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How Congress Can Achieve Savings of 1 Percent by Targeting Waste, Fraud, and Abuse

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The 2004 Congressional Budget Resolution required each congressional committee to target wasteful spending within its mandatory programs. Specifically, each committee must find enough waste, fraud, and abuse to reduce its mandatory program budgets by 1 percent.

Government spending—which this year will exceed \$21,000 per household for the first time since World War II—is growing at an unsustainable rate.¹ Much of this spending has been financed by a \$400 billion budget deficit. Some would raise taxes to finance this spending, but that would reduce incomes, cost jobs, slow the economy, and consequently worsen the deficit. Instead, Congress should reduce spending, and the first place to look should be waste, fraud, and abuse.

Waste is also a symptom of ineffective government. Combating waste does not imply hostility toward government, but rather a desire to strengthen government programs so that they can serve more constituents effectively. Good government is nonpartisan.

Identifying 1 percent of mandatory program spending as wasteful should not be difficult for Congress. In fact, some consider a 1 percent target excessively modest and unlikely to provide significant

- The 2004 Budget Resolution requires each congressional committee to find enough waste, fraud, and abuse to reduce its mandatory program budgets by 1 percent.
- Eliminating this wasteful spending would save taxpayers \$132 billion over the next 10 years.
- Payment errors, fraud, and inefficiencies run rampant through many government programs, and reducing spending by 1 percent should not be a difficult task.
- The Heritage Foundation has identified potential savings of as much as \$300 billion over the next 10 years.

1. This comparison is in 2003 dollars, adjusted for inflation. See Brian M. Riedl, “Ten Common Myths About Taxes, Spending, and Budget Deficits,” Heritage Foundation *Backgrounder* No. 1660, June 13, 2003, at www.heritage.org/Research/Budget/BG1660.cfm.

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savings. However, cutting wasteful spending today saves money not only in the current budget, but in future budgets as well. If congressional waste cutters had reduced mandatory spending by 1 percent in 1980, taxpayers would have saved \$190 billion through 2003—more than \$2,000 per household.²

This study shows how some of the largest congressional committees can easily identify 1 percent of their mandatory program budgets as waste, fraud, and abuse. Combined, these recommendations could save taxpayers as much as \$300 billion over the next decade. Although the listed programs are classified by their committees of jurisdiction in the House of Representatives, they would also satisfy most Senate committees' targets.

Agriculture Committee

Major mandatory expenditures: Farm subsidies, food stamps, and rural assistance programs.

Targeted outlay savings: \$455 million in 2004, \$2,396 million for 2004–2008, \$4,945 million for 2004–2013.

Food Stamps (10-Year Savings: \$6 Billion to \$10 Billion). Simply reforming the food stamp program, which provides \$16 billion in food vouchers to over 17 million families, would meet this committee's waste, fraud, and abuse targets.

Table 1				B 1681			
Targeted Mandatory Spending Savings by Committee				(outlays in millions of dollars)			
House Committee	2004	2004–2008	2004–2013	Senate Committee	2004	2004–2008	2004–2013
Agriculture	\$455	\$2,396	\$4,945	Agriculture, Nutrition and Forestry	\$563	\$2,982	\$6,251
Armed Services	777	4,195	9,165	Armed Services	777	4,195	9,165
Education and the Workforce	197	1,103	2,431	Banking, Housing and Urban Affairs	17	58	92
Energy and Commerce	1,815	10,594	26,523	Commerce, Science and Transportation	74	382	807
Financial Services	18	61	95	Energy and Natural Resources	24	108	201
Government Reform	812	4,423	9,859	Environment and Public Works	23	106	195
House Administration	4	12	24	Finance	7,379	41,407	98,735
International Relations	119	563	1,181	Foreign Relations	119	563	1,181
Judiciary	65	319	644	Governmental Affairs	816	4,446	9,904
Resources	30	149	297	Health, Education, Labor and Pensions	72	433	944
Science	1	3	3	Judiciary	79	326	618
Transportation and Infrastructure	143	763	1,578	Veterans' Affairs	341	1,827	3,852
Veterans' Affairs	340	1,825	3,850	Total	10,284	56,833	131,945
Ways and Means	5,517	30,467	71,428				
Total	10,293	56,873	132,023				

Source: Press release, Committee on the Budget, U.S. House of Representatives, May 21, 2003, and press release, Committee on the Budget, U.S. Senate, May 21, 2003.

Auditors at the U.S. Department of Agriculture discovered that erroneous payments of \$1.4 billion (\$1 billion in overpayments and \$400 million in

2. Inflation-adjusted with net interest excluded.

underpayments) were made in 2001. Correcting these mistakes would save \$600 million per year and \$6 billion over the next decade. The committee could address this waste by continuing reforms that allow states increased flexibility in assuring the proper eligibility of recipients. Congress could also link each state's federal payment for implementing the food stamp program more closely to its error rate.³

Food stamps are also prone to trafficking, the illegal selling of the food vouchers for cash. Approximately \$660 million in food stamps is trafficked by food stores each year, yet storeowners have paid just 13 percent of the fines assessed by the courts for this crime. With increasingly sophisticated technology available to identify traffickers, Congress should continue to assist states in reducing this practice and collecting the fines.⁴

Education and the Workforce Committee

Major mandatory expenditures: Food and nutrition programs and student loans.

Targeted outlay savings: \$197 million in 2004, \$1,103 million for 2004–2008, \$2,431 million for 2004–2013.

School Lunch Program (10-Year Savings: up to \$12 Billion). The school lunch program provides free or discounted meals to nearly 27 million school children from low-income families. A study commissioned by the Department of Agriculture estimated that 18 percent of program participants do

Government Redundancy

While Congress focuses on waste in mandatory programs, there is also substantial waste arising from duplication across government. Substantial savings could be realized by consolidating the following sets of duplicative programs:

- 342 economic development programs;
- 130 programs serving the disabled;
- 130 programs serving at-risk youth;
- 90 early childhood development programs;
- 75 programs funding international education, cultural, and training exchange activities;
- 72 federal programs dedicated to assuring safe water;
- 50 homeless assistance programs;
- 45 federal agencies conducting federal criminal investigations;
- 40 separate employment and training programs;
- 28 rural development programs;
- 27 teen pregnancy programs;
- 26 small, extraneous K–12 school grant programs;
- 23 agencies providing aid to the former Soviet republics;
- 19 programs fighting substance abuse;
- 17 rural water and waste-water programs in eight agencies;
- 17 trade agencies monitoring 400 international trade agreements;
- 12 food safety agencies;
- 11 principal statistics agencies; and
- 4 overlapping land management agencies.

Source: Brian M. Riedl, "Ten Guidelines for Reducing Wasteful Government Spending," Heritage Foundation *Background* No. 1622, February 12, 2003, at www.heritage.org/Research/Budget/BG1622.cfm

not qualify for benefits because of their high family incomes.

Most schools do not verify the incomes of parents who enroll their children in the program. They have little incentive to do so because increased school lunch participation signals to Congress that a school district is low-income and automatically qualifies the school district for substantial increases in education funding (at the expense of school districts that do not inflate their participation rates). Some school districts have even used benefits such

3. Currently, the federal government pays for approximately 50 percent of state and local administrative costs. However, states with low error rates see their federal reimbursement rates adjusted upwards, while high-error states may receive smaller reimbursements. Congress could increase the magnitude of the adjustments, thus giving states a larger financial incentive to reduce error rates.

4. David M. Walker, Comptroller General of the United States, "Federal Budget: Opportunities for Oversight and Improved Use of Taxpayer Funds," testimony before the Committee on the Budget, U.S. House of Representatives, June 18, 2003.

as free raffle tickets to bribe parents to apply for the program.⁵

The committee could address this by requiring parents to document their income before signing up their children and by no longer using school lunch enrollment as a measure of poverty when allocating education spending. Restricting just one-fifth of the ineligible students currently enrolled in the program would produce enough savings to meet the committee's spending targets. Of course, all measures should be taken to assure that eligible families are not excluded from the program.⁶

Student Loans (10-Year Savings: at Least \$10 Billion). The U.S. Department of Education manages a \$267 billion student loan portfolio and disburses \$65 billion to college students annually. The U.S. General Accounting Office (GAO) reports that loans of \$21.8 billion were in default as of 2001.

The Department of Education does a poor job verifying the incomes and eligibility of applicants and does not adequately track students across different student loan programs. The GAO recommends that the department implement reforms such as working with the IRS to better verify applicant incomes and providing stronger oversight to prevent improper aid disbursement. A more efficient program would better target those in need and reduce pressures to replenish student loans with new tax dollars.⁷

Energy and Commerce Committee

Major mandatory expenditures: Medicaid, State Children's Health Insurance Program, and the radio spectrum.

Targeted outlay savings: \$1,815 million in 2004, \$10,594 million for 2004–2008, \$26,523 million for 2004–2013.

Medicaid (10-Year Savings: at Least \$26.5 Billion). Significant waste, fraud, and abuse pervade Medicaid, which provides health services to 44 million low-income Americans. While states run their

own Medicaid programs, the federal government reimburses an average of 57 percent of each state's costs.

This system gives states an incentive to over-report their Medicaid expenditures in order to receive larger federal reimbursements. Not surprisingly, the GAO has identified state schemes that shift money between state accounts to create an illusion of higher Medicaid expenditures. Similarly, some states have spent their federal Medicaid dollars on non-Medicaid purposes. Tight state budgets, such as those experienced by most states today, have increased the pressure to use such deceptive tactics.

The GAO and the Department of Health and Human Services (HHS) Inspector General have also uncovered some states' practice of recovering improper payments, retaining the funds, and then spending them on unrelated programs. Congress could enact legislation to further prohibit these actions, which currently cost the federal government over \$2 billion per year.

Minor reforms enacted by HHS in 2001 and 2002 are expected to save Medicaid \$70 billion over the next decade. A small sample of financing schemes uncovered in a few states suggests that the Energy and Commerce Committee could easily meet its 10-year target of \$26.5 billion by combating such schemes.⁸

Financial Services Committee

Major mandatory expenditures: Housing loans, flood insurance, financial industry insurance, and the Export–Import Bank.

Targeted outlay savings: \$18 million in 2004, \$61 million for 2004–2008, \$95 million for 2004–2013.

Flood Insurance (10-Year Savings: at Least \$1 Billion). The National Flood Insurance Program insures 4.5 million properties, yet it pays nearly 40 percent (\$200 million per year) of its claims to the same 1 percent to 2 percent of properties that flood

5. Philip Brasher, "Ineligible Kids Get Free Lunches," Associated Press, March 14, 2002.

6. Brasher, "Ineligible Kids Get Free Lunches," and Walker, "Federal Budget."

7. Walker, "Federal Budget."

8. Dara Corrigan, Acting Principal Deputy Inspector General, U.S. Department of Health and Human Services, testimony before the Committee on the Budget, U.S. House of Representatives, July 9, 2003, and Walker, "Federal Budget."

repeatedly. While the owners of most insured properties pay enough in premiums to keep the program solvent, nearly all of these repeatedly flooded properties actually receive substantial discounts on their policies due to the old age of the buildings. Consequently, taxpayers are required to pay subsidies to these 45,000 property owners who do not have to pay the full insurance cost of their risky properties. Better matching these properties' flood insurance premiums to the actuarial costs they impose would save taxpayers at least \$1 billion over the next decade.⁹

Housing (10-Year Savings: Undetermined). The Department of Housing and Urban Development's single-family housing program has been financially mismanaged. According to the GAO, program administrators have provided loans to ineligible families, made loans that exceeded the value of the properties themselves (which increases default risks), and allowed foreclosed properties to deteriorate. The GAO has recommended that the department adopt many private-sector practices to prevent these occurrences. While the savings from

such reforms have not yet been calculated, they would help the committee meet its target.¹⁰



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Other Examples of Wasteful Government Spending

- The federal government cannot account for **\$17.3 billion** spent in 2001 and **\$17.1 billion** spent in 2002.*
- The U.S. General Accounting Office (GAO) **refuses to certify** the federal government's own accounting books because the bookkeeping is so poor.
- Of the 26 departments and major agencies, 21 received the lowest possible rating for their financial management, meaning that **auditors cannot even express an opinion** on their financial statements.
- The Department of Housing and Urban Development's **\$3.3 billion** in overpayments in 2001 accounted for over 10 percent of the department's total budget.
- The Department of Agriculture recently was unable to account for **\$5 billion** in receipts and expenditures.
- The Internal Revenue Service **does not even know** how much it collects in payroll taxes.
- Congressional investigators were able to receive **\$55,000** in federal student loan funding for a fictional college they created to test the U.S. Department of Education.
- The Army Corps of Engineers has been accused of **illegally manipulating data** to justify expensive but unnecessary public works projects.
- The Inspector General's Office of the U.S. Postal Service has spent **\$3.6 million** on "team-building" exercises, such as retreats to Gettysburg, sing-alongs, racetrack outings, and treasure hunts.
- The Justice Department has lost **400 laptop computers and 775 weapons** as a result of poor inventory controls.
- Over one recent 18-month period, Air Force and Navy personnel used government-funded credit cards to charge at least **\$102,400** for admission to entertainment events, **\$48,250** for gambling, **\$69,300** for cruises, and **\$73,950** for exotic dance clubs and prostitutes.

*The federal government calls this spending "unreconciled transactions." See U.S. Department of the Treasury, *2002 Financial Report of the United States Government*, p. 117, at www.fms.treas.gov/fr.

Sources: Most examples are from Brian M. Riedl, "Ten Guidelines for Reducing Wasteful Government Spending," Heritage Foundation *Background* No. 1622, February 12, 2003, at www.heritage.org/Research/Budget/BG1622.cfm. The remaining examples were provided by Citizens Against Government Waste and by congressional staff.

9. Walker, "Federal Budget," and Congressional Budget Office, *Budget Options*, March 2003, pp. 110–111.

10. Walker, "Federal Budget."

Transportation and Infrastructure Committee

Major mandatory expenditures: Highways, railroad retirement, and some air/water transportation programs.¹¹

Targeted outlay savings: \$143 million in 2004, \$763 million for 2004–2008, \$1,578 million for 2004–2013.

Highways (10-Year Savings: \$10 Billion to \$20 Billion).¹² In 2001, the Federal Highway Administration (FHWA) identified \$238 million in idle highway funds no longer associated with any projects. Those funds could be diverted to more productive use.

The government loses more than \$1 billion per year in fuel tax fraud from bootleggers who buy fuel in low gas tax states, cross the border into high gas tax states, and then resell the fuel at the higher price, profiting from the gas-tax differential. Allowing the IRS to share tax information with state and federal agencies that investigate these crimes would help recover these losses.

New highway project proposals are typically accompanied by unrealistically low cost estimates that can be off by hundreds of millions of dollars. The FHWA is working to establish the same minimum cost estimating standards for projects under \$1 billion that larger projects already use.

Taxpayers could save billions of dollars through improved project cost estimating, diligent searches for less costly alternatives to proposed projects, and policies limiting federal responsibility for project cost overruns. States would work more diligently to detect fraud in the highway program if they were allowed to retain a percentage of the cost recoveries rather than having to send it all to Washington.

These reforms could save a total of \$10 billion to \$20 billion over the next decade.¹³

Railroad Retirement (10-Year Savings: \$500 Million). Railroad workers and their families currently receive retirement, survivor, unemployment, and Medicare Part B benefits from the railroad retirement program. Although the Railroad Retirement Board (RRB) successfully recovers most overpayments referred to it, the board is denied the authority to investigate the Medicare benefits paid to railroad beneficiaries.

The Inspector General of the RRB estimates that \$49 million of this \$787 million in Medicare payments could be classified as fraudulent and recovered by the board. The House Transportation and Infrastructure Committee has recommended providing the RRB with the oversight powers to recover those funds, which could save nearly \$500 million over the decade.¹⁴

Veterans' Affairs Committee

Major mandatory expenditures: Compensation, education, and insurance for veterans.

Targeted outlay savings: \$340 million in 2004, \$1,825 million for 2004–2008, \$3,850 million for 2004–2013.

Veterans' Benefits (10-Year Savings: at Least \$3.85 Billion). Despite recent progress, veterans' programs are still prone to waste, fraud, and abuse. The Inspector General of the Department of Veterans' Affairs (DVA) estimates that program overpayments exceed \$800 million per year, mostly because of fraudulent benefit claims. While the DVA is working to reduce these overpayments, significant opportunities remain.

In addition, the DVA has not been sufficiently diligent in collecting the \$3 billion in debt owed to the

11. For much of highway and air transportation spending, the budget authority is classified as mandatory, and the resulting outlays are classified as discretionary.

12. Because a significant portion of highway spending is classified as mandatory budget authority and discretionary outlays, not all highway savings could be applied toward the \$1.6 billion, 10-year outlay target.

13. Office of the Inspector General, U.S. Department of Transportation, "Opportunities to Reduce Costs and Improve the Effectiveness of Department of Transportation Programs," supplement to testimony before the Committee on the Budget, U.S. House of Representatives, July 8, 2003, at www.house.gov/budget/hearings/meadsupp071703.htm.

14. Committee on Transportation and Infrastructure, U.S. House of Representatives, *Waste, Fraud and Abuse Report*, approved July 23, 2003, at www.house.gov/transportation.

department by loan program recipients. The DVA's Inspector General has provided Congress with several recommendations for addressing these problems. When combined, they should have little difficulty reaching the committee's 10-year target of \$3,850 million.¹⁵

Ways and Means Committee

Major mandatory expenditures: Medicare, debt interest, unemployment benefits, earned income tax credit, child tax credit, Temporary Assistance for Needy Families, Supplemental Security Income, and other social welfare programs.¹⁶

Targeted outlay savings: \$5,517 million in 2004, \$30,467 million for 2004–2008, \$71,428 million for 2004–2013.

Medicare (10-Year Savings: up to \$150 Billion). According to the GAO, the Medicare program “contracts with 38 health insurance companies to process about 900 million claims submitted each year by over 1 million hospitals, physicians and other health care providers.”¹⁷ This level of complexity provides an environment ripe for waste, fraud, and abuse. The HHS Inspector General found \$12.3 billion in improper payments in fiscal year 2002 alone. Program administrators can reduce overpayments by helping contractors to oversee their billing better and by holding the contractors responsible for their errors.

2003 Federal Spending: Just How Much Is \$2.2 Trillion?

- More than the annual gross domestic product of South America;
- More than the federal government spent in its first 178 years *combined*, from 1789 to 1966;
- Enough to require that most people work until March 21 each year just to pay their federal taxes;
- More per second (\$70,000) than most households earn over an entire year;
- \$7,711 per American;
- \$20,920 per household;
- \$730,529,083 per county;
- \$43,588,235,294 per state; and
- In \$1 bills, enough to stack halfway to the moon, weigh 10 times as much as the Sears Tower, and blanket the entire state of New Jersey.

Source: Author's calculations based on \$2.2 trillion figure.

Medicare also overpays for prescription drugs. In 2000, Medicare paid \$887 million more than wholesale prices, and \$1.9 billion more than other federal departments, for 24 leading prescription drugs. These overpayments resulted from billing errors, fraud, and health industry inflation of the reported “wholesale price” that determines Medicare payment formulas. Similarly, Medicare overpays for medical supplies and equipment by as much as \$958 million per year.

In addition to costing taxpayers, these overpayments hurt the Medicare participants who are required to make co-payments.¹⁸ Examples of excess Medicare payments include paying:¹⁹

- 19 percent more than the providers' cost for skilled nursing facility care,

15. Richard J. Griffin, Inspector General, U.S. Department of Veterans Affairs, testimony before the Committee on the Budget, U.S. House of Representatives, July 9, 2003.

16. Social Security, a major mandatory program under the jurisdiction of the Ways and Means Committee, is exempt from having its waste, fraud, and abuse count toward the committee's targets.

17. Walker, “Federal Budget.”

18. Corrigan, testimony before Committee on the Budget, and Walker, “Federal Budget.”

19. Walker, “Federal Budget,” and some additional information provided by the offices of Representatives Mario Diaz-Balart (R-FL), Tom Feeney (R-FL), and Jeb Hensarling (R-TX).

- 35 percent more than the providers' cost for home health care,
- 130 percent more for a hospital bed than other federal agencies,
- 338 percent more than the widely available price for some prescription drugs,
- 347 percent more for a wheelchair than other federal agencies, and
- 750 percent more for saline solution than other federal agencies.

Medicare officials act slowly to recover monies owed to the program. By 2000, Medicare contractors had failed to collect or write off \$7 billion in outstanding debt. More can be done to recover this money.²⁰

Reducing waste, fraud, and abuse could save Medicare \$15 billion per year, for a total of \$150 billion over the next decade—more than enough to meet the Ways and Means Committee's targets.

Earned Income Tax Credit (10-Year Savings: \$80 Billion to \$90 Billion). The earned income tax credit (EITC) provides \$31 billion in refundable tax credits to 19 million low-income families. The IRS estimates that \$8.5 billion to \$9.9 billion of that amount—nearly one-third—is wasted in overpayments.

The complexity of the EITC law leads to many of these mistakes. Calculating the credits is more com-

plex than calculating regular income taxes, and while the credit amount depends on the number of children in a household, the tax code does not clearly define a qualifying child. In addition, fraud and income underreporting are common, and the IRS lacks the resources to verify the qualifications of all EITC claimants. Efforts are being made to address this problem, but Congress can do more by requiring better verification of incomes and creating a uniform definition of a qualifying child.²¹

Conclusion

The seven committees discussed above are responsible for 84 percent of Congress's total 10-year, \$132 billion waste reduction target, and the recommendations outlined in this study could save taxpayers as much as \$300 billion. The remaining seven committees, most of which have only a few mandatory programs and modest savings targets, should also have little difficulty meeting their spending targets. Congress should seize this opportunity to save taxpayers hundreds of billions of dollars while also making government more effective and efficient.

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20. Walker, "Federal Budget."

21. *Ibid.*