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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROGRAM ANALYSIS
DIVISION

B-202447

JUNE 14, 1983

The Honorable James R. Jones
Chairman, House Budget Committee
House of Representatives



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Dear Mr. Chairman:

Subject: Status Report on the Administration's Proposals
for Budgetary Savings in Fiscal Year 1983
(GAO/PAD-83-43)

During 1982, the Administration proposed nine management initiatives to reduce the Federal debt. These initiatives cover a broad range of administrative and management improvement efforts and have been incorporated into each agency's budget. As yet, the agencies have not had enough time to carry out all the programs. Therefore, it will be late in fiscal year 1983 before most savings begin to accrue. Achievement of these estimated savings, however, will depend on aggressive action by each agency and the ability of the Office of Management and Budget (OMB) to monitor the agencies' programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Administration proposed saving \$20.3 billion during fiscal year 1983 by carrying out nine management initiatives: prevention of fraud, waste, and abuse; improved debt collection; Federal employment reduction; Federal property disposition; accelerated outer continental shelf leasing; Federal pay restraint; improved asset sale management; revised Federal Housing Administration (FHA) mortgage insurance payments; and improved tax collection and enforcement. We are providing information that highlights the current status of these initiatives and have updated the Administration's estimates of the potential fiscal year 1983 savings.

We compared the goals established in the fiscal year 1983 budget with the progress reported in the fiscal year 1984 budget. In the 1983 budget, each initiative was identified and government-wide savings were projected. This was not always the case in the 1984 budget. So we were supplied the needed information by the agency or by OMB. The attachment to this letter summarizes the revisions to the savings estimates. We did not perform a comprehensive evaluation and analysis of the

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Administration's efforts. Also, our comments and opinions are based on the conclusions and recommendations from our specific work in these various issues.

CURRENT STATUS OF THE ADMINISTRATION'S
NINE MANAGEMENT INITIATIVES

Prevention of fraud, waste, and abuse

For fiscal year 1983, the Administration projected that its program for preventing fraud, waste, and abuse would reduce outlays by \$1.0 billion every year. We previously reported that the \$1.0 billion was a conservative gross projection and should be considered a target amount. We also reported that such prevention generally does not result in budgetary savings, and any claimed savings should clearly indicate which portion was budgetary and which portion was improved economy and efficiency of operations. A summary report issued by the President's Council on Integrity and Efficiency tends to confirm that the \$1.0 billion was indeed too conservative. The Council reported \$11.5 billion of direct savings and improved use of funds during fiscal year 1982. The reported savings resulted from audit recommendations intended to improve systems controls, recover funds, or otherwise make Government programs and operations more efficient. The Council also reported that none of the reported savings are budgetary. Budgetary savings, they state, occur only when, and if, the Congress adjusts the budget.

Several steps were taken to further strengthen audit report followup and resolution. OMB issued a revised circular (A-50) that strengthened audit followup procedures for executive branch agencies. Another circular (A-73) sets policies for auditing Federal programs. It is also being revised to recognize the role of the Federal Inspectors General in auditing Federal operations and programs as well as the President's Council on Integrity and Efficiency in coordinating audit activity. The Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255), dated September 8, 1982, requires the Director of OMB, in consultation with the Comptroller General, to establish guidelines that will enable agencies to evaluate their internal accounting systems and administrative controls. By December 31, 1983, and by December 31 of each succeeding year, agency heads will state whether or not that agency's accounting system and administrative controls comply with the guidelines. Statements of non-compliance are required to include a plan and a schedule for correcting the weaknesses.

Improved debt collection

In the fiscal year 1983 budget, the Administration estimated that improved debt collection procedures would recover \$2.35 billion. This estimate includes \$1.35 billion in debts--accounts and loans receivable--that was distributed to agency accounts as reductions in outlays. The remaining \$1.0 billion was not distributed to agency accounts but was to be achieved primarily through enacting comprehensive debt collection legislation and intensifying Justice litigation efforts.

The Administration has taken an aggressive approach to debt collection problems. In a memorandum dated April 23, 1981, the President directed the heads of executive branch agencies and departments to develop and implement a program to improve debt collection. In making debt collection a management priority, the Administration's goal has been to stem the growth of debts owed the Government, reduce delinquencies, and improve Federal credit management and debt collection policies and procedures. On April 27, 1981, OMB issued Bulletin 81-17, requiring agencies to develop comprehensive debt collection improvement plans.

On October 25, 1982, the Debt Collection Act of 1982 (P.L. 97-365) was passed. This law provided Federal agencies with collection tools similar to those used in the private sector. Among its provisions, the Act

- allows agencies, except the Internal Revenue Service (IRS), to disclose information about an individual's debt to credit bureaus;
- authorizes agencies to collect overdue payments from Federal employees through deductions from their paychecks;
- permits agencies to obtain from the IRS current addresses of individuals owing money to the Government;
- authorizes the IRS to disclose to a requesting agency whether an applicant for a Federal loan has a delinquent tax account;
- requires agencies to charge a minimal rate of interest, as well as penalties and administrative charges, on delinquent nontax debts; and
- authorizes agencies to contract for debt collection services.

Implementation of the Act should increase collections. However, OMB will have to work closely with the agencies to minimize any problems that will arise in implementation and to assure they make maximum use of the new tools provided. Since agencies must establish new regulations and procedures to accommodate the new law, it will be well into fiscal year 1983 before the law and the debt collection tools it provides begin to have an effect on actual collections. As a result, the fiscal year 1984 budget reduced the estimate for agency collections to \$1.2 billion (all of it distributed to agency accounts) in fiscal year 1983 and \$1.2 billion in 1984. We recently issued a report on the success of the debt collection efforts. 1/

Federal employment reduction

On September 24, 1981, the President announced an employment reduction goal of 75,000 to occur between fiscal years 1982 and 1984. A savings of \$2.1 billion was projected once the reduction was fully executed in 1985. Consistent with the Administration's established goal, the 1984 budget proposes a reduction of 13,600 employees to occur in fiscal year 1983 and 4,200 to occur in fiscal year 1984.

An OMB budget specialist for personnel ceilings informed us that, unlike the fiscal year 1983 budget, the fiscal year 1984 budget did not estimate a total savings for personnel reductions in 1985 because of the difficulty in quantifying the many offsetting variables. We had previously reported 2/ that estimates of savings through personnel reductions must include assumptions on such offsetting costs as the increased use of part-time or contracted employees, severance pay, unemployment compensation, and lump-sum leave payments. Many intangible factors such as the disruption of the workforce must also be considered. Although these factors are difficult to identify and quantify, we believe it must be done if the Congress is to have sufficient information to make the legislative decisions required by the budget proposals.

1/U.S. General Accounting Office, "Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government," (GAO/AFMD-83-57), April 28, 1983.

2/U.S. General Accounting Office, "Savings from 1981 and 1982 Personnel Ceiling Reductions," (FPCD-82-23), January 15, 1982.

Federal property disposition

In the fiscal year 1983 budget, the Administration proposed improving Federal property management by disposing of all unneeded property and eliminating the practice of discounting property transfers to Federal agencies and no-cost conveyances to State and local governments. The Administration estimated that the sale of unneeded property would generate \$1.0 billion, and property transfers would generate \$250 million.

In February 1982, the Federal Property Review Board was established to review Federal asset management policies and to identify unneeded Federal properties. In April 1982, the Board directed the heads of all executive agencies and departments to review their real property holdings and report which properties were no longer needed. By December 1982, 359 pieces of property had been identified as unneeded, and 70 properties were scheduled for sale. In addition, the Federal Property Management Regulations were changed to require that all real property transfers be valued at 100 percent of fair market value.

The sale of unneeded property represents a significant source of revenue. However, the realization of these revenues depends on the ability of the General Services Administration (GSA) to identify, appraise, and sell the unneeded property. As requested by GSA, the Congress appropriated additional funds to provide sufficient resources to perform these tasks. Nevertheless, sales have been substantially less than expected. In the fiscal year 1984 budget, the revenue projection for fiscal year 1983 was reduced to \$442 million (\$430 million in sales and \$12 million in transfers). Even this revised estimate may be too high. Sales in the first quarter of fiscal year 1983 were only \$16.7 million.

Property transfers to other Federal agencies would not affect revenues even though such transfers would be made at fair market value. Any payments made to GSA from other Federal agencies would increase GSA's revenue, but it would come from that agency's appropriation. Thus, there would be an offsetting disbursement equal to the receipt.

Additionally, in the past, no-cost conveyances of real property to non-Federal recipients have sometimes been a way of providing Federal support to programs in lieu of direct Federal grants or expenditures. To the extent that Federal support of such programs will continue, reductions in no-cost conveyances could be offset by an increase in direct Federal expenditures.

Accelerated outer continental shelf leasing

Shortly after January 1981, the Administration proposed major changes in the Department of the Interior's 5-year Outer Continental Shelf (OCS) oil and gas leasing program. Under the new proposal, offshore leasing would be accelerated by increasing the number of lease sales, offering more land for lease in each sale, and reducing the time needed to plan for sales. To accomplish these objectives, the Administration also proposed a number of procedural and regulatory changes--referred to as streamlining--in the lease sale planning process and in post-lease management activities. In the fiscal year 1983 budget, the Administration estimated lease revenues of \$18 billion for fiscal years 1983 and 1984. Since then the estimates have been reduced. The estimates in the fiscal year 1984 budget are \$11.8 billion for fiscal year 1983 and \$11.9 billion for fiscal year 1984. These revised estimates are still substantially above the actual revenues of \$6.2 billion during fiscal year 1982.

In two reports ^{3/} we questioned the department's ability to carry out the new expanded program, particularly at a time when program funding and staffing levels were being reduced and when the full effects of the new program had not been evaluated. In our latter report, we questioned the \$18 billion OCS revenue estimate for fiscal year 1983, noting that leasing in the Gulf of Mexico would have to increase substantially for the revenue estimate to materialize. In both reports we maintained that the key factors to program success were (1) industry's willingness and ability to increase its offshore activity, (2) the public's acceptance of the new leasing procedures, and (3) Interior's ability to carry out the program.

Several other factors will also affect the actual receipts.

--Five petitioners (two States, public interest groups, and a local government) filed a joint suit against Interior alleging that the new, accelerated program was unlawfully developed. Although the case is still pending, no sales have been delayed because of the litigation.

^{3/}U.S. General Accounting Office, "Pitfalls In Interior's New Accelerated Offshore Leasing Program Require Attention," (EMD-82-26), December 18, 1981, and "Outlook For Achieving Fiscal Year 1983 Offshore Revenue Estimate--Possible But Not Likely," (EMD-82-83), June 8, 1982.

--A decision by the U.S. Court of Appeals for the Ninth Circuit in favor of the State of California required the Department of the Interior to prepare a consistency determination before offering certain tracts for lease in a recent Pacific coast lease sale. In an attempt to avoid this type of litigation in future sales, Interior decided to delay five sales and to prepare consistency determinations for them also. Department officials stated this has been done, and the sales have been rescheduled. However, as of April 7, 1983, suits have been filed against two of the sales, raising the possibility that they may be delayed or even canceled.

--The Department of the Interior recently announced a decision to revise its process for determining the minimum acceptable bid for OCS tracts offered for lease. In the past, Interior has relied on independent evaluations to determine the minimum bids. Under its new procedures the department will rely more on industry competition and other marketplace factors to determine minimum acceptable bids. Past evaluations by the department have been substantially lower than actual bids.

These factors, in addition to declining oil prices from reduced demand and the increased lease offerings, result in any estimate of future revenues to be extremely suspect. At this time, there is no way of knowing how credible the offshore program estimates will eventually prove to be.

Federal pay restraint

The pay system for Federal employees has consistently been used as a way of reducing deficits. The most common practice has been to withhold a portion of the annual comparability adjustment. ^{4/} In fiscal year 1983, the comparability

^{4/}The Federal Salary Reform Act of 1962 established the principle that white-collar employees' salary rates under the General Schedule should be comparable with private enterprise rates for the same levels of work. Each year, a report is prepared for the President that recommends a pay adjustment to achieve full comparability. If the President believes that a full comparability adjustment is not warranted because of "national emergency or economic conditions affecting the general welfare" the President can send the Congress an alternate plan proposing a different adjustment.

adjustment was limited to 4 percent for an estimated savings of \$1.9 billion. The 1982 management initiative estimate of a \$1.4 billion savings from Federal pay restraint was based on limiting the fiscal year 1983 civilian pay increase to 5 percent.

In the fiscal year 1984 budget, the Administration has proposed a freeze on Federal pay and retirement pay, for an estimated 1984 savings of \$6.5 billion. This savings can be achieved only at the cost of maintaining pay comparability for Federal employees. We have repeatedly endorsed the concept of pay comparability for Federal employees and also have noted that several groups, such as the Federal wage board employees and the Postal Service employees, have been exempted from past freezes because of collective bargaining agreements. We believe any pay freeze, if the Congress accepts the Administration's proposal, should include all Federal employees.

Improved asset sale management

Beginning in fiscal year 1982, the Administration proposed to sell all Federal mortgage assets. In the fiscal year 1983 budget, the Administration estimated receipts from mortgage asset sales of \$100 million in fiscal year 1982 and \$1.3 billion in fiscal year 1983. While the Government has sold mortgage assets in the past, sales under the improved asset sale management initiative reflect the Administration's policy that the Government should not hold property or assets that it can dispose of or sell. Under this initiative, mortgage sales were greatly accelerated.

The 1984 budget shows actual sales of \$467 million in fiscal year 1982 and estimated receipts of \$1.6 billion for fiscal year 1983 and \$1.4 billion for fiscal year 1984. To achieve these higher budget estimates, purchases will have to occur at a substantially larger volume than there has been. The willingness or ability of the private sector to purchase this volume of assets is not known.

Revised FHA mortgage insurance payments

In the fiscal year 1983 budget, the Administration estimated that changing the method for collecting insurance premiums on FHA-insured single-family mortgages would increase receipts by \$700 million annually in fiscal years 1983 through 1985 and \$600 million annually in fiscal years 1986 and 1987. In the past, lending institutions collected monthly insurance premiums from the homebuyer and annually submitted the collections to the Department of Housing and Urban Development (HUD). Because of the very high turnover of mortgages, HUD's collection costs were

also very high, and significant funds were written off as uncollectable. The Administration, therefore, proposed that each FHA-insured homebuyer make a one-time payment at the time of settlement equal to the discounted present value of monthly premiums over the life of the mortgage.

On September 8, 1982, the Congress passed the Omnibus Budget Reconciliation Act (P.L. 97-253), which authorized the proposed changes. A HUD official in the Office of Financial Management informed us that the program will be implemented in the fourth quarter of fiscal year 1983. As a result, the fiscal year 1984 budget reduced the fiscal year 1983 estimated receipts to \$289 million. Receipts for fiscal year 1984, however, are estimated at over \$1.0 billion rather than \$700 million.

Improved tax collection and enforcement

In the fiscal year 1983 budget, the Administration proposed to collect an additional \$5.5 billion in tax revenues during fiscal year 1983. Specifically, the Administration estimated revenues of \$1.4 billion from new legislation to speed up corporate tax collections, \$2.0 billion from a legislative proposal to withhold taxes on interest and dividends, and \$2.1 billion from increased IRS enforcement and collections.

The Congress approved all three parts of the Administration's proposal. Provisions to speed up corporate tax collections and to withhold taxes on interest and dividends are in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). In the fiscal year 1982 supplemental, the Congress appropriated additional monies for IRS enforcement and collection activities. As of April 30, 1983, the Congress was considering postponing the implementation of withholding on interest and dividends.

The estimate for increased corporate tax revenues has been reduced from the fiscal year 1983 estimate of \$1.4 billion to \$0.9 billion based on a projected decrease in corporate profits and the resulting decrease in tax liability. The Administration also lowered its estimate for fiscal year 1983 tax revenues from withholding taxes on interest and dividends because the start date was delayed 6 months to July 1, 1983. The \$2.0 billion estimate was lowered to \$0.8 billion. The increased revenue of \$2.1 billion resulting from the acquisition of additional enforcement and collection staff has remained unchanged.

SUMMARY

The Administration estimated the management initiatives that appeared in the fiscal year 1983 budget would reduce the budget deficit by \$20.3 billion. However, for a variety of reasons (late implementation of new legislation or programs and the effect of changes in the economy), some of the savings forecasted have been delayed and will probably not begin to accrue until late in the fiscal year. Other estimates, however, are clearly optimistic and the possibility of achieving the projected level of savings is unlikely. The achievement of any of the savings will depend upon aggressive action by the agencies and the ability of OMB to assure that the agencies achieve their goals.

Our review of the budget documents and our discussions with cognizant budget officials revealed that these initiatives have been implemented, or are being implemented, by the agencies and that any savings that may be realized would be reflected in each agency's budget. As a result, only three of the nine items appear in either the major themes or the budget identified as a management initiative. Many other items or proposals appear in these documents, and we will continue our normal review and reporting efforts regarding them. We plan no further work on the management initiatives discussed in this letter unless specifically requested to do so.

We hope this information will be useful. If you have any questions please call on us.

Sincerely yours,



Morton A. Myers
Director

Attachment

ESTIMATED SAVINGS FROM MANAGEMENT INITIATIVES
(in billions of dollars)

<u>Management Initiatives</u>	<u>January 1982 Estimate of FY 83 Savings</u>	<u>January 1983 Revised Estimate of FY 83 Savings</u>	<u>January 1983 Estimate of FY 84 Savings</u>	<u>Comments</u>
Outlay Reductions:				
1. Prevention of fraud, waste, and abuse	1.0	--	--	The 1984 budget did not include an estimate of budgetary savings because audit recommendations only address improved economies and efficiencies.
2. Improved debt collection	1.0 <u>a/</u>	1.2	1.2	Debt collection estimates have been reduced to allow time to implement new authority granted by Debt Collection Act of 1982 (P.L. 97-365).
3. Federal employment reduction	---	---	---	Savings were not anticipated until 1985, after reduction of 75,000 employees between 1982 and 1984.
4. Federal property disposition	1.0	0.4	1.0	Actual sales of unneeded property must increase substantially over present rate of sales (\$16.7 million for first quarter of fiscal year 1983) if current estimates are to be realized.

a/This estimate is the portion not distributed to the agency accounts in the fiscal year 1983 budget, an additional \$1.35 billion was distributed to agency accounts as reductions in outlays. The revised 1983 and 1984 figures are total reductions comparable to the \$2.35 billion figure.

ENCLOSURE

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<u>Management Initiatives</u>	<u>January 1982 Estimate of FY 83 Savings</u>	<u>January 1983 Revised Estimate of FY 83 Savings</u>	<u>January 1983 Estimate of FY 84 Savings</u>	<u>Comments</u>
5. Accelerated outer continental shelf leasing a/	8.4	11.8	11.9	Estimates are uncertain because the number of leases that will be offered and the number and price of leases that will be sold are unknown. Actual revenues in 1982 were \$6.2 billion.
6. Federal pay restraint	1.4	1.9	6.5	Revised savings are based on 4 percent comparability adjustment in fiscal year 1983 (5 percent initially proposed) and no adjustment in 1984. These savings would accrue at the expense of maintaining pay comparability with the private sector.
7. Improved asset sale management	1.3	1.6	1.4	Savings estimates will be dependent on the private sector's willingness to purchase these assets. The 1984 budget shows actual sales of \$467 million in fiscal year 1982.
8. Revised FHA mortgage insurance payment	0.7	0.3	1.0	HUD needs to develop regulations, policies, and procedures to implement the change required by recently enacted legislation.

a/Estimates in fiscal year 1983 budget show \$18 billion in total OCS revenue with \$8.4 billion as the accelerated portion. The 1984 budget does not separate the accelerated portion of OCS leasing activities. The revised 1983 estimate and the 1984 estimate include all activities.

<u>Management Initiatives</u>	<u>January 1982 Estimate of FY 83 Savings</u>	<u>January 1983 Revised Estimate of FY 83 Savings</u>	<u>January 1983 Estimate of FY 84 Savings</u>	<u>Comments</u>
Receipts Increases:				
9. Improved tax collection and enforcement:				Congress passed the Tax Equity and Fiscal Responsibility Act authorizing tax changes and appropriated funds for additional enforcement staff. Estimates were reduced to allow sufficient time to implement legislative changes. As of April 30, 1983, the Congress was considering postponing the implementation of withholding on interest and dividends.
Speed up of corporate tax collections	1.4	0.9 <u>a/</u>	3.3 <u>a/</u>	
Withholding on interest and dividends	2.0	0.8 <u>a/</u>	5.8 <u>a/</u>	
Increased IRS enforcement and collections	2.1	2.1	2.4	
Total Management Initiatives	20.3			

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a/Estimates based on information obtained from the Treasury Department's Office of Tax Analysis.

ENCLOSURE

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