion in savings over 10 years. These savings would be generated through improved performance rather than through program reductions or tax increases.

Federal agencies, and State and local governments for that matter, spend a great deal of energy collecting and disbursing funds. They collect taxes and fees from citizens and businesses, and they disburse funds to organizations and individuals through a wide variety of programs. These activities generate large volumes of transactions, and, as a consequence, they are vulnerable to both honest mistakes in administration as well as intentional efforts to defraud.

The good news for governments at all levels is that these types of programs lend themselves to what we call predictive analytics. So to put it simply, predictive analytics is a collection of statistical techniques that when applied to a large number of transactions being processed through a standard business process can reveal patterns that are indications of fraud, abuse, or simply poor management.

Several Federal agencies apply predictive analytics today, most notably the IRS and the Department of Health and Human Serv-

ices. However, we believe that deeper investment in these techniques and the broader applications of the lessons that have been learned in private-sector settings can improve the performance of these efforts and yield significant new savings.

Let me describe one example of how the application of these types of tools is already generating real results. The State of New York hired IBM after the State's tax department estimated it was losing \$1 billion annually in improper tax refunds. IBM built a predictive model that scores every refund request on the likelihood that it was valid. The 4 percent of returns deemed the most questionable were rejected outright. Investigators examined others considered high-risk to decide whether or not they were valid. And over the last 6 years, the State has denied \$1.2 billion in improper refunds, even taking into account the successful appeals. Today the State continues to run the program on its own. And we have similar programs with other States and local governments that I would be glad to share.

It is important to note that many Federal agencies are focused on these issues and are making important strides. OMB, for example, should be applauded for working in partnerships with the State and Federal agencies and others to identify innovative ways to reduce improper payments, improve administrative efficiency, enhance service delivery, and reduce access barriers to federally funded State-administered benefits programs. More can and should be done.

Thank you.

Chairman ISSA. Thank you.

[The prepared statement of Ms. Cammer follows:]

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
STATEMENT OF DEBRA CAMMER HINES  
VICE PRESIDENT, PUBLIC SECTOR CONSULTING SERVICES LEADER  
IBM CORPORATION

February 17, 2011

Mr. Chairman, Ranking Member Cummings, and Members of the Committee, thank you for inviting me to appear before you today to discuss how the IBM Corporation believes that Federal agencies can improve their efficiency and reduce costs through the application of commercial best practices. IBM believes that Federal agencies have an unrealized opportunity to reduce improper payments and improve performance.

I am the Public Sector Consulting Leader for IBM in North America, and in that role I oversee all of IBM's public sector consulting activities at the federal, state and local level, as well as for our education and health care clients. Prior to becoming a management consultant, I worked as a Federal Credit Policy Analyst at the Office of Management and Budget. In this role I performed budgetary, credit, economic and policy analysis in the review of credit programs across the Federal government.

As you know, IBM has been a technology and services provider to commercial and government customers around the world, including significant support for US Federal agencies, almost since the founding of our company nearly a century ago, and I am honored to be here to offer you IBM's perspective on the issues that are being discussed here today.

We believe that in the current debate on fiscal policy not enough attention is being paid to cost reduction and improved revenue performance that can be achieved by simply being "smarter" about how Federal programs are designed and executed.

An IBM report entitled "Strategies to Cut Costs and Improve Performance" describes seven specific initiatives where technology-enabled productivity solutions can make a material difference in the performance of Federal programs, based on the experience of real cost savings and efficiencies achieved by IBM and other major firms have brought forward.

These seven initiatives include:

1. Consolidate Information Technology Infrastructure
2. Streamline Government Supply Chains
3. Reduce Energy Use
4. Move to Shared Services for Mission-Support Activities
5. Apply Advanced Business Analytics to Reduce Improper Payments
6. Reduce Field Operations Footprint and Move to Electronic Self-Service
7. Monetize the government's assets

The IBM report estimated that the aggressive implementation of these seven initiatives can generate \$1 trillion in savings over 10 years. These savings would be generated through improved performance rather than through program reductions or tax increases. For this reason, we believe that these ideas – and others like them – should be given higher priority in discussions around how the Federal government can improve its fiscal condition.

For the purposes of this hearing, and in light of the specific purview of this Committee, we would like to focus the balance of this testimony on how Federal agencies can reduce improper payments and improve the performance of their operations through the application of analytical tools that are proven and in use today both in the public and private sectors.

#### **The Use of Business Analytics to Improve Performance**

Federal agencies – and state and local governments for that matter – spend a great deal of energy collecting and disbursing funds. They collect taxes and fees from citizens and businesses, and they disperse funds to organizations and individuals through a wide variety of programs. These activities generate large volumes of transactions, and as a consequence, they are vulnerable to both honest mistakes in administration as well as to intentional efforts to defraud.

In November of 2010 OMB issued its latest estimate of the rate of improper payments made by Federal agencies in FY2010. Despite a slight improvement in the improper payment rate – the rate dropped from 5.65 to 5.49 – the overall annual cost of improper payments to the Federal government increased from \$110 billion to \$125 billion. Last year Medicare estimated that 7.8 percent of the \$308 billion it spent in fiscal 2009 was improper. The U.S. Department of Labor estimated that it made \$3 billion in improper payments that same year. The Administration has made the reduction of improper payments a priority and has in fact set a target of reducing the cost of those payments by \$50 billion by September of 2012.

The good news for governments at all levels is that these types of programs lend themselves to what we call “predictive analytics”. To put it simply, predictive analytics is a collection of statistical techniques that when applied to a large number of transactions being processed through a standard business process can reveal patterns that indicate fraud, abuse or simply poor management. Many of you have seen the “predictive analytics” displayed this week during the IBM Watson-Jeopardy Challenge.

Several Federal agencies are begging to apply predictive analytics today, most notably the Internal Revenue Service and the Department of Health and Human Services. However, we believe that deeper investment in these techniques and the broader application of the lessons that have been learned in other public sector settings can improve the performance of these efforts and yield significant new savings.

#### **Reducing Improper Tax Refunds in New York State**

For example, IBM was hired by the State of New York after the State’s tax department estimated it was losing \$1 billion annually in improper tax refunds. IBM built a predictive model that scores every refund request on the likelihood it was valid -- the 4 percent of returns deemed the most questionable were rejected outright. Investigators examined others considered high risk to decide whether or not they were valid.

Over the last six years, the state has denied \$1.2 billion in improper refunds even taking into account successful appeals. Today, the state continues to run the program on its own.

William Comiskey, deputy commissioner in the state's Office of Tax Enforcement, said the key to the program is its ability to rapidly evaluate refund requests while the money is still in hand -- meaning the office doesn't have to try to recoup payments made based on improper claims. "It's something that every state should have," he said. "It's a true government success story."

#### **Reducing Medicaid Fraud in North Carolina**

In 2010 the State of North Carolina launched a new effort to reduce Medicaid fraud by tracking down abuses by patients and health care providers in the state. IBM was hired to apply its predictive analytics tools to comb through the records of the two million North Carolinians who are insured through the health program and their 60,000 health care providers.

"It is pretty evident to us that we have to do more to root out the waste and crack down on the people that we know are out there who are abusing the system," Governor Perdue said at a news conference.

The governor said the project with IBM would be combined with other efforts including a new legislative proposal to toughen the laws against kickbacks to health care providers, a publicity campaign to get people to report fraud, and efforts to get funding for more anti-fraud investigators.

#### **Improving Performance in the Delivery of Social Services in Alameda County**

Facing a mounting deficit, budget cuts and an increase in requests for assistance, California's Alameda County Social Services turned to IBM Analytics to help them do more with less. With more than 250,000 clients and over a dozen disparate IT systems spanning twelve government departments, the agency was trapped under a mountain of data that held the answers they needed, but took days to access. IBM analytics produced a first-of-its-kind, integrated reporting system that provides caseworkers with a consolidated view of all benefits and activities related to a client in one place. The result? Alameda County saved \$11 million in tax payer dollars and is helping their clients get back up on their feet faster.

The savings is a result of the identification of fraud, elimination of duplicate work and the ability to spot gaps in services or problems before they happen. For example, fraud detection and validation work that was previously taking 4-6 months is now happening in a matter of minutes, helping the County direct funding and resources to where they are needed the most.

Overall, we estimate that, based on the scale of their current activities and applying realistic, achievable assumptions about the potential effects of these changes Federal agencies could save up to \$200 billion by applying advanced analytics technology to reduce improper payments in federal grants, food stamps, Medicare reimbursements, tax refunds and other programs. Analytics can transform these kinds of programs, making them more adaptive, responsive and even predictive based on the changing needs of citizens.

**Conclusion**

It is important to note that many federal agencies are focused on these issues and are making important strides. OMB, for example, should be applauded for working in partnership with the States, federal agencies and others to identify innovative ways to reduce improper payments, improve administrative efficiency, enhance service delivery, and reduce access barriers to federally-funded, state-administered benefit programs. OMB has also identified significant steps as part of the recent 25-point Plan for IT Reform announced by Chief Performance Officer Jeffrey Zients and Chief Technology Officer Vivek Kundra, which can lead to additional savings in IT delivery. More can and should be done – we applaud this Committee’s focus on identifying and supporting initiatives that can further reduce costs and improve performance.

As members of this Committee and your colleagues elsewhere in Congress focus on options to eliminate wasteful programs and spending, we hope that you will also focus on ways to improve the efficiency of federal operations. IBM underwent its own transformation in the 1990s, and the lesson from our experience is that large organizations can be turned around. However, they need committed leadership armed to carry out the right plan. We believe that if the federal government aggressively sought out and implemented the best practices now being deployed by commercial organizations in this country and around the world, it could significantly improve its finances and reduce its reliance on program cuts and tax increases to solve its fiscal challenges.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other Members of the Committee may have.

Chairman ISSA. Mr. Frakes.

**STATEMENT OF VINCENT L. FRAKES**

Mr. FRAKES. Chairman Issa, Congressman Cummings, and members of the committee, thank you for holding this hearing today and inviting me to participate.

My name is Vincent Frakes, and I am the Federal policy director at the Center for Health Transformation.

Decreasing—and hopefully eliminating—waste, fraud and abuse in our health care system is vital to improving the quality of care and lowering health care costs. The Center for Health Transformation has worked extensively on these issues and with many of our members to find solutions to this dilemma. Fraud and abuse places a massive burden on government, and consequently on American taxpayers.

On Monday, President Obama released his budget for the upcoming year. In his budget, the President noted that the gross Federal debt will exceed \$15 trillion this year, which is equal to the size of the entire U.S. economy. This is unsustainable.

A recent Thomson Reuters study found that between \$600 billion and \$850 billion of health care spending annually is wasted, and up to \$175 billion of that is pure fraud. Fraudulent and wasteful spending is low-hanging fruit that can and should be used to reduce this debt.

There is broad bipartisan consensus that fraud and abuse within Medicare and Medicaid must be addressed and can make a significant dent in our Nation's government spending. Unfortunately, little has been done to curb these harmful practices.

Outright criminality imposes the largest and most high-profile burden on the system. Crooks have figured out how to game the system, and they must be stopped. Take, for example, an Orange County, California, cancer doctor who was charged in April of last year with fraudulently billing Medicare and health insurance companies close to \$1 million for administering injectable cancer medications that were never provided, or the Miami-area clinic consultant who was convicted last May of health care fraud in connection with a \$5.8 million Medicare scheme in which the clinic was falsely claiming to administer HIV injection and infusion treatments. Countless examples of these types of fraud exist around the country, and their practice must be eliminated. Doing so could save the government and the American taxpayers more than \$1 trillion over the next 10 years. Unfortunately, the vast majority of these crimes go undetected.

Medicare and Medicaid are designated as high-risk programs by the GAO, and their improper payment rate exceeds 10 percent. Compare that to the less than one-tenth of 1 percent fraud rate that exists in the credit card industry, which conducts more than \$2 trillion annually in transactions and has nearly 1 billion credit cards in circulation. The primary reason for this success is utilizing real-time technology that prescreens payments before they go out the door. CMS would be wise to learn from these private-sector successes.

There are three concrete solutions that can be taken immediately to improve Medicare and Medicaid and begin to solve the fiscal cri-

sis that we find ourselves in with these programs. First, we must incorporate private-sector solutions to identify, monitor and ultimately prevent fraud and abuse. Companies like Humetrics and NCN are on the front lines of utilizing data-tracking models to head off fraud and errors on the front end in order to save the private and public payers significant amounts of money on the back end. There is no reason that these same systems can't be utilized at the Federal level as well.

Second, we must introduce significant changes to the current system of electronic data tracking and data sharing across jurisdictions and departments. That includes utilizing a single, unified depository of information to reduce wasted resources that are expended on cross-referencing potential crooks. Real-time data tracking can identify irregularities at a moment's notice across State and provider venues.

Third, we must institute a comprehensive and transparent model of supplier approval and fraudulent claims administration, as well as encourage the implementation of more intelligent systems and schemes to reduce waste and fraud in the system.

There are many more steps that can be taken, as my written testimony explores, but these are first and foremost in terms of importance.

Not only do we need to aggressively attack the roots of fraud and abuse in the system, but we also need to solve the primary reason for waste, and that is defensive medicine. One major reason that providers order unnecessary services is due to the fear of potential legal action. Predatory litigators cause physicians to practice defensive medicine, ordering far more tests and providing far more services and procedures than are necessary. This drives the cost through the roof.

Jackson Health Care and Gallup recently released a poll of physicians where physicians said that more than a quarter of all health care services that they deliver, more than \$600 billion a year, are unnecessary and delivered solely to reduce their liability risks.

Congressmen Gingrey, Lamar Smith and David Scott recently introduced H.R. 5, the HEALTH Act—which you co-sponsored, Mr. Chairman, as did other members of this committee—that includes meaningful medical liability reforms while strengthening the doctor-patient relationship. This reform is a critical step to eliminating defensive medicine, lowering costs, and expanding access to care.

Waste, fraud and abuse run rampant in our Nation's health care system, but with fundamental changes in how government uses technology, properly screens providers, involves law enforcement and incorporates legal reform, we can save trillions of dollars and fundamentally transform our health care system to one that delivers more choices of better quality at a lower cost for every American.

Thank you very much. I look forward to your questions.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Frakes follows:]

**Testimony to the  
U.S. House of Representatives  
Committee on Oversight and  
Government Reform**

**“Waste and Abuse:  
The Refuse of the Federal Spending Binge”**

**Chairman Darrell Issa (R-CA)  
Ranking Member Elijah Cummings (D-MD)**

**By**

**Vincent L. Frakes  
Federal Policy Director  
Center for Health Transformation**

**February 17, 2011**

### **Introduction**

Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for holding this hearing today and for inviting me to participate and lend my thoughts on such a vitally important topic to our nation's future. I applaud your focus on government waste and the search for meaningful answers that will help reduce our federal deficit. Decreasing and hopefully eliminating waste, fraud, and abuse in our healthcare system represents a necessary and bipartisan means by which to achieve this goal. The Center for Health Transformation has worked extensively on these issues and with many of its members to find solutions, from technology providers to insurers, and more.

Please allow me to begin by stating that my oral and written remarks today are uniquely my own. They do not necessarily represent the views and opinions of my employer, the Center for Health Transformation, or those of its staff or members.

### **The Bipartisan Problem of Medicare and Medicaid Fraud**

The problem of fraud and abuse in America's healthcare system represents a massive burden on the government, and consequently American taxpayers. Healthcare fraud occurs in many different ways, from simple upcoding and excessive testing to the more complex type of provider referral rings that send patients to scheme providers. Medicare and Medicaid fraud, in particular, contribute significantly to overall expenditures for the Centers for Medicare and Medicaid Services (CMS). President Barack Obama noted in an address to a joint session of Congress on September 9, 2009 that there are "hundreds of billions of dollars of waste and fraud" within our healthcare system.<sup>1</sup> This is not an insignificant number as we stare down massive government budget deficits and contemplate ways to reduce them.

On Monday, President Obama released his budget for the upcoming year, and Congress will reply with its own version. In his budget, the President noted that the gross federal debt will exceed \$15 trillion, equal to the size of the entire U.S. economy.<sup>2</sup> This is unsustainable. As a result, a primary goal of upcoming budget discussions will be to secure a significant reduction in wasteful government spending. Fraudulent and wasteful spending in the healthcare industry represents low-hanging fruit that can, and should, contribute to such a reduction.

There is broad bipartisan consensus that fraud and abuse within Medicare and Medicaid represents a problem that must be addressed and can make a significant dent in our nation's wasteful government spending. During the White House Health Summit on February 25, 2010, Senator Tom Coburn noted, "Twenty percent of the cost of government healthcare is fraud," a

<sup>1</sup> "Full Remarks of the President's Address to Congress on His Healthcare Reform Plans." September 9, 2009, at <http://www.cbsnews.com/stories/2009/09/09/politics/main5299229.shtml>.

<sup>2</sup> Dinan, Stephen. "Debt Now Equals Total U.S. Economy." *The Washington Times*. February 14, 2011, at <http://www.washingtontimes.com/news/2011/feb/14/debt-now-equals-total-us-economy/>.

statement which Senator Charles Schumer lauded. Unfortunately, to date, efforts to curb these harmful practices promulgated by criminals across the country have accomplished very little. The time to undertake the proper reforms and reduce wasteful government spending in the area of healthcare fraud is now.

Outright criminality imposes a huge burden on the system. Crooks have figured out how to game the system and must be stopped. Take for example an Orange County, California cancer doctor who was charged in April of last year with fraudulently billing Medicare and health insurance companies close to \$1 million for administering injectable cancer medications that were never provided.<sup>3</sup> Or further look to the Miami area clinic consultant who was convicted in May of last year for healthcare fraud, conspiracy to commit money laundering, and money laundering in connection with a \$5.8 million Medicare fraud scheme in which the clinic was falsely claiming to administer HIV injection and infusion treatments.<sup>4</sup>

Countless examples of these types of fraud exist and their practice must be eliminated. Doing so could save the government and American taxpayers hundreds of billions of dollars. There are numerous ways this could be achieved, but the government must be flexible and think outside its traditional box in order to do so. Criminals pivot and adapt to stay ahead of their victim, and CMS and government authorities must learn to be similarly nimble.

The Government Accounting Office (GAO) has designated both Medicare and Medicaid as “high-risk” programs. In fact, a 2009 GAO report on the “High-Risk Series” that includes both programs estimated that the improper payment rate for Medicaid in 2008 was 10.5 percent.<sup>5</sup> This exists in sharp contrast to the 3.9 percent improper payment rate for non-health government agencies during 2008.<sup>6</sup> This amounts to up to \$200 billion annually in Medicare fraud<sup>7</sup> and

<sup>3</sup> “Orange County Cancer Doctor Charged with Defrauding Medicare and Other Health Insurers in \$1 Million Scam (U.S. Attorney for the Central District of California).” April 10, 2010, at <http://stopmedicarefraud.gov/innews/california.html#apr-15-2010>.

<sup>4</sup> “Miami Clinic Consultant Convicted in \$5.8 Million Fraudulent HIV Infusion Scheme (U.S. Attorney for the Southern District of Florida).” May 4, 2010, at <http://www.stopmedicarefraud.gov/innews/florida.html#may-04-2010>.

<sup>5</sup> Government Accountability Office. “Progress Made, but Challenges Remain in Estimating and Reducing Improper Payments.” April 22, 2009, at <http://www.gao.gov/highlights/d09628thigh.pdf>.

<sup>6</sup> Hatch, Garret and McMurtry, Virginia. “Improper Payments Information Act of 2002: Background, Implementation, and Assessment.” Congressional Research Service. October 8, 2009, at [http://assets.opencrs.com/rpts/RL34164\\_20091008.pdf](http://assets.opencrs.com/rpts/RL34164_20091008.pdf).

<sup>7</sup> Fox, Maggie. “Healthcare System Wastes Up to \$800 billion a Year.” Reuters. October 26, 2009, at <http://www.reuters.com/article/2009/10/26/us-usa-healthcare-waste-idUSTRE59P0L320091026>.

around \$32 billion per year in Medicaid fraud.<sup>8</sup> With the estimated 18-20 million additional Medicaid beneficiaries likely to join the rolls in states across the country as a result of changes in last year's health reform law, this number could very easily increase without additional funding for monitoring fraudulent behavior.

#### **The Example of the Credit Card Industry's Success in Curtailing Fraudulent Spending as a Lesson for Medicare and Medicaid**

The fraud and abuse rate within Medicare and Medicaid exists in sharp contrast to that of the private sector credit card industry. There are more than \$2 trillion in credit card transactions annually and nearly 1 billion cards in circulation. Yet, for this incredibly high level of activity, the fraud rate in the credit card industry is less than one tenth of one percent, according to experts at Visa and American Express.

There are several reasons for these successful figures that save the credit card industry hundreds of billions of dollars each year. First, the industry uses technological innovation to their advantage by immediately flagging suspicious purchases and even placing holds on accounts when a perceived instance of fraud exists. Meanwhile, Medicare fee-for-service utilizes a "pay and chase" model that fails to identify fraud upfront and tries to track down criminals after the fact and by the time they are long gone. This inability to stop fraud and abuse before it happens contributes significantly to the massive Medicare price tag, and represents an area that can be attacked to reduce government costs.

The credit card industry also does a much better job than Medicare and Medicaid in terms of screening its vendors. Dedicating resources on the front end to determine the legitimacy of a prospective vendor would certainly save vast amounts on the back end in terms of fewer instances of fraud and abuse. Further, CMS must acknowledge that not every supplier who applies to provide services to beneficiaries has a right to be approved. A more rigorous approval process would cut down on the number of fraudulent suppliers thereby produce savings in the system.

#### **Wasteful Government Spending Apart from Fraud and Abuse**

A thorough examination of healthcare waste released in 2009 by Thomson Reuters determined that between \$600 billion and \$850 billion of healthcare spending annually is wasted. While the study found \$125 billion to \$175 billion of this is attributed purely to fraud, the remainder is made up of administrative waste, provider errors, and other costs associated with unnecessary

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<sup>8</sup> Rehnquist, Janet and Javitt, Jonathan. "Creative Approaches to Combating Fraud in State Medicaid Programs." *Stop Paying the Crooks: Solutions to End the Fraud that Threatens Your Healthcare*, ed. James Frogue (Washington, D.C. Center for Health Transformation Press), at 161.

and duplicative diagnostic testing.<sup>9</sup> Further, a recent Gallup poll conducted for Jackson Health Care and the Center for Health Transformation found that nearly 25 percent of all medical services ordered by physicians are done so unnecessarily.<sup>10</sup> Based on the survey, Jackson Health Care estimates that \$650 billion of the nearly \$2.5 trillion that CMS estimates is spent annually on healthcare in America is spent on unnecessary tests and treatments. Not only do we need to aggressively attack the roots of fraud and abuse in the system, but we also need to address the causes of waste and implement reforms that will also help reduce wasteful spending.

One major reason that providers order unnecessary services is due to the fear of potential legal action for an unforeseen circumstance. Predatory litigators cause physicians to practice defensive medicine, which leads to an increase in the overall cost of the system. Creation of a system that is much more focused on timely resolution of legitimate claims would significantly benefit both the patient and provider while contributing to a reduction of cost in the system as extraneous testing becomes a remnant of the past. Congressmen Phil Gingrey (R-GA), Lamar Smith (R-TX), and David Scott (R-GA) recently introduced H.R. 5, the HEALTH Act that includes meaningful medical liability reforms while strengthening the doctor-patient relationship.<sup>11</sup> This type of systematic reform is necessary to reduce waste and ensure that patients, providers, and payers (be them government or private) are treated fairly.

#### **Specific Proposals for Industry Reform**

Below are several solutions that would significantly reduce waste, fraud, and abuse in the healthcare system and lead to increased savings.

- 1) As it relates to waste through the practice of defensive medicine, Congress must enact sensible medical justice reform that relieves physicians from the need to over-prescribe tests, procedures, and medications for fear of frivolous legal action while at the same time protecting the rights of patients.**

Government waste exists in healthcare outside the sphere of fraud and abuse. Frivolous lawsuits contribute to the practice of defensive medicine such as that previously mentioned in the Gallup poll and delegitimize meritorious claims of patients who have suffered real harm. Instituting reforms to the judicial system that protect patient safety, provide fair and effective compensation, provides resolution at a less overall cost, and incentivizes the best standards and protocols of health delivery are paramount to reducing waste in the system.

<sup>9</sup> Thomson Reuters. "Healthcare Reform Starts with the Facts." October 27, 2009, at [http://thomsonreuters.com/content/corporate/articles/healthcare\\_reform](http://thomsonreuters.com/content/corporate/articles/healthcare_reform).

<sup>10</sup> Gallup. "Poll: One of Four Healthcare Dollars Spent on Unnecessary Medical Care." February 22, 2010.

<sup>11</sup> H.R. 5, "Help Efficient, Accessible, Low-cost, Timely Healthcare (HEALTH) Act of 2011." Introduced January 24, 2011, at <http://thomas.loc.gov/cgi-bin/query/z?c112:H.R.5>.

**2) Introduce significant changes to the current system of electronic data tracking and data sharing across jurisdictions and departments.**

We now live in a world where massive information sharing can easily occur at the click of a mouse or hit of a keystroke. Unfortunately, CMS is unable to reconcile its multiple Medicare and Medicaid provider and supplier databases and any disciplinary action taken against them. Creating a single, unified depository of this information could significantly reduce wasted time and financial resources expended on cross-referencing potential crooks. This would be similar to how law enforcement and intelligence departments created a far more sophisticated information sharing system following the 9/11 attacks.

Additional programs such as the Health Care Fraud and Prevention Action Team (HEAT), which has been a successful collaboration between the Health and Human Services and Justice Departments should be initiated. Success can be achieved through cross-jurisdictional integration of information that will quickly identify fraudulent providers and suppliers. This data must be available easily and in real time to maximize effectiveness. These shared databases could identify potential red flags immediately and alert the proper authorities to investigate the individual and/or claim. Once again, investing resources to prevent fraud before it occurs will produce a significant level of savings and reduction of government waste.

Private sector companies already successfully amass millions of claims electronically every day. Many of the Center for Health Transformation's members focus all of their energy solely on such an enterprise and are experts at it. The compilation of this information allows for real-time tracking and can identify irregularities at a moment's notice across states and provider venues. There is no reason CMS and other government agencies should not be able to mirror this practice and immediately stop payment and initiate an investigation if a dubious claim is identified.

**3) Conduct additional hearings such as this one that focus on investigating the ability of CMS to appropriately track fraud and abuse and determine the feasibility of incorporating private sector cooperation into identifying such activity.**

Given the informational and systemic advantage Medicare and Medicaid criminals currently enjoy, government officials are treading water just to keep up, let alone make a noticeable dent in the amount of government waste that comes from fraudulent claims. Congress should hold hearings and invite as witnesses those contractors who have been involved with the claims process on the ground floor. These individuals are incredibly attuned to the voluminous claims activity that is part of the process and would provide a wonderful resource during the potential creation of a public-private partnership aimed at combating Medicare and Medicaid fraud and abuse.

One of the easiest ways to ensure that improper or fraudulent payments are not made is to identify them before they are actually paid. It is intuitive, yet many states, businesses, and insurers still cling to the pay and chase model. In California, for instance, the state pays approximately \$250 million a year in medical claims for its employees that should not be paid. This is similar to you or me simply writing a check to someone we owe money, but not looking

at the invoice to ensure that we're paying the correct amount. Once we realize we overpaid, we then have to spend time and resources tracking down the error and being reimbursed. Companies like Qmedtrix, a member of the Center, perform bill review on the front end to identify those payments that should not happen in the first place – due to fraud, waste, abuse, or error – and ensure that the proper amount is being paid to the appropriate party. Combining lessons learned at the government and private enterprise levels could help form an effective and targeted initiative (be it a demonstration project or otherwise) to significantly reduce government waste in the form of fraud and abuse.

**4) Institute a comprehensive and transparent model of supplier approval and fraudulent claims administration.**

Unlike private sector insurers, Medicare and CMS are not required to divulge their administrative costs, which ultimately are lost in other areas of the federal budget or simply ignored by the complex bureaucratic entanglements of the federal bureaucracy.<sup>12</sup> This is an example of the lack of transparency that leads to severe waste and a burden on the budget and U.S. taxpayers.

Requiring publicity of the approval process of suppliers would certainly act as a deterrent to some criminals not looking to have their names splashed across the public domain. For those bold enough to continue forward despite the risk, victims would be able to much easier identify them and create a track record of their information to use in a more expedient action by CMS at a later date.

**5) Encourage the implementation of more intelligent systems and solutions to reduce waste and fraud in the system.**

In order to significantly bend the cost curve and reduce waste in healthcare, we must capture and utilize the innovative spirit of many systems currently in place and expand their utilization across the industry. Numerous highly intelligent systems currently exist that are cutting into wasteful spending and fraudulent activity. These solutions can provide useful examples of how to put a major dent in wasted government money if applied at the federal and state level.

At the state level, Medicaid programs have historically been challenged with the difficult task of recovering payments when primary health insurance coverage information is not presented by the Medicaid patient at the time services are rendered. Many recipients do not share other health insurance coverage information with providers or are unaware that other coverage exists. Even when Medicaid agencies discover other health insurance coverage for Medicaid patients, they must engage in the aforementioned pay and chase strategy, which is not very effective in recovering taxpayer dollars. These traditional recovery programs are inefficient, expensive and produce recovery rates of less than 17% of the dollars actually billed to Medicaid programs. The

<sup>12</sup> Matthews, Merrill and Matthews, Meredith R. "Medicare Fraud: What the Government Can Learn from the Private Sector." *Stop Paying the Crooks: Solutions to End the Fraud that Threatens Your Healthcare*, ed. James Frogue (Washington, D.C. Center for Health Transformation Press), at 82.

Syrtis Solution program – ProTPL – identifies in real-time *before* a claim is submitted, if a Medicaid patient has alternative health insurance coverage and if so, re-routes the claim to the appropriate health insurer for payment. ProTPL thereby helps state Medicaid programs to totally avoid paying a claim. ProTPL has demonstrated results that help state Medicaid agencies save millions of dollars.

Another smart technological solution that assists payers in their effort to root out fraud comes from Verisk Health and provides a good model for helping control waste and abuse. Their products constantly monitor tens of thousands of medical diagnosis and procedure codes from every healthcare provider for irregularities they can pass along to third party payers, be them private or even Medicare. The Verisk system can immediately identify fraudulent claims that range from duplicate claims to more sophisticated forms of criminal activity.<sup>13</sup> Encouraging these types of valuable technologies represents an easy and progressive way to significantly reduce fraudulent healthcare spending and contribute to the overall lowering of cost in the system.

Other examples of intelligent solutions exist, the types of which could be applied throughout the industry at the government and private sector level to save valuable dollars. Blue Cross Blue Shield of America and Blue Cross Blue Shield Association have instituted several anti-fraud programs that aggressively target criminals attempting to defraud their company and their patients through medical identify theft, phantom medical equipment providers, and more. All told, the Blue Plan's intelligent initiative saved nearly \$350 million in 2008 alone and since 2000 has saved more than \$1.9 billion.<sup>14</sup> This and other programs can provide the blueprint for moving toward large cost-saving reductions that can save tax payers billions of dollars.

## Conclusion

We find ourselves on the precipice of the largest budget deficit in U.S. history. Wasteful government spending threatens to stifle growth, ingenuity, and innovation. Healthcare represents one large area where this waste can be significantly reduced if the proper reforms are put in place. Waste, fraud, and abuse run rampant in the system, but with meaningful change in how CMS uses technology, operates openly and transparently, and incorporates law enforcement and legal reform, we can save hundreds of billions of dollars over the next 10 years.

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<sup>13</sup> Kryder, Chris and Johnson, Barry. "The "F" Word: \$250 Billion of Easy Money." *Stop Paying the Crooks: Solutions to End the Fraud that Threatens Your Healthcare*, ed. James Frogue (Washington, D.C. Center for Health Transformation Press), at 115-16.

<sup>14</sup> Serota, Scott P. "Blue Plans Leading the Way: Innovative Solutions for Fighting Healthcare Fraud." *Stop Paying the Crooks: Solutions to End the Fraud that Threatens Your Healthcare*, ed. James Frogue (Washington, D.C. Center for Health Transformation Press), at 23.

Chairman ISSA. Dr. de Rugy.

**STATEMENT OF VERONIQUE DE RUGY**

Ms. DE RUGY. Chairman Issa, Ranking Member Cummings, distinguished members of this committee, thank you for the opportunity to come before you today to testify.

My name is Veronique de Rugy. I am a senior research fellow at the Mercatus Center at George Mason University, where I study tax and budget issues.

Fraud, waste and abuse are indeed problems worthy of congressional attention. However, the \$125 billion in overt waste that comes from improper payment pales in comparison to the waste that exists in current congressional spending patterns and the economic damage caused by the misallocation of capital and the creation of perverse incentives.

First, this waste occurs when the Federal Government spends money on private-sector functions. Having the government run businesses such as Amtrak and overseeing infrastructures such as the air traffic control system is not just inefficient, it also hinders economic growth and costs the taxpayers money while providing low-quality service to customers.

Second, this waste also occurs when the Federal Government spends money on functions in the purview of the States. President Reagan wrote that "federalism is rooted in the knowledge that our political liberties are best assured by eliminating the size and scope of the national government." Sadly, Congress has ignored this advice and is now spending \$500 billion in grants to States for activity that it has no legal or practical reason to be involved in, such as healthy marriage promotion and museum professional training grants. It is inefficient and creates an unacceptable lack of accountability.

The waste also occurs because when lawmakers are busy running State, local and private affairs, they have less time to oversee Federal agencies and focus on critical national issues such as defense and security.

But the largest and most recent example of wasteful Federal spending occurred under the American Recovery and Reinvestment Act. Much of the money in the bill was spent, and yet unemployment hovers around 9 percent, higher than the 8.8 percent unemployment rate that the administration threatened the country would face if Congress did not pass the gigantic stimulus bill.

Evidence like this just confirmed what many scholars had predicted all along: Government spending can't jump-start an economy. As a result, many have concluded that the stimulus package was a waste. The practical realities witnessed by the American taxpayers bear out the academic truth: The stimulus spending did not deliver on the promises made, unemployment remains high, and it has saddled the country with more debt.

What would increase employment and stimulate economic growth is investment, private investment, not government spending labeled as investment, but the American companies are not investing their capital, and some \$1.8 trillion in capital is sitting on the sidelines. Why? Because entrepreneurs and risk takers are acting very cautiously out of fear of the future.

Economists and the business community agree, recent policy changes have hampered business investment, making a bad situation worse. The prospect of endless future debt and deficit raises the threat of increased taxes and government crowding out capital markets. Uncertainty prevails. As a result, U.S. companies don't build new plants, they don't conduct research, and they don't hire people. People stay unemployed for weeks, months, years.

You are the representatives of the American taxpayers. You are the stewards of the Nation's finances. You want the economy to grow, you want people to be employed, then you must realize that the Federal Government cannot be and should not be the solution to every one of our problems.

There are things that only the Federal Government can do, but when the Federal Government gets involved where it shouldn't be, it wastes capital, time and taxpayers' money. Understanding this will guide you in making hard decisions about where to cut spending. However, it also means that you must put all spending on the table. Congress needs to make sure that no area of the budget is untouchable, not entitlements, not defense spending. All parts of the budget must be on the table for review and potential cuts.

Finally, you need to put in place now serious, strict and unavoidable budget rules that tie Congress' hand and restore fiscal discipline. With such reform, the American people will start having confidence in their future again, and the country will be on the road to recovery and prosperity.

Thank you for your attention, and I am looking forward to your questions.

[The prepared statement of Ms. de Rugy follows:]



## WASTEFUL SPENDING DOES NOT STOP AT EARMARKS AND OVERPAYMENTS

FEBRUARY 17, 2011

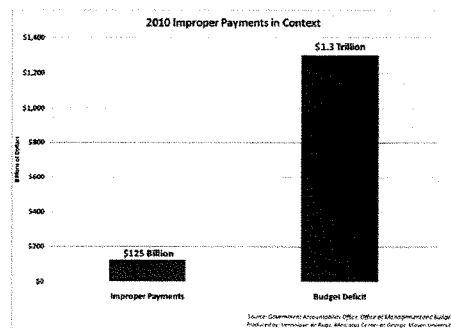
Veronique de Rugy  
Senior Research Fellow

Before the House Committee on Oversight and Government Reform

### INTRODUCTION

Fraud, waste and abuse in the form of improper federal payments are undoubtedly problems worthy of congressional attention. However, improper federal payments are only a small component of government waste in this country. Federal entities estimate improper payments totaled \$125.4 billion in fiscal year 2010, about 5.5 percent of the \$2.3 trillion in reported outlays for the related programs.<sup>1</sup> This \$125 billion in overt waste, however, pales in comparison to the pervasive waste that exists in current spending patterns. It certainly pales compared to the economic damage caused by misallocation of capital and the creation of perverse incentives such as moral hazard.

In fiscal year 2010, the federal government spent \$3.6 trillion dollars, or 24.6 percent of the gross domestic product (GDP),<sup>2</sup> well above the historical average. The consequence of this spending was \$1.3 trillion in budget deficits.<sup>3</sup> A large part of this overspending was improper spending or spending that never should have happened at all.



<sup>1</sup> U.S. Government Accountability Office, *Government Accountability Office Auditor's Report: Fiscal Year 2010*, 245, <http://www.gao.gov/financial/fy2010/10gao2.pdf>.

<sup>2</sup> U.S. Office of Management and Budget, *Mid-Session Review: Fiscal Year 2011*, July 2010, 5, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/11msr.pdf>.

<sup>3</sup> Congressional Budget Office, *Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, 1, <http://www.cbo.gov/ftpdocs/120xx/doc12039/SummaryforWeb.pdf>.

According to the CBO's *alternative scenario* budget projection—the scenario under which widely expected policy changes occur, including legislators' concessions to interest groups such as physicians and senior citizens—at its current trajectory, spending will increase to 25.9 percent of GDP in 2020 and to 32.2 percent in 2030.<sup>4</sup>

The expansion of mandatory programs, such as Medicare, Medicaid, and Social Security, is the driving force behind this spending growth. According to the CBO's alternative scenario, the combined cost of these three programs, which was roughly 10 percent of GDP in 2010, will reach 12.4 percent in 2020 and 15.7 percent in 2030.<sup>5</sup>

As the debt grows, fed by increased Medicare and Medicaid spending, the interest payment on that debt grows as well. If the United States does not change course, payment on the debt will end up as its biggest budget item. There is consensus that this path is unsustainable. According to the United States Treasury, in fiscal year 2010, gross federal debt was \$13.6 trillion, or roughly 90 percent of the United States' GDP.<sup>6</sup> Nine trillion of this debt was owed to outside investors.<sup>7</sup> If we continue along our current fiscal path, by the year 2030 debt held by the public will reach \$34.3 trillion or nearly one and a half times the entire GDP of the United States.<sup>8</sup> Indeed, interest on the debt as a percentage of GDP will explode from a mere 1.8 percent of GDP in 2012 to more than 46 percent of GDP in 2084.

But these debt numbers pale in comparison to unfunded liabilities. According to the *Financial Statement of the United States*, in 2010 the net present value of the promises made to the American people for which the United States does not have the money to pay is roughly \$75 trillion.<sup>9</sup>

The harsh reality is that if the country does not deviate from its current path, the majority of future federal spending will finance the spending of the past.

Here, I focus on three types of systemic spending waste that must be addressed: federal spending on functions that should be reserved for the private sector, federal spending on functions that should be reserved for the states and federal spending on things that government has no business doing in the first place.

#### FEDERAL SPENDING IN PLACE OF THE PRIVATE SECTOR

Economic theory suggests that governments provide public goods more efficiently than the private sector, but that the private markets provide non-public goods, especially commercial ones, more efficiently than government. Unfortunately, according to Office of Management and Budget, about half of all federal employees perform tasks that are not "inherently governmental."<sup>10</sup> Having the government run businesses—such as Amtrak and the Postal Service—and oversee infrastructure—such as the air traffic control system—is not just inefficient. It also hinders economic growth, and costs the taxpayers money while providing low-quality services to customers.<sup>11</sup>

Not only should the federal government not operate private businesses, it should also not pick winners or losers in private business by giving subsidies to private operators—including farmers, small business owners, automakers or energy providers—or by guaranteeing loans to small businesses or energy companies.<sup>12</sup> This "corporate welfare" consists in, in essence, picking winners and losers. And this introduces distortions and unfair competition into the private sector.

<sup>4</sup> Congressional Budget Office, *Long-Term Budget Outlook*, Supplemental Material, Summary Data for the Alternative Fiscal Scenario, June 2010, <http://www.cbo.gov/doc.cfm?index=11579>.

<sup>5</sup> Ibid.

<sup>6</sup> U.S. Department of Treasury, *Monthly Statement of the Public Debt of the United States*, September 30, 2010, <http://www.treasurydirect.gov/govt/reports/pd/mspd/2010/opds092010.pdf>.

<sup>7</sup> Ibid.

<sup>8</sup> Congressional Budget Office, *Long-Term Budget Outlook*, Supplemental Material, Summary Data for the Alternative Fiscal Scenario, June 2010, <http://www.cbo.gov/doc.cfm?index=11579>.

<sup>9</sup> U.S. Department of Treasury, *Financial Statement of the United States FY2010*, <http://www.gao.gov/financial/fy2010/10frusg.pdf>.

<sup>10</sup> Chris Edwards, "Privatization," *Downsizing the Federal Government*, February 2009,

<http://www.downsizinggovernment.org/privatization>

<sup>11</sup> Dong Fu, Lori L. Taylor, and Mine K. Yücel, "Fiscal Policy and Growth" (Working Paper 0301, Federal Reserve Bank of Dallas, January 2003), 10.

<sup>12</sup> See Veronique de Rugy, "Banking on the SBA," *Mercatus on Policy 2*, (Arlington, VA: Mercatus Center at George Mason University, 2011), <http://mercatus.org/publication/mercatus-policy-banking-sba>

It is unfair, for instance, that a restaurant owner who got a private small business loan on the merit of his business plan has to compete with another restaurant owner who benefited from a government-backed loan because he could not get a one from the private sector. Moreover, these subsidies make no sense they either target companies that should be failing because the companies produce goods and services that costumers do not want or they target successful companies that do not need subsidies in the first place. Either way, these subsidies represent a drag on the economy.

Moreover, in some areas the absence of private enterprise is actually the direct result of government subsidies and/or government-granted monopoly positions. For instance, an article in the *Journal of Monetary Economics* finds that: "[T]here is substantial crowding out of private spending by government spending.... [P]ermanent changes in government spending lead to a negative wealth effect."<sup>13</sup>

Additionally, the existence of government hand-outs or privileges introduces incentives for private firms to focus more energy on obtaining government favors than on the production of goods and services that consumers would be willing to pay for<sup>14</sup>

After all, the government's provision or subsidy of private services can have problematic consequences for taxpayers. In 2000, American Enterprise Institute scholar Peter Wallison showed that the government-chartered and government-sponsored corporations Freddie Mac and Fannie Mae were performing far worse in financing low-income housing—especially in minority areas—than ordinary banks.<sup>15</sup> Also, the operations could lead to a serious liability for taxpayers. Unfortunately, Wallison was right about the financial burden to taxpayers.<sup>16</sup>

Privatization of federal assets makes sense for several reasons. First, privatization could help resolve some of this country's debt and deficit problems by yielding one-time revenues of hundreds of billions of dollars over the next decade while leading to annual reductions in outlays. Even though the amount of money saved through privatization at the federal level would not be enough to address the fiscal challenges of retiring baby boomers, the potential deficit reduction would still be substantial.

Second, privatization would spur economic growth by opening new markets to entrepreneurs. As Chris Edwards points out, "The privatization of the USPS and the repeal of its legal monopoly would bring major innovation to the mail business, just as the breakup of AT&T monopoly in the 1980s brought innovation to the communication business."<sup>17</sup> A significant privatization program might also enhance government productivity. By reducing the responsibilities of the federal government, members of Congress could focus on core responsibilities like homeland security.

Finally, the federal government would not be the first to privatize government holdings or activities. Several states have done it. In August 2009, the state of California, for instance, hosted the "Great California Garage Sale" of unused assets such as Blackberries, vehicles, desks, ZIP drives, file cabinets, and tables. That sale grossed \$1.6 million.<sup>18</sup> While \$1.6 million is a drop in the bucket compared a \$38.9 billion shortfall, the push to sell unused state assets should be applauded.

Luckily for taxpayers in California, small assets are just the tip of the iceberg for potential asset sales. In May, Gov. Arnold Schwarzenegger proposed selling several major assets including San Quentin State Prison, Orange County Fairgrounds, Del Mar Fairgrounds and Race Track, Cow Palace (an exhibition hall in Daly City), Cal Expo, Ventura County Fairgrounds, and Los Angeles Memorial Coliseum.<sup>19</sup> Such assets are valuable enough to make a significant dent into California's budget shortfall. For example, some estimates put the value of San Quentin State Prison,

<sup>13</sup> Shaghil Ahmed, "Temporary and Permanent Government Spending in an Open Economy," *Journal of Monetary Economics*, Vol 17, No 2 (March 1986), pp. 197-224

<sup>14</sup> Timothy Carney, *The Big Rip-Off: How the Government and Big Businesses Steal Your Money?* (John Wiley and Sons, New Jersey, 2006)

<sup>15</sup> Peter Wallison, "The Fundamental Problem with Fannie Mae and Freddie Mac," American Enterprise Institute, Friday, December 1, 2000

<sup>16</sup> Peter Wallison, Dissenting Statement, *Financial Crisis Inquiring Commission*, January 2011.

<sup>17</sup> [http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic\\_final\\_report\\_wallison\\_dissent.pdf](http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic_final_report_wallison_dissent.pdf)

<sup>18</sup> Chris Edwards, "Downsizing the Size of the Federal Government," *Cato Institute Policy Analysis* 515, 34,

<sup>19</sup> [http://www.hearland.org/custom/semod\\_policybot/pdf/15352.pdf](http://www.hearland.org/custom/semod_policybot/pdf/15352.pdf)

<sup>18</sup> <http://www.dgs.ca.gov/GarageSale>

<sup>19</sup> <http://articles.latimes.com/2009/may/14/local/me-budget14>

which sits on a prime piece of real estate overlooking San Francisco Bay, at \$2 billion even in a down market<sup>20</sup> Such sales are nothing new. In 2001, the state sold surplus properties in Silicon Valley for \$149 million.<sup>21</sup> From FY 2002–03 to FY 2006–07, the state sold, transferred, or exchanged 43 surplus properties grossing over \$218 million.<sup>22</sup> There are likely many more surplus properties ripe for sale. As of January 5, 2010, the state owns 2,813 properties, covering 6,818,057.93 acres, and the California Performance Review has identified nearly 50 high-value, state-owned urban properties that combined could sell for up to \$4.3 billion.

A number of states also have started to finance and operate highways privately, like Virginia's Dulles Greenway, a 14-mile private highway opened in 1995 and paid for by private bond and equity issues. Similar private highway projects have been completed, or are being pursued, in California, Maryland, Minnesota, North Carolina, South Carolina, and Texas. In Indiana, Governor Mitch Daniels even leased the highway and made a \$4 billion profit for the state's taxpayers.

Other countries have also had experience with privatization. The French A14 in Paris has been funded with private funds and has not only managed to stay in business but has even helped to reduce the nation's traffic congestion. Also, while almost all major U.S. airports are owned by state and local governments and receive federal government subsidies for renovation and expansion, many countries have privatized or partly privatized their airports, including airports in Athens, Greece; Auckland, New Zealand; Brussels, Belgium; Copenhagen, Denmark; Frankfurt, Germany; London, UK; Melbourne and Sydney, Australia; Naples and Rome, Italy; and Vienna, Austria.<sup>23</sup> Interestingly, most of these countries have also privatized or partly privatized their postal services.

#### FEDERAL SPENDING IN PLACE OF THE STATE SPENDING

Just as the federal government is not the best-suited entity to deliver services that should be delivered by the private sector, so too it is not the best entity to provide public goods that should be delivered at state or local levels.

Take the protection of the United States. In theory, the protection of the country against international enemies is a public good. Yet, not all protections should be delivered by the federal government. Espionage, intelligence, and immigration control have, by nature, a national scope, so the federal government should make these investments. But the protection of public infrastructures such as bridges and water treatment plants that benefit the residents of a particular state or locality should fall to the state or local government. Even if there might be adverse effects throughout the economy if a specific bridge were to be destroyed, the principal economic impact of such an unfortunate event would be felt primarily locally.

But unfortunately, during recent American history, the federal government has expanded its reach and taken over many state functions. The main reason behind this centralization is the lack of distinction, as President Reagan noted in a 1987 Executive Order, "between problems of national scope (which may justify federal action) and problems that are merely common to the states (which will not justify federal action because individual states, acting individually or together, can effectively deal with them)."<sup>24</sup>

This confusion over federal versus state authority extends to areas such as education, transportation, and homeland security. For instance, Congress allocates most of homeland security spending to pay for things that are local in nature such as hazmat suits and first responders' radios.

This allocation happens mainly through the federal distribution of grants to state and local governments, the so-called grants-in-aid. Figure 1 shows federal grant spending in constant (2000) dollars from 1960 to 2013. Total grant outlays increased from \$285.9 billion in fiscal year 2000 to \$363.3 billion in fiscal year 2010—a 27.1 percent increase. Grants also account for an increasing share of federal spending: 18 percent in 2009 as compared to 7.6 percent in 1960. The data show the federal government is taking over more and more state-confined activities, such as education or even transportation.

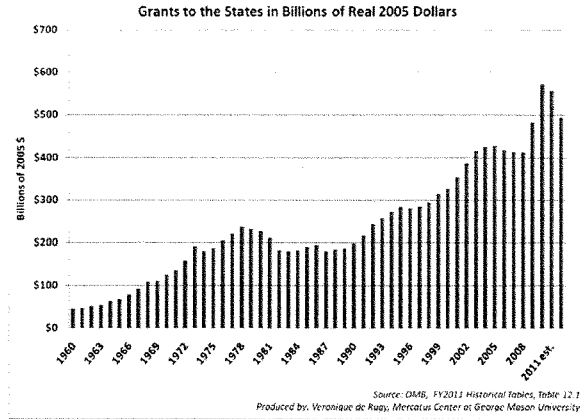
<sup>20</sup> [http://www.cnn.com/2009/US/03/31/oceanfront.prison/index.html?eref=rss\\_mostpopular](http://www.cnn.com/2009/US/03/31/oceanfront.prison/index.html?eref=rss_mostpopular)

<sup>21</sup> <http://reason.org/blog/show/california-holds-garage-sale-t>

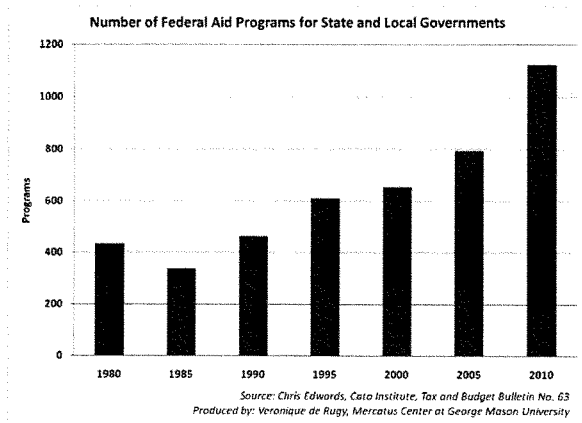
<sup>22</sup> <http://www.documents.dgs.ca.gov/Leg/LegislativeReports/2008/Surplusproperty.pdf>

<sup>23</sup> Chris Edwards, "Privatization," *Cato Institute Handbook for Policymakers*, 7<sup>th</sup> Edition.

<sup>24</sup> Ronald Reagan, Executive Order 12612, October 26, 1987, [www.reagan.utexas.edu/archives/speeches/1987/102687d.htm](http://www.reagan.utexas.edu/archives/speeches/1987/102687d.htm)



The total number of federal grant programs displays the same pattern. According to Chris Edwards of the Cato Institute, there are now 1,122 aid-to-state programs, 72 percent more programs than just a decade ago. Indeed, federal spending throughout the recession has only exacerbated the trend with an estimated \$291 billion dollars going to states through increased unemployment benefits, the Supplemental Nutrition Assistance Program, Medicaid matching, Build America Bonds, and the state fiscal-stabilization fund.<sup>25</sup>



<sup>25</sup> Author's calculation based on Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010, Appendix A.

This increased funding to the states has serious consequences.

Federal grants to state and local governments spur wasteful spending. The incentive structure of aid programs encourages lawmakers at all levels of government to overspend. These programs allow lawmakers to claim credit for spending on a program without the responsibility of collecting the entire tax bill necessary for the funding.

Also, grant design often gives states an incentive to increase their spending on these programs. A funding formula based on "matching" provisions for instance means that for every dollar the state spends the federal government will shoulder some of the total amount, thereby lowering the states' burden of the cost and giving states an incentive to increase its provision. Under a 50-50 matching rule, for every \$1 a state spends on a program, the federal government chips in \$1. Matching reduces the consequences of increasing spending, thus prompting the states to expand programs.

The quintessential example of a matching grant leading to overspending is Medicaid. As my colleague Matt Mitchell wrote recently, "Medicaid is financed by a federal matching grant. This means that for each dollar a state adds to its Medicaid budget, the federal government will kick in from 1 to 3 additional dollars. This gives states an incentive to expand beyond the point where additional costs begin to exceed benefits."<sup>26</sup>

Because of the open-ended federal match under Medicaid, state governments have continuously expanded health benefits and the number of eligible beneficiaries. Mitchell writes, "Adjusting for growth in health care prices, states increased spending on Medicaid by 116 percent from 1987 to 2007. From 2000 to 2007, the rate of Medicaid enrollment grew four times as fast as the general population."<sup>27</sup>

Unfortunately, two-thirds of federal aid spending is on grant programs that have matching requirements. One way to limit the never-ending expansion of matching grants is to convert them to block grants. According to Chris Edwards, "Block grants provide a fixed sum to states and give them flexibility on program design. For example, the 1996 welfare reform law turned Aid to Families with Dependent Children, an open-ended matching grant, into Temporary Assistance for Needy Families, a lump-sum block grant. Similar block grant reforms should be pursued for Medicaid and other programs. Converting programs to block grants would reduce incentives to overspend and would make it easier for reformers to cut and eliminate programs in the future."<sup>28</sup>

Federal grants to state and local government forces states to increase spending and taxes. Building on a large economic literature, a recent paper by economists Russell Sobel and George Crowley finds new evidence of what economists term the "flypaper effect," wherein federal money given to states prompts additional spending.<sup>29</sup> In addition, however, they show that every dollar in temporary federal grants to states and localities leads to 40 cents of future tax increases.

This was former South Carolina governor Mark Sanford's argument for trying to reject the stimulus money back in 2009. Referring to when the temporary federal stimulus funding runs out two years in the future, he states: "[...] or do we just summarily end programs, [o]r are we to plan on yet another round of stimulus windfall from Washington in two years. The easiest of all things would be to take and simply spend all of Washington's well intended efforts, but in our case it would guarantee lost opportunities that I don't think our state can afford."<sup>30</sup>

The data show that Governor Sanford was correct. When states accept federal aid today to create or expand public programs, they will inevitably be forced to decide whether to cut the programs or raise taxes when federal aid ends. Generally they decide to raise taxes, averaging 40 cents in state and local tax increases for every federal grant dollar lost. Thus some of the blame for states' current fiscal crises also lies at the Capitol's doorstep.

<sup>26</sup> Matt Mitchell, "The Eligibility Explosion," Room for Debate, *New York Times*, December 6, 2010,

<http://www.nytimes.com/roomfordebate/2010/12/05/how-to-save-medicaid/expanded-eligibility-busted-budgets>

<sup>27</sup> Ibid, <http://www.nytimes.com/roomfordebate/2010/12/05/how-to-save-medicaid/expanded-eligibility-busted-budgets>

<sup>28</sup> Chris Edwards, "Fiscal Federalism," in *Downsizing the Federal Government*, Cato Institute, February 2009,

<http://www.downsizinggovernment.org/fiscal-federalism>

<sup>29</sup> Sobel and Crowley, "Do Intergovernmental Grants Create Ratchets in State and Local Taxes? Testing the Friedman-Sanford Hypothesis" (working paper, Mercatus Center at George Mason University, 2010)

<sup>30</sup> Mark Sanford, "Prudence on Stimulus in State's Best Interest," *Myrtle Beach Sun-News*, April 6, 2009

Federal grants to state and local functions destroy meaningful competition between states for taxpayers and businesses by obviating any differences between the states. In theory, fiscal federalism—the idea that, acting under some federal constraints, states should set their own economic policies rather than follow directives from the central government—is a great tool that holds state and local governments accountable for their policy actions. In practice, it hardly exists. The increasing scope of federal programs and grants has largely eroded fiscal federalism's effect on state and local governments' policy decisions and made tax considerations almost irrelevant in people's decisions about where to live.

First, as federal grant programs continue to grow, so does the federal taxation required to fund this redistribution. Today, federal taxation has grown so much that differences in state tax rates contribute only marginally to a taxpayer's total tax burden. Sixty percent of all government revenues in 2008 came from the federal income tax, making it the dominant tax burden in Americans' lives. By contrast, in 1930, the federal income tax provided only 30 percent of all government revenues.

All other things being equal, it remains less costly to live or run a business in a low tax-rate state than in a high tax-rate one. However, when the central government imposes an ever-increasing percentage of each taxpayer's total tax burden, differences in state taxes become less important. If your main tax burden is going to be the same wherever you live, why bother even moving to another state, especially if you get to deduct your state taxes from your federal ones? Being able to deduct state taxes from the federal burden obviates any differences between the states.

Second, such grants come with strings attached, strings that further weaken states' diversity. In order to retrieve some of the money that their residents have paid in federal taxes, states must compete with each other to get money from the federal government instead of more directly competing with each other to gain residents

This lack of meaningful interstate competition has a negative effect on taxpayers. As programs become more centralized, state authorities must increasingly comply with procedures and regulations set forth by Washington. These homogenous procedures and regulations often ignore the needs of local taxpayers. In effect, the states and the federal government act as a tax cartel, charging higher taxes for lower quality services that do not address the unique needs of communities.

We should mourn the death of fiscal federalism. The fear of losing taxpayers to another jurisdiction gives policy makers an incentive to keep taxes, regulations, and other intrusions modest; but homogenized, top-down policy diminishes the incentives for states to compete for residents. Instead of competing for residents, states compete for central government funding and privileges. It's a system that rewards the best lobbyists while wasting taxpayers' money.

In order to bring fiscal federalism back to life, Congress needs to decentralize radically the government's power to tax and to spend.<sup>31</sup> Today, lawmakers need to revive federalism by transferring many programs back to the states. States are, after all, in a better position than the federal government to determine their needs when it comes to roads or schools.

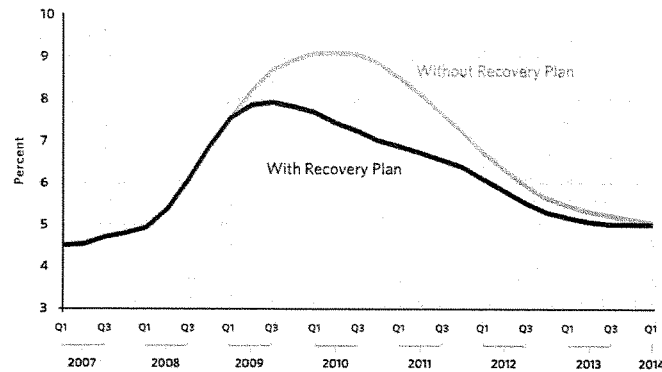
A first step would be to cut federal aid to the state governments dramatically. Eventually, the federal government would have to abolish the national income tax and cease giving grants to state and local governments, thereby expelling central government from state and local functions and making true fiscal federalism possible.

States' requests for federal bailouts from their financial woes seem imminent. Such bailouts would likely take the form of transfers from the federal government to the states to pay for teachers and other public employees. But such bailouts won't help the states. What the states need is tough love that would force them to address the problems that are the sources of their crises, including pensions, Medicaid, and education spending.

<sup>31</sup> The Reagan administration's policy of "new federalism" attempted to sort out the mess of federal grants by redefining federal and state priorities so that each level of government should have full responsibility for financing its own programs. For example, the Omnibus Budget Reconciliation Act of 1981 eliminated 59 grant programs and consolidated 80 narrowly focused grants into nine block grants, reducing their regulatory burden. Unfortunately, this progress was subsequently reversed.

## FRUITLESS FEDERAL SPENDING

The largest and most obvious example of wasteful federal spending is that which has occurred under the American Recovery and Reinvestment Act.



This figure, drawn from a January report by White House economists Jared Bernstein and Christina Romer, compares projected unemployment rates with and without the passage of a \$700 billion stimulus package.<sup>32</sup> Comparing the unemployment rates projected by Romer and Bernstein, which peak at 8.8%, to reality suggests that the Administration's promise that the ARRA bill would reduce unemployment rates and create jobs did not materialize. As of February of this year, recipients of loans, grants, and contracts through the stimulus have reported \$275 billion received through the stimulus bill, and yet unemployment hovers around 9%. In fact, data from the Bureau of Labor statistics shows that since the passage of the stimulus, employment has fluctuated wildly, reaching a peak of 10.1% in October of 2009, a rate much higher than the 8.8% unemployment the Administration claimed the country would face if Congress didn't pass the gigantic American Recovery and Reinvestment Act spending bill.

There is much evidence to suggest that the massive spending set into motion by the American Recovery and Reinvestment Act did not achieve its objectives.<sup>33</sup> Scholars throughout academia have formed thoughtful critiques of stimulus spending, including identifying fundamental flaws in the methods used to estimate job creation from the stimulus,<sup>34</sup> tracking how stimulus spending went primarily to prop up the borrowing of states and localities (therefore providing little net Keynesian stimulus),<sup>35</sup> and noting the propensity of fiscal stimulus to shift consumption to an earlier time, not increasing it on net.<sup>36</sup> Given the evidence, many scholars have arrived at the conclusion that the fiscal stimulus package passed in 2009 was a waste. The practical realities witnessed by the American taxpayer today bear out this academic truth.

<sup>32</sup> Christina Romer and Jared Bernstein, *The Job Impact of the American Recovery and Reinvestment Act*.

<sup>33</sup> In *Did the Stimulus Stimulate? Real Time Estimates of the Effects of the American Readjustment and Recovery Act*, James Feyrer and Bruce Sacerdote compare states and counties that got heavy doses of stimulus spending with those that didn't, and look at the trends in growth and unemployment in these regions. They find that in the *short run*, the stimulus did boost the economy, though not to the extent promised by the Obama Administration at the passage of the American Recovery and Reinvestment Act. The authors also point out the difficulty of analyzing the effects of a stimulus relative to a counterfactual baseline. Why? Because the stimulus was designed so that large amounts of money went to the states. The states used the money to pay for existing education and law enforcement jobs. Paying for extant jobs does not stimulate an economy.

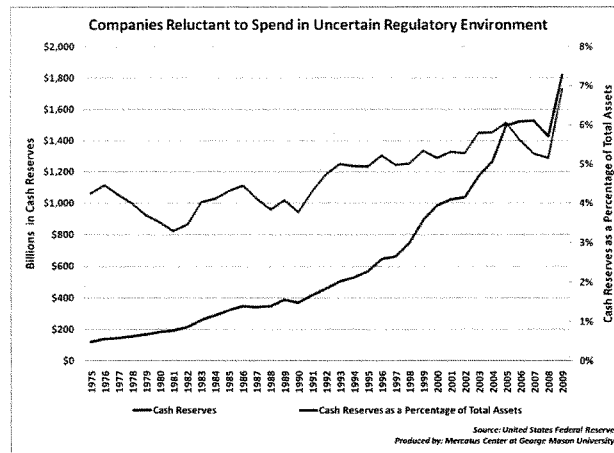
<sup>34</sup> For a discussion of the flaws of employing Keynesian estimators, see Cogan, Cwik, Taylor, and Wieland, "New Keynesian versus Old Keynesian Government Spending Multipliers," *Journal of Economic Dynamics and Control*.

<sup>35</sup> John Taylor and John Cogan examine data from the Department of Commerce to follow the path of stimulus dollars in research published in "Where Did the Stimulus Go?" *Commentary Magazine*, January 2011.

<sup>36</sup> Atif Mian, Amir Sufi, "The Effects of Fiscal Stimulus: Evidence from the 2009 'Cash for Clunkers' Program", (NBER Working Paper 16351).

When coupled with the federal government's regulatory and monetary decisions during this recession, federal stimulus spending has led to decreased employment and economic growth. As Stanford economist John Taylor emphasizes in forthcoming research, raising private investment as a share of GDP is the best way to reduce unemployment. Investment (private investment, not government spending labeled as investment) is much more strongly correlated with decreasing unemployment than any components of government spending.

Thus a major factor in the current American stagnation becomes plain: Companies are not investing. They are hoarding capital.



Using data from the United States Federal Reserve Bank, the above chart shows the changes in American businesses' cash reserves since 1975. Billions of dollars in cash reserves is shown in red and cash reserves as a percentage of total business assets is shown in blue to provide historical parity. By both measures, companies are holding onto more cash than they have in 48 years: over \$1.8 trillion.

This cash is being held to hedge against the risk produced by an exceptionally uncertain policy environment. Instead of putting them to work in the economy, companies are holding onto their dollars. Economists and the business community agree that recent policy changes have hampered business investment, making a bad situation worse.<sup>37</sup> Indeterminately large future debt and deficits pose a threat for increased taxes and for future government crowding out of capital markets.<sup>38</sup> Healthcare and financial reform measures have increased the regulatory burden on businesses.<sup>39</sup> Uncertainty about the future of energy and environmental policy looms. The cost of this uncertainty is that companies aren't building new plants, conducting technological research, or hiring workers. As policy makers attempt to reduce unemployment and encourage growth, they must realize their limitations and the unrealized opportunities for private-sector growth. Lasting economic stimulus will come when they allow American businesses to thrive.

<sup>37</sup> In a June 2010 speech to the Economic Club of Washington, Ivan G. Seidenberg, Chairman of Business Roundtable and CEO of Verizon Communications commented: "We have become somewhat troubled by a growing disconnect between Washington and the business community that is harming our ability to expand the economy and grow private-sector jobs in the U.S." said Seidenberg. "In our judgment, we have reached a point where the negative effects of the proposed policies are simply too significant to ignore." See also John Taylor, comment on "The End of the Recrudescence of Keynesian Economics," Economics One, comment posted November 21, 2010, <http://johnbtaylor.blogspot.com/2010/11/end-of-recrudescence-of-keynesian.html> and Gary Becker, comment on "The Sluggish U.S. Employment Picture," posted December 6, 2010, <http://uchicagolaw.typepad.com/beckerposner/page/2/>.

<sup>38</sup> Congressional Budget Office, *Long-Term Budget Outlook*, June 2010, <http://www.cbo.gov/doc.cfm?index=11579>, 18.

<sup>39</sup> Business Roundtable, *Roadmap for Growth*, December 2010, [http://businessroundtable.org/uploads/studies-reports/downloads/Roadmap\\_for\\_Growth\\_Full\\_Report\\_5.pdf](http://businessroundtable.org/uploads/studies-reports/downloads/Roadmap_for_Growth_Full_Report_5.pdf).

## CONCLUSION

As representatives of the American taxpayer, it is your job to be the stewards of the nation's finances. Today, our nation suffers from severe, structural financial imbalances, which are the product of too many years of throwing more and more money at perceived problems and at interest groups. The real key to long-term prosperity in America lies first and foremost in realizing that the federal government can't and shouldn't be the solution to every one of our problems. There are activities specific to the federal government that should be handled as such, but many activities are better left in the hands of the private sector and others are better handled by the states and local governments. It is hard to overstate the inefficiencies, misallocations of capital and time, the moral hazards, and the waste of taxpayers' money that results from the centralization of most activities and the involvement of the federal government where it shouldn't be.

Understanding which player is best suited to address a problem or to produce a good or a service would make it easier for you to address budget issues and cut spending. In addition, when considering what to cut, I offer the following recommendations:

First, have an honest accounting that shows an accurate picture of the fiscal situation. Lawmakers use a countless number of budget gimmicks to hide the true cost or to artificially inflate the benefits of the policies they want to put in place. Budget gimmicks, however, have consequences beyond letting lawmakers get away with spending money. They lead to *inefficient and wasteful spending* and to *irresponsible decisions that jeopardize this country's future*.

With a limited budget, policy makers—like nearly everyone else in the world—must prioritize spending. They must choose the best policies to adopt based on available funds and forgo other projects. When legislators manipulate numbers in order to fund programs that might not otherwise pass muster, they are not obligated to show that the programs serve genuine social or financial policy objectives.

As a result, Congress must make sure that it fixes some of most prevalent budget gimmicks that U.S. government officials use to hide the size of deficits, debts, program costs, and revenue losses. Some of these strategies include pretending the spending does not exist by keeping it explicitly or implicitly off-the-record, pretending that non-emergency spending is an emergency, pretending the spending is smaller than it is, pretending that spending is really an investment, pretending the tax revenues will be bigger than should reasonably be expected, and/or pretending that future pension liabilities do not exist. And this list is by no means exhaustive.

Given the many spending limits in place that elected officials nonetheless manage to avoid, few methods will successfully cap spending. Nevertheless, if Congress does not address the accounting tricks and budget gimmicks that undermine spending rules, no matter how well intentioned the proposed reforms are, we should have no confidence that it will work to address our fiscal challenges. In the near term, serious, strict, and unavoidable budget rules need to be put in place to tie Congress' hands and restore fiscal discipline.

Second, all spending must be on the table. Real fiscal reform will require not just a change in the trajectory of government spending, but also a change in the political (or parochial) priorities of elected officials. Congress needs to make sure no areas of the budget are untouchable (not entitlement and not defense). All parts of the budget must be on the table for review and potential cuts. Failure to do so will jeopardize the goal of addressing our fiscal problems.

Thank you for your attention. I look forward to your questions.

Chairman ISSA. I first want to thank all of you for being very, very close to that 5 minutes. That is pretty close to a record.

I recognize myself for 5 minutes.

You each gave a different perspective. In 5 minutes, it's going to be hard to go through all of them, but I am going to start with Mr. Frakes.

When you gave those numbers, one of the things I found interesting is you went through defensive medicine as a major part, and that is beyond the scope of, perhaps, this committee—other committees will be dealing with it—but when you looked at the \$178 billion in outright payments for either procedures that didn't occur or even in some cases to entities that weren't even what they claimed to be, what do you believe—or has your organization studied what you believe it would cost the Federal Government to avoid all or part of that? Where is the sweet spot? Would \$1 billion in a system to attack that kind of waste or that kind of false payments yield far more than \$1 billion?

Mr. FRAKES. Certainly. We have seen it through the private sector, through IBM and others, that if you put in money on the front end, it will yield significant results and much greater results in the back end.

When I am talking about putting in money at the front to really curb this idea of stopping suppliers and checking things before they go out the door, you are going to see a massive increase in the number of drops in numbers of fraudulent payments, fraudulent suppliers that exist to the tune of—if anything, if you put in \$1 billion, you are going to see a much higher yield. Those numbers are not insignificant, and they're going to be incredibly influential in terms of cutting things off.

There is this thought out there that if you apply to be a Medicare or Medicaid supplier, that you are automatically granted that, and that is simply not the case. We need to be doing a much better job of putting in front-end money that will yield much higher savings as a result of cutting off fraudulent suppliers and so forth.

Chairman ISSA. Comptroller Dodaro, you are familiar with the recovery organization's efforts, their Web site and their data base management. My understanding is that was a couple of million dollars, and they have found like \$80 million in one example only of what would have been the losses of Medicare fraud in which the organizations that were doing it had actually stolen doctors' identification and so on.

Can you comment a little bit on how do we get from you and other watchdog organizations—how do we get the numbers so that we can find a way to fund programs similar to Chairman Devaney's?

Mr. DODARO. I would be happy to provide some additional details, but what I would say is that I agree completely that an upfront investment targeting certain areas that you know that have high rates of issues, like home health services, for example, and other areas, to put controls in up front would be a very appropriate investment to be made. We have made recommendations along those lines. We're looking at prepayment controls right now—

Chairman ISSA. But prepayment controls are a big step. That is sort of back to that \$80 billion that we can't seem to get well spent in IT expenditures.

My real question here and why I picked that 100—there are all kinds of numbers, in fairness. I've seen it as low as \$70 billion, you know, just a rounding here, I guess, all the way up to approaching \$200 billion in payments made in Medicare for services not provided, or in many cases provided to entities that were not even what they said they were.

How do we attack that in a way—and I am specifically looking at Earl Devaney's work, because that wasn't even in his main target, but because stimulus funds were used there, he was able to stand up—and I believe it was less than \$2 million, and he has already headed off a scam that was just an anecdotal analysis.

How do we get, with GAO's help hopefully, the ability for this committee to make a case to Congress at a time in which it seems like we're cutting to make—and perhaps that \$2 million is enough—but to make that kind of investment and then score the savings so that if we spend \$5 million to save \$500 million, we then see the opportunity to spend 10 times that to save 10 times that?

Mr. DODARO. No, I understand what you are saying, and I agree with that. I mean, we can work with Earl. I think that we're going to try to use his system in the health care area on an experimental basis and to try to come up with some proposals for that detection kind of capability up front with the relationships between different entities and the screening that was done. So we would be happy to try to come up with a proposal that we could discuss with you.

Chairman ISSA. Ms. Cammer, if I could just ask you one question as the private-sector representative here. If we were able to score it, do you believe the private sector, the way they have in the past with the IRS, would they—do you believe the private sector would be interested in working on, if you will, a bounty system, one in which it costs nothing to the government unless we save many times that?

Ms. CAMMER. Yes. So what you are talking about is an example of what we did with the State of North Carolina that we're operating right now with their Medicare and Medicaid payments. And so we have implemented that—

Chairman ISSA. My time has expired, so just briefly what have you saved?

Ms. CAMMER. Yes. So it's an outcome-based approach. So that has just started, and we have identified opportunities for them to go after that. And I don't have the number right in front of me, but I believe it's in my written testimony.

Chairman ISSA. But you only get a small part of whatever they claim.

Ms. CAMMER. We get 10 percent of what gets identified, yes.

Chairman ISSA. Thank you.

I recognize the gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

All of your testimony is fascinating and is so very, very important.

First of all, let me go back, Mr. Dodaro, to something Senator McCaskill was talking about. You were here when she was testifying?

Mr. DODARO. Yes.

Mr. CUMMINGS. You'll recall that she said basically, don't cut your nose off to spite your face with regard to funding for agencies like yours. Are you satisfied with the funding that you have to do your job? You are going to have to answer that quickly, unfortunately, because I've got a lot of questions.

Mr. DODARO. Basically I requested, given the fiscal situation in the country, that our funding level be kept flat at 2010 fiscal year levels, and I would be satisfied if our funding was kept at that level.

Mr. CUMMINGS. Thank you.

Another question is during your testimony you talked about the agencies that you were able to take off the list, and you said that you saw something very interesting in that they seemed to have come under the most scrutiny by the Congress. Is that a fair statement?

Mr. DODARO. Yes. There was sustained congressional attention in both of those areas.

Mr. CUMMINGS. And, Mr. Chairman, what he just said I think is so crucial. We saw that with regard to the Coast Guard. When we stayed on top of them, we got it done and got it done in a little bit of time, saving millions of dollars in a short period of time because it was a sustained effort.

Federal contracting has expanded over the last 10 years to over \$500 billion. According to your report, GAO has included the Defense Department's contract management on the High-Risk List since 1992. DOD weapon systems acquisition and supply chain management have been on the list even longer, since 1990.

Mr. Dodaro, is anyone able to quantify how much of DOD's contracting budget over these past 20 years has been lost to waste, fraud or abuse?

Mr. DODARO. I am not aware of any estimate of that nature.

Mr. CUMMINGS. And one of the things that made me realize—and I said this to the Coast Guard folks—I believe that we were caught up in a culture, that is, the Coast Guard was caught up in a culture, of mediocrity. And then when I saw a statement by Secretary Gates, it made me wonder about our Defense Department being caught up in a culture of mediocrity when it comes to these kinds of issues, particularly on contracting out. Secretary Gates said, "I can't get a number on how many contractors work for the Office of the Secretary of Defense."

Are you surprised by that statement?

Mr. DODARO. No, I am not.

Mr. CUMMINGS. That is sad, isn't it?

Mr. DODARO. I think that there is plenty of room for improvement in the Defense Department's business areas. For example, they're one of the few, and the largest, departments that has yet been able to get a financial audit and an unqualified opinion. I mean, they are in need of some major reforms and better data in order to manage by.

Mr. CUMMINGS. I am going to go back to something Ms. Cammer said. You know, I was telling my staff you've done a great advertisement for IBM, and I am just wondering why, and following up on what the chairman was asking about, is there any way we can incorporate, and is there anything that Congress can do, Mr. Dodaro, to incorporate those kind of things?

One of the things that Devaney has said to our committee, he said, I want to stop the fraud before it happens. I will never forget him saying that: I want to stop the mismanagement before it happens. And I think he has probably done that. So is there any way we can do those kinds of things, the kinds of things that some of our other witnesses talked about from the very beginning? Are you following me?

Mr. DODARO. Yes.

Mr. CUMMINGS. And what would it take us to do that? What would we need?

Mr. DODARO. Well, I think you need to have well-developed plans with the agencies. Part of this is changing the culture shift from a pay-and-chase type of an approach. And there was a lot of emphasis on getting the money out the door fast and not always with screening it up front. So changing that cultural shift, putting some additional requirements in place, and well-targeted investments that are developed and tailored to the programs.

Mr. CUMMINGS. Going back to DOD, we have a situation where we have private contractors—and we saw this in the Coast Guard. You've got private contractors being hired to oversee private contractors, which, again, that goes to that culture of mediocrity. Does that make any sense? And how can we get around that?

Mr. DODARO. That definitely increases the risk. And part of the problem is the contracting amounts of funds at DOD have gone like this. The acquisition workhouse has been relatively flat. They haven't adapted to have the right type of oversight. Part of the problem is you can never contract out the government's decisions and what the requirements ought to be and then provide an effective oversight over that area. The lack of definitive requirements is something we see time and time again, and changing requirements, and not applying a good business practice, and having a good business case in the beginning before the investments are made or the contracts are let.

Mr. CUMMINGS. I see my time has expired. Thank you, Mr. Chairman.

Chairman ISSA. The gentleman from Texas Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much, Mr. Chairman. I had a couple of questions.

My first question is we're talking about billions of dollars in fraud and waste. And I think I know the answer to this question, but I've learned in government it's better to ask the question.

When you are scoring the amount of waste, let's say we're writing a check to somebody for \$1 million and 96 cents, and it really should have been \$1 million and 69 cents. We're counting that as a 27-cent error and not a million-dollar error in those numbers, right? I just want to make sure we really are chasing the really big dollars.

Mr. DODARO. Well, I think the amounts that we have mentioned in our report are the right estimate.

Mr. FARENTHOLD. So that is the actual cost to the government and not the aggregate dollar amounts.

Mr. DODARO. Right.

Mr. FARENTHOLD. There is some error in there.

Mr. DODARO. Yeah, there could be some error in there. And some of the estimates for the Medicare and Medicaid program, for example, some of the improper payments are based upon incomplete documentation or not having enough documentation, but a lot of it is for medically unnecessary services, or people receiving money are not eligible.

Mr. FARENTHOLD. OK. And I think Medicare and Medicaid is probably a right target. We talked about using software. We have an abysmal record with IT in the Federal Government. I think that comes from the fact that we don't try to use off-the-shelf products; we come up with our own—I am going to use the word “ridiculous”—specifications rather than trying to squeeze something into an existing product. I realize balancing the Federal budget isn't like going out and buying World of Warcraft at Best Buy, but it seems like, for instance, in Medicare and Medicaid, there ought to be something already developed out there by the private insurance carriers who are doing pretty much the same thing.

Do you see some advantage in doing that? And maybe I should direct this to the lady from IBM. I mean, is there a product? I mean, can we just go plug this stuff into your Cognos product and just start working at it?

Ms. CAMMER. Yes. I mean, there is a solution, so I don't want to say it's a product. So it's a solution that exists that we have been—like I said, in North Carolina. I also want to let you know that CMS has recently issued a Request for Proposal to do exactly what we're talking about, to do it before it gets paid, leverage analytics and IT that do predictive analytics around what gets paid.

Mr. FARENTHOLD. All right. And I'll yield back the remainder of my time with just the comment that I really think part of what we need to be doing is looking for off-the-shelf solutions we can plug into rather than trying to develop something custom for ourselves. That always tends to be much more expensive.

Thank you.

Chairman ISSA. Would the gentleman yield?

Mr. FARENTHOLD. Sure.

Chairman ISSA. Mr. Dodaro, one quick question. We haven't asked you to talk about the cyber threat of both dollar waste and failure. Could you comment on that for a moment for all of us? A lot of people are just getting up to speed on that.

Mr. DODARO. Yes. This is a very important issue. I am glad you asked me that question.

We put computer security across the Federal Government as a high-risk area in 1997 because of concerns we had. It was the very first time we designated something across the whole Federal Government as high-risk. And the risks continue to escalate. And the Federal agencies do not have good, comprehensive systems with access, control, segregation of duties, comprehensive security programs. In 2003, we expanded it to critical infrastructure protection,

the energy grid and other areas. And the incidents that are occurring and are reported are going higher.

The Federal Government needs to have a better public-private partnership with the private sector. Since most of the assets are in the private sector, there needs to be more early warning and detection capabilities. This is a very important area. I was glad to see that the President commissioned the study, but our review of the study shows that of the 24 recommendations, only 2 have been fully implemented to date.

So there is a road map—clear roles and responsibilities, partnership with the private sector. This is a terribly important area, and we're concerned about it.

Chairman ISSA. Thank you.

Does the gentleman yield back?

Mr. FARENTHOLD. I do.

Chairman ISSA. The gentleman from New York is recognized Mr. Yarmuth.

Mr. YARMUTH. You got me in the wrong State, but that is OK. I am not from New York.

Chairman ISSA. Oh, I am sorry. They write it down, and I read it. I am sorry, Kentucky.

Mr. YARMUTH. I know everything east of California is all messed up, but—

Chairman ISSA. You know, Mr. Kucinich often reminds me I was from Cleveland before I was from California. But the gentleman from Kentucky.

Mr. YARMUTH. That is quite all right. Thank you, Mr. Chairman.

Thank you all for your testimony.

Mr. DODARO, I wanted to talk with you about one of the categories that you've added to the High-Risk List, and that is the revenues from oil and gas leases. According to your report, that is actually one of the largest income—nontaxed income sources of the government, about \$9 billion in 2009. And just a couple days ago you wrote an op-ed in the New York Times and you wrote, "In fiscal years 2006 and 2007, we found that much of the data reported by oil and gas companies appeared erroneous, resulting in millions in uncollected fees."

Do you have any sense of how long the oil and gas companies have been misreporting their production?

Mr. DODARO. I am not sure off hand how far back that goes. We did update that work in 2009 and found still continued data inaccuracies in the system. We also looked at Interior's efforts recently to verify the production numbers of oil and gas production and found problems with that as well.

The other point I would add on this is that the assessment system generally hasn't been looked at in the last 25 years, and we have made recommendations there because when the Federal Government was compared to other countries and even some States, it was relatively low in terms of what it was charging. Interior has a study under way, and they're due to produce it this year.

Mr. YARMUTH. Do you have any estimate of how much this may have cost the taxpayers?

Mr. DODARO. Not off hand.

Mr. YARMUTH. In your examination of the data from 2006 and 2007, what company did you find to have underreported and underpaid the most?

Mr. DODARO. I am not sure. I would have to provide that for the record if we have it. I'd be happy to do so.

Mr. YARMUTH. I'd like to make a request that you would do that and provide a list of the companies that have underreported and therefore underpaid. I appreciate that.

[The information referred to follows:]

[NOTE.—The information was not provided to the committee.]

Mr. YARMUTH. Mr. Frakes, I want to just ask you a question. You made a comment about the amount of medical services provided basically as defensive medicine, and I think you mentioned the number 25 percent possibly?

Mr. FRAKES. Yes, that is correct.

Mr. YARMUTH. Where does that number come from?

Mr. FRAKES. It came from a study that was conducted between Jackson Health Care and the Gallup organization.

Mr. YARMUTH. And there are studies that show that number is considerably lower than that, isn't it? I mean, I think we all agree that there's a lot of service being provided that's probably unjustified, but attributing it to medical malpractice, there are numbers that are considerably lower than that, aren't there?

Mr. FRAKES. I guess what we're going off is that study. And the interesting thing about that study was the fact that it was done in private, it was something that was anonymous, so that the physicians felt compelled to answer under anonymity, and so they were given that cloak. And so we would like to think that number is the most accurate number, given that.

Mr. YARMUTH. I've had doctors stand up in front of a room full of people and admit that they practiced defensive medicine, which also is potentially admitting Medicare fraud as well, but they do it anyway.

But to pursue that question just a little bit further, would ending the fee-for-service compensation system deal with that issue of medically unnecessary procedures and so forth; would that help contribute to reducing that number as well?

Mr. FRAKES. It certainly would in the sense that providers would feel the need to move more toward an outcome-based system. I mean, that is something that we at the center talk a lot about, that idea of as you increase incentives for outcomes for physicians, not only does the cost go down, but the care goes up, and physicians also would not feel the need as much to practice that level of defensive medicine, certainly.

Mr. YARMUTH. One question—and this is just purely informal, Ms. Cammer—on the issue of the payments going out the door, stopping the payments before they go out the door, one of the complaints that I hear consistently—I am sure we all do—from medical providers, doctors, hospitals, and so forth is that they wait a long time for their money to begin with. And because of—their assessment—their characterization of dealing with very low profit margins anyway, the wait of 90 days or 120 days is already stretching them, pressuring them. How much more delay, or would there be

more delay, based on the kind of theory of approaching payments that you have given us?

Ms. CAMMER. We're at the point now, through leveraging technology to do predictive analytics, that you can get closer to real-time reviews of those, so you could really speed it up.

Mr. YARMUTH. Could speed it up. OK.

Thank you, Mr. Chairman. I yield back.

Chairman ISSA. I thank the gentleman.

The gentleman from Pennsylvania Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman.

Ms. de Rugy—am I saying it right? OK. I was really intrigued by what you talked about. You seemed to have a really direct response to what is going on.

Now, the President the other day was talking about all this capital that is sitting on the sidelines, and businesses aren't investing it, which leads to the premise that the only way to get out of this situation is for the government to borrow more money and spend more money. Could you expand a little bit on that? Because there is a guy right now—I am an automobile dealer, and I've been encouraged to build another building. And the point that I have, it's very difficult to borrow money from banks right now for small business people.

So while this money is sitting on the sideline, please give me an idea of this philosophy that the government has to just keep borrowing and borrowing and borrowing money to get us out of this dilemma. If you could, just expand a little bit on your comments, because I think you are hitting right where we need to hear this information.

Ms. DE RUGY. Thank you. It's a great question.

I think I'd like to remind people that the Federal Government has already done this, borrow a lot of money and pretended to invest in our economy to jump-start it, and it has not worked.

This money on the sideline is a real direct product of all the uncertainty that is inserted into an economy when the Federal Government spends massive amounts, because individuals and entrepreneurs are pretty rational, and they understand that spending today or borrowing today means taxes tomorrow. I mean, also there were a lot of new regulations going in, so it induced a lot of uncertainty. And that is what this money on the sideline is. It's like why am I going to actually invest money today, hire people, when I don't know what is going to happen? I don't know whether I am going to have customers.

So I think, I mean, the uncertainty is the key to everything, and the more the government does with creating the uncertainty, the more uncertainty we will have, and the less we will recover.

Mr. KELLY. OK. Let me ask you, this \$814 billion stimulus bill—and we describe it as waste—are there any parts of that you thought were worthwhile?

Ms. DE RUGY. I think the part about unemployment benefits, I think, as a society, pretty wealthy, we can afford to help people who are deeply in need to some extent. However, the economic literature was very clear that this was not going to work because, while the government invests money, the money has to come from somewhere. There is no magical source for Federal funds. It has to

be taken from the economy. And it doesn't have the return on investment that the administration claimed it was going to have.

Mr. KELLY. The whole drive was to spend this money, because if we didn't spend it, we were going to see unemployment rise above 8 percent. So it goes to 10 percent.

Now, let me ask you, at some point people knew this wasn't working. Where could we have said, hey, wait a minute, this is crazy? What are we doing? We're throwing a lot of money out there. We haven't spent it out all yet, but then there is this mad rush to spend a lot of money because we said it was going to work. And we continue to see that it's not working, and we're following this Judas goat and saying, yeah, just spend more, we're going to be OK. Borrow more, spend more, at some point it's going to break for us.

Now, at some point it's going to break, but I don't think it's going to break the right way. It's going to break truly in the sense that it is going to break.

Ms. DE RUGY. I agree with you. I actually would have argued that it was a bad idea to do it in the first place. And there was a lot of evidence. It hasn't worked in the 1930's, it hasn't worked in the 1970's, and it hasn't worked now.

Now, the other thing is that it's not only spending in the form of the stimulus bill, it's all the spending that took place in the last 10 years, in the last 20 years, in the last 30 years. I mean, there has been a lot of spending. If it worked, we wouldn't be in this mess in the first place. And I think we need to change paths.

And we are talking about waste, and we need to realize that waste doesn't just come in the form of overpayments and earmarks, it also comes in the form of the Federal Government putting its finger everywhere in the private sector where it shouldn't be to prop companies that are failing, which is a drag on the economy, this propping up those companies; or to give money to companies who are actually succeeding, which is totally useless. Like when the Federal Government gives money to the States when it shouldn't be, this creates waste.

We need to change paths and start thinking directly about what wasting government spending means.

Mr. KELLY. And I appreciate your testimony. I wish we had more time, but I've got to tell you that when you add the Federal Government and then the State and local governments, when we start to talk about how we're attacking our GPD and the amount of money that we're wasting through government, it's way over the top. So thank you for being here today, and I really appreciate your comments.

And I yield back my time, Mr. Chairman.

Chairman ISSA. Thank you.

We now recognize the gentleman from Cleveland, Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

Over the past few days, Members of this House have voted on amendments to the CR which will severely cut or entirely eliminate government entities or programs which provide critical assistance to the most vulnerable Americans. Some amendments which have already passed eliminate funding for research in some of our Na-

tion's most consistently pressing social and economic issues. To my knowledge, none of these existing programs appeared on the GAO's list of government programs at high risk of waste, fraud and abuse.

In the meantime, numerous Department of Defense initiatives, and specifically DOD contracting, ranked prominently in the GAO High-Risk Report as programs that remain very susceptible to fraud and abuse. The report states that there are "significant ongoing problems" and "persistently poor program outcomes" in the Department of Defense's inability to perform detailed audits of major defense acquisition programs. It notes that for fiscal year 2009, for example, the DOD obligated \$372 billion in contracts for goods and services, and yet that the contracting is hampered by "the lack of well-defined requirements, the use of ill-suited business arrangements, and the lack of an adequate number of trained acquisition and contract oversight personnel."

I have a copy of a letter sent November of last year by eight individuals who represent more than 300 years of experience with the Defense Department budget, weapons and military operations. And, Mr. Chairman, I ask unanimous consent that a copy of the letter be entered into the record.

Chairman ISSA. Without objection, so ordered.

[The information referred to follows:]

**Letter to Obama Deficit Commission: Make Pentagon Accountable**

Winslow T. Wheeler

Director, Straus Military Reform Project, Center for Defense Information

November 19, 2010

[http://www.huffingtonpost.com/winslow-t-wheeler/letter-to-obama-deficit-c\\_b\\_785909.html](http://www.huffingtonpost.com/winslow-t-wheeler/letter-to-obama-deficit-c_b_785909.html)2-17 FC wasteful  
spending  
KucinichUC

Below find a sample of letters mailed earlier this week to each member of President Obama's Commission on Fiscal Responsibility and Reform (the Deficit Commission).

The letter addresses the defense budget. It is significantly different from all but one of the major defense budget proposals and letters before the commission. It does not specify a cut list of weapons, benefits and policies. Instead, it advocates a fundamental way to make sense out of all the cuts in the defense budget that are now generally recognized as inevitable.

The letter argues that there are two essential, interrelated issues: First, while two of the other major proposals before the commission and now public fuzz up the actual amount of reductions they recommend for the Gates/Obama defense budget over the next decade, they all round to \$1 trillion dollars. Second, while reform is a by-word of everyone regarding the Pentagon these days, too many overlook the essential foundation for any defense reform: real understanding of how defense dollars are spent as a basis for decision-making in the future. Indeed, if you do not know how defense dollars are spent (and today that is impossible), how can you cut the defense budget intelligently?

While two of the more prominent proposals before the commission, the Bowles-Simpson Co-Chairs' Proposal and the Sustainable Defense Task Force Report, constructively address the financial management problem in DOD, they do not make comprehensive audits of programs, policies, and contractors the essential precondition to moving ahead in the defense budget and to rational future budget reductions. This new letter urges the commission to make the audit issue a top priority and precursor for DOD's budget future. It follows on the central theme of Senator Tom Coburn's (R-OK) May 18 letter (available on request) to all commission members to freeze the DOD budget at the 2010 level (without inflation) unless and until it can actually pass comprehensive audits of major acquisition programs, components and contractors. (This new letter was not coordinated with Senator Coburn or his office.)

The new letter is signed by eight individuals who represent more than 300 years of experience with the DOD budget, weapons, and/or military operations.

November 15, 2010

The Honorable Erskine Bowles

National Commission on Fiscal Responsibility and Reform

1650 Pennsylvania Avenue, N.W.  
Washington, DC 20504

Dear Mr. Bowles:

We are writing to you and other members of the president's National Commission on Fiscal Responsibility and Reform as individuals who have worked in national security affairs for decades for the Department of Defense, in the Armed Forces and for Democrats and Republicans in Congress. Our concern is the defense budget.

Similar to what your "Co-Chairs' Proposal" said last week regarding Social Security and other issues, we do not believe that defense spending should be reduced to a bargaining chip in budget negotiations at the Deficit Commission. On the other hand, we do believe that the defense budget is dangerously bloated, giving rise to serious decay in our armed forces.

Weaker forces at higher costs (discussed below) are the result of many years of exploitation of defense spending for political purposes, dereliction of oversight duties, and gross mismanagement by the Pentagon, the White House and the Congress. There has been a fundamental absence of accountability, both that required by the Constitution and that which accompanies sound management.

With or without the work of the Deficit Commission, the central problems in our defenses need to be addressed as a matter of high priority. The Commission provides a historic opportunity to build the consensus to do so now. We urge you to consider the proposition that the decay of our forces cannot be reversed under growing defense budgets. Instead, it can, and should, be achieved at levels of defense spending even somewhat lower than those the Co-Chairs' Proposal recommends.

To understand what is needed in the future, consider the mistakes of the past.

For example, over the last decade, the Navy budget received \$293 billion more than the baseline of spending in 2000 anticipated (adjusted for inflation). Seen another way, the 2011 Navy's "base" budget, which does not include spending for the wars in Iraq and Afghanistan, is 44 percent higher than it was in 2000. Yet the size of the Navy's combat fleet went down in this period, from 318 ships and submarines to 287 -- a decline of 10 percent. This is not a smaller, newer fleet; it is a smaller, older fleet -- about four years older, on average, according to the Congressional Budget Office (CBO). It is also less ready to fight: for the past year the press has repeatedly reported on severe maintenance problems throughout the fleet, and Navy combat pilot training in the air has remained at historic lows.

The situation in the Air Force is worse. It received \$320 billion more than the base budget levels anticipated in 2000 and increased by 2011 by 43 percent. During the same 2000-2011 period, the number of active and reserve fighter and bomber squadrons went from 146 to 72, a decline of 51

percent. According to CBO, our combat air fleet is now about nine years older than in 2000 -- an historic high average age of about 23 years. Fighter pilot in-air training hours today are one-half to one-third of what they were in the 1970s, an era not noted for high readiness.

The Army received a \$297 billion budget plus-up, a 53 percent increase. In this case, the combat forces did increase; the number of brigade combat teams grew from 44 to 46, an increase of 5 percent. A 53 percent budget increase bought a 5 percent increase in combat forces. But CBO tells us that major Army equipment inventories are mostly older, and in 2006, the House Armed Services Committee held hearings and leaked a memo documenting historic lows in the readiness of active Army units. The analysis has not been publicly updated, but we should worry that it has gotten worse.

There is no mystery why the increased spending has led to shrinking, aging hardware inventories. New weapons systems cost three to ten times more to buy and operate than the weapons they are replacing. Even if their budgets could grow steadily at five percent per year (over and above inflation), the cost explosion in new weapons dooms the military services to being unable to buy as many weapons as they had -- hence the shrinking hardware inventories. Because they can buy so few new planes, tanks or ships, they extend the life of the old ones -- hence the aging.

At \$707 billion, the defense budget is today higher in than it has ever been since the end of World War II, even when the effects of 65 years of inflation are removed. This spending level is unrelated to the military threat. During the Cold War, from 1948 to 1990, when we faced the sizeable forces of the Soviet Union and the Warsaw Pact, annual Pentagon spending averaged \$440 billion in inflation-adjusted dollars, (and that includes the effects of the Korean and Vietnam wars). Today, big spending advocates point to China, with a defense budget variously estimated at from \$80 to \$180 billion per year, as the future threat we must prepare against. But, if we add the highest available defense budget estimates for China, Russia, Iran, North Korea, and Cuba and then double that sum, the Pentagon still spends more. As to the threat of terrorism, we almost certainly spend more in one day than al Qaeda, the Taliban and all their affiliates spend in an entire year.

Despite Secretary of Defense Robert Gates' efforts to cancel or redo several weapon programs that were over cost and under-performing, the number of major defense acquisition programs has changed from 91 programs costing \$1.6 trillion to 87 programs costing \$1.6 trillion. As you know, Secretary Gates has also imposed a plan on the DOD bureaucracy to transfer internally \$102 billion dollars over 5 years, but there is no net savings to help the deficit.

Instead, Secretary Gates wants the DOD budget to grow one percent per year plus inflation for the next 10 years. That would increase the base DOD budget from \$554 in 2010 to \$735 billion in 2020 -- a 33 percent increase, not including any spending for the wars against terrorism. While the Co-Chairs' Proposal seeks a number of terminations, reductions, and efficiencies beyond the

Gates' plan (many of them welcome and overdue, but some that we believe require major modification), both the Co-Chairs Proposal and the Gates' plan project into the future a defense program that is essentially the same as that we have today, simply at different spending levels. Under either plan, the size and modernity of our forces will continue to shrink and age, even if all remaining programs are implemented without any cost increases or schedule delays.

We believe there is a path that meets the goals of deficit reduction and strengthens real national defense. That path needs to start with the acknowledgment of a need for fundamental reform.

Right now, the Pentagon does not know how or where it spends its money. As the Government Accountability Office and DOD's own Office of the Inspector General have reported for decades, the Pentagon cannot track the money it spends. Routinely, DOD does not know if it has paid contractors once, twice, or not at all. We recently learned it does not even know how many contractors it has, how many they employ, and what they are doing. Google the terms "audit" and "Pentagon" and read the horror stories.

The Chief Financial Officers (CFO) Act of 1990 sought to solve this problem by requiring the Pentagon, and all other federal agencies, to pass annual audits of the links between their expenditures and legally enacted appropriations authorizing those expenditures. This requirement was intended as a first step to give meaning to the Appropriations and Accountability Clauses in the Constitution, namely -- "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."

In sharp contrast to almost every other federal agency, the Pentagon has failed to comply with the CFO Act, let alone with the Constitution's much more sweeping and absolute requirement for accountability. We are sure you will agree this puts at risk not just fiscal responsibility -- the task of your Commission -- but also fundamental checks and balances in our system of government. As federal officials and members of the Armed Forces, we all took an oath, freely and without reservation, to uphold, protect and defend that principle, among others. The Pentagon, in effect, claims an exemption.

Since the CFO Act was enacted in 1990 to start the journey toward the Constitution's requirement for an uncompromised accounting of Pentagon spending, DOD's managers have made promise after promise to perform. A very modest level of "audit readiness" was promised for 1997; that slid to 2006, then 2007, 2016, and finally 2017 -- twenty seven years after the passage of the CFO Act. The sitting DOD CFO recently said the Pentagon will need yet another extension: that is, more than twenty seven years. With every promise broken, it is clear that if you ask what a DOD program or policy has cost, is costing, and might cost in the future, the current DOD system will provide you any dollar amount it wants you to hear. Ask for an audit of those numbers, or just an independent review, and listen to the excuses.

For further explanation of the practical effect, we urge you to look at an important new report from Senator Charles Grassley, R-IO ("Oversight Review of Audit Reporting by the Department of Defense, Office of Inspector General"). It reveals just how deep the problems are: not only are the Pentagon's books a gigantic mess making it impossible to know how money is actually spent, but the office charged with fixing the mess is broken.

To expose and understand the massive misuse of the windfall in the base budget, the huge excesses in new weapon costs, and the extent of incompetence and even corruption in DOD contracting, the national security decision-making community in the Pentagon, Congress, and the White House must confront the painful truth of accurate, comprehensive, audited cost and spending figures. However, those data do not exist because no one has insisted on them, notwithstanding the legal requirements of the Accountability Clause of the Constitution and the Chief Financial Officers Act. Worse, while promising watered-down versions of such data in the vague future, the business-as-usual Pentagon protests that its spending must keep on growing in perpetuity -- as our forces shrink and age. It is precisely this behavior that the Constitution and the CFO Act sought to preclude.

Without a jolt, without radically altered incentives, the bureaucratic system that thrives on corrupted, unaudited accounts cannot and will not change. A colleague of yours on the Deficit Commission, Senator Tom Coburn, R-OK, has written to you recommending the urgently required accounting changes, together with a new and strong incentive: the DOD budget should be frozen at current (2010) spending levels until it can pass comprehensive audits of all of its programs, agencies, and contractors.

Freezing the DOD budget at the 2010 level would mean spending \$5.5 trillion for defense in the next ten years. That is \$1 trillion less than the \$6.5 trillion that Secretary Gates' plan would spend. It is not radically different from the slightly more modest \$865 billion reduction we understand the Bowles-Simpson Co-Chairs' Proposal would extract. Either spending limit could impose a discipline on Pentagon spending that has been missing for a long time. And freezing spending until the Pentagon passes audits up to the standards we require of taxpayers and businesses -- as specified in the Coburn plan -- provides a truly powerful incentive for the Pentagon to conform to the letter of the Chief Financial Officer Act and to the original intent of the Accountability Clause of the Constitution.

These audits are, in fact, the minimal prerequisites for beginning the reforms that actually strengthen defense, but their enforcement would lay the foundation for the decision-making discipline we have long needed. This goes beyond the commendable goal of saving money by identifying waste, fraud and abuse. Trustworthy, audited cost figures allow shaping new, more effective procurement programs -- and ensure that planned procurements and force levels fit actual budgets.

Advocates of continuing DOD budget growth are loath to point out that holding the Pentagon's base budget at the 2010 level is actually a \$900 billion increase over the pre-war year 2000 spending level (adjusted for inflation). Nor are they likely to tell you that the frozen budget will remain multiples of what China, Russia, North Korea, and Iran - combined - spend. Nor will they tell you it will match the combined spending of almost every other nation on earth.

The historical record shows that the magnitude of reduction suggested here has precedent. In 1985, during Ronald Reagan's presidency, and in 1991 in George W. Bush's presidency, Department of Defense budget authority took sharp downward vectors. Today, the United Kingdom has set out a path of an eight percent reduction in defense spending to meet essential fiscal goals. Sadly, however, the British government has not adopted a meaningful reform agenda, so it is simply buying less of the same weapon systems and force units that were planned before. Given the clearer picture of Pentagon spending resulting from Senator Coburn's crucial audit/freeze proposal, our collective experience makes us confident that Pentagon spending can be reduced in better informed, more effective ways -- ways that can actually strengthen national security while ending the shrinking and the aging of our forces at ever higher cost.

All this is inextricably interwoven with our present wars. If -- after our withdrawal from Iraq, Afghanistan and similar adventures, an increasingly inevitable consequence of impending bankruptcy -- we simply default to the Pentagon's military and civilian bureaucracies, allowing them to continue business as usual by just shrinking presently planned forces, it would be an enormous tragedy for the American people and for all those in uniform. Your support of constructive, thoughtful use of reduced budget levels and audited spending figures can make possible truly fundamental reform, reform that reorients our national military strategy to more prudently balance national ends against national means.

We urge you to consider these ideas. If you would like to discuss any of the issues or data addressed above, we would be happy to meet with you.

Sincerely,

Thomas Christie  
former Director, Operational Test and Evaluation  
Office of Secretary of Defense  
defense career started: 1955

Pierre M. Sprey  
a key designer of the F-16 & A-10  
defense career started: 1956

David Evans  
Lt. Col. USMC, ret.  
defense career started: 1966

Franklin C. Spinney  
former Analyst, Office of Secretary of Defense  
(Program Analysis and Evaluation)  
defense career started: 1967

GI Wilson  
Col. USMC, ret.  
defense career started: 1969

Winslow T. Wheeler  
Director, Straus Military Reform Project  
defense career started: 1971

Douglas Macgregor, PhD  
Col. US Army, ret.  
defense career started: 1971

Donald Vandergriff  
Maj. US Army, ret.  
defense career started 1981

Mr. KUCINICH. Thank you.

This letter was sent to Erskine Bowles, the cochairman of the President's National Commission on Fiscal Responsibility and Reform. These eight individuals implore Chairman Bowles to take the opportunity to make reform of the Defense Department budget a centerpiece of their effort to create a model for deficit reduction.

"The Pentagon cannot track the money it spends. Routinely, DOD does not know if it has paid contractors once, twice, or not at all. We recently learned it does not even know how many contractors it has, how many they employ, and what they're doing."

In sharp contrast to almost every other Federal agency, the Pentagon has failed to comply with the Chief Financial Officers Act of 1990, which sought to solve this problem by requiring the Pentagon and other Federal agencies to pass annual audits of the links between their expenditures and legally enacted appropriations authorizing these expenditures.

So, Comptroller General Dodaro, can Congress be sure that budget requests from the Pentagon reflect the Department of Defense's actual costs?

Mr. DODARO. As you mentioned, there has been an inability to have the books of the Pentagon, aside from the Army Corps of Engineers and the military—

Mr. KUCINICH. Well, let's talk about everything else except the Corps.

Mr. DODARO. Right. They have not been able to pass the test of an audit, so it's not clear there is accurate accounting of what the expenditures—

Mr. KUCINICH. Isn't it true that you would have to be able to audit them to know if their costs roughly match up with their requests?

Mr. DODARO. It would be important to have that information as adequate assurance that the costs were there, yes.

Mr. KUCINICH. Right. So if we don't have accurate tracking of DOD payments to its contractors, much less how those contractors spent those moneys, is it even possible to know if the DOD budget request is being lost to waste, fraud or other abuse?

Mr. DODARO. Well, there would be a degree of uncertainty that you wouldn't necessarily want to have in making those kind of judgments. But basically the allocations that are made are tracked through budgetary systems that aren't audited either.

And I would note that the Department is first now starting to audit the budget numbers that are allocated against the costs. I think that is a good step and a step in the right direction and should eventually provide the type of assurance that you are looking for.

Mr. KUCINICH. When I first came to Congress, I was told that the Department of Defense had over 1,100 individual accounting systems, and also that they had over \$1 trillion in accounts that they could not track or reconcile. I just am hopeful that those who have the responsibility for oversight of the auditing part will pay attention to that, and hope that you take that message back as well.

Mr. DODARO. I will do that. In fact, of the main reasons we can't provide an opinion on the audited consolidated financial statements of the U.S. Government is because of the Department of Defense's

pervasive financial management practices and procedures. And so we have been trying to work with them. They've got some short-term priorities now to focus on auditing the budget numbers and asset accountability issues, which I think is a good starting point, but they have a long way to go.

Mr. KUCINICH. Well, I am hopeful, Mr. Chairman, that this committee, as part of its oversight responsibilities, will have the opportunity to go deeply into some of these questions related to the Department of Defense's spending. Thank you.

Chairman ISSA. Would the gentleman yield?

Mr. KUCINICH. I certainly would.

Chairman ISSA. I might share with you when I was in the Army, during that period of time they decided they would find out how many rail cars they had, so they did an audit and came up with about 25 percent of them missing. Then they did a walk-down audit and found how many had been repainted over the years to company names because they didn't have to explain to the Army or the military that they were missing, but there would be hell to pay if they lost one belonging to a company. So this is not a new problem. I look forward to working with you on solving this long-term problem of a lack of accountability at DOD.

Mr. KUCINICH. I want to thank the gentleman and hope that his remarks do not imply favoring privatization of the Army.

Chairman ISSA. No, but I would like to know if those rail cars have all been found.

With that, we recognize the gentleman from Florida Mr. Ross for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

Mr. Dodaro, thank you for being here very much.

I note that last year Congress, when they were raising the debt ceiling, empowered the GAO office for a report as to the duplication of any activities or efforts of the Federal Government that might be cost savings, and that report is forthcoming?

Mr. DODARO. Yes.

Mr. ROSS. Can you give us a preliminary, like a little trailer or a sneak preview of what we might anticipate?

Mr. DODARO. Well, we have identified about 34 different areas of overlap and duplication for consideration by the Congress, and they touch several hundred programs and virtually all Federal departments and agencies.

Now, we also, as an added bonus, are including in the report about another 50 cost-savings opportunities for the Congress to consider, and also revenue enhancements, where there are abilities to tackle what is now an estimated tax gap between taxes owed and collected, about \$290 billion.

Mr. ROSS. So could you quantify maybe how much we are looking at in terms of duplication at this point?

Mr. DODARO. We don't have, because of—and we will discuss in the report some limitations, as Congressman Kucinich just talked about. Some of the cost data and baseline information isn't really there, so it's hard to come up with an overall quantification effort, but it will be billions. It's significant.

Mr. ROSS. I know we have limited time here, so this is going to be an interesting question I would love for you to answer if you could in the brief time that I have here.

In your report on High-Risk List, you indicate strengthening the foundation for efficiency and effectiveness. One of your recommendations is restructuring the U.S. Postal Service to achieve sustainable financial viability. How?

Mr. DODARO. Basically they have to change their business model, the business model they have. And we have outlined options in the report there for the Postal Service to consider and for the Congress as well.

Mr. ROSS. And in that business model, I mean, you've got 150 million households that are being reached every day, 6 days a week—so far—by the U.S. Postal Service, but you've got 80 percent of their cost is for compensation and benefits. Are you suggesting that we look at both sides of the equation, not only the revenue side of the equation, but also the expense side of the equation?

Mr. DODARO. I think everything has to be on the table there to really restructure it. We're looking at facilities—we just put out a report this week talking about how other countries have tackled this problem and reduced their facilities, changed their retail options, changed personnel structures. So I think all things have to be considered.

Mr. ROSS. Ms. Cammer—and I've got to ask you this question while I am on the Postal Service because of your background not only in the public sector, but also in the private sector as a consultant with IBM. Again, you've got an understanding of marketing channels, you've got an understanding of public-private relationships. Would you have any recommendations for the U.S. Postal Service as to how they can be more cost-efficient, cost-effective, more technologically advanced?

Ms. CAMMER. We have a team of consultants that are working with the Postal Service today, and I would be happy to get back to you with some of the recommendations that they have offered.

Mr. ROSS. That would be great. Thank you.

[The information referred to follows:]

[NOTE.—The information was not provided to the committee.]

Mr. ROSS. Dr. de Rugy, a quick question, because I am a firm believer that government shouldn't be in the business of business; the essential government functions are what government should provide, and that we don't need to not only be a competitor in the market, but also be the regulator of that same market. So I've got some concerns that I think run deep with your philosophies in your report, but I want to talk to you specifically about project labor agreements.

Are you familiar with project labor agreements, PLAs, where any government contract that is negotiated has to be done at a prevailing wage or union wage? In most cases we have seen a situation where nonunion contractors don't get the contract because they're not capable of paying the union wages, and therefore you are seeing union jobs being let out when competitively it may be better to go to the lowest bidder.

Do you have any comments on that? Do you have any experience in working with project labor agreements?

Ms. DE RUGY. No, I have not.

Mr. ROSS. Mr. Frakes, how about you?

Mr. FRAKES. No. But I think that it's something that obviously is crowding out the market and something that would be a good thing to investigate.

Mr. ROSS. One last thing, Mr. Dodaro. You talk about the excess of real property that we have. Do you have any recommendations for liquidation of those or leasing of those to at least enhance the revenue side of the U.S. budget?

Mr. DODARO. Not facility by facility. We think the agencies need to do that. We have pushed OMB to come up with a plan. Also, there's rules in the budget process that complicate the lease-versus-buy decision, which we have recommended that those be dealt with as well. We think this is basically a management responsibility to decide that, but—

Mr. ROSS. But it should be done.

Mr. DODARO. It should be done.

Mr. ROSS. It's wasted resources.

Mr. DODARO. Yeah, definitely, definitely.

Mr. ROSS. Thank you. I see my time is up.

Chairman ISSA. I thank the gentleman.

The gentleman from Massachusetts Mr. Tierney for 5 minutes.

Mr. TIERNEY. Thank you, Mr. Chairman.

And I thank the members of the panel very much for your testimony here today.

This committee has conducted a lot of oversight about the Department of Defense's contingency contracting both in Iraq and Afghanistan, including the use of private security contractors, but not exclusively them, of course. Last year, in fact, when I was chairing the Subcommittee on National Security and Foreign Policy, we uncovered evidence of trucking contractors who were paying warlords and insurgents billions of dollars for so-called "protection." And we also talked about a contract where \$3 billion in fuel contracts were going to companies that the State Department and the Department of Defense knew nothing about.

So my question to you, Mr. Dodaro, is do you think that we have to have some improvements in the contracting laws that will provide those authorities that may be necessary to meet the challenges for operating in contingency conflicts?

Mr. DODARO. I definitely think there are lessons learned that need to be applied both in—potentially in law, but also in practice, and that there are a lot of lessons learned about putting this type of responsibility in a theater without appropriate training and support that needs to be done adequately to oversee it. So, yes, I agree with you that there's probably lessons learned, and we can provide some of our thoughts on that to you.

Mr. TIERNEY. That would be excellent if you would. We would appreciate that.

Particularly concerning private security contractors, there has been a real persistent problem with how they are managed in both of those areas, Iraq and Afghanistan, of course. And last year CENTCOM got a task force together to figure out how many private security contractors they actually employed in Afghanistan, and the number came into tens of thousands on that. In Iraq, the

State Department is about to take on a lot of the responsibilities from the Department of Defense, and they are hiring additional private security contractors on that. So how much confidence should we have that as DOD transitions to the State Department in this area, that they're going to be able to oversee effectively all of those thousands of private security contractors that they're bringing on?

Mr. DODARO. That's an area that I think needs some focus. I believe we have work under way in that area to assess that, and I would be happy to provide a briefing to you.

Mr. TIERNEY. How far along are you in that work?

Mr. DODARO. Early on.

Mr. TIERNEY. Well, it's a pretty immediate situation, so I hope we're going to expedite that a bit and be able to move that forward, because we have had hearings on that regularly throughout, and we don't seem to be getting too far along on examining it. And I say "we"—not meaning your agency, but State Department and the Department of Defense—talk about it, they know there is a problem, but we're not really there yet. Your work would be very helpful on that.

The other problem that we have, of course, is we don't seem to have enough people to really oversee those contractors that we do put it out to. That has been a real serious problem in USAID, the State Department, and other places on that. The Wartime Contracting Commission that Jim Leach and I had the legislation on—they finally got out and started doing their job—they found out that we were hiring private contractors to oversee other private contractors on that.

So how do you assess the Department of Defense's progress in insourcing those critical roles of oversight and management of contracts?

Mr. DODARO. Yeah, our assessment is that contracting decisions are made much too often on an ad hoc basis. There really isn't a systematic assessment of what should be contracted out, what should be in-sourced, and for what should be in-sourced, how you build your capabilities and your staffing and expertise to be able to do that, what expertise do you need to oversee the contractors? So we have encouraged and recommended systematic assessments of that. That is the only way you can deal with that issue over time.

Mr. TIERNEY. We have some serious issues. As we start to analyze that, do you have any ideas for how they might ramp that up and separate those out so that those inherently governmental functions of oversight of the contractors can actually be brought back in or in-sourced? Is there an impediment that exists that you can recognize and do something about, or do you think that this analysis is going to just wind its way out before we get some effective recourse?

Mr. DODARO. Well, I think it all has to start with what mission do you want to really achieve there and what's the best way to be able to do it. I don't think there's going to be a magic solution to that, that there's going to be a set of rules on this and that, particularly when you get into environments when you are in contingency operations and planning. You need to have something that's

a little bit more robust as a foundation, but then you need to be able to allow some flexibility to be put into place. But you have to have proper oversight over it, Congressman, and that's where I think things break down.

Mr. TIERNEY. Well, we even saw out of the blue a program with the Coast Guard, where they had large ships being made. We had a contractor out there doing components. Then we had a contractor analyzing the job. We had them managing the job, we had them overseeing the job, and then when the job got all messed up, we almost hired the same people to come in and assess how we can fix it.

Mr. DODARO. Yeah. Government needs—for those areas that you know you are going to contract out, you need the proper people to oversee it that are government employees to be able to make sure you've got the duty of loyalty and you have the expertise and continuity to oversee it in the best interests of the government and the taxpayer.

Mr. TIERNEY. So getting a grip on not outsourcing jobs that shouldn't be outsourced, and the ones that should be outsourced, making sure we can manage them properly, I agree with you, is a serious issue for us.

Mr. DODARO. Yes, it is.

Mr. TIERNEY. Thank you.

Thank you, Mr. Chairman.

[The prepared statement of Hon. John F. Tierney follows:]

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**Committee on Oversight and Government Reform Hearing**  
***Waste and Abuse: Refuse of the Federal Spending Binge***

**February 17, 2011**

**Remarks of Rep. John Tierney (as prepared for delivery)**

Thank you, Chairman Issa and Ranking Member Cummings. And thank you Senator McCaskill for agreeing to be here today.

As Chairman of the National Security Subcommittee in the 110<sup>th</sup> and 111<sup>th</sup> Congresses, I devoted significant attention to rooting out waste, fraud, and abuse in federal contracting in contingency operations.

Today, the scope and scale of our contracting in war zones is unprecedented. In Afghanistan, we use over 110,000 contractors. Think about that: we use more contractors than troops on the ground.

As the Department of Defense has increased its reliance on contractors in conflict zones, it has not sufficiently increased its capability and expertise to manage and oversee those contractors. At the Defense Contract Management Agency, for example, the civilian workforce fell by 60% from 1990 to 2006. The combination of a massive increase in contracting and a decline in management and oversight capability is a recipe for disaster.

Last year, the Committee conducted extensive investigations of two such disasters. In the first case, DOD outsourced almost all operational components of the supply chain in Afghanistan that provides our troops with the food, water, fuel, and equipment they need to do their job. The \$2.16 billion host nation trucking contract then required the trucking companies to subcontract for security services to protect valuable materiel traveling through a war zone.

Unsurprisingly, the eight contractors ended up purchasing security the old fashioned way—they made protection payments to local warlords, power brokers, and suspected insurgents. Both our report and DOD concluded that the contract itself was a significant potential source of funding for the Taliban.

The report got the attention of DOD's senior leadership, and they have now taken some positive steps to remedy the situation. General Petraeus issued new contracting guidelines and formed several task forces to tackle corruption. I am also working on legislation to empower General Petraeus with the contracting authorities he needs to immediately terminate contractors that help fund insurgent elements.

In the Subcommittee's second investigation, we examined DOD's \$3 billion contract to supply jet fuel to U.S. bases in Central Asia and Afghanistan. There, DOD had awarded

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a contractor, Mina/Red Star, with several billion dollars worth of contracts despite significant warnings of possible corruption.

When asked why they did not investigate these warnings, DOD contracting officials told the Subcommittee it was not their job. In April 2010, the perceptions of corruption in these contracts were cited by opposition groups as one of the causes of the overthrow of President Bakiyev in Kyrgyzstan. The Administration has been doing damage control ever since.

The Oversight Committee is charged by Congress with stewardship of American taxpayer dollars, and with rooting out waste, fraud, and abuse, wherever we may find it. I take this responsibility very seriously, regardless of political party. We owe that to our brave men and women in uniform and to the American taxpayers who support them.

Chairman ISSA. The gentleman from Michigan Mr. Walberg for 5 minutes.

Mr. WALBERG. Thank you, Mr. Chairman.

And thank you to the panel for being here. It has been enlightening, at least the portions that I've been in. I wish I could have been here for the entire time.

Mr. Dodaro, in your written testimony you state that excess or underutilized buildings cost over \$1.6 billion annually to operate. I guess the question I would flow from Mr. Ross' earlier is what has prevented the Federal Government from doing something that makes so much sense, such as selling the properties? You stated that you wouldn't pick the properties, but what has kept us from doing that?

Mr. DODARO. There are certain barriers that we have recommended that OMB focus on. For example, there are a lot of stakeholder interests in some of these buildings and properties that need to be dealt with to be able to do it. There are some legal requirements that are in place. But none of these barriers are insurmountable. And our point is that you need to aggressively identify them. They're different for each property, as you might imagine, but they need to be dealt with on a more concerted, aggressive basis.

Mr. WALBERG. What is the hesitancy toward this aggressive action, from your perspective?

Mr. DODARO. To be honest with you, I am not quite sure, other than it takes a lot of hard work and effort to be able to go forward on these initiatives. We have been pushing for plans to be developed to be able to do that. We are pleased they're getting better data, and also what the situation is like, but actually implementing a lot of these things, it appears to be more difficult. To be honest with you, I am not quite sure exactly what the reason is, but—

Mr. WALBERG. Any concern about any impropriety in stakeholder issues that go beyond simply dragging feet, or arguments that we don't have the resources or time or energy? I mean, is there anything that would go beyond that to something—

Mr. DODARO. There is nothing—I'll go back and check with our team to make sure that my answer is correct on this, and if there are any things of that nature, we will provide them to you. But in some cases, like, for example, there are some historic preservation issues that need to be dealt with with some of these buildings and other, you know, legal concerns. But I'll provide a listing to you of some of the barriers, and also if there are any improprieties, we will certainly let you know.

[The information referred to follows:]

[NOTE.—The information was not provided to the committee.]

Mr. WALBERG. Thank you.

Dr. de Rugy, I am tempted to just say my question is how would you expand on your statement already, but I won't do that. Maybe the question will allow that to take place. I appreciate what you had to say.

In your written submission you identify three areas of Federal spending that should be addressed, one being Federal spending on functions that should be reserved for the States; two, Federal spending on functions that should be reserved for the private sec-

tor; and three, Federal spending on items or services that government has no business purchasing in the first place. I would like to focus my question mostly on this first area.

It is apparent that you strongly believe in the 10th Amendment, reserving powers to the States not enumerated to the Federal Government.

Ms. DE RUGY. I do.

Mr. WALBERG. Then do you believe a reevaluation, and likely a limitation, of the grants the Federal Government makes is the best way to reorganize Federal priorities, or does Congress need to do something more explicit? And if so, what is it?

Ms. DE RUGY. I mean, I can't talk to the legal aspect because I am not a lawyer, I am an economist, so I will go to the money. I really do think that restructuring the money that goes to the States, either by cutting it off or actually turning a lot of it into block grants instead of matching grants, which induce inefficiency, promote overspending, would be a good way to do it. First, it would allow States to have time to think about how they are going to be providing these services.

And one of the problems with the matching system that we have now, on top of the fact that it induces overspending, as I have said, is the fact that it's a one-size-fits-all type of thing. When you have a grant from the Federal Government, it also comes with strings attached and things that you have to do in a certain way, and that doesn't take under consideration the specificity of the State.

So that would be the first step. I would either cut a lot of this money off or turn the rest into block grants.

Mr. WALBERG. So cutting it off, you are not concerned that the job can't be done then? I say that facetiously.

Ms. DE RUGY. I mean, there is always this understanding, this belief, that if the Federal Government doesn't do it, it won't happen, but it's just not true. And the States are already—for instance, education, I mean, most of the spending already comes from the States. And it is a State function or a private-sector function. And if the States don't get this money, then they will be thinking about what they actually truly need to do. And maybe a lot of these functions that they are providing right now they should turn to the private sector. So, no, I am not concerned.

Mr. WALBERG. Thank you very much.

Chairman ISSA. I thank the gentleman.

We now recognize the gentlelady from the District of Columbia Ms. Norton for 5 minutes.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. Dodaro, I would like to ask you a question that has, I am sure, perplexed members of this committee and certainly the public. It has to do with very large, sometimes huge, contractors whose abuses or poor performance is so severe that they are brought before this committee, or there are headlines on them.

I want to describe the response of Federal agencies in awarding them contracts again. For example, if you did the functional equivalent of what some of these contractors have done as an employee, you would be out the door. Nobody would ever hire you again in the field, it would seem. But let me give you a couple of examples.

KBR, doing work in Iraq for the Department of Defense, was so faulty on the maintenance of electrical equipment that deaths resulted, including dozens of deaths of American soldiers, but DOD then awards KBR a \$2.8 billion contract to provide support services—additional support services for our troops in Iraq.

Or let's take the most notorious, perhaps, Blackwater and private security, because that has been a headliner. The State Department after those headlines awarded them contracts for protective services in Afghanistan. Now, these people were seen as having themselves committed perhaps—or at least accused of committing what would amount to in prosecution crimes while they are doing their work.

Does DOD, and in the case of Blackwater, give contracts again to such companies because of the difficulty of a startup? Is it too wasteful? This is, after all, a competitive process. Why in the world, if a contractor has exposed the agency to such embarrassment and infamy, would the agency want to give that contract again? There must be some inherent reason for doing so.

Mr. DODARO. Typically what we find when there is a lack of competition, there are either reasons for expediency, they need to move very quickly in an area—they need to have people who have the proper background, security clearances, that type of thing—or there's limited numbers of companies that could provide that service. But what we have focused on is making sure there is more competition in the process. It's a better value to the government.

There needs to be adequate consideration of past contractor performance in the process. There are safeguards built into the process through suspension and debarment that need to be put into place and then followed adequately through the process.

Ms. NORTON. Is suspension and debarment used?

Mr. DODARO. It's used, but I think our work has shown that it's not always properly checked before some of the awards are made on a cross-government kind of basis.

Ms. NORTON. Is there a way to structure the contract up front, for example, so that if waste such as the ORF, or worse, failure to maintain the electrical system in Iraq occurs, somehow you owe the government rather than the government continuing to owe you?

Mr. DODARO. Well, you definitely need to have provisions in there to protect the government from nonperformance on a contract.

Ms. NORTON. What kind of provisions protect them now?

Mr. DODARO. I'd have to go back and look and provide some explanations.

What we did find, though, and this is being addressed, is that many times there are incentive rewards and fees there that contractors were being paid the incentive fee and really weren't meeting the standards of performance as what you would think they should be.

But I'll go back, I'll provide to you and this committee the standard provisions that are in there.

[The information referred to follows:]

[NOTE.—The information was not provided to the committee.]

Ms. NORTON. It does seem to me that a system of rewards—I love incentives, frankly—of rewards and penalties, carrots and sticks, have always been thought to work.

Thank you very much.

Mr. DODARO. Just for the record, we are doing work currently on suspension and debarment practices, which we will be happy to share with this committee as that work is being completed, and that we will provide you the Federal acquisition regulations that protect the government.

Ms. NORTON. Thank you.

Thank you, Mr. Chairman.

Chairman ISSA. I thank the gentlelady.

We now recognize the gentleman from South Carolina Mr. Gowdy for 5 minutes.

Mr. GOWDY. Thank you, Mr. Chairman.

It is impossible for me to explain to the folks I work for—and I suspect most of my colleagues would have similar difficulty explaining to the people we work for—the pervasiveness and longevity of government waste, fraud and abuse. And I commend you for gathering with us today to seek solutions. And I want to start with the one that I find most compelling, which would be criminal consequences.

Do you have an estimate—and I'll throw this open to all four of you—an estimate, negligence, gross negligence, criminal negligence. Where is the preponderance of the waste, fraud and abuse? Where does it fall in that paradigm? Not all at once.

Mr. FRAKES. I can tell you from the Medicare and Medicaid side, a lot of what happens in terms of the prosecution of fraudulent claims within CMS unfortunately does not occur until it meets a certain threshold of money. So a lot of these—

Mr. GOWDY. Whose threshold is that?

Mr. FRAKES. I am sorry?

Mr. GOWDY. Who sets the threshold?

Mr. FRAKES. It's within CMS, and they are the ones who determine, based on their allocation of resources, what claims that they can go after.

Mr. GOWDY. Well, let me ask you about the allocation of resources, because if my numbers are correct, there are almost 50 different “investigative agencies” that are seeking waste, fraud and abuse just within health care. That alone is an example of waste and fraud and abuse. Fifty different agencies?

Mr. FRAKES. And the huge irony that exists within that—and it's an excellent point—is that there is waste that's going on between all those organizations in the sense that there's a lack of data sharing that's going on between them. So, for instance, even within, let's say, Medicare Part A and Part D, you are missing data sharing between those two that they would be able to use to identify who potential crooks are. And so as a result, they are losing out on being able to cross-reference these individuals, and some of these people might actually be claiming to be legitimate suppliers for Medicare Part A when they were already identified as a potential fraudulent supplier for Part D. And so that lack of interaction, that lack of sharing is leading to a lot of the negligence that you are speaking of.

Mr. GOWDY. Well, it's also inexplicable, it is impossible to understand—to explain to anybody outside this ZIP code how you can have that.

And with respect to the question asked by my colleague from the District of Columbia about carrots and sticks, I prefer the sticks. So tell me what is being done with respect to criminal prosecution consequences to ameliorate what has been, if my numbers are accurate, a two-decade-long acknowledged problem? How many investigations have been started, how many matters, how many declinations by the U.S. Attorney's Office?

Mr. DODARO. We can provide that information to you for the record. There are reports that the IG inspector has put out that show the matters referred, how many have been investigated, and the prosecutions that have been prosecuted as well. So we can provide that information to you.

[The information referred to follows:]

[NOTE.—The information was not provided to the committee.]

Mr. DODARO. And the thresholds typically are set by the Justice Department in terms of how much monetary money would have to be sort of broached before they would feel it would be efficient and productive to go through the judicial system and that process. But those figures are available, and we will provide them to you.

Mr. GOWDY. OK. Thank you.

I would yield back the balance of my time, Mr. Chairman.

Chairman ISSA. Would the gentleman yield for just a moment?

Mr. GOWDY. Sure.

Chairman ISSA. In the case of the question of prosecution, is the biggest problem the lack of prosecution, from your studies, or is it the lack of catching in real time these individuals before the money is taken? Which do you think leads to more of the long-term abuse, the fact that people can continue stealing again and again in various ways, or the fact that we don't prosecute them at a low enough level?

Mr. DODARO. Well, we haven't studied that issue directly, Mr. Chairman. I think part of the issue is that there is—it's not that—you can continue to abuse the system with low potential of getting caught. So I think that—just intuitively, just to tell you from that standpoint. I will go back and take a look and see if we have a more definitive answer.

Chairman ISSA. OK. And one followup question on an earlier one. Wouldn't it be impossible for the government to contract directly with everyone, meaning at some point the government does have to rely on government contractors to do jobs; thus it's inevitable that you will have a contractor hiring other contractors?

Mr. DODARO. Yes. As long as it's in a typical prime contractor-subcontractor mode, I think that's fine. But when the government contracts out its responsibility to oversee the prime contractor, then I think you have an issue.

Chairman ISSA. Which we all agree with.

We now recognize the gentlelady from California Ms. Speier for 5 minutes.

Ms. SPEIER. Thank you, Mr. Chairman.

I am very pleased with this hearing and frankly think that if we spent the rest of this year just dealing with the issues that were

raised here and actually got some results, we would have done our job. I have much frustration with the fact that we hold hearings, we uncover problems, and then nothing happens.

To you, Comptroller, congratulations on your official appointment.

You have a High-Risk List. There are agencies that stay on this High-Risk List year after year with no penalties, no results, no changes, and I think that is inexcusable. And if you need to have more authority to force these agencies to do what you recommend, then we should introduce legislation to make sure that happens, because we look foolish, and the American people look at us as if we are totally ineffective when we cannot deliver once we have uncovered a problem.

Let me move on to an area that you just editorialized in the New York Times about just 2 days ago. A percentage of the proceeds from gas and oil companies that drill on Federal lands are supposed to be paid. And evidently, according to your report, there are substantial funds that could be generated—some \$9 billion in fiscal year 2009—but it appears that it is on your High-Risk List in part because the oil and gas companies aren't paying their proper share.

So I guess my question is how long have they been underreporting? Why do we allow them to underreport? Why aren't the taxpayers getting the proper payments that they should be receiving because the drilling is going on on Federal lands?

Mr. DODARO. Basically I had agreed, as a result of an earlier question, to go back and provide a listing of the underreporting point. What I would say, though, there really are a couple of issues. One, there is too much reliance on self-reported data that needs to be checked. Second, we found problems with the verification process that the Interior Department is supposed to use to make sure that the production figures are correct as well.

Ms. SPEIER. Wait a minute. Excuse me. Are you telling me that the oil and gas companies are self-reporting, and we're supposed to trust them?

Mr. DODARO. Well, there are supposed to be checks that are put in place as well—

Ms. SPEIER. By whom?

Mr. DODARO. By the Interior Department.

Ms. SPEIER. And are they?

Mr. DODARO. Well, that's what we found some gaps in in that, and also the verification of production numbers, which are things that we believe need to be addressed. And that's one of the reasons that we're highlighting this as a high-risk area.

The other reason is that the Federal Government's basic system to assess what the costs would be for Federal leasing hasn't been revisited for 25 years, and that when the Federal Government—what it charges for leasing on Federal lands is compared to what's charged in other countries and even some States, it ranks extremely low in its charges to begin with.

Ms. SPEIER. Mr. Chairman, I would recommend that we have a hearing specifically on this issue. The taxpayers deserve to get fair market value for the leases that they provide to anyone, be they the next-door neighbor, or an oil and gas company. And I think we

should be getting what is justifiably ours. We are the stewards of the taxpayers' money, and I think this is a ripe area.

I think this is a ripe area.

I would like to move very quickly to the Alaska Native Corp. I don't know if you have looked into it. If you have not, I would request through the committee that you do so. The Washington Post did a piece on November 26th, which is astonishing to me. Anytime you allow for sole contracts—sole-source contracts, there is mischief that is going to take place. And in this case evidently a contract for \$250 million was offered to a subsidiary of the Alaska Native Corp., a gentleman living in Delaware, whose office was his colonial four-bedroom home, and he was providing sexual assault and harassment training, except he had no experience doing that, and his last contract with the government was for \$73,000, and it was for janitorial service.

There has been \$29 billion provided to the ANC over the last decade, most of the money not going to the Natives, most of it going to the non-Natives. It is an absolute abuse of the program, and I think we should look into that as well.

Mr. DODARO. We issued reports in the past on that with recommendations, and we currently are looking at it again and would be happy to share.

Ms. SPEIER. That is my problem. You issue reports, nothing happens, and there is another story written because we haven't done anything about it. I want to be a part of a committee this year that actually delivers on results; not just have a bunch of hearings, but show that we are saving the American taxpayers money.

I yield back.

Mr. PLATTS [presiding]. Chairman Issa had to go to the floor. There are several amendments that he had to deal with, and so I am honored to step in as the chair. I am up in the order, so it is good timing. So I yield myself the 5 minutes.

First I want to thank each of you for your testimony and your work on these important issues. As the gentlewoman just said, we could spend the rest of this session just on what you are sharing with us and still not get everything done that we need to as doing good oversight. But Chairman Issa has made a priority of just this, oversight of how the Federal Government is handling the people's money, and we are glad to have you here.

While I thank all of you, General Dodaro, I especially want to thank you. I believe this is your first time testifying before this committee as the newly sworn-in Comptroller General. Congratulations on your confirmation and your 30-plus years of service at GAO that brings great leadership to the agency with that experience.

And I am going to start with you, and one is to thank you for your flexibility in our subcommittee hearing dealing with the consolidated financial reports that we moved back to March 9th. I look forward to hearing your testimony then, and also to your upcoming report, I believe March 1st, on duplicative Federal programs. We are anxious to see that, and I know this is a first-time report, although you have addressed some of those issues in other ways in the past.

And as chair of the Subcommittee on Organization, Efficiency and Financial Management, we look forward very much to working with you and your staff, because when we think of efficiency, what duplication of effort certainly is not an efficient use of taxpayer funds. So is there anything you want to give us a primer on, what we may see, or should we wait until March 1st?

Mr. DODARO. Well, I think we were charged with doing an annual report. So this will be our first annual report on this. It will basically summarize the work that we have done and new work that we have started since the requirement was put in place.

We focus a lot on discretionary spending programs in this first area, both civilian and defense. We think it is important for defense to be on the table as well. So you will see a number of issues on that. In subsequent years we will focus on mandatory spending and also tax expenditures as well.

We have this on a 3-year cycle to cover the entire Federal Government. This first report will identify 34 different areas that touch hundreds of programs and virtually every major mission and agency in the Federal Government. I think you will find plenty of opportunities to delve into some of these issues very well.

You will also find that there are some limitations on the ability of us to give definitive answers to the questions about how much money you actually will save if you consolidate this because of limitations on information that is collected on a reliable basis from the agencies as well.

We are adding to that another 50 items of cost-savings opportunities beyond the overlap and duplication and revenue enhancements that could be—or additional revenue could be brought into the Federal Government to help close what is now an estimated \$290 billion tax gap. So both revenue-generating enhancements and cost-savings opportunities.

So we are looking forward to unveiling the report and providing appropriate followup support to the Congress.

Mr. PLATTS. And hopefully, given the timing as we are debating the new CR today, and that still is going to be an ongoing dialog between us and the Senate no matter what we pass today or tomorrow, this may give us additional information as we try to really look at how to be most efficient with the taxpayer funds, even in the immediate term in this current year.

When you look at discretionary—I do agree that you do need to look at everything, including DOD and the duplication of efforts. I assume it is more a duplication of programs, but not items such as the ongoing debate on the duplication of whether we have one or two engines on the Joint Strike Fighter. I assume that is outside the scope of this report.

Mr. DODARO. That is correct.

Mr. PLATTS. I am going to run out of time here quick. One I would add, on the oil and gas royalty, and I apologize because of trying to multitask here if you have already answered this, is there even a rough estimate—you know, when we see \$9 billion, I think, in 2009 from these royalties, if they are off by even 10 percent, that is almost \$1 billion, 900 million. Is there an estimate of what you think may be lost because of the lack of good material—of material witnesses in their structure?

Mr. DODARO. Yes. We do not have an estimate at this time.

Mr. PLATTS. And one final quick comment is we look forward to getting into the financial management at DOD. When we look at discretionary spending, there is no bigger entity than DOD, and if they can't manage their finances—we know that they are the best in the world in defending us and winning wars, but as I know from my previous chairmanship of the subcommittee, their financial management leaves a lot to be desired. So we look forward to working with you on that.

Mr. DODARO. I do as well. I look forward to the upcoming hearing on the financial audits and to working with you in the subcommittee chair capacity.

Mr. PLATTS. Thank you.

I now yield 5 minutes to Mr. McHenry.

Mr. MCHENRY. Thank you for being here. It has been a long morning with votes that haven't agreed with our schedule here.

But, Dr. de Rugy, in your previous answer to Mr. Walberg and in your testimony, you talk about the flypaper effect, the fact that these Federal transfers with matching grants at the State and local level actually increases spending and over the long term increases taxation.

This is particularly interesting in light of the stimulus which—\$150 billion, roughly, that was in direct Federal transfers to States and thereby increasing spending.

So, you know, the question is is the Federal Government really complicit in the State and municipal governments' financial woes by these operations?

Ms. DE RUGY. Yes, it is. I mean—

Mr. MCHENRY. Will you elaborate?

Ms. DE RUGY. There is a bit of economic literature that actually documents this problem, and yet, you know, the system goes on. One of the things that people always bemoan is the fact that if we cut Federal spending going to the States, the States are going to end up with big holes. But this always rests on the assumption that the Federal Government has deep pockets, and it is not the case.

For every dollar that the Federal Government spends, whether it is on the States or the private sector, it has to tax people, taxpayers who live in those 50 States, and they also have to borrow money. The more the Federal Government does, and this is how it works, it sends money to the States, because it can borrow also this money, it actually pushes the Federal Government to a more irresponsible behavior and more debt.

Mr. MCHENRY. So in my subcommittee on this committee, we have had discussions about the muni and State bond issue, the lack of real transparency there.

Ms. DE RUGY. There is another issue there, right, is the fact that the Federal Government has actually been complicit in granting special treatment to investors who think it is a really good idea to lend money to a bankrupt city in the form of tax deductions and Build America Bonds, where actually the Federal Government subsidized lending money, the rates to lend money to bankrupt cities. That is complicit.

Mr. MCHENRY. OK. So in terms of this, do you think that the State and municipal financial position is worse than currently known?

Ms. DE RUGY. Yes, I think it is. I mean, if you take the economic approach of actually valuing the pension unfunded liability, instead of the less than \$500 billion that State pensions have on their books, you come up with the number of at least \$3 trillion. So, yes, the fiscal pictures in the States is much worse than we think.

Mr. MCHENRY. OK. And in terms of—well, here is a separate question. I don't know if you would want to answer it. But in terms of our ability to know or your ability when you are doing research to see the long-range unfunded liabilities of States, municipalities, even the Federal Government, is it knowable for the average taxpayer to see where their city or State is in terms of financial liabilities over the long range?

Ms. DE RUGY. I think it is very important. Not everyone might want to look at it. But I can tell you that I find that it is way easier to look at data at the Federal level. I find it extremely complicated to look at data at the State and municipal level. And more importantly, there are a lot of accounting standards that apply only to the government that are different from the accounting standards that apply to the private sector that makes the size of the liability of Federal Government, State, and municipal governments much smaller than it is. And it would be a good thing to not only make the States transparent, but also to value it at its present value so that we can see what the true size of this liability is.

Mr. MCHENRY. OK. So this is GASB versus FASB, in essence, to speak the lingo. But basically the private sector has to value things differently than governments value things based on accounting standards?

Ms. DE RUGY. Yes.

Mr. MCHENRY. So you see some flaw from government accounting standards?

Ms. DE RUGY. There are real flaws with accounting standards. I mean, and it makes—it all points in one direction as making the size of the liability, and what taxpayers ultimately will have to pay, and the bill they will have to burden look way smaller, and that is a real problem.

Mr. MCHENRY. So FASB standards would give you greater transparency and a better ability to understand the true nature of the liability?

Ms. DE RUGY. Yes, and also value the liability in the future at its present value so you know actually what you are going to have to pay in the future and what you need to actually put down right now with actual realistic rate of return, rather than, you know, completely optimistic 8 percent rate of return.

Mr. MCHENRY. Thank you.

Ms. DE RUGY. You are welcome.

Mr. PLATTS. Thank you, gentlemen.

Just a follow on that quickly, you are talking a little bit about accrual method of a more accurate—having the Federal Government be fully disclosing. So when we talk about our \$14 trillion of debt, if we add in all of our unfunded liabilities on Medicare and Medicaid, we are really in the \$50 to \$60 trillion.

Ms. DE RUGY. Actually currently on the financial accounting—the financial statement of the U.S. unfunded liabilities reach almost \$80 trillion.

Mr. PLATTS. Exactly. And that is really it is not well focused on because we focus on the publicly held debt, which is just a small fraction of that whole cost.

Ms. DE RUGY. And one of the things we don't talk very much about is the fact that the intragovernmental debt, which is supposed to be actually the already funded part of the promises we have made to seniors, actually this money is gone. There are IOUs in those trust funds, but the only way the IOUs are going to be cashed and paid back to this program is if the Federal Government taxes people or borrows more money.

Mr. PLATTS. Thank you.

We thank each you again for your testimony and the great resources you have provided today and what we know you will continue to do, and as a committee we look forward to continuing to partner with you. So thank you.

And we are going to move to our third panel then if our witnesses want to work their way toward the witness table.

Chairman ISSA [presiding]. On the third panel today, I would like to recognize Thomas Schatz. He is president of Citizens Against Government Waste. Mr. Andrew Moylan is vice president of government affairs for the National Taxpayers Union, and Mr. Gary Kalman is director of U.S. PIRG Federal legislative office.

As you saw in the previous panel, pursuant to the rules, all witnesses will be sworn, if you would please rise and raise your right hands.

[Witnesses sworn.]

Chairman ISSA. Let the record reflect that all witnesses answered in the affirmative.

Thank you. Please be seated.

I will tell you that we prefer to have only one main panel, but we have saved the best for last. Since it is this committee's primary duty to work with watchdog groups and whistleblowers, you are among the most important people that ever come before us, so we look forward to your testimony.

Mr. Schatz, please try to stick to 5 minutes, and we will have a lively round of questions afterwards.

**STATEMENTS OF THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE, WASHINGTON, DC; ANDREW MOYLAN, VICE PRESIDENT OF GOVERNMENT AFFAIRS, NATIONAL TAXPAYERS UNION, ALEXANDRIA, VA; AND GARY KALMAN, DIRECTOR, FEDERAL LEGISLATIVE OFFICE, U.S. PIRG, WASHINGTON, DC**

#### **STATEMENT OF THOMAS A. SCHATZ**

Mr. SCHATZ. Thank you very much, Mr. Chairman and Ranking Member Cummings. I appreciate the opportunity to appear before you today, and I have appeared before this committee, regardless of who has been chairman, because we hope that we do contribute nonpartisan information about where the government can become more efficient.

I am Thomas A. Schatz, president of Citizens Against Government Waste. CAGW was founded in 1984 to build support for implementation of President Ronald Reagan's Grace Commission recommendations and other waste-cutting proposals. Since then we have helped save more than \$1.08 trillion through the implementation of those recommendations.

GAO's High-Risk Series is a valuable contribution to the effort to eliminate wasteful spending. We have long recognized the importance of this report. Back in 1993, CAGW produced a report called Risky Business, which summarized the GAO High-Risk Series. That was the year we also first produced Prime Cuts, a compilation of recommendations from GAO, CBO, Members of Congress and other sources. And I ask that the entire Prime Cuts report be entered into the record for this hearing.

Chairman ISSA. Without objection, so ordered.

[The information referred to follows:]

[NOTE.—The cover of the Citizens Against Government Waste report entitled, "Prime Cuts 2010, A Commonsense Guide to Leaner Government," is provided as a reference. A complete copy of the report may be found in committee files.]

# PRIME CUTS<sup>®</sup> 2010

A Commonsense Guide To Leaner Government  
From

CITIZENS AGAINST GOVERNMENT WASTE



1301 Pennsylvania Ave., NW  
Suite 1075  
Washington, D.C. 20004  
[www.cagw.org](http://www.cagw.org)

Mr. SCHATZ. Thank you, Mr. Chairman.

The most recent report identified 763 recommendations that would save taxpayers \$350 billion in 1 year and \$2.2 trillion over 5 years.

CAGW has also published this week Critical Waste Issues for the 112th Congress, and there are 10 of our top recommendations in there. I also ask that this report be entered into the record.

Chairman ISSA. Without objection, so ordered.

[The information referred to follows:]

[NOTE.—The cover of the Citizens Against Government Waste report entitled, “Critical Waste Issues for the 112th Congress,” is provided as a reference. A complete copy of the report may be found in committee files.]



# Critical Waste Issues

*for the*  
**112th  
Congress**



1301 Pennsylvania Avenue, NW  
Suite 1075  
Washington, D.C. 20004  
1-800-Be-Angry  
[www.CAGW.org](http://www.CAGW.org)



Mr. SCHATZ. Thank you.

That list includes reforming or eliminating outdated or inequitable agriculture subsidies, commonsense ideas such as replacing the \$1 bill with the \$1 coin, preventing further exposure to hundreds of billions of dollars in taxpayer-funded bailouts by reforming Fannie Mae and Freddie Mac, and promoting innovations in the private sector by keeping the government from regulating the Internet.

There are several recommendations in Prime Cuts that stand out more than others. The Market Access Program, for example, helps agricultural producers promote U.S. products overseas. Both President Obama and the Republican Study Committee have identified this as a source of waste. Simply put, it is corporate welfare when companies like Sunkist, that reported \$860.5 million in revenues in 2009, received \$2.1 million from this program to promote its products overseas.

We have been looking closely at the dollar coin, and we understand that the Government Accountability Office will be issuing a new report next month on how savings can be achieved in that area. We are not quite sure that Congress will be able to score it as we think it will save money, and something that really should be a very simple decision for the United States, which is the only country that has such a low denomination for its paper currency. Savings from GAO several years ago were \$500 million a year. We will see what those numbers appear to be in this next report.

As I mentioned, we have looked at other areas: ethanol program, sugar program, dairy, peanuts, NASA Constellation, and then there are programs that sound well-intentioned, such as the Prevention and Public Health Fund that will spend \$14 billion over the next 10 years under the health care law on antiobesity and tobacco control. In other words, the government will be using tax dollars to try to modify individual behavior. We have seen this work not so well in the Office of National Drug Control Policy with anti-drug ads, and we hope that the committee will look at this not just for whether it is effective, but also whether some of the grantees are using this money to lobby for more regulations and higher taxes, which don't usually solve that problem.

And finally, looking at oversight in general, I was very, very pleased to see, Mr. Chairman, that you said last October that oversight is not and should not be used as a political weapon. We understand that is the most important function of this committee. Taxpayers deserve to know, as you said in your mission statement, how their money is being spent. When this committee or any other committee decides that a program is not being effective, taxpayers want to know why so that when action is taken to reform or terminate the expenditure of their money, they want to know why it is being done. And if something is being expanded, they want to know why it is being effective.

We have often suggested that constituents ask their Members of Congress for the 10 most effective and 10 least effective programs. Unfortunately, the answer often is the 10 programs on which Congress spends the most money and the 10 programs on which they spend the least money. That is never the right answer, and we

hope that every Member becomes more educated and spends a lot more time reviewing which programs truly are effective.

Thank you for allowing me to testify today.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Schatz follows:]

Testimony of  
Thomas A. Schatz  
President  
Citizens Against Government Waste  
Before the House Committee on Oversight and Government Reform  
February 17, 2011

My name is Thomas A. Schatz and I am president of Citizens Against Government Waste (CAGW). CAGW was founded in 1984 by the late industrialist J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of President Ronald Reagan's Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW has more than one million members and supporters nationwide, and, over the past 27 years, has helped save taxpayers \$1.08 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is reduced and government is held accountable. Not only will representative government benefit from the pursuit of these interests, but the country will prosper economically because government mismanagement, fiscal profligacy, and chronic deficits soak up private savings and crowd out the private investment necessary for long-term growth.

The Government Accountability Office (GAO) releases its *High-Risk Series* every two years. The report highlights the areas in the federal government that are especially vulnerable to fraud, waste, abuse, and mismanagement and need extensive reform. In the 2009 *High-Risk* report, GAO identified 31 such areas, including program areas in NASA, the Department of Defense (DOD), Homeland Security, the Internal Revenue Service, Medicare, and Medicaid.

Naturally, the *High-Risk Series* provides citizens and taxpayer groups alike with prime fodder for the struggle against government waste, fraud, and abuse. CAGW has long recognized the importance of the *High-Risk Series*, and first promoted the report in 1993 in *Risky Business*.

That was the same year that CAGW first published *Prime Cuts*, a compilation of recommendations from the Congressional Budget Office (CBO), GAO, members of Congress, the President, and nongovernment sources. The most recent *Prime Cuts* report identified 763 recommendations that would save taxpayers \$350 billion in the first year and \$2.2 trillion over five years.

House Republicans are set to offer legislation that would fund the government through September after the expiration of the current continuing resolution (CR) on March 4. The budget will include \$100 billion in cuts. This amount serves as a good jumping off point and is the least our elected officials could do to slow down the growth of the nation's \$14.3 trillion debt.

Given the renewed focus on cutting government spending embodied in the November elections, many plans have been proposed to reduce the budget. However, some of them unfortunately eschew reductions in the DOD. This is short-sighted. Security spending, defined as money

spent on wars, non-war defense, veterans, and homeland security, constitutes nearly two-thirds of all discretionary spending. Since the initiation of America's wars in Afghanistan and Iraq, the budget for the DOD has grown exponentially. Defense Secretary Robert Gates has adamantly stated that the Pentagon can safely eliminate non-essential programs, and has proposed \$78 billion in savings through fiscal year 2016. This serves as a good starting point for further cuts in the DOD. In fact, *Prime Cuts 2010* identified 94 related to the DOD, which would save \$24.1 billion in one year and \$220.1 billion over five years.

Of course, wasteful spending at the DOD has a long and notorious history, including the \$436 hammer, the \$640 toilet seat, and 15 pages of instructions on how to bake chocolate chip cookies, which both the Grace Commission and CAGW publicized extensively in the 1980s. We encourage every representative to examine all areas of spending, including DOD. This is especially important for Republicans, who have not voted for amendments aimed at cutting defense spending with the same frequency as non-defense-related amendments. CAGW's lobbying arm, the Council for Citizens Against Government Waste, rated 120 House votes in 2009, and 67 were related to earmarks. There were 56 votes on non-defense earmarks and to their credit, a majority of Republicans voted to eliminate 48 of the 56, or 86 percent. On the 11 defense-related earmarks, however, a majority of Republicans voted to cut the earmark only twice, or 18.2 percent.

Any discussion of cutting defense spending should begin with the F136 alternate engine for the F-35 Joint Strike Fighter. The wall-to-wall criticism of the alternate engine is well chronicled. The project has been condemned as wasteful and unnecessary by both the Bush and Obama administrations and numerous top military officials. As recently as January 6, 2011, Secretary Gates stated that spending limited resources on the alternate engine constitutes excessive overhead and that the program is unneeded. The project barely escaped the cutting board for this fiscal year when an 11<sup>th</sup> hour letter from Office of Management and Budget Director Jack Lew included funding for the F136 in CR. Congress must now decide whether the project will receive funding in the full-year CR. Since 2004, Congress has earmarked more than \$1.2 billion for the alternate engine, including a \$465 million anonymous earmark in the fiscal year (FY) 2010 Defense Appropriations Act.

There are of course many other areas of wasteful spending in the federal budget. Created in the 1970s after airline deregulation, the Essential Air Service (EAS) has provided exorbitant subsidies to continue service to communities that would otherwise not be profitable. According to a September 19, 2009 article in *The Los Angeles Times*, "The Essential Air Service spends as much as thousands per passenger in remote areas. . . opponents call the program wasteful spending, noting that much of the money provides service to areas with fewer than 30 passengers a day." Among the most absurd recipients of EAS subsidies is the John Murtha Johnstown-Cambria County Airport, tirelessly defended by the late Congressman John Murtha (D-Pa.), but from which just 18 flights leave each week. Johnstown is only two hours east of Pittsburgh International Airport by car. Ironically, the EAS is anything but essential, as 99.95 percent of Americans live within 120 miles of a public airport that accommodates more than 10,000 take-offs and landings each year. Eliminating EAS would save \$99 million in the first year and \$599 million over five years.

A long-standing symbol of waste is the Market Access Program (MAP), managed by the Department of Agriculture. MAP aims to help agricultural producers promote U.S. products overseas; however, this corporate welfare program simply funnels millions of dollars to large corporations. President Obama's Terminations, Reductions and Savings for the Fiscal Year 2011 federal budget identified MAP as a potential spending cut. In addition, the House Republican Study Committee Sunset Caucus criticized the program as wasteful, citing the \$2.1 million provided by the program for Sunkist Growers, Inc., which reported \$860.5 million in revenues in 2009.

According to a February 12, 2010 article in *The New York Times*, MAP has supplied nearly \$2 billion to agriculture trade associations and farmer cooperatives in the past ten years, while trade associations that benefit from the program spent almost \$100 million on lobbying and contributed \$84 million to candidates during that time. If MAP were eliminated, taxpayers would enjoy \$200 million in savings in the first year and \$1 billion over five years.

The Export-Import Bank was created during the Great Depression by President Franklin Roosevelt in 1934 in order to aid foreign exchange. The renewal of its charter in 2011 should be denied. Today, the bank uses taxpayer money to subsidize borrowing by firms both in America and abroad, most of which are profitable and would have no trouble borrowing without the subsidy.

According to the Cato Institute's Aaron Lukas and Ian Vásquez, the Export-Import Bank "merely displaces private investment by funding ventures that would otherwise have taken place. Moreover, the vast bulk of the Bank's financing goes to very large corporations that do not need handouts from taxpayers." Companies that receive low-cost loans from the Export-Import Bank include Boeing, Halliburton, Chevron, Caterpillar, and Dell. Critics have called it the "Reverse Robin Hood" because it takes money from taxpayers and distributes it to rich corporations. Yet, despite opposition from advocacy groups on both the left and right, the bank still exists. Eliminating the Export-Import Bank and Overseas Private Investment Corporation would result in \$13 million in savings over one year, and \$264 million over five years.

The Davis-Bacon Act should also be a target of this Congress. Davis-Bacon requires that contractors pay their employees the "prevailing wage" on federal projects costing more than \$2,000. The mandate raises the cost of government projects by 15 percent and costs taxpayers more than \$1 billion annually, not including \$100 million in administrative costs.

Since its passage in 1931, Davis-Bacon has been touted by labor unions and politicians as essential to ensuring fair compensation on government jobs. In reality, the "prevailing wage" tends to correspond to union wages, especially in urban areas. This effect is no accident. Davis-Bacon was passed as part of an effort by high-skilled, high-wage, mostly white workers to keep out lower-paid, non-union, minority competition. Backers of Davis-Bacon have argued that hiring low-wage workers on federal jobs would result in shoddy work. But the federal government is aware of Davis-Bacon's inefficiencies. The law was suspended in the aftermath of Hurricanes Andrew and Katrina to facilitate reconstruction, and the Government Accountability Office stated that many stimulus projects were delayed for months because of onerous Davis-Bacon requirements. A 2010 Heritage Foundation study found that suspension of

Davis-Bacon under the stimulus “would allow the government to build more and hire 160,000 new workers without increasing the deficit.” Repealing Davis-Bacon would save taxpayers \$250 million in the first year and \$3.9 billion over five years.

Another clear target for elimination is the Department of Energy’s Weatherization Assistance Program (WAP), meant to subsidize weatherization of homes in order to increase energy efficiency. The annual WAP budget had been \$225 million, but the program, which has not been subject to oversight and review for many years, received \$5 billion in the stimulus bill to be spent over a three-year period. Most analysts view the program as yet another giveaway program to appease the environmental lobby. It is also a way to throw a bone to the nation’s construction industry (which has lost millions of jobs since 2006, according to the Bureau of Labor Statistics), manufacturers of costly energy-efficient appliances, and energy accrediting organizations, which could be tapped to provide training for energy auditors. The House Republicans’ proposal to cut \$100 billion in the next CR appropriately calls for the elimination of the program.

Most states reported difficulties in implementation of WAP because of the requirement in the stimulus bill that all contractors involved in weatherization be paid Davis-Bacon, or union, wages, including fringe benefits. States and the hundreds of community action agencies which will act as conduits for the billions in weatherization funds almost uniformly reported concerns about the huge fiscal burden and onerous paperwork requirements with which they now must comply. The WAP is so exposed to waste, fraud and mismanagement that the Department of Energy has begun hiring one program officer for each state, the District of Columbia, and all of the recipient Indian tribes, just to help monitor the expenditure of funds.

Congress could also shift to a dollar coin in order to achieve savings. Fourteen years ago, Congress passed the U.S. \$1 Coin Act of 1997, giving the U.S. Treasury the authority to get \$1 coins into circulation. The advantages of using a \$1 coin are substantial. According to an April 7, 2000 GAO report, replacing the \$1 bill with a coin would save taxpayers \$522.2 million per year. The savings would likely be even higher today.

Most of the cost savings associated with coins comes from their comparative durability. The Bureau of Engraving and Printing produces approximately 3.4 billion \$1 bills each year, each of which costs 4.2 cents to manufacture. Each bill has a lifespan of approximately 21 months. By comparison, the \$1 coin costs slightly more to produce – 12 to 20 cents – but has a lifespan of 30 years or more. The \$1 coin saves money because it is cheaper to handle and process. Mass transit agencies have found that processing \$1 coins costs 83 percent less than processing \$1 bills. Other benefits include savings on the processing of money by banks and businesses. Coins cost 30 cents per thousand pieces to process at Federal Reserve Banks, compared to 75 cents per thousand for \$1 notes. Large-scale private-sector users reap even more savings. Processing bills costs them more than 500 percent above processing coins. Coins are also much more difficult to counterfeit and are recyclable, unlike their paper counterparts.

The Federal Reserve and the U.S. Mint are required by law to remove barriers to the \$1 coin’s circulation. However, the Federal Reserve issues the United States’ paper currency and doesn’t like the competition from the \$1 coin, which is issued by the Mint. The Fed’s leaders have

instituted regulations and red tape that make it difficult for banks, businesses, and individual Americans to access \$1 coins.

Taxpayers have been fleeced by agricultural subsidies for years. Subsidies for ethanol include a tax credit for ethanol blenders, a protectionist tariff against foreign ethanol imports, and a Renewable Fuel Standard which creates an artificial market for the additive. Studies show that increased ethanol production does not improve energy independence or help the environment. A July, 2009 CBO report confirmed that taxpayers lose \$6 billion each year on the ethanol program. In 2009, the U.S. produced and sold about 11 billion gallons of biofuels, most of it made from corn. Fuel blenders receive a 45 cents per gallon tax credit, most of which flows back to domestic corn growers in the form of higher prices for their product. Even though the tax credit and the tariff were set to expire on December 31, 2010, Congress extended both the ethanol tax credits and tariff at the end of the lame duck session in 2010.

The federal sugar subsidy program wastes money in a similar fashion. The program is ostensibly aimed at ensuring that there is an adequate supply of sugar for the U.S. market. Unfortunately, it has harmful effects, giving generous handouts to wealthy farmers and driving jobs overseas. The sugar program has done the opposite of what it was intended to do, while costing taxpayers hundreds of millions of dollars. Instead of helping out small U.S. sugar farmers, this program has instead concentrated a vast amount of wealth in the hands of a few large farms and conglomerates. The wealthiest one percent of sugar farmers receives 60 percent of the subsidies. The sugar program inflates the price of sugar to at least twice the world price of the commodity, which has the effect of decreasing domestic sugar refining jobs as well as secondary jobs in industries that use sugar, such as candy, cereal, and baked goods manufacturers. These subsidies should be on the chopping block as Congress and the administration seek to cut wasteful federal spending and reduce the deficit. Eliminating the sugar subsidy would result in savings of \$1.2 billion over one year and \$6 billion over five years.

NASA's Constellation Program has come under frequent criticism, for good reason. Despite having spent more than \$10 billion on the program to date, NASA is no closer to sending an astronaut to space than it was when the program began. According to a letter from NASA Inspector General Paul K. Martin to Sens. John Rockefeller (D-W.Va.) and Kay Bailey Hutchison (R-Texas) on January 13, 2011, "due to restrictive language in NASA's fiscal year (FY) 2010 appropriation, coupled with the fact that NASA and the rest of the Federal Government are currently being funded by a continuing resolution (CR) that carries over these restrictions and prohibits initiation of new projects, NASA is continuing to spend approximately \$200 million each month on the Constellation Program, aspects of which both NASA and Congress have agreed not to build."

Furthermore, the NASA Authorization Act of 2010 requires NASA to spend more than \$10 billion in the next three years to continue Constellation, now referred to as the Space Launch System and Multi-purpose Crew Vehicle. Unfortunately, NASA delivered a report to Congress on January 12, 2011 concluding that it simply can't build a rocket that "fits the projected budget profiles nor schedule goals outlined in the Authorization Act." Even so, some members of Congress are insisting that NASA move forward with the program. The private sector can spend money more effectively than government bureaucrats. As a result, the government's role in space exploration should be minimized.

Congress should also work to suspend federal land purchases and sell off existing land. FY 2011 land purchases are budgeted to increase 94 percent from FY 2009, reaching \$310 million and \$75 million at the Department of the Interior (DOI) and the Department of Agriculture (USDA), respectively. The federal government currently owns roughly one-third of all U.S. land, including more than half of Idaho, Utah, and Oregon, and more than 80 percent of Nevada and Alaska. As a result, the USDA's Forest Service and the DOI's Bureau of Land Management, which make nearly all federal land procurements, have been running deficits since 1994.

A 1999 CBO report stated that the National Park Service, the Forest Service, and the Bureau of Land Management might better meet "environmental objectives such as habitat protection and access to recreation ... by improving management in currently held areas rather than providing minimal management over a larger domain." In 2003, the GAO reported that the National Park Service's maintenance backlog was more than \$5 billion. Since then, federal land acquisitions have accelerated, placing even greater burdens on an obviously inefficient and overstrained system. Shelving federal land purchases at DOI and USDA would save taxpayers \$385 million this year and \$1.9 billion over five years.

Congress should also target the Community Development Block Grant (CDBG) program. Created in 1974, the programmatic flexibility of the CDBG program has resulted in numerous instances of waste. A March 2, 2010, article in *The Star-Ledger* reported that the Essex County, N.J., Economic Development Corporation grossly misused CDBG grant money. According to the article, "Economic Development Corp. — or EDC — spent \$1.67 million in administrative costs to deliver 19 loans totaling \$770,942. The federal government allows municipalities no more than 30 percent of the grant amount for administrative costs. In this case, CDBG officials estimated the EDC should have spent no more than \$232,000 to loan out the grant money, according to county documents." The \$1.4 million of misused funds will have to be repaid; unfortunately, this type of incident is not the exception, it's the rule. Aside from the instances of waste and fraud, the Office of Management and Budget's Program Assessment Rating Tool (which is used to measure the effectiveness of federal programs) gave the CDBG an overall rating of "ineffective" in FY 2008. Eliminating the CDBG program would result in savings of \$4.9 billion in one year and \$24.7 billion over five years.

One subject that gets short shrift in the media, but which is nonetheless critical to the economy, is telecommunications. There are four major areas of concern that should be addressed sooner rather than later. The notion of equality on the Internet may sound reasonable, but net neutrality is instead an attack on private-sector business models. Proponents of net neutrality want the online world to be forced "open" at the expense of successful Internet providers, but fail to recognize the many tradeoffs to "openness" such as increased spam, fewer privacy controls, slower service and, perhaps most importantly, decreased incentives for investment and innovation. The Internet has flourished thus far largely due to the lack of government interference.

A second area is broadband. A November 8, 2010 report by the Department of Commerce's Office of the Inspector General criticized the stimulus broadband program managed by the National Telecommunications and Information Administration (NTIA). The report found chronic oversight and management flaws. The NTIA is responsible for managing the Broadband

Technology Opportunities Program (BTOP), a multi-billion dollar stimulus program for broadband expansion. According to a November 8, 2010, article in *Politico*, "A government report released Monday found flaws in the stimulus program that's putting roughly \$4 billion towards rolling out broadband networks across the country."

Some have complained that broadband stimulus money was earmarked for areas where broadband already exists. Eagle Communication President Gary Shorman testified before the House Energy and Commerce Subcommittee on Communications and Technology on February 10, 2011 that BTOP awarded \$101 million to build broadband service in an area where Eagle Communications and AT&T already provide service. The elimination of BTOP would save taxpayers \$40 million in the first year and \$4.7 billion over a five-year period.

Next, Congress must resolve retransmission issues. In 1992, Congress amended the Communications Act of 1934 to give broadcasters the upper hand in negotiations with monopoly cable providers, granting broadcasters the right to choose between guaranteed carriage or insisting that multichannel video programming distributors (MVPD) obtain and pay for a station's consent to retransmit the station to local subscribers. The law allows broadcasters to make a new election between these two options every three years. However, the marketplace has greatly evolved since 1992. Broadcasters no longer deal with a cable monopoly; on the contrary, broadcasters can often choose among multiple providers, ranging from cable to satellite to new fiber optic networks. As a result, broadcasters now brandish enormous negotiating power under old retransmission consent rules.

This power has led to service disruptions and increases in the cost of service for consumers. Government rules and regulations should drive businesses into the 21st century, not hold them back. Lawmakers should work toward a solution that revises old retransmission consent rules and the entire framework of broadcaster regulatory benefits in order to reflect the modern marketplace and limit government involvement in private negotiations.

Finally, CAGW has concerns with the Universal Service Fund (USF). The federal Universal Service fee is a hidden tax that subscribers to telephone services find in their monthly bill. This fee collects approximately \$7.7 billion annually for the USF, which contributes to infrastructure for communications services links for low-income residents in areas that are considered underserved. As is usually the case with such programs, peculiarities exist within the distribution of funds. Although 96.2 percent of Americans have the ability to access phone service, companies that provide "high-cost" wire-line service receive in excess of \$4 billion annually. This subsidy exists despite the fact that wireless service could more efficiently provide service.

Even in the most remote regions, satellite phones can provide cheaper coverage to anyone with a clear view of the sky. Further, the E-Rate program, designed to equip the nation's classrooms with the Internet, receives \$2 billion annually through the USF. However, the private sector is more than capable of this function, and wireless Internet service would be a better call.

Many of these topics were among the 10 waste-cutting proposals featured prominently in CAGW's *Critical Waste Issues*, which I submitted for the record to the committee. Since this

committee will be responsible for a great deal of the oversight conducted in the 112<sup>th</sup> Congress, I urge members to consider how such hearings can be most effective.

The committee should eliminate or severely limit politically motivated investigations on both sides of the aisle. I was encouraged by Chairman Issa's remarks in an October 10, 2010 *USA Today* op-ed, where he said that "Oversight is not and should not be used as a political weapon."

The following suggestions were made in a November 13, 2010, *New York Times* article: review the performance and efficiency of government workers and federal contractors; evaluate agency performance by examining reports that are required under the Government Performance and Results Act, and do a better job of reviewing defense spending. The article appropriately called for a review of how Congress itself is structured, as "more than 100 committees and subcommittees oversee the Department of Homeland Security." Hearings should be coordinated among committees and between the House and Senate so that agency officials do not go to dozens of hearings on the same subject matter. The article also suggested adopting the bipartisan proposal to provide agency inspectors general with more subpoena power.

Most importantly, members of Congress should make it clear why a particular program is or is not effective before they propose that it should be reformed or eliminated. Taxpayers deserve to see more than a list of programs; they want to see the justification for either continuing or cutting. Since the House will not be considering earmarks or commemorative legislation, there should be more than enough time to provide this information before legislation is considered on the floor of the House. CAGW will be glad to work with this committee and others to help convey to taxpayers the explanation for or against any program in the federal government.

The progress made recently on the issue of earmark reform can be applied to wide programmatic reform in the federal government. Never before have the American people so clearly voiced their desire for government reform. This has resulted in a clear mandate and historic opportunity to eliminate wasteful government spending. Congress must seize this opportunity and take steps to review every program in the federal budget. Thank you for the opportunity to appear before you today.

Chairman ISSA. Mr. Moylan.

# **STATEMENT OF ANDREW MOYLAN**

Mr. MOYLAN. Thank you, Chairman Issa and Ranking Member Cummings, for allowing me to testify today on behalf of the American taxpayer. My name is Andrew Moylan, and I am the vice president of government affairs for the National Taxpayers Union. We are a nonpartisan citizens group founded in 1969 to work for lower taxes and smaller government at all levels. We are the oldest such organization in the world. We have 362,000 members nationwide in every single State, and likely in all of your districts as well.

I will start with an old joke that our budget tells us what we cannot afford, but it sure doesn't keep us from spending money on it. Unfortunately, that has been true of Washington for far too long. Our current situation is bleak, and I wanted to point out just a couple of nuggets to illustrate that.

First of all, President Obama's recent budget estimate estimated our overspending problem this year at roughly \$1.6 trillion, which is equal in inflation-adjusted terms to the entire Federal budget of 1982. To restate that a bit, we will raise through the Tax Code and spend in real terms roughly the Federal budget of 2003, and on top of that we will also spend the budget of 1982 in real terms.

Second, in the President's budget outline, the lowest single-year deficit is \$607 billion, which is a number higher in absolute terms than every deficit from 1789 to 2008 and roughly equal in real terms to overspending in war-mobilized 1944.

Finally, while many in Congress have attributed the recent spending surge to crisis response due to financial meltdown and the resulting recession, the Federal Government has actually run a deficit in 51 of the last 60 years, which is something that we think ought to give pause to even die-hard Keynesians, who believe that in economic growth cycles surpluses should be a norm.

But instead of just listing a parade of horrors, I wanted to drop a parade of solutions for you. There is a lot of hard stuff that needs to be done, and much of that we deal with in the written testimony that I submitted to the committee. But I wanted to instead focus my remarks on what we regard as the low-hanging fruit of waste.

It won't shock anyone in this committee to hear that the NTU thinks that the Federal Government spends too much money. Whether or not you agree with that assessment, I hope you can agree that we can spend that money in a much smarter fashion than we are today.

That is why we joined with the U.S. Public Interest Research Group, with whom we have many disagreements, but some agreements as well, to author a report called *Toward Common Ground: Bridging the Political Divide to Reduce Spending*. In that report we identified over 30 specific recommendations to reduce Federal spending by up to \$600 billion by tackling waste by the middle part of the decade. And incidentally, I would note that NTU and PIRG were sitting together before the State of the Union made it cool, as our previous work includes issues like spending transparency.

To steal a joke from Conan O'Brien, I heard that President Obama took his daughters to see a 3-D version of *Avatar*, and at

the end of the film, one of his daughters elbowed him and said: Now, that is how you spend half a billion dollars.

And unfortunately, the American taxpayers are spending half a trillion dollars on such things as flood insurance for repeatedly flooded homes; overpayments to the SSI program; or the National Drug Intelligence Center, which is located in the heart of the drug war in Johnstown, Pennsylvania, among many, many other things. These items have been on watchdog lists for years, and opposition to these recommendations tends not to be primarily political or ideological, but parochial.

Just a couple of the highlights: \$62 billion in savings we identified from eliminating wasteful subsidies for agricultural products and corporations; \$353 billion in improvements in contracting and asset acquisition; \$77 billion in improvements to program execution; and \$107 billion in canceling or modifying ineffective military programs.

I would note that our earlier estimates were closer to \$1 trillion by the middle part of the decade, but we tried as hard as we could to back up each one of these suggestions with a credible estimate of the real spending impact as well as an unimpeachable source like CBO or GAO.

The NTU-PIRG report demonstrates that reducing wasteful spending is not a question of right or left, but a question of right or wrong. And I conclude by noting that I believe this hearing is properly focused on the issue of really what is causing our budget woes, which is overspending. While revenue is set to return to postwar averages in relatively short order, even if we extend the 2001 and 2003 tax cuts, spending is projected to be well above postwar averages for the coming decade and will skyrocket after that. That is why it is important for Congress to eliminate wasteful spending, tackle entitlement reform, and institute constitutional limits on the size of government moving forward.

If we fail to seize that opportunity, the result could be a painful debt crisis that will develop not over the span of 6 months, but over the span of 6 hours on a Sunday evening as we are sitting with our families and folks in Asian markets are beginning to stampede away from American debt.

To modify a line from our President, I hope we can look back together on this time and say that this was the moment when the rise of red ink began to slow and our budget began to heal.

Thank you, and I look forward to your questions.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Moylan follows:]



**Statement of**  
**Andrew Moylan**  
**Vice President of Government Affairs**  
**National Taxpayers Union**

**Prepared for**  
**The Committee on Oversight and Government Reform**  
**United States House of Representatives**

**Regarding the Committee's Hearing on**  
**"Waste and Abuse: The Refuse of the Federal Spending Binge"**

**Submitted February 17, 2011**

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### **Introduction**

Chairman Issa and distinguished Members of the Committee, thank you for the opportunity to testify on behalf of the American Taxpayer regarding the important issue of waste in our federal government. My name is Andrew Moylan, and I am Vice President of Government Affairs for the National Taxpayers Union (NTU), a non-partisan citizen group founded in 1969 to work for lower taxes and smaller government at all levels. NTU is America's oldest non-profit grassroots taxpayer organization, with 362,000 members nationwide.

Few citizen groups in Washington can match NTU's 42-year history of principled advocacy, which is why I hope you will find these comments on waste, inefficiency, and duplication in the federal budget of value during your deliberations. You can also find further research into these topics on our website at [www.ntu.org](http://www.ntu.org).

### **The Problem**

In the past decade, under the direction of Presidents and Congressional leadership from both parties, our federal budget has expanded dramatically no matter what measure one consults. At the dawn of the new millennium in 2001, federal outlays were about \$1.8 trillion, a level below post-World War II averages at 18.2 percent of our economy. Through the middle of the decade, we saw an explosion in spending driven by such factors as the creation of a new cabinet-level Department of Homeland Security as well as increased expenditures on defense and education. By 2003, the modest spending discipline of the late 1990s had given way to federal outlays that now seem permanently fixed at or above the post-war average of 19.6 percent of GDP. Add in the more recent surge in so-called "crisis response" spending, such as the \$700 billion Troubled Asset Relief Program (TARP) of 2008 or the \$862 billion "economic stimulus" bill of 2009, and the picture grows even bleaker.

In 2011, our budget is more than twice as large as in 2001, reaching about \$3.8 trillion. As a percentage of our economy, 2011 outlays will surpass a level unseen since the era of full-scale war mobilization in the 1940s, at over 25 percent. Perhaps most disturbing, President Obama's estimate of our overspending problem at roughly \$1.6 trillion in 2011 is about equal, in inflation-adjusted terms, to the *entire* federal budget in 1982. Put another way, we will raise through the tax code and spend (in real terms) roughly the federal budget of 2003 and throw in an amount approximating the 1982 federal budget just for good measure.

The federal government has seen deficits during 54 of the last 60 years. This fact ought to give pause even to die-hard Keynesians, who believe surpluses should be the norm in most economic growth cycles. While NTU's dedication to limited government would on its own lead us to conclude that this spending spree is unacceptable, sheer mathematics tell us that it is unsustainable. As of today, we are perilously close to the point where our country's debt exceeds its economic output. This sad statistic places us in rare company – just slightly below countries already staggered by debt crisis (like Ireland) and just above countries thought to be under grave threat of one (like Portugal).

If corrective action isn't taken soon, the United States could face a devastating debt crisis that would likely precipitate not only dramatic spending cuts but also massive tax hikes in very short order. If we are to have a sustainable fiscal future, this Congress must begin the hard work of reducing spending immediately. In that pursuit, no portion of federal outlays can be "off the table." The problems confronting us are simply too immense to allow walling off entire portions of the federal budget.

While the causes of the recent spending spree are myriad and complicated, the remedies are relatively straightforward. On the discretionary side, Congress must cancel wasteful programs, root out inefficiencies, and roll back agency spending to at least 2006 levels. With mandatory spending, Congress must take hold of the so-called "third rail" of politics with both hands and enact serious entitlement reforms primarily focused on controlling the growth in spending on Medicare.

#### **Low-Hanging Fruit**

Congress should begin with a thorough review of existing outlays to identify the "low-hanging fruit" of federal spending: the waste, inefficiency, and duplication that plague so many federal programs. During the deliberations of the President's National Commission on Fiscal Responsibility and Reform, NTU joined with the liberal U.S. Public Interest Research Group (U.S. PIRG) to do exactly that. Together, we released a report called "Toward Common Ground: Bridging the Political Divide to Reduce Spending," in which we compiled more than 30 specific recommendations to save taxpayers over \$600 billion by 2015, the target date for the Fiscal Commission to reduce our publicly-held debt-to-GDP ratio to a more sustainable level of 60 percent. I am submitting that report along with my testimony.

While our two organizations have widely divergent views on the proper size and scope of our federal government, we are steadfast in the belief that Washington squanders billions of dollars every year on programs that do not serve the interests of the American people. We authored this joint report in an attempt to identify spending reductions that could be undertaken without fundamentally harming the core operations of the federal government, as either conservatives or liberals understand them.

The report laid out nine ways to save up to \$62 billion just by eliminating wasteful subsidies. These focused largely on agriculture supports, subsidies for energy production, and "corporate welfare" programs. For example, the Market Access Program has been on the lists of watchdog groups for years. It consumes taxpayer dollars to fund advertising and promotion in foreign countries for products of American companies, including McDonald's, Nabisco, and Fruit of the Loom. American businesses should compete abroad by making excellent products, not by drawing upon taxpayer subsidies.

In addition, we identified up to \$353 billion in savings from six recommendations to improve contracting and asset acquisition procedures. These items centered on improving procedures in the Defense and Homeland Security Departments. For example, the Government Accountability Office found that the Army, Navy, Air Force, and Defense Logistics Agency were wasting billions of dollars by ordering too many spare parts. Purchasing-process reforms and better data could save taxpayers over \$184 billion.

Furthermore, we offered eight suggestions to eliminate payment errors, end duplicative programs, and sell off unused federal property that could yield up to \$77 billion in total savings. For example, Social Security currently faces a ceiling on its ability to collect mistaken payments from the Supplemental Security Income program. Removing that cap would improve the agency's ability to recover erroneous payments and save taxpayers more than \$500 million.

Finally, ten recommendations to end wasteful or outdated military programs could save taxpayers up to \$104 billion. These suggestions focused on addressing weapons programs that have been riddled with delays and cost overruns or that are no longer needed. For example, according to the Government Accountability Office, the Expeditionary Fighting Vehicle is 14 years behind schedule and highly unreliable. Canceling it could save taxpayers over \$16 billion.

In addition to the NTU-PIRG report, the Republican Study Committee (RSC) has made excellent progress in highlighting areas of federal expenditures that are ripe for reduction. In their recently-introduced "Spending Reduction Act," RSC members identified more than 100 specific program eliminations and spending reductions totaling \$330 billion over ten years. From the controversial, such as zeroing out funding for the National Endowment for the Arts, to the common-sense, such as ending the "Historic Whaling and Trading" program, the RSC has cataloged dozens of actionable items whose impact would be nearly immediate. In fact, the Whaling and Trading scheme is among several items the RSC blueprint has in common with the "Terminations, Reductions, and Savings" section of the President's budget proposal, demonstrating once again that quick bipartisan agreement ought to be achievable in at least some instances.

The RSC bill also contains several eminently practical provisions to cancel ineffective "stimulus" spending and to finally remove the federal government from the housing business by ending its ties to housing giants Fannie Mae and Freddie Mac. Combined, these items would generate \$75 billion toward bringing down future deficits. The Spending Reduction Act derives the bulk of its savings, however, from a non-defense discretionary spending limit set at 2006 levels through 2021. While this is a laudable goal, taxpayers could be saved even more by including defense within that proposal's strictures.

The above recommendations would save, in total, at least \$3.1 trillion over the course of the decade, but even that is insufficient in light of Congressional Budget Office estimates that the federal government will spend nearly \$7 trillion more than it raises in taxes over the next ten years. In order to close more of the gap and prevent enormous spending hikes in out-year budget projections, Congress will have to enact serious reforms to our entitlement programs.

### **Entitlement Reforms**

While it has been clear for more than a decade that our nation's entitlement programs are on a crash-course with disaster, it has been equally clear that most Members of Congress have been reluctant to right the ship. Whenever serious reform plans are put

forth, their sponsors are subjected to unfair attacks about “gutting” the programs and taking benefits away from senior citizens and the disadvantaged. The truth of the matter is that Medicare, Medicaid, and Social Security are “gutting” themselves right now and we simply must act if they are to survive in any form.

The most powerful driver of cost growth is Medicare, which according to the Congressional Budget Office is on track to devour about 4.2 percent of GDP in 2020, and an astonishing 14.3 percent of GDP in 2080. Meanwhile, Medicaid will grow from 2.1 percent of GDP to 3.7 percent over that same time period. For its part, Social Security is set to rise from 5.3 percent of GDP to 6.1 percent. If this growth goes unchecked, our fiscal situation in 2080 will be an unmitigated disaster: federal spending at 34.4 percent of GDP, a deficit equal to nearly 43 percent of GDP, and publicly-held debt at an inconceivable 716 percent of GDP. I use the term “inconceivable,” because the nation’s finances and its economy would almost certainly collapse before reaching such a level.

The most ambitious plan to avert this calamity is Representative Paul Ryan’s (R-WI) “Roadmap for America’s Future.” The Roadmap would tackle spiraling entitlement costs, restructure the tax system, and hold down discretionary spending in order to create a sustainable federal budget.

With Medicare, the Roadmap would provide future beneficiaries a fixed payment that they could apply to a list of Medicare-certified health plans. That payment would be allowed to grow every year by a measure that outpaces GDP growth by one percentage point. This simple yet important alteration would rein in future Medicare outlays, preserve the program for seniors, and inject real market forces into health services for older Americans by giving them strong incentives to seek out cost-effective care. The Medicaid reforms are similar, as the Ryan plan would transition to a system where individuals would have personal ownership of “health care debit cards.”

For Social Security, the reforms would allow younger workers to devote a share of their payroll taxes to personal investment accounts in order to provide them with greater returns and individual ownership.

The Roadmap may not be perfect and its reforms are unlikely to be achieved without significant debate, but it is the only detailed plan in Congress today that is comprehensive in its scope and conservative in its goals.

### **How to Prevent Future Problems**

Though Congress should aggressively pursue the spending reductions that have been detailed in this testimony, they will not be enough to rectify the defects of the budget process itself. Some of these flaws can be addressed by applying or expanding certain budgetary concepts that have proven successful elsewhere. These include the use of technical auditing for infrastructure projects and greater reliance on recovery audit contracting for federal benefit programs. Another approach with promise is the more aggressive use of life-cycle budgeting, which encourages more thoughtful, disciplined, and cost-efficient planning for capital projects. This evaluative tool has helped several states to improve the fiscal accountability of their spending initiatives.

Nonetheless, even with these worthy reforms, the built-in incentives that have fueled debt growth in the past will not disappear with the cancelation of wasteful programs. Thus, Congress must enact with all deliberate speed a robust Balanced Budget Amendment (BBA) to the Constitution.

Since its founding in 1969, NTU's most fundamental and enduring goal has been to establish constitutional limits on the size and future growth of government. Throughout the 1970s and 1980s, my organization helped to launch and sustain the movement for a limited Article V amendment convention among the states to propose a Balanced Budget Amendment for ratification, all while pursuing a BBA through Congress. Our members were elated over the passage of S.J. Res. 58 in 1982, and the passage of H.J. Res. 1 in 1995 through the House of Representatives. In both cases the measures, whose provisions varied somewhat, fell short of enactment in the other chambers of Congress.

This history provides an illustration of how prescient the arguments of BBA advocates have proven to be, and how specious those of opponents have been. For the better part of 40 years, we were told that fiscal discipline would evolve simply by "electing the right people," all while Republican and Democratic Presidents and Congresses abused the nation's good credit. We were told that statutory measures would bring outlays under control, even as laws such as the Gramm-Rudman Hollings Act were trampled underfoot. We were told that our foundational document shouldn't be "cluttered" with mundane matters of budgeting, even as the tax and spend culture in Washington eroded the foundations of prosperity for current and future generations.

The notion that limits on taxes and spending are too trivial for the Constitution seems quaint today, as our national debt tests the ominous level of 100 percent of the nation's economic output. As noted earlier, unsustainable entitlement programs, whose dire condition has been known for at least 20 years now, threaten to heap unfathomable burdens on taxpayers. BBA naysayers sought to derail the constitutional budgetary discipline that could have made adjustments to the realities of these programs gradual and bearable, all while they complained that the measure would "take too long to ratify" for it to have any salutary effect. The question now before Congress is, how could our Constitution not be allowed to contribute toward restoring our nation's fiscal stability? The fiscal crisis our government faces overwhelmingly demonstrates the continued relevance of a BBA to curing the maladies that threaten the health of our economy.

There are several iterations of a Balanced Budget Amendment that have already been introduced in the 112<sup>th</sup> Congress. The strictest of them, S.J. Res. 5 introduced by Senator Mike Lee (R-UT), would prevent outlays from exceeding receipts with a requirement that a two-thirds supermajority vote in favor of any attempt to override that limit or the nation's debt ceiling. In addition, it establishes a strong spending limitation which says that our federal government cannot spend more than 18 percent of GDP, roughly the historical post-war average for receipts.

Senators Cornyn (R-TX) and Hatch (R-UT) have also introduced a Balanced Budget Amendment, S.J. Res. 3, that would achieve many of the same goals, though its

spending limit is placed at a higher level of 20 percent of GDP, roughly the historical post-war average for outlays. In your chamber, Representative Bob Goodlatte has continued his long history of leadership on this issue by introducing H.J. Res. 1, which incorporates other supermajority requirements and spending limitations. All of these proposals, and perhaps some others yet to be introduced, deserve consideration, but Congress must do so without delay.

Thomas Jefferson once wrote, “I wish it were possible to obtain a single amendment to our Constitution ...; I mean an additional article, taking from the federal government the power of borrowing.” No proposal in Congress today would guarantee such an outcome – an end to deficit spending. What a BBA will guarantee is a more deliberative, accountable budgeting process that avoids the rash impulse to tax or borrow and encourages consensus-building toward spending restraint. Constitutions shouldn’t make policy, but they should set rules within which policymakers operate and they should safeguard the rights of citizens. If the fundamental right – of every generation – to be free of excessive federal debt cannot be protected by our Constitution, little else in that precious document will matter. Jefferson would certainly agree. Thus, the past, present, and future all speak clearly to us on behalf of this reform.

### **Conclusion**

The arithmetic of our budget problems is elementary; it is the political calculus that has proven difficult. NTU urges this Committee and the Congress as a whole to begin a systematic review of our obligations with sharp eyes toward a sustainable budget future. This necessitates not just eliminating waste or tackling entitlements or enacting structural reforms like a BBA; it requires all of them, working together, to effect lasting change. NTU and its members are ready to join you in these tasks – tasks whose completion will be vital to our very future as a nation.. Thank you for the opportunity to submit this testimony.

# **Toward Common Ground:**

## **Bridging the Political Divide to Reduce Spending**

**October 2010**



**Toward Common Ground: Bridging the Political Divide to Reduce Spending**

*Nicole Tichon, Federal Tax and Budget Reform Advocate, U.S. Public Interest Research Group*

*Andrew Moylan, Director of Government Affairs, National Taxpayers Union*

Our nation faces unprecedented fiscal challenges, as the commitments we've made now and into the future far outpace our fiscal capacity. Congress, the President's National Commission on Fiscal Responsibility and Reform, and citizens across the country must grapple with very difficult decisions about how we can put our fiscal house in order. It will be critical to reach out across party lines and across ideological persuasions to achieve common-sense reforms that can bring us closer to balance.

The U.S. Public Interest Research Group (U.S. PIRG) and National Taxpayers Union (NTU) have joined together to propose a list of 30 specific recommendations to reform our future spending commitments. If enacted in their entirety, these changes would save taxpayers over \$600 billion in total by 2015, the target date for the Fiscal Commission to reduce our publicly-held debt-to-GDP ratio to a more sustainable level of 60 percent. While our organizations have often differed about the proper regulatory scope of government and a host of tax policies, we are united in the belief that we spend far too much money on ineffective programs that do not serve the best interests of the American people.

The cuts deal with specific reforms to entitlement programs, defense spending, wasteful subsidies and a broad range of discretionary items of a smaller scale. While these proposals won't get us all the way there, it is a start that could establish some common ground and make government more accountable in the process.

Some of the suggestions are aimed at procedural improvements, like collecting errant payments for Supplemental Security Income or housing subsidies. Others seek to eliminate programs that are wasteful or unnecessary, like the Market Access Program, which helps some of the most profitable companies in the world advertise their products abroad.

Every item on the list includes a five-year savings estimate for the Commission's 2015 target. Those estimates are backed up by authoritative official sources such as the Congressional Budget Office, Government Accountability Office, Joint Committee on Taxation, or the Office of Management and Budget, as well as bipartisan panels and audit agencies. The recommendations are specific, detailed, and actionable items that Congress could pursue right now to reduce spending.

Most importantly, we strongly believe this list represents a consensus that can be reached between political factions that spend a great deal of their time fighting one another. In our estimation, these recommendations reduce spending without significantly degrading the level of services provided to the American taxpayer and without neglecting the federal government's commitments.

As a nation, we can no longer afford to delay difficult decisions. It is our hope that this list of spending reductions can serve as a starting point for long-overdue reforms and lay the groundwork for a bipartisan approach to those decisions.

What follows is a general summary of spending reductions that fall into four rough categories: ending wasteful subsidies, improving contracting and asset acquisition, improving program execution and government operations, and addressing outdated or ineffective military programs to align spending with current needs. Following the summary is a list of each specific recommendation, with an estimate of its savings by 2015, totaling over \$600 billion, and a reference to the source from which the estimate is based.

#### **Ending Wasteful Subsidies – Total Savings, up to \$62 billion**

Every year, the federal government hands out billions of dollars in subsidies for a wide variety of commercial activities. Though the vast majority of such programs are well-intentioned efforts to provide targeted support to businesses or individuals in need, in practice many are a poor use of scarce taxpayer dollars and fail to achieve their stated objectives. This section recommends spending reductions that focus primarily on "corporate welfare" programs, inefficient agricultural supports, and subsidies for energy production.

First, we recommend the elimination of several programs that use taxpayer resources to promote exports. Operations like the Market Access Program and the Overseas Private Investment Corporation have been shown to benefit some of America's most profitable and recognizable multi-national corporations. Companies like McDonald's, Nabisco, and Fruit of the Loom should market their exports out of their ample budgets.

Next, we tackle something that continues to be a battleground issue for many interest groups: agricultural subsidies. While disagreements in this arena can be fierce, we believe that taxpayers deserve agricultural policies that have not been perverted from their original intention or fallen short of their goals. That's why we identify subsidies for large corporate farming businesses and refundable tax credits for ethanol production as areas ripe for reform.

Finally, we recommend cutting several subsidies for energy production that are reaped primarily by profitable businesses in mature industries. For example, we recommend eliminating a research program for developing ultra-

deepwater petroleum and natural gas drilling technologies. While this program is funded from existing oil and gas revenues, it exists outside the annual appropriations process and should be ended because oil and gas companies can more effectively fund their own applied research.

**Improving Contracting and Asset Acquisition – Total Savings, up to \$353 billion**

Given the hundreds of billions of dollars that flow through the contracting process, it is unsurprising that vast improvements can be made to their efficiency. First, we recommend ending orders for obsolete parts and supplies in the Army, Navy, Air Force, and Defense Logistics Agency. According to the Government Accountability Office, these agencies waste billions purchasing items that go unused or were never required in the first place. In some cases, the agencies purchase 50 percent more parts than necessary. Streamlining this process would save more than \$184 billion over five years without materially impacting national security.

In addition, this section recommends passing and implementing the findings of the Bipartisan Defense Acquisition Panel. The Panel seeks to ensure that the Pentagon reduces waste, spends taxpayer dollars more carefully and pays for services and programs that provide the best value. It has the potential to save \$135 billion.

**Improving Program Execution and Government Operations – Total Savings, up to \$77 billion**

Payment errors and duplicative programs are a constant source of headaches and wasted money in the federal budget. This section focuses on myriad improvements that could be made to procedures and programs in order to save tens of billions for taxpayers.

Several recommendations deal with overpayments, primarily in entitlement programs. Recalibrating Medicare reimbursement rates in high-cost regions and better aligning payments to teaching hospitals with actual costs could save more than \$30 billion. In Social Security, there is currently a ceiling on collection of mistaken payments from the Supplemental Security Income program. Removing that cap would improve the government's ability to recover erroneous payments, saving more than \$500 million. Similarly, the Department of Housing and Urban Development overpays on housing subsidies due to incorrect calculations of income and billing. Eliminating those overpayments could save nearly \$5 billion.

The federal government also has substantial unused property and commercial holdings that could be sold for the benefit of taxpayers. The Office of Management and Budget has reported that the federal government owns 55,557 buildings that are "not utilized or underutilized," with a value of \$96 billion.

Instructing the General Services Administration to reduce this backlog by 25 percent could generate as much as \$24 billion.

Finally, this section recommends the elimination of two programs: the Troubled Asset Relief Program (TARP) and the National Drug Intelligence Center (NDIC). While TARP has largely wound down by this point, there remain \$15 billion in commitments of taxpayer resources despite the fact that the banking system is no longer under imminent threat. The NDIC has been the subject of numerous scandals and its poor performance is well documented. The GAO has concluded that it duplicates efforts in drug enforcement and it should be eliminated, for a potential savings of more than \$200 million.

**Addressing Outdated or Ineffective Military Programs— Total Savings, up to \$107 billion**

While the need for a strong national defense is clear, it is equally clear that the Department of Defense has a number of programs that do not advance those goals while wasting federal resources. Selectively reducing or eliminating procurements while improving the operation of other programs could yield billions in savings.

The bulk of such savings would be realized by scaling back or cancelling outdated or unnecessarily costly systems. This section lays out a menu of options for reducing or cancelling procurements of the V-22 Osprey aircraft, the F-35 Joint Strike Fighter, the Space Tracking and Surveillance System, and the Expeditionary Fighting Vehicle. Several of these programs have failed basic cost-benefit analyses and have incurred large delays and cost overruns.

Another large potential source for savings can be found in aligning our nuclear defense programs with current needs and threats. "Rightsizing" our nuclear arsenal has been supported by a wide range of public officials as well as military and national security experts, including Defense Secretary Robert Gates and Senator John McCain (R-AZ). Pursuing this option could save more than \$56 billion.

Finally, we recommend altering the pricing structure for central repair depots. When military vehicle components need repairs, unit commanders can direct them to be completed in-house or send the equipment to central maintenance depots. Making this change would incentivize unit commanders to use central depots more than their less cost-effective local repair facilities. Allowing depots to charge for the "incremental cost" of repairs could save more than \$1 billion.

| Saving Mechanism                                                                          | Explanation                                                                                                                                                                                                                         | 2015<br>(\$ in<br>millions) | Source         | Link for Additional<br>Information                                                                                                               |
|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>End Wasteful Subsidies</b>                                                             |                                                                                                                                                                                                                                     |                             |                |                                                                                                                                                  |
| Eliminate the Overseas Private Investment Corporation, which subsidizes investment abroad | The Overseas Private Investment Corporation (OPIC) subsidizes the foreign operations of many large multinational corporations through financing and insurance supports. These companies should finance their own operations.        | \$ 154                      | CBO            | <a href="http://www.cbo.gov/showdoc.cfm?index=10122&amp;sequence=0&amp;from=6">www.cbo.gov/showdoc.cfm?index=10122&amp;sequence=0&amp;from=6</a> |
| Eliminate the Market Access Program, which subsidizes overseas advertising                | The Market Access program uses taxpayer dollars to fund advertising and promotion by private companies marketing agricultural products in other countries. These companies include McDonalds, Nabisco, Fruit of the Loom, and Mars. | \$ 1,000                    | CBO            | <a href="http://www.cbo.gov/budget/factsheets/factsheets2010b.cfm">http://www.cbo.gov/budget/factsheets/factsheets2010b.cfm</a>                  |
| Eliminate subsidies to trade associations for marketing abroad                            | This subsidizes corporate trade associations in promotion of agriculture exports.                                                                                                                                                   | \$ 175                      | FY 2011 Budget | <a href="http://www.whitehouse.gov/omb/budget/fy2011/assets/tables.pdf">http://www.whitehouse.gov/omb/budget/fy2011/assets/tables.pdf</a>        |

| Saving Mechanism                                           | Explanation                                                                                                                                                                                                                                                                                                                                                | 2015<br>(\$ in<br>millions) | Source                                                                            | Link for Additional<br>Information                                                                                                            |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Eliminate subsidies to big agribusiness                    | Many of these programs have been deemed ineffective or go disproportionately to large, corporate farming businesses. In addition, subsidies to wealthy farmers and individuals who do not use the land for actual farming need to be eliminated.                                                                                                           | \$ 35,497                   | CBO, USDA Budget Summary, Washington Post investigation, Control Spending Now Act | <a href="http://www.cbo.gov/budget/factsheets/2010b/USDA-Policy.pdf">www.cbo.gov/budget/factsheets/2010b/USDA-Policy.pdf</a>                  |
| Eliminate refundable tax credits for ethanol               | Large oil companies that blend gasoline with corn-based ethanol, rather than the ethanol producers themselves, receive billions of dollars in subsidies each year. The credits combined with the Renewable Fuels Standard set up a taxpayer subsidized mandate, which is bad fiscal policy.                                                                | \$ 22,650                   | Joint Committee on Taxation                                                       | <a href="http://www.ict.gov/publications.html?func=startdown&amp;id=3642">http://www.ict.gov/publications.html?func=startdown&amp;id=3642</a> |
| Eliminate insurance subsidies for repeatedly-flooded homes | The National Flood Insurance Program cannot deny insurance on the basis of frequent losses and thus provides policies for properties that have been repeatedly flooded. While these represent only 1 percent of policies, they account for 25 to 30 percent of claims. When catastrophic weather events hit, taxpayers are on the hook for massive losses. | \$ 891                      | GAO                                                                               | <a href="http://www.gao.gov/new.items/d106311.pdf">http://www.gao.gov/new.items/d106311.pdf</a>                                               |

| Saving Mechanism                                                     | Explanation                                                                                                                                                                                                       | 2015<br>(\$ in<br>millions) | Source                     | Link for Additional<br>Information                                                                                                                |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Eliminate ultra-deepwater natural gas and petroleum research program | Funding for this program does not undergo the scrutiny of the appropriations process and this kind of applied research can be more effectively performed by the oil and gas companies themselves.                 | \$ 158                      | CBO 2009<br>Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| Reduce funding for public timber sales that lose money               | The Forest Service has spent more on federal timber sales in recent years than it has collected from the companies that harvest the timber. This is an unwise use of taxpayer dollars.                            | \$ 279                      | CBO 2009<br>Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| Sell Southeastern Power Administration and related assets            | This Southeastern Power Administration subsidizes energy at below-market costs, which leads to significant distortions. Selling the assets would make energy markets more efficient and earn money for taxpayers. | \$ 1,220                    | CBO 2009<br>Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| <b>Improve Contracting and Asset Acquisition</b>                     |                                                                                                                                                                                                                   |                             |                            |                                                                                                                                                   |

| Saving Mechanism                                                                     | Explanation                                                                                                                                                                                                                                                                                                                        | 2015<br>(\$ in<br>millions) | Source                                                      | Link for Additional<br>Information                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Implement acquisition reforms identified by the bipartisan Defense Acquisition Panel | Last year Congress passed weapons acquisition reform with bipartisan support. These recommendations would address the other 80% of the Department of Defense acquisition processes, including financial management and information technology. The proposal would also increase competition and improve the acquisition workforce. | \$ 135,000                  | Bipartisan Defense Acquisition Panel                        | <a href="http://armedservices.house.gov/pdfs/DARFINALREPORT/DARFINALREPORT032310.pdf">http://armedservices.house.gov/pdfs/DARFINALREPORT/DARFINALREPORT032310.pdf</a>                                                                     |
| Eliminate Department of Homeland Security contracts already identified as wasteful   | A recent audit by the Defense Contract Audit Agency found 32 contracts collectively worth \$34.3 billion that have been plagued by waste, abuse, or mismanagement from 2001 through 2006.                                                                                                                                          | \$ 34,300                   | House Committee on Oversight and Government Reform - Report | <a href="http://oversight.house.gov/index.php?option=com_content&amp;view=article&amp;id=2507&amp;catid=44-legislation">http://oversight.house.gov/index.php?option=com_content&amp;view=article&amp;id=2507&amp;catid=44-legislation</a> |
| End orders for obsolete spare parts and supplies for the Defense Logistics Agency    | In examining purchasing and inventory data at the DLA, Army, Navy and Air Force, the Government Accountability Office discovered that the organizations were wasting billions of dollars purchasing items that went unused or were never required (as much as 50% more than required).                                             | \$ 35,500                   | GAO                                                         | <a href="http://www.gao.gov/products/GAO-10-469">http://www.gao.gov/products/GAO-10-469</a>                                                                                                                                               |
| End orders for obsolete spare parts and supplies for the Army                        | Reforms to purchasing processes and better data can both save money and better serve the needs of the armed forces.                                                                                                                                                                                                                | \$ 18,000                   | GAO                                                         | <a href="http://www.gao.gov/new.items/d09199.pdf">http://www.gao.gov/new.items/d09199.pdf</a>                                                                                                                                             |
| End orders for obsolete spare parts and supplies for the                             |                                                                                                                                                                                                                                                                                                                                    | \$ 37,500                   | GAO                                                         | <a href="http://www.gao.gov/new.items/d09103.pdf">http://www.gao.gov/new.items/d09103.pdf</a>                                                                                                                                             |

| Saving Mechanism                                                                                                                  | Explanation                                                                                                                                                                                                                                                | 2015<br>(\$ in<br>millions) | Source                     | Link for Additional<br>Information                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Navy                                                                                                                              |                                                                                                                                                                                                                                                            |                             |                            |                                                                                                                                                                                                                                     |
| End orders for<br>obsolete spare parts<br>and supplies for the<br>Air Force                                                       |                                                                                                                                                                                                                                                            | \$ 93,500                   | GAO                        | <a href="http://www.gao.gov/new.items/d07232.pdf">http://www.gao.gov/new.items/d07232.pdf</a>                                                                                                                                       |
| <b>Improve Program Execution and Government Operations</b>                                                                        |                                                                                                                                                                                                                                                            |                             |                            |                                                                                                                                                                                                                                     |
| Remove the ceiling on<br>the collection of<br>overpayments from<br>the<br>Supplemental Security<br>Income program                 | This option would improve the government's ability to recover erroneous payments while still protecting recipients from undue hardship.                                                                                                                    | \$ 580                      | CBO 2009<br>Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a>                                                                                   |
| Reduce backlog of<br>buildings owned by the<br>federal government<br>that are "not utilized or<br>underutilized" by 25<br>percent | The federal government owns more than 55,500 buildings that are "not utilized or underutilized," worth more than \$96 billion, according to OMB. Directing the GSA to reduce this by 25 percent over a period of five years would save taxpayers billions. | \$ 24,000                   | OMB                        | <a href="http://coburn.senate.gov/public/index.cfm?m2a=Files.Serve&amp;File_id=2a914cf8-440a-4468-b1c3-2f9f4a571146">http://coburn.senate.gov/public/index.cfm?m2a=Files.Serve&amp;File_id=2a914cf8-440a-4468-b1c3-2f9f4a571146</a> |
| Better align Medicare<br>payments to teaching<br>hospitals with actual<br>costs                                                   | Re-calibrate payments to cover actual costs for Medicare's graduate medical education program.                                                                                                                                                             | \$ 20,500                   | CBO                        | <a href="http://www.cbo.gov/doc.cfm?index=9925">http://www.cbo.gov/doc.cfm?index=9925</a>                                                                                                                                           |

| Saving Mechanism                                                                       | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 2015<br>(\$ in<br>millions) | Source                     | Link for Additional<br>Information                                                                                                                |
|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Recalibrate Medicare reimbursement rates in high-cost regions                          | Hospitals and providers in some regions of the country are paid as much as twice their counterparts in other areas. These high-cost regions are superb at billing for the most expensive tests and procedures, but the care delivered in these areas is worse than regions which focus on quality, primary care medicine. These inflated reimbursement rates for high cost-regions may enrich some region's health industries but they do not improve care for patients. | \$ 11,700                   | CBO                        | <a href="http://www.cbo.gov/doc.cfm?index=9925">http://www.cbo.gov/doc.cfm?index=9925</a>                                                         |
| Eliminate overpayments for housing subsidies                                           | According to GAO, the Department of Housing and Urban Development wastes hundreds of millions of dollars due to "incorrect subsidy determinations by program administrators, unreported tenant income, and incorrect billing."                                                                                                                                                                                                                                           | \$ 4,480                    | GAO                        | <a href="http://www.gao.gov/products/GAO-05-10271">http://www.gao.gov/products/GAO-05-10271</a>                                                   |
| Eliminate the Leveraging Educational Assistance Partnership, which is no longer needed | The Leveraging Educational Assistance Partnership (LEAP) program has already met its objectives to incentivize states to provide for student grant programs and is no longer needed. The President has requested that it be eliminated in his FY 2011 Budget Request.                                                                                                                                                                                                    | \$ 272                      | CBO 2009<br>Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |

| Saving Mechanism                                                                                                | Explanation                                                                                                                                                                                                                                                                            | 2015<br>(\$ in<br>millions) | Source                                                            | Link for Additional<br>Information                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                 |                                                                                                                                                                                                                                                                                        |                             |                                                                   |                                                                                                                                                                                                                                                 |
| Return unallocated funds from the Troubled Asset Relief Program (TARP)                                          | While TARP has largely wound down, the Office of Financial Stability reports that \$15 billion in commitments remain outstanding. Because the banking system is no longer at risk, this money should be returned to taxpayers.                                                         | \$ 15,000                   | Office of Financial Stability Monthly 105(a) Report – August 2010 | <a href="http://financialstability.gov/docs/105CongressionalReports/August%202010%20105(a)%20Report_final_9%2010%2010.pdf">http://financialstability.gov/docs/105CongressionalReports/August%202010%20105(a)%20Report_final_9%2010%2010.pdf</a> |
| Eliminate National Drug Intelligence Center                                                                     | This center has been the subject of numerous scandals and its performance has repeatedly been called into question. A year after its inception, the GAO concluded that it duplicates efforts in drug enforcement.                                                                      | \$ 223                      | FY 2011 Budget - Dept. of Justice Summary                         | <a href="http://www.justice.gov/ind/2011summary/html/fy11-ndic-bud-summary.htm">http://www.justice.gov/ind/2011summary/html/fy11-ndic-bud-summary.htm</a>                                                                                       |
| <b>End Wasteful or Outdated Military Programs and Systems; Align Military Spending with Current Needs</b>       |                                                                                                                                                                                                                                                                                        |                             |                                                                   |                                                                                                                                                                                                                                                 |
| Cancel production of the V-22 Osprey aircraft that has experienced massive cost overruns and performance issues | This program has come close to being cancelled several times according to the Sustainable Defense Task Force, and has experienced reliability and performance issues. In addition, the GAO reports that the program has had several scheduling, management, cost and production issues | \$ 6,164                    | CBO 2005 Budget Options                                           | <a href="http://www.cbo.gov/doc.cfm?index=6075&amp;type=0">http://www.cbo.gov/doc.cfm?index=6075&amp;type=0</a>                                                                                                                                 |

| Saving Mechanism                                                                                  | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 2015<br>(\$ in<br>millions) | Source                                                     | Link for Additional<br>Information                                                                                                                |
|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Cancel F-35 Joint Strike Fighter and replace with more advanced, cheap and reliable alternatives  | According to the Sustainable Defense Task Force, "the F-35 Lightning may represent all that is wrong with our acquisition process." Beyond the cost growth, it has performance and reliability issues and "would provide a capability that is not warranted considering emerging threats."                                                                                                                                                                                                            | \$ 22,500                   | CBO 2009 Budget Options                                    | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| Alternatively, reduce F-35 procurements by cancelling Navy and Marine Corps Joint Strike Fighters | Eliminating F-35 procurements for Navy and Marine Corps.                                                                                                                                                                                                                                                                                                                                                                                                                                              | \$ 7,400                    | CBO 2009 Budget Options                                    | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| End spending for high-risk satellites and replace them with lower-cost alternatives               | End funding for high-risk satellites, known as the Space Tracking and Surveillance System, which are not needed and can be replaced alternatives at a lower cost to taxpayers. This program has been subject to poor performance, significant delays and cost overruns. According to a House report, an internal DOD study "indicates that ground based radars not only provide a viable alternative to a space based system, but also provide this capability at significantly lower cost and risk." | \$ 5,000                    | DoD Fiscal Year 2011 Budget Estimates, Missile Procurement | <a href="http://www.saffm.hq.af.mil/shared/media/document/AFD-100128-067.pdf">www.saffm.hq.af.mil/shared/media/document/AFD-100128-067.pdf</a>    |

| Saving Mechanism                                                            | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                            | 2015<br>(\$ in<br>millions) | Source                                                                                              | Link for Additional<br>Information                                                                             |
|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| Align nuclear arsenal with current needs and threats                        | Rightsizing the nuclear arsenal to be aligned with current needs is supported by a range of public officials, former military and national security experts, including Sen. John McCain, Secretary of Defense Gates, and 'Consensus for American Security' members Sec. George Shultz, Sen. Chuck Hagel, Gen. Arlen "Dirk" Jameson (U.S. Air Force, RET), Sen. Gary Hart and Adm. William Owens (U.S. Navy, RET).                                      | \$ 56,750                   | Report of the Sustainable Defense Task Force; Center for Strategic and Budgetary Assessments (CSBA) | <a href="http://www.comw.org/pda/fulltext/1006SDTFreport.pdf">www.comw.org/pda/fulltext/1006SDTFreport.pdf</a> |
| Cancel the outdated, unreliable and unneeded Expeditionary Fighting Vehicle | According to GAO, the "program's history of cost growth, schedule slips and performance failures and the current challenges (including changing threats) raise the question of whether the business case for the EFV program (in terms of cost, schedule, and performance) is still sound. It is 14 years behind schedule and is highly unreliable." Secretary Gates also acknowledged that amphibious assault capabilities are no longer a huge need. | \$ 16,309                   | GAO (assumes 2.5% and 3.5% increase in cost per year for acquisition and units)                     | <a href="http://www.gao.gov/new.items/d10758r.pdf">www.gao.gov/new.items/d10758r.pdf</a>                       |

| Saving Mechanism                                                       | Explanation                                                                                                                                                                                                                                                                                             | 2015<br>(\$ in<br>millions) | Source                  | Link for Additional<br>Information                                                                                                                |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Change depots' pricing structure for repairs to be more cost effective | Incentivize unit commanders to use central depots more than their less cost-effective local repair facilities. The CBO and RAND report that for "the Navy, and the Office of the Secretary of Defense, local maintenance can cost from 25 percent more to twice as much as repairs done at the depots." | \$ 1,030                    | CBO 2009 Budget Options | <a href="http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf">http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf</a> |
| <b>Total</b>                                                           |                                                                                                                                                                                                                                                                                                         | <b>\$ 600,322</b>           |                         |                                                                                                                                                   |

Chairman ISSA. Mr. Kalman.

# **STATEMENT OF GARY KALMAN**

Mr. KALMAN. Chairman Issa, Ranking Member Cummings and members of the committee, I thank you for inviting me to testify today on behalf of the U.S. Public Interest Research Group, U.S. PIRG. U.S. PIRG, the federation of State PIRGs, is a nonprofit, nonpartisan organization that advocates and educates on matters to encourage a fair and sustainable economy; protect the public health; and foster responsive, democratic government.

The level of Federal spending is of great concern to Americans. A November Pew Research Center poll showed that 70 percent of Americans believe that Federal spending is an urgent problem. Other opinion research indicates that the public concerns are focused on waste, whether it is fought for and won by narrow special interests, programs that have outlived their usefulness, or blatant inefficiencies that have been allowed to continue for years.

We are proud to have partnered with the National Taxpayers Union to develop the list of spending reductions detailed in our October 2010 report, *Toward Common Ground*. The report details more than \$600 billion in specific spending cuts over 5 years. These spending cuts are a good place to start, but not only because of the current budget situation. In good fiscal times and bad, during years of budget surpluses or deficits, taxpayers deserve to know that their money is being well spent, that it is going to true public priorities, and there is accountability in the system through common-sense reforms.

While there are any number of issues that may divide U.S. PIRG and NTU and our respective memberships, there are broad areas where we can come together and support responsible and accountable spending of taxpayer dollars. One message of our joint report is for Congress to start where there is agreement across the political spectrum.

I would like to share with you U.S. PIRG's approach to the spending cuts. We entered our partnership with NTU guided by four basic principles: First, to oppose subsidies that provide incentives to companies that do direct harm to the public interest or do more harm than good. An example here, we would say, is subsidies to ethanol, for which, according to researchers at the University of Minnesota and elsewhere, there is very little to any truth of the benefits of ethanol, and there are clearly adverse environmental impacts.

Second, we oppose subsidies to mature profitable industries that don't need the incentives. These companies would engage in the activity regardless of taxpayer support. We would include in this category subsidies, as has been mentioned now by all three of us, the Market Access Program, which, among other things, effectively pay for overseas television advertising and other marketing of specific products to successful multibillion-dollar companies. These companies have both the incentive and the resources to do their own product promotion without taxpayer handouts.

Third, support commonsense reforms to make the government more efficient. Examples here include reducing the inventory of unused or underused government buildings, as it was mentioned be-

fore. And as Congresswoman Speier pointed out, we have a lot to do in contracting, and I would be happy to talk later on about a report that we did called Forgiving Fraud and Failure, which was the repeated issuance of contracts and renewing of contracts despite the fact that they didn't deliver.

Fourth, and finally, we would oppose funding where there is authoritative consensus to do so. This means strong independent agreement across the political spectrum that a program is wasteful, and the agency or department receiving the funding has actually argued against it. A specific example here, again, just to repeat, the National Drug Intelligence Center, which has been the subject of numerous unfavorable reports about its impact and effectiveness. The GAO has concluded that it duplicates existing efforts.

A particular value of the recommendations detailed in the report is that they are specific. They focus upon agreed-upon wasteful spending. Along those lines I would just note that U.S. PIRG does not support across-the-board cuts. Such policies fail to differentiate between true public priorities and where there is genuine waste and inefficiencies in the system. Americans certainly prioritize national defense, but if efficiencies can be made in the way in which we repair military vehicles—the military is often exempt from across-the-board cuts—that savings is no less important than the reforms to streamline the costs of Medicare.

While not in the report, U.S. PIRG would also urge the committee to review special-interest carve-outs through tax expenditures and loopholes. These expenditures have the same bottom-line effect on our Nation's deficit as direct line-item spending. Regardless of whether spending takes place through the Tax Code or the appropriations process, it should be part of the conversation and should be transparent, accountable and serve the public.

Let me end by saying that many of the items on our list challenge longstanding subsidies to narrow special interests. While these expenditures serve little or no continuing public purpose, there will no doubt be intense lobbying efforts to preserve the handouts. We urge you to resist those efforts and take the first, important steps toward addressing our Federal spending problem and ensuring that any public expenditure is for the public interest. We applaud the committee for looking anew at these giveaways and urge you to challenge tradition in the difficult decisions to reform the budget, decisions that lie ahead. Thank you.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Kalman follows:]

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Testimony of the  
U.S. Public Interest Research Group

By  
Gary Kalman

February 17, 2011

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Waste and Abuse in Federal Spending

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Before the  
United States House  
Committee on Oversight and Government

The Honorable Darrell Issa, Chair

**Testimony of Gary Kalman, U.S. PIRG Federal Legislative Office Director**  
**On**  
**Waste and Abuse in the Federal Spending**

**February 17, 2011**

Chairman Issa, Ranking Member Cummings, and members of the committee I thank you for inviting me to testify today on behalf of the U.S. Public Interest Research Group -- U.S. PIRG.

U.S. PIRG, the federation of state PIRGs, is a nonprofit, nonpartisan organization that advocates and educates on matters to encourage a fair, sustainable economy, protect the public health, and foster responsive, democratic government.

The level of federal spending is of great concern to Americans. A November Pew Research Center poll, showed that 70 percent of Americans believe federal spending is an urgent problem. Other opinion research indicates that public concerns are focused on waste, whether it is fought for and won by narrow special interests, programs that have outlived their usefulness, or blatant inefficiencies that have been allowed to continue for years.<sup>1</sup>

How government collects and spends money is critically important. Tax and budgeting decisions are the most concrete way that government declares its public priorities and balances between competing values.

Unfortunately, budget-making rules and public laws about taxes and spending often fail the public interest in a number of ways. For instance:

- **Special-Interest Giveaways** – Subsidies and tax breaks are often granted on the basis of private influence or connections instead of their public merits.
- **Lack of Transparency and Accountability** – It is not possible to ensure that government decisions are fair and efficient unless information is accessible and officials can be held to task for their actions.
- **Wasteful and Counter-Productive Expenditures** – Resources too often get wasted or programs create incentives that are unwarranted or undesirable
- **Unfair Taxes** – Ordinary households bear an increasing burden while large corporations increasingly avoid paying their share.
- **Short-Sighted Decisions** – Laws and regulations often fail to address long-term consequences, instead deferring difficult decisions or opting for short-term “fixes” that can make problems worse.

U.S. PIRG advocates improvements in fiscal policy to stop special-interest giveaways, increase budget transparency and accountability, eliminate waste, ensure that subsidies or tax breaks serve the public, and make taxes fairer.

Public money should be spent for the most effective pursuit of clear public benefits or to encourage beneficial behaviors undervalued by the market. U.S. PIRG believes that taxes should be fair, reliable, transparent, and guided by policy goals rather than political deal making. Budgeting should similarly be open, accountable, and follow long-term planning.

We are proud to have partnered with the National Taxpayers Union to develop the list of spending reductions detailed in our October 2010 report, Toward Common Ground: Bridging the Political Divide to Reduce Spending. The report details more than \$600 billion in specific spending cuts over 5 years and a copy of the report has been included in our written testimony submitted for the record.

These spending cuts are a good place to start, but not only because of the current budget situation. In good fiscal times and bad, during years of budget surpluses or deficits, taxpayers deserve to know that their money is being well spent, that it is going to true public priorities and that there is accountability in the system. The USPIRG-NTU partnership dates back to the Green Scissors coalition which brought together an impressive number of environmental and taxpayer watchdog groups to target wasteful spending that harmed the environment and public health. The two groups also worked together on improvements and efficiencies to the federal contracting process with an eye toward saving tens of billions of taxpayer dollars through common sense reforms.

The point is that while there is any number of issues that may divide our groups – and our respective memberships – there are broad areas where we can come together and support responsible and accountable spending of taxpayer dollars. One message of our joint effort is for Congress to start where there is agreement from across the political spectrum.

I'd like to share with you U.S. PIRG's approach to the spending cuts. We entered our partnership with NTU guided by four basic principles:

1. Oppose subsidies that provide incentives to companies that do harm to the public interest or do more harm than good. An example here is subsidies for ethanol for which, according to researchers from the University of Minnesota and elsewhere, there is very little if any truth to the benefits of ethanol and there are adverse environmental impacts.
2. Oppose subsidies to mature, profitable industries that don't need the incentive. These companies would engage in the activity regardless of the taxpayer support. We would include in this category subsidies through the Market Access Program which, among other things, effectively pay for overseas television advertising and other marketing of specific products of successful multi-billion companies. These companies have both the incentive and resources to do their own product promotion without taxpayer handouts.
3. Support reforms to make government more efficient. Examples here include reducing the inventory of unused or underused government buildings and encouraging the use of centralized military repair depots.
4. Oppose funding where there is authoritative consensus to do so. This means: (1) strong, independent agreement across the political spectrum that a program is wasteful, or (2) the agency or department receiving the funding has argued against it. A specific example here is the National Drug Intelligence Center which has been the subject of numerous unfavorable reports about its impact and effectiveness. The GAO has concluded that it duplicates existing efforts.

A particular value of the recommendations detailed in the report is that they are specific; they focus on agreed-upon wasteful spending. Too often we see gestures toward unnamed waste without taking the hard and necessary step of stating exactly which programs should be cut.

Along these lines, I note that U.S. PIRG does not support "across the board" cuts -- such policies fail to differentiate between true public priorities and where there is genuine waste or inefficiencies in the system. Americans prioritize national defense, but if efficiencies can be made to the way we repair military vehicles, that savings is no less important than market reforms to streamline the costs of Medicare.

While not in the report, we would also urge committee members to review special interest carve outs through tax expenditures and loopholes. These expenditures have the same bottom-line effect on our nation's deficit as direct line-item spending. Regardless of whether spending takes place through the tax code or the appropriations process, it should be part of the conversation and it should be transparent, accountable and serve the public.

Take for example loopholes that allow for the increasing use of off-shore tax havens. Many corporations operating in the United States funnel money through offshore tax havens in order to avoid paying billions in U.S. taxes. In fact, an independent study found that nearly two-thirds of corporations pay no taxes at all. Goldman Sachs, which received a \$10 billion taxpayer bailout, managed to get their effective tax rate down to one percent by utilizing maneuvers they describe as "changes in geographic earnings mix."

Those who use tax havens benefit from easy access to American markets, workforce, infrastructure and security but pay little or nothing for it. Ordinary taxpaying households and small businesses end up picking up the tab for the missing revenue to the U.S. Treasury. The avoidance and evasion of taxes for a few becomes the burden for many – and for the future.

Offshore tax havens cost taxpayers revenue totaling as much as \$100 billion per year - \$1 trillion over 10 years. Individuals and corporations based in the U.S. who pay taxes on their revenues must shoulder this burden for those who do not.

Let me end by saying that many of the items on our list challenge long-standing subsidies to narrow special interests. While these expenditures serve little or no continuing public purpose and their elimination would be widely likely be supported by the public, there will no doubt be intense lobbying efforts to preserve the handouts. We urge you to resist those efforts and take the first important steps toward addressing our federal spending problem and ensuring that any public expenditure is for the public interest.

We applaud the committee for looking anew at these giveaways and urge you to challenge tradition in the difficult decisions to reform the budget that lie ahead.

Thank you

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<sup>1</sup> Rasmussen poll, December 10, 2010 and *Washington Post/Kaiser Family Foundation/Harvard University* poll Sept. 22-Oct. 3, 2010

Chairman ISSA. I recognize myself for the first round of questions for 5 minutes.

Mr. Schatz, your critical waste issue of the 112th Congress, it has an area that piqued my interest on page 17. And I would ask unanimous consent that this entire document be placed in the record. Without objection. So ordered.

But on page 17, it makes a statement—USA Today is the source for it—that 83 percent of all public-employee jobs pay greater than their comparable private-sector counterparts.

When we are looking at trying to figure out waste, would you categorize paying more than what the private sector pays for comparable work as a waste? And if so, would this be perhaps the largest waste there is in all of government?

Mr. SCHATZ. There are some caveats that went with that proposal. There are some arguments that Federal workers are more educated on average than the private-sector workers. But looking at apples to apples, we would like to see a report from the Congress that really details where this lies. I mean, the CATO Institute has looked at this for years, and I think people used to believe that this was not the case. I think currently, based on both compensation and benefits, that public employees at every level of government are being paid at a higher level.

Now, whether that means there are too many of them, they are overcompensated, are we getting something out of them that is worth that compensation, these are all questions that need to be examined. We don't want to say—we do actually think that Federal salaries should be reduced because the private sector, if you have a job, you are lucky to have one. Most people haven't had a raise. I was encouraged that the President has looked at salaries and said we should freeze them. That is a good first step.

Then we have to determine which programs are worth continuing, and within there what is a fair rate of pay so that we are really not overpaying. As I said, compensation and benefits in particular, especially the benefits, now are much better than the private sector.

Chairman ISSA. One of the questions I would have following up on that would be do you believe that the government can come up with a—and I will use the British word—scheme in which we can have a dynamic pay schedule similar to the private sector so that we don't underpay? Obviously some of the public-sector employees are underpaid compared to comparable private sector, and this is it often where we get a drain. So do you believe it is possible at all for the Federal Government to significantly improve so that we don't overpay and underpay? And wouldn't that be inherently a complete change in our schedules?

Mr. SCHATZ. Absolutely. We have seen a lot of changes over the years, or attempts to change, civil service compensation. I recall when President Carter came in, that was one of the first things he did, and nobody really talked to him for a while after that. But it is something that needs to be done. It needs to be done on a bipartisan basis.

There are some very high-level and very well-educated positions that we do need. Think about security or nuclear weapons. You can't just take somebody off the street essentially and have them

perform that task. So they may be underpaid compared to the private sector. But one of the examples given in here was a cook literally was being paid at a far greater rate than a comparable private-sector individual.

And as I said, I think this committee in particular would be well served to come up with something that is objective, that looks at it program by program, and really makes a good determination about what is the fair level, because we could save a lot of money. And we do recommend here, by the way, an across-the-board reduction of 10 percent, and we think that is consistent with what needs to be done to get spending under control in general.

Chairman ISSA. I appreciate that.

I am going to go a little off script because it is important because I don't often get such a good panel here to go into another area. The first panel, and every panel that has been before Congress so far, has said the only way to get to a reasonably balanced budget deal—in other words, deal with our overspending—includes waste, including closing unnecessary programs, includes pay analysis, but it also includes taking out entitlements.

I am going to ask you the toughest question. Do you believe that Congress can successfully convince the American people that entitlements, Social Security and Medicare, are not, in fact, an entitlement, an absolute health care program for the aged and absolute retirement program, but rather part of a social welfare safety net and thus can be means tested?

Mr. SCHATZ. I think that is one approach certainly. Raising the retirement age is another. People are living longer. You may not recall this, but the first individual that received Social Security was named Ida Mae Fuller. She lived until she was, I believe, 88, which was far longer than expected, so the actuarial tables are not accurate.

There was an anomaly in Medicare when it was first enacted that also looked at how long people lived, because you can't have an insurance program or payment program and have it be sustainable financially if they are going to pay out more than they take in. That is just simple math.

So there are a lot of ways to look at reforming these programs. We think that it has to be done. We were encouraged by what the President said.

Chairman ISSA. But I am asking you for the tougher question here.

Mr. SCHATZ. Whether it is social welfare or—

Chairman ISSA. Can we define it as social welfare safety net—I will use the entire term—so we can, in fact, means test in some way both of those programs at least partially? Everybody says there are only so many solutions. That is the one that is seldom talked about, which is the only way to say if you are like myself, and you have enough income outside of Congress, that when I am 70, I actually won't need my Social Security in order to still be well to do.

Yes or no, do you believe Congress has the ability to convince the American people, separate from do they have the will?

Mr. SCHATZ. I think that conversation needs to be started, because if it is started as an entitlement, people don't want to give

it up. We have a health care bill where now people think health care is an entitlement. So I think it is really expanding more than it is being reduced.

Mr. MOYLAN. Mr. Chairman, if I may, do I think that Congress has the ability? Yes, I do. Am I convinced that Congress will utilize that ability? That I am not so convinced of yet. And the way that I keep talking to people about these programs is whether we like it or not, they are gutting themselves from the inside right now. If we do not make serious changes to them, we are going to rapidly approach the point where Medicare and Medicaid and Social Security take up nearly as large a portion of our economy as a whole as the entire Federal budget today. And to be able to head that off, we need to start entitlement reform now.

Chairman ISSA. Mr. Kalman, just a yes or no, if you could. If you can. I will come back in a second round otherwise. OK. Thank you.

I now recognize the ranking member.

Mr. CUMMINGS. You know, I was just listening to you all's testimony. It is very interesting. And, you know, when it comes—you all heard Senator McCaskill. Were you all here for that? And you heard all the discussion with regard to these contracts that we are—particularly in defense, we don't seem to be in control of. I just wondered what comments did you have on that, Mr. Moylan?

Mr. MOYLAN. Thank you for the question.

Mr. CUMMINGS. If you could be brief, because I have a number of things.

Mr. MOYLAN. It is an extraordinarily important part of the puzzle in terms of tackling wasteful spending, and that was actually a big part of the report that we did with U.S. PIRG identifying some of those reforms that could be made. The bipartisan Defense Acquisition Panel made some very worthwhile suggestions, and those were part of our report.

Mr. SCHATZ. Very briefly, we were around when the Klinger-Cohen Act came around. We have seen a lot of defense procurement. Twenty-five percent of the Grace Commission's recommendations dealt with defense. And our organization helped publicize the \$436 hammers and the \$640 toilet seats. So we are well aware of what needs to be done in contracting in defense.

Mr. CUMMINGS. I am just wondering, when you look at your organizations, and you are dedicated to effective and efficient use of taxpayer dollars, and you hear I think it was Ms. Speier, who talked about how frustrating it is to constantly be going over these problems over and over and over again, and we end up looking kind of—it looks as if we can't get it done, or else we don't want to get it done.

And then we look at all the resources that are being put into these hearings. And don't get me wrong, I am glad that the chairman held this hearing, and I am glad that we are on the road that we are on. But I guess what I am trying to get to is that, I mean, the older I get, the more I value my time, and I am trying to make sure that the time that we have under our watch, all of ours, is that we do something to actually make a difference.

And so I appreciate the fact that these two organizations got together. That is great. I think that is a good start. But I am just trying to figure out, you know, what do you want—I mean, what

do you see—in other words, I am trying to get to how do we not be where Ms. Speier talked about, where 2 years from now we are talking about the same problems and they are getting worse.

You know, we were able to make some difference in the Coast Guard. That is a smaller organization, but it was through just sheer pushing and setting deadlines, as the chairman often talks about. I mean, how do you work yourself out of a job is what I am trying to get to?

Mr. SCHATZ. Mr. Chairman, I have been at this probably longer than these gentlemen.

Mr. CUMMINGS. Yes, and I am very serious about this. You do a great job, but I don't want you to die still fighting and the problem is worse.

Mr. SCHATZ. Part of the problem is the priorities in Congress, that Members traditionally have been happier spending the money, putting their name on a boat or a building, and taking credit for doing something, whatever it might be, because they think that might help them get reelected, to be perfectly frank. If we can get enough Members that say, I will fix a problem because that is the right thing to do, they will probably get reelected with an even bigger majority, because they will be able to go home and say, look, I did something that made the government work better.

We don't want people to have less faith in the government. And, yes, we talk a lot about what is wrong because that gets people's attention, but fixing it is something that needs to be at the forefront of people's minds. A lot of times agency heads come in, presidents come in and say, let us fix the problem. There is entrenched bureaucracy that doesn't want to change. So it takes—it is a very—it has to be an effort that is a collaboration between the executive branch, Congress, among these organizations, and so that when people look at something, they say, we are going to give you credit for fixing the problem, not just going around spending money.

Mr. KALMAN. Congressman, it is a great question, and I am glad you all are focused on this. I would say a couple of things. One is that it is the fact that we need, I think, to start where we can agree. And in other words, a lot of these fights end up happening at the places we disagree. And so the value, and what I said in my testimony would reiterate, is the value of a group like NTU partnering with U.S. PIRG gives you a road map for a few places where, if the parties got together and said, this is where we can go, then you would actually have backup from folks who could talk to their memberships across the country. That is the first thing.

Second thing I would say is there are some places where there has been progress made. Not, obviously, enough. But last year in a unanimous—unanimously through the House there was acquisitions reforms that were made to the weapons procurement system. That took care of about 20 percent of the problem. But if we can go after weapons systems, which arguably is one of the harder things to go after, hopefully we can introduce, and you all can pass, a bill that would take care of the remaining 80 percent. So I think there are building blocks on which you can focus on to make serious progress.

Over on the Senate side, the last thing I would say, on a number of, for example, issues like offshore tax havens, which is not nec-

essarily something that everybody agrees on, Mr. Grassley and Mr. Levin are getting together and talking about how to close some of those abuses and ways to raise some revenues.

So I think there are things and seeds that are out there, but we need to focus on where we agree.

Mr. MOYLAN. I think that—and I submitted this in my written testimony—that the amount of the dollars and cents is easy. It is the political calculus that has been difficult. Just to explain part of that, President Obama's recent budget had some suggestions for terminations, over \$1 billion of which were repeated suggestions from President Bush's last proposed budget. So there are \$1 billion worth of reductions that both of those very different men agreed upon that have still not been implemented in terms of reductions.

I think that those are things that we ought to be targeting. That is the low-hanging fruit. We identified \$600 billion more that we think is low-hanging fruit. And after that point, that is when we can climb up a little higher, fight about what fruit to pick and how big they ought to be.

And I can say that we as an organization and I as an individual are committed to making that political calculus easier because that is the only way we are ever going to get this done.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Chairman ISSA. Ms. Speier for 5 minutes.

Ms. SPEIER. Thank you, Mr. Chairman.

I have to say that if there ever was a moment in time when we can come together and show the American people that Republicans and Democrats want to save the taxpayers money, and we commit to do that from this committee. I mean, we can change the world in a small way, but a very significant way. And I think the fact that Mr. Moylan and Mr. Kalman have come together from very different places and have created a list for us of things that they can agree on, then I would suggest, Mr. Chairman, we should sit down and see if we can agree on these particular suggested areas. If, in fact, the suggestion that we can save hundreds of millions of dollars by just ending the orders for obsolete spare parts for the military—come on. If we can't do that, we should get the heck out of here.

So I would suggest that we take this list, we come together, and this committee come forward with at the very least a number, if not all, of these suggested savings.

I want to—if we have buildings—we have 55,000 Federal buildings that are not utilized or underutilized. Let us just take the not utilized ones and get rid of those.

Or the folks that are living in areas that continue to flood, and we are spending \$891 million on repeat claims, where 1 percent of the policies are generating 25 to 30 percent of the claims. I would like to know what that specific number is. We could probably give them \$500,000 apiece to buy homes in other areas and save a lot of money.

So those are the kinds of things that I would like to see us pursue, Mr. Chairman.

Let me ask about this Market Access Program. This, to me, is pretty outrageous that we are paying Sunkist and McDonald's to advertise in France and other locales around the world. What could

possibly justify us to continue that program? Will each of you respond to that?

Mr. SCHATZ. We have all been looking at this for quite some time. NTU and CAGW have been cosigning letters on this program for probably 10 years. Representative Chabot from Ohio, who was recently elected, used to bring amendments to the floor every year on the appropriations bills. And I believe an amendment was being offered on the continuing resolution. I don't know what happened to it.

I do know, by the way, that the National Drug Intelligence Center amendment was adopted, so hopefully that will finally disappear.

But Market Access, it is the power of the companies that get the money that keeps it going, and we hope that there is now the political will to say this is a huge amount of corporate welfare, should be eliminated. There has been bipartisan support, but just not a majority so far. But it is really due to the power of these companies and their lobbying operations coming in and saying, no, no, we really need this million dollars. It is going to help increase sales and jobs. And, by the way, we have a plant in your district.

Mr. MOYLAN. I would say that while it is absolutely key to point out that there are large corporations that are benefiting from it, it is not just corporations. There are also large trade associations that are, of course, comprised of a lot of those that benefit as well, and they make very high-minded arguments about raising demand for certain types of products. There was an article recently where a gentleman was making the argument that we need to raise foreign demand for cotton so that we have greater demands for products that the cotton farmers in this country are producing.

The way that we look at it as an organization is that entities like this that have significant profits on their own ought to be able to fund their own advertising and promotion techniques. And taxpayers have many more important things to deal with. And whether you know, as Gary said, whether the budget situation is good or bad, it does not make sense to be subsidizing entities like that.

Mr. KALMAN. I would just quickly add that, you know, there presumably is a debate to be had whether or not the Commerce Department has a role in going out to open up foreign markets for American businesses.

When you start saying, no, no, no, we're going to get specific companies to advertise to sell Big Macs in Paris, the argument really begins to fall into the absurdity. And so we would argue that whatever original purpose the program may have had, it's completely veered off that original purposes and is now not serving any kind of purpose that promotes any value to the American taxpayer.

Mr. SCHATZ. By the way, very cleverly, they changed the name from the Market Promotion Program, when it was promoting our products, to Market Access, meaning we want access to markets overseas because they may be excluding our products. So even there it sounds even a little better than what they had in the past.

Ms. SPEIER. My time is almost expired. Just tell me some of the companies, besides Sunkist and McDonald's—who are the other companies receiving money?

Mr. SCHATZ. Our report notes Nabisco; Fruit of the Loom; Mars, Inc. There's a long list of many others where that came from.

Ms. SPEIER. Thank you. I yield back.

Chairman ISSA. Thank you.

We're going to do a very brief second round.

Mr. Kalman, I kind of cut you off without being able to answer the question, but I'll rephrase it, and I'll do it this way. I had a prominent bank chairman, somebody with a seven-figure salary and the large home in a low-tax State, who came in to see me. He's a little older than his wife. He has a 10 and a 12-year-old, but he's over 65. His two children each receive \$800 a month because back in Lyndon Johnson's day we decided that retirees should have supplemental funds and death benefits that would go to the children directly over and above.

We talked about corporate welfare. Is there any reason today that shouldn't be part of the waste within Social Security? If somebody's making a six- or seven-figure salary, just because they're over 65 and have children under 18, should we automatically continue that? And that's why, when I said entitlement, everything is an entitlement once we write it into law. But is it really an entitlement to somebody who doesn't need the money and for a program that actually never defined its real purpose; is there a purpose to give children under 18 \$800 simply because one of their parents is over 65, even if that parent is still working and earning a handsome income?

So I'll leave it to you, because this is about waste, it's about government waste, but the two biggest potential rocks in the knapsack of our country that might take us down are Social Security and Medicare, in the opposite order. If you would like to respond.

Mr. KALMAN. Sure.

Chairman ISSA. And, by the way, that's not going to completely balance the budget if we just do away with the high income over 65 with children under 18.

Mr. KALMAN. I understand and appreciate that.

Let me say two things. One is, just to be quite frank, is that U.S. PIRG doesn't take positions on the level of benefits for Social Security or Medicare. That said, we actually do have in our—

Chairman ISSA. And the question wasn't is that a wrong benefit? It's is it the type of benefit that Congress should look at anew relative to recategorizing it in some way for means testing, or at least not to make it an automatic entitlement?

Mr. KALMAN. And I apologize, we don't have a specific position on that. But let me say this, that we do think that, for example, there are a number of things in Medicare and Medicaid in particular that should be looked at. We're not against looking at that. In fact, in Medicaid, for example, there are a number of States in which name-brand pharmaceuticals have gotten into the States to adopt actuaries that forbid Medicaid from purchasing generic drug alternatives. So Medicaid ends up spending a lot more money than they otherwise would—

Chairman ISSA. They've lobbied for built-in monopolies.

Mr. KALMAN. Protections. So people who say, oh, we should leave entitlements off the table, we think that there are huge efficiencies, billions and billions of taxpayer dollars, that program that's not

just—I mean, obviously we can all agree on the actual fraud in Medicare, we should go after that——

Chairman ISSA. By guarantee your housing, it shouldn't have to be the Ritz Carlton?

Mr. KALMAN. Exactly. So we do believe that there are opportunities to make huge savings in those programs by looking at how they're actually being implemented. On that side we can agree.

Chairman ISSA. Any other responses?

Mr. MOYLAN. I would also point out, and you touched on the public opinion portion of it, that I think that there is something of a structural problem in how these programs are reviewed. People are well aware of the payments that they make into these systems for years and decades, and so I think they, to some extent rightly, feel that when they get to retirement age, that they ought to be able to draw upon those benefits as they were promised to them.

Chairman ISSA. If they only knew that they only pay into Part A; B, C and D are not, in fact, paid for out of withholding, but rather through general tax revenue.

Mr. MOYLAN. Well, it's a more basic problem than that, which is that when Social Security was first drawn up, it was not something akin to a forced savings program. We had this pay-as-you-go system. I think that's a part of the big disconnect that we face here today, and that's a part of what makes dealing with these programs more difficult than it might otherwise be.

Chairman ISSA. I'm going to ask one closing question very quickly because this one hits home. In a little while I think we're going to have an amendment that we're going to vote on that would make an across-the-board cut to the branch, literally to consider further cutting the budget that the ranking member and I share to try to go after waste and misuse of government funds, and I'm probably going to vote no because I don't believe you cutoff the auditor's fund in order to get better running of an enterprise.

But in this report that's already in, I noticed something. There is a proposal here that Members of Congress cutoff franking in election years; in other words, not just 90 days, but cut it off altogether. I'd appreciate a little elaboration because I found it to be very insightful that although I think we should be able to respond to inquiries—in other words, our mail should continue—but the history of franking right up until the eve of the cutoff for the primary or general is certainly something that, if we look at ourselves through a fair mirror, we're going to see something we don't like.

Mr. SCHATZ. Well, first, the Senate does limit franking——

Chairman ISSA. I yield to the gentlelady from California.

Ms. SPEIER. Thank you, Mr. Chairman.

I must say that I have discovered the franking, "benefit" to be outrageous. And if you want to associate on that issue, I would be delighted.

Chairman ISSA. I thank the gentlelady.

Ms. SPEIER. And I found that out by happenstance. I was doing a one-a-year newsletter to my constituents to tell them what I had done during the year and found out it was going to cost \$100,000 to send it out, and I refused to do it. And with the eve of the electronic newsletter and everything else we have at our disposal, I think that benefit should cease.

Mr. SCHATZ. As we said in the report, in the days of the Pony Express, this might have made sense, but it certainly doesn't now. There's so much information—Twitter, Facebook, My Space—I don't want to leave anyone out—e-mail, texting, town hall meetings, tele town halls—if a Member of Congress wishes to let their constituents know what they're doing, there are so many outlets now that did not exist before that we believe firmly, and we have always believed this, that a Member of Congress should only respond to a constituent if they're asked a question, because that's a legitimate function of what Members of Congress do. We've got C-SPAN, we've got everything going on. There's more information now about the hearings with the new rules.

Chairman ISSA. We are both being advertised here today with this hearing, I'm sure.

Mr. SCHATZ. Exactly. Exactly. So I think that this is something whose time has come. And I know NTU in particular has done a great job on this issue over the years, so I would love to have Andrew make a comment as well.

Mr. MOYLAN. I mean, we've done a tremendous amount of work on abuses of the franking process. But I wanted to touch on sort of the more general point that you made.

I often make the argument that one of the reasons that I believe so deeply in limited government is precisely because I don't think that we spend enough money on the things that matter. And that's why across-the-board cuts ought to be sort of a last resort rather than a first resort, because, as our organizations jointly have pointed out and many others, there are higher-priority things, and there are lower-priority things, and we ought to start by eliminating the lower-priority things first. And so I think that a franking benefit is among those. As Tom pointed out, there are innumerable ways that you can communicate with our constituents that don't require taxpayers to underwrite it, and I think that we ought to pursue those.

Chairman ISSA. Thank you. And I know that if I had gotten into the study of malt liquor and marijuana, in combination, which is being funded, we might have had another 10 minutes, but I recognize the ranking member for final comments.

Mr. CUMMINGS. Thank you very much. I want to thank you all for being here.

And I just want to go to you, Mr. Schatz, and make one quick comment. I was listening to your responses with regard to public employees. I think we have to be very, very careful when we try to make these comparisons and contrasts, and I think you've been sensitive to it.

And I know you all speak in a lot of places, and you tell a lot of stories, but this is what I want you to tell them: Almost every one of my employees on this committee took a substantial pay cut. They are here night after night. Many of them—we have Harvard Law School graduates, I mean, sitting right up here. And I'm sure that—I don't know what happened on the other side, but what I'm saying is we've got a lot of great people who do a lot of sacrificing.

And I tell you, it makes me want to scream sometimes when I hear—and I'm not just talking about Democrats, I'm talking about Republican staff, too—about public employees and how they've got

these high salaries, and they couldn't do better in private industry. I guarantee you, most of them could. But you've got a lot of people who dedicate their lives to just trying to do what is right and make things better for people. And I get kind of emotional about it because I hear it over and over again, and I think it's quite unfair so often.

Then I want to talk about this whole thing of systemic fraud. I'm doing a speech at Howard University soon, and I'm going to be talking about the fact that we need to create a new normal. And that is is that it seems like, when I listen to the thing about contracting, I think it has become normal for certain contractors to expect to fraudulently get money from the government. It has become a part of the process. And that's sad, it really is. And so that's the normal.

And, I mean, I think it was the chairman maybe was asking questions about—it was somebody on the Republican side, and it was a very good question—about is this criminal, is it whatever? And I think it was Mr. Dodaro who said something about, well, there's a certain threshold that we look at and whatever.

But the fact is is that the normal has become “let's get something from the government.” And I'm convinced that we can do better than that, we really can.

And when I think about where we are with regard—and I was mentioning this to the chairman a few minutes ago—where we are with regard to technology, you know, the things—we can literally take GPS and zero in on somebody's back yard. You mean to tell me we can't keep up with contracts, I mean, particularly when these contracts are costing the American people so much money?

I agree with the chairman with regard to our mission statement. This is bigger than us, and it's bigger than one party. It's bigger than Democrats and Republicans. It's about taking the hard-earned dollars of Americans and trying to make sure that they are spent effectively and efficiently.

And the two things that I just said are linked, the thing about employees. We've got a lot of great employees, and I think we need to be careful about beating up on them all the time. And I'm not just talking about the people up here. They're the same public employees that collect our trash, the same ones that deliver our mail. I mean, that's real. And a lot of these people, I think, probably most of them, are underpaid.

And at the same time, we also need to use our technology to—we've got the bashing over here, but then we need to move to our technology and say, OK, how do we use this technology to bring that effectiveness and efficiency to government to help those employees accomplish the things that they need to accomplish? That's what it's all about.

And so we can spend, spend, spend—and we've been concentrating on spending here lately—but we also need to—and I think the chairman said it in his opening that when we find ways that we can save money, we need to double-down on that. We need to do that because if we can save some pennies, that means everybody benefits. And when government is really doing things effectively and efficiently, we all benefit. And then that way we bring value,

more value, to the lives of all Americans, and that's what it's all about.

Thank you very much, Mr. Chairman.

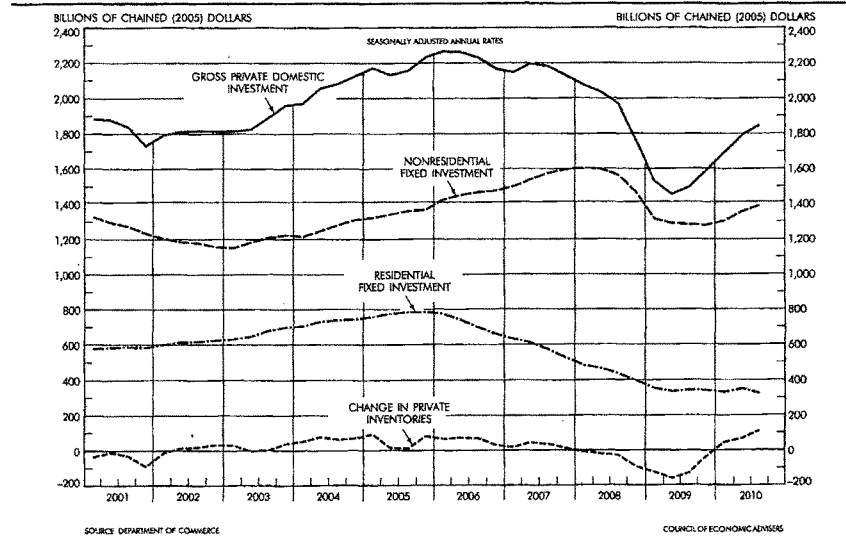
Chairman ISSA. I thank the gentleman, and I thank our witnesses today. I think if there's ever a time in which points were scored for the American people and not by one party or the other here on the dais, today was that day.

Again, I would like to thank all the witnesses for their testimony. The record will stay open for 7 days. If there are additional comments that you would like to have placed in the record, I would ask unanimous consent at this time that you would be able to do so. And without objection, so ordered.

[The information referred to follows:]

### Real Gross Private Domestic Investment

In the third quarter of 2010, according to revised estimates, nonresidential fixed investment in chained (2005) dollars rose \$33.6 billion (annual rate) and residential investment fell \$27.0 billion. Inventories increased \$111.5 billion, following an increase of \$68.8 billion in the second quarter.



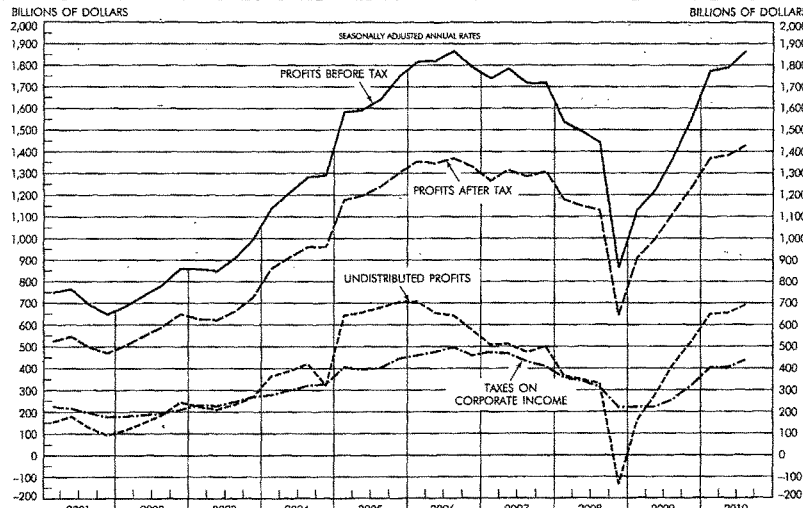
| Period   | Gross private domestic investment | Fixed investment |                |            |                        |             | Change in private inventories |         |
|----------|-----------------------------------|------------------|----------------|------------|------------------------|-------------|-------------------------------|---------|
|          |                                   | Total            | Nonresidential |            |                        | Residential | Total                         | Nonfarm |
|          |                                   |                  | Total          | Structures | Equipment and software |             |                               |         |
| 2000     | 1,970.3                           | 1,913.8          | 1,318.5        | 440.0      | 885.8                  | 580.0       | 60.2                          | 61.2    |
| 2001     | 1,831.9                           | 1,877.6          | 1,281.8        | 433.3      | 889.9                  | 583.3       | -41.8                         | -41.5   |
| 2002     | 1,807.0                           | 1,798.1          | 1,180.2        | 358.6      | 830.3                  | 613.8       | 12.8                          | 15.6    |
| 2003     | 1,871.6                           | 1,856.2          | 1,181.0        | 343.0      | 851.4                  | 664.3       | 17.3                          | 17.2    |
| 2004     | 2,058.2                           | 1,992.5          | 1,263.0        | 348.7      | 917.3                  | 729.5       | 85.3                          | 98.3    |
| 2005     | 2,172.7                           | 2,122.3          | 1,342.3        | 351.6      | 985.6                  | 775.0       | 50.0                          | 49.8    |
| 2006     | 2,230.4                           | 2,171.3          | 1,453.9        | 384.0      | 1,069.6                | 718.2       | 59.4                          | 83.2    |
| 2007     | 2,161.6                           | 2,132.7          | 1,552.0        | 436.2      | 1,109.0                | 684.2       | 27.7                          | 28.7    |
| 2008     | 1,967.9                           | 1,907.0          | 1,586.6        | 454.2      | 1,082.0                | 444.2       | -57.6                         | -59.0   |
| 2009     | 1,515.7                           | 1,830.7          | 1,280.8        | 369.9      | 916.3                  | 342.7       | -113.1                        | -116.9  |
| 2007 I   | 2,146.1                           | 2,127.7          | 1,499.0        | 404.8      | 1,093.0                | 631.3       | 17.3                          | 12.0    |
| 2007 II  | 2,195.1                           | 2,147.2          | 1,539.1        | 430.6      | 1,104.6                | 611.4       | 44.9                          | 50.3    |
| 2007 III | 2,178.9                           | 2,140.8          | 1,574.1        | 454.6      | 1,112.5                | 570.6       | 36.1                          | 36.9    |
| 2007 IV  | 2,126.1                           | 2,114.9          | 1,585.9        | 457.9      | 1,125.7                | 523.3       | 12.6                          | 13.7    |
| 2008 I   | 2,074.3                           | 2,081.6          | 1,609.7        | 462.7      | 1,134.0                | 482.2       | -8.2                          | 2       |
| 2008 II  | 2,033.8                           | 2,057.3          | 1,587.0        | 471.2      | 1,115.5                | 464.4       | -20.6                         | -25.6   |
| 2008 III | 1,967.2                           | 1,993.3          | 1,561.5        | 466.9      | 1,084.1                | 435.6       | -27.4                         | -29.4   |
| 2008 IV  | 1,753.8                           | 1,855.6          | 1,464.2        | 456.1      | 993.3                  | 394.7       | -94.3                         | -101.1  |
| 2009 I   | 1,529.5                           | 1,653.4          | 1,313.7        | 399.7      | 903.4                  | 352.7       | -125.8                        | -128.6  |
| 2009 II  | 1,453.2                           | 1,519.6          | 1,286.3        | 377.8      | 905.8                  | 333.9       | -161.8                        | -166.5  |
| 2009 III | 1,494.5                           | 1,522.4          | 1,292.9        | 365.5      | 913.1                  | 342.4       | -127.7                        | -129.2  |
| 2009 IV  | 1,585.7                           | 1,617.1          | 1,278.3        | 336.3      | 944.7                  | 341.7       | -36.7                         | -43.0   |
| 2010 I   | 1,690.2                           | 1,630.5          | 1,302.6        | 319.3      | 989.7                  | 330.7       | 44.1                          | 36.5    |
| 2010 II  | 1,781.5                           | 1,702.5          | 1,355.3        | 318.9      | 1,046.0                | 350.1       | 69.8                          | 61.0    |
| 2010 III | 1,944.7                           | 1,709.5          | 1,388.9        | 314.2      | 1,067.3                | 323.1       | 111.5                         | 109.0   |

Note: See p. 10 for further detail on fixed investment by type. Because of the formula used for calculating real GDP, the chained (2005) dollar estimates for the detailed components do not add to the chained-dollar value of GDP or to any intermediate aggregates.

Source: Department of Commerce (Bureau of Economic Analysis)

## Corporate Profits

In the third quarter of 2010, according to current estimates, corporate profits before tax rose \$76.3 billion (annual rate) and profits after tax rose \$44.5 billion.



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

(Billions of dollars; quarterly data at seasonally adjusted annual rates)

| Period   | Profits (before tax) with inventory valuation adjustment <sup>1</sup> |                     |           |                    |               |           |       |               |                       |           | Profits before tax | Taxes on corporate income | Profits after tax |        |  | Inventory valuation adjustment |
|----------|-----------------------------------------------------------------------|---------------------|-----------|--------------------|---------------|-----------|-------|---------------|-----------------------|-----------|--------------------|---------------------------|-------------------|--------|--|--------------------------------|
|          | Total <sup>2</sup>                                                    | Domestic industries |           |                    |               |           | Total | Net dividends | Undistributed profits |           |                    |                           |                   |        |  |                                |
|          |                                                                       | Total               | Financial | Nonfinancial       |               |           |       |               |                       |           |                    |                           |                   |        |  |                                |
|          |                                                                       |                     |           | Total <sup>3</sup> | Manufacturing | Utilities |       |               |                       | Wholesale |                    |                           | Retail            |        |  |                                |
| 2000 I   | 755.7                                                                 | 610.0               | 189.6     | 420.4              | 143.9         | 25.6      | 59.7  | 50.7          | 772.5                 | 265.1     | 507.4              | 377.9                     | 129.5             | -16.8  |  |                                |
| 2000 II  | 720.8                                                                 | 551.1               | 228.0     | 323.1              | 49.7          | 25.2      | 51.3  | 72.6          | 712.7                 | 233.3     | 508.4              | 370.8                     | 138.5             | 8.0    |  |                                |
| 2000 III | 762.8                                                                 | 604.8               | 208.2     | 396.7              | 47.7          | 12.3      | 49.1  | 81.6          | 765.3                 | 192.3     | 573.0              | 399.3                     | 173.8             | -2.6   |  |                                |
| 2000 IV  | 887.2                                                                 | 725.4               | 311.8     | 414.6              | 88.4          | 12.4      | 54.8  | 89.9          | 903.5                 | 243.8     | 659.7              | 424.8                     | 234.8             | -11.3  |  |                                |
| 2001 I   | 1,195.1                                                               | 980.1               | 392.3     | 577.8              | 154.1         | 19.4      | 75.6  | 93.4          | 1,229.4               | 308.1     | 923.3              | 550.3                     | 373.0             | -34.3  |  |                                |
| 2001 II  | 1,609.5                                                               | 1,370.0             | 443.6     | 926.4              | 247.2         | 29.8      | 92.2  | 122.9         | 1,640.2               | 412.4     | 1,227.8            | 557.3                     | 670.5             | -30.7  |  |                                |
| 2001 III | 1,691.1                                                               | 1,527.8             | 448.0     | 1,079.9            | 304.5         | 54.4      | 103.7 | 133.2         | 1,822.7               | 473.3     | 1,349.5            | 704.8                     | 644.7             | -38.0  |  |                                |
| 2001 IV  | 1,691.1                                                               | 1,340.2             | 345.5     | 994.7              | 271.3         | 50.3      | 89.9  | 117.8         | 1,738.4               | 446.5     | 1,291.9            | 794.5                     | 496.4             | -47.2  |  |                                |
| 2002 I   | 1,289.1                                                               | 877.8               | 139.9     | 737.9              | 183.7         | 28.3      | 84.0  | 75.0          | 1,333.7               | 308.4     | 1,024.8            | 797.7                     | 227.2             | -44.1  |  |                                |
| 2002 II  | 1,328.6                                                               | 976.3               | 258.0     | 718.4              | 150.9         | 30.0      | 80.4  | 99.0          | 1,316.7               | 254.9     | 1,061.8            | 718.9                     | 342.9             | 11.8   |  |                                |
| 2002 III | 1,688.3                                                               | 1,400.3             | 384.0     | 1,036.3            | 289.5         | 54.7      | 105.1 | 121.0         | 1,738.6               | 474.1     | 1,264.4            | 756.5                     | 508.0             | -50.3  |  |                                |
| 2002 IV  | 1,748.7                                                               | 1,436.2             | 379.9     | 1,059.3            | 303.2         | 50.6      | 109.9 | 131.1         | 1,783.5               | 467.9     | 1,315.6            | 804.4                     | 511.2             | -34.8  |  |                                |
| 2003 I   | 1,666.0                                                               | 1,312.2             | 366.3     | 945.8              | 229.8         | 57.3      | 104.7 | 114.1         | 1,715.1               | 431.0     | 1,284.1            | 809.7                     | 474.3             | -29.1  |  |                                |
| 2003 II  | 1,641.5                                                               | 1,212.4             | 271.8     | 940.5              | 262.7         | 38.6      | 80.9  | 105.0         | 1,718.3               | 408.8     | 1,307.5            | 807.4                     | 500.1             | -74.8  |  |                                |
| 2003 III | 1,406.1                                                               | 976.0               | 253.5     | 722.5              | 196.7         | 15.8      | 58.1  | 71.2          | 1,534.8               | 356.7     | 1,178.1            | 812.7                     | 365.4             | -128.7 |  |                                |
| 2003 IV  | 1,353.3                                                               | 941.1               | 242.5     | 698.6              | 181.6         | -18.0     | 65.4  | 74.0          | 1,493.3               | 343.0     | 1,150.4            | 802.1                     | 348.3             | -140.0 |  |                                |
| 2004 I   | 1,376.0                                                               | 931.8               | 116.5     | 815.3              | 211.2         | 86.0      | 88.2  | 74.2          | 1,442.7               | 313.3     | 1,129.4            | 798.4                     | 331.0             | -86.7  |  |                                |
| 2004 II  | 1,321.0                                                               | 862.5               | -52.7     | 715.2              | 165.2         | 49.6      | 124.5 | 80.4          | 1,381.9               | 220.4     | 941.5              | 777.5                     | 135.9             | 158.1  |  |                                |
| 2004 III | 1,223.0                                                               | 873.8               | 141.6     | 732.3              | 141.0         | 37.7      | 103.8 | 97.7          | 1,130.0               | 222.0     | 908.0              | 747.8                     | 160.2             | 93.0   |  |                                |
| 2004 IV  | 1,248.8                                                               | 916.5               | 243.4     | 673.2              | 138.7         | 33.4      | 73.8  | 89.7          | 1,219.2               | 222.8     | 996.5              | 719.7                     | 276.7             | 38.6   |  |                                |
| 2005 I   | 1,360.5                                                               | 936.2               | 306.2     | 630.0              | 151.8         | 22.4      | 70.8  | 101.3         | 1,369.2               | 256.7     | 1,112.5            | 688.6                     | 413.9             | -8.7   |  |                                |
| 2005 II  | 1,481.2                                                               | 1,118.6             | 346.7     | 771.9              | 170.9         | 26.4      | 73.0  | 57.1          | 1,548.4               | 319.1     | 1,229.3            | 708.5                     | 520.8             | -67.2  |  |                                |
| 2005 III | 1,738.5                                                               | 1,348.0             | 382.7     | 985.3              | 250.4         | 41.5      | 91.5  | 129.1         | 1,772.9               | 403.2     | 1,369.7            | 720.3                     | 649.4             | -36.4  |  |                                |
| 2005 IV  | 1,784.7                                                               | 1,383.4             | 359.4     | 1,034.0            | 277.1         | 32.8      | 107.7 | 126.7         | 1,788.2               | 405.6     | 1,382.6            | 728.4                     | 654.2             | -3.5   |  |                                |
| 2006 I   | 1,827.8                                                               | 1,444.1             | 392.5     | 1,051.5            |               |           |       |               | 1,864.5               | 437.4     | 1,427.1            | 736.6                     | 630.5             | -36.7  |  |                                |

<sup>1</sup> See p. 4 for profits with inventory valuation and capital consumption adjustments.<sup>2</sup> Includes rest of the world, not shown separately.<sup>3</sup> Includes industries not shown separately.

Note: Data by industry are based on the North American Industry Classification System (NAICS).

Source: Department of Commerce (Bureau of Economic Analysis).

Chairman ISSA. And with that, we stand adjourned.

[Whereupon, at 1:56 p.m., the committee was adjourned.]

[The prepared statements of Hon. Justin Amash, Hon. Edolphus Towns, Hon. Gerald E. Connolly, and Hon. Bruce L. Braley follow:]

**COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

**FULL COMMITTEE HEARING**

**“FRAUD AND ABUSE: THE REFUSE OF THE FEDERAL SPENDING BINGE”**

**2/17/2011**

**OPENING STATEMENT FOR REP. JUSTIN AMASH (MI-03)**

“Thank you, Mr. Chairman. It is critical that the government spends taxpayer money responsibly and cautiously. This is especially important during a time of record-setting budget deficits, which have added to a national debt of more than fourteen trillion dollars. Waste, fraud, abuse, and mismanagement of taxpayer money is simply unacceptable. The spending spree in Washington is unsustainable and must end. Americans deserve better, and I look forward to hearing from our witnesses on how we can get back on track toward fiscal responsibility. I yield back.”

**Statement of  
Edolphus Towns  
Committee on Oversight and Government Reform  
Hearing on February 17, 2011, at 9:30 a.m.  
“Waste and Abuse:  
The Refuse of the Federal Spending Binge”**

Chairman Issa, Ranking Member Cummings, “Waste and Abuse” is an important and timely subject for discussion, and I thank you for holding this hearing. As we debate various budget proposals and spending cuts, some of our discussion will necessarily fall on cutting out waste and stopping abuse that costs the federal government billions of dollars each year.

The High Risk List presented by GAO at the beginning of every Congress is a logical place to start when looking at places to prevent waste and stop abuse. GAO has broken down the list into six categories and has identified 30 separate programs that are at risk. It is commendable that some programs have improved enough to get off the list. Unfortunately though, others have been added.

I am hopeful that newcomers to the list such as the Department of Interior’s oil and gas management program will not be there for long. During the last Congress, this Committee held a hearing on oversight problems at the former Mineral Management Service. As they complete the restructuring of that agency, we expect that continued GAO oversight and high level attention from the Administration will lower the risk level for waste and abuse.

Another area that is of great concern to me is the potential for waste and abuse in government contracting. Over the past twelve years, the total amount of federal government contracting for goods and services has increased dramatically. Between 2000 and 2008, federal government contracting for goods and services grew at an average rate of 12 percent, from \$200 billion to more than \$500 billion.

The Committee has held dozens of hearings and conducted numerous investigations dedicated to rooting out waste, fraud, and abuse in federal government contracting. In 2006, the Committee adopted a bipartisan report that identified 32 DHS contracts, collectively worth \$34.3 billion, that have experienced significant overcharges, wasteful spending, or mismanagement. Through the 111<sup>th</sup> Congress the Committee's oversight of this problem continued, but clearly more work is needed.

As we continue to identify potential sources of waste and abuse, I am optimistic that Members on both sides of the aisle can work together on sensible solutions.

Statement of Congressman Gerald E. Connolly

“Waste and Abuse: The Refuse of the Federal Spending Binge”

February 17<sup>th</sup>, 2011

The title of this hearing demonstrates that its objectives are purely political. Since the Republican majority has determined that all non-military spending is bad, the only results of federal spending must be waste and abuse.

This conclusion would come as a shock to Republican economists like Mark Zandi, who advised Republican Presidential candidate John McCain and has been called the “de facto chief economist to Congress” by the Wall Street Journal. When the 111<sup>th</sup> Congress took office in January of 2009, Mr. Zandi joined other Republican stalwarts like Martin Feldstein in supporting a robust fiscal stimulus package. Mr. Feldstein served as President Reagan’s Chairman of the Council of Economic Advisers. Of course, House Republicans rejected the advice of Republican economists and voted against the Recovery Act.

As Congress debated the stimulus, Mark Zandi said that it would substantially reduce unemployment from what it would have otherwise been, and would address approximately half of the output gap that resulted from the recession. In a recent interview, Mark Zandi reiterated his support for the stimulus, stating, “I think we’d be in an immeasurably worse place if not for the stimulus.” Mr. Zandi went on to note, “It isn’t a coincidence that the Great Recession ended just as the Recovery Act was having its greatest effect.”

In testimony before Congress late last year, Mr. Zandi summarized the remarkable economic recovery made possible by the stimulus and TARP: “A year and half ago the global financial system was on the brink of collapse and the economy was engulfed in the Great Recession, the worst downturn since the Great Depression. Real GDP was plunging at an annual rate of more than 6%, and monthly job losses were averaging close to 750,000. Today, the financial system is operating much more normally, [and] real GDP is advancing at a nearly 3% pace.” I have included for the record charts from the Bureau of Economic Analysis documenting the growth in both private investment and corporate profits since President Obama took office, which reversed falling investment and profits under the Bush Administration. I have also included a statement from the University of Virginia, noting that the CR threatens the viability of research and related technological innovation and productivity growth.

This week the Republicans are attempting to pass a Continuing Resolution that could throw our economy back into a recession through drastic cuts in spending focused on essential areas of investment: transportation, housing, and clean energy development. We should not sacrifice our constituents’ economic wellbeing to satisfy the political objectives of the Republican Party.

On behalf of the University of Virginia (UVa) we write to ask Representative Connolly for his continued support in protecting science and education funding as the House considers appropriations for the remainder of fiscal year 2011. We understand the significant budgetary challenges this year, however, the deep cuts to federal science agencies and student aid programs proposed in H.R. 1 will have a damaging impact on scientific research and access to higher education. We appreciate Representative Connolly's past support of research and education and urge him to oppose H.R. 1 and support federally-funded research and education programs that are an important part of the economic well-being of our region and the Commonwealth.

For example, H.R. 1 proposes to cut the National Institutes of Health (NIH) by 5.4 percent, returning the agency to FY 2008 levels. NIH is the largest source of federal research funding at UVa, providing over \$197 million in competitive grants to researchers at UVa in FY 2010 alone. Sustained funding for NIH in FY 2011 will be critical to continuing our research on traumatic brain injury, cancer therapies, birth defects and much more.

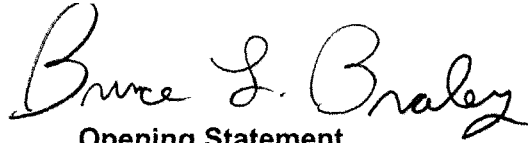
H.R. 1 would also cut funding to the National Science Foundation (NSF), the second largest source of federal research funds at UVa, by \$359 million or 5.2 percent below FY 2010. In FY 2010, researchers at UVa received over \$29 million in competitive grants, supporting research programs on campus to improve our nation's wireless networks, study the chemistry of the universe, and develop curriculum for elementary school students in math and engineering, among many other initiatives. Such a severe cut to the NSF would mean an end for many of these research projects, decreased funding for our young faculty, and limited funding for new projects.

The bill would also enact deep cuts to research programs within the Department of Energy, totaling \$886 million (18.1 percent) below the FY 2010 enacted level. In FY 2010 researchers at UVa received over \$10 million in funding from DOE, supporting a wide range of research to advance high performance computing, develop new energy sources, and use our energy resources more efficiently.

Finally H.R. 1 would target low-income financial aid programs such as the Pell Grant that allow students from all economic backgrounds to obtain a college degree. Over 116,000 students in the Commonwealth received Pell Grant funds to go to college during the 2008/2009 school year. The bill proposes substantial cuts to this important program, decreasing the maximum grant of \$5,550 to \$4,705. Such a decrease would limit access to postsecondary education to students across Virginia.

We know that there are serious budgetary restraints being faced this year, but it is critical that we not jeopardize the programs that drive our nation's competitiveness, foster economic growth, and work to solve pressing national challenges such as health, energy, and security. The long-term economic prosperity of Virginia and the nation depends on our continued ability to create new knowledge, train a skilled workforce, and conduct innovative research. Therefore we urge Representative Connolly to oppose H.R.1 and sustain FY 2010 funding levels for science and education in the CR.

We thank you for Representative Connolly's support of the University of Virginia and look forward to continued collaboration in the year ahead.



**Opening Statement  
Oversight and Government Reform Committee  
Waste and Abuse: The Refuse of the Federal Spending Binge  
February 17, 2011**

Mr. Chairman, thank you for holding this important hearing today on Waste and Abuse in our government. I have long been a strong proponent of cutting back on Waste, Fraud and Abuse government-wide, and particularly in our Healthcare System.

Public and private healthcare expenditures in the United States totaled approximately \$2.26 trillion in 2009. Of this amount, we spend between one fifth and one third of our health care dollars, between five hundred and seven hundred billion dollars, on care that does nothing to improve our health. This unnecessary care, accounting for up to \$700 billion in waste, also contributes to the rate of medical errors and preventable deaths. In fact, the Institute of Medicine estimated in its 1999 report, *To Err is Human*, that as many as 98,000 Americans are killed each year by preventable medical errors.

I believe that one of the solutions to reduce rampant waste in our healthcare system is a move away from the fee-for-service structure, and towards a delivery system that incentivizes high-quality, low-cost patient outcomes. By emphasizing outcomes and treating the patient, rather than just symptoms, our healthcare system can improve the quality of life and reduce the cost of care for millions. By prioritizing quality of care over quantity of service as the current payment structure does, we can reduce waste and prevent overutilization of our healthcare services which drive costs up. I'm proud of the work of the Quality Care Coalition to secure provisions in Health Care Reform that move our delivery system towards one that emphasizes the value of care. By basing reimbursements on the quality of care provided, we will reduce unnecessary care, significantly lower costs, decrease medical errors, and improve the quality of care across America.

In addition to cracking down on waste, I'm also concerned about fraud in Medicare. By conservative estimates, healthcare fraud accounts for as little as 3% of total expenditures, and as much as 10% of total expenditures, driving costs up for any citizen who buys insurance or pays the Medicare payroll tax, and impacting the Federal deficit by ballooning the costs of our public healthcare programs.

I have long advocated for reforms to our healthcare system that will prevent fraud and abuse. I've supported increasing the sentencing for healthcare crooks who are convicted of stealing over \$1 million. I've supported improving whistleblower claims by clarifying that all payments made pursuant to illegal kickbacks are false for purposes of the False Claims Act. I've also supported providing the Justice Department with the needed subpoena authority to conduct investigations into healthcare fraud.

If we are going to get serious about ending waste fraud and abuse we need to look at our healthcare system. It is my hope

that this will be a topic of discussion during this hearing. Thank you again Chairman Issa and Ranking Member Cummings for holding this important hearing and I yield back the balance of my time.