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The Never-Ending War on Waste

Introduction

Since the early decades of the Republic, Congress has implemented laws to address waste, fraud, and abuse of taxpayer dollars. But as the government has expanded dramatically over the intervening years, much work remains to be done to win the war on waste once and for all. A recent Government Accountability Office (GAO) report highlights the progress made to bolster financial accountability systems across executive agencies.

Politicians and candidates often cite savings from cutting waste, fraud, and abuse as a way to pay for spending increases. While it may be easy to pay lip service to cutting waste, the long history in combating it shows that it is easier said than done. Ultimate responsibility for solving the problem falls on Members of Congress to take concrete action and rein in problematic spending.

A History of the War on Waste, Fraud, and Abuse

> *"... a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."* Article 1 Section 9 *of the Constitution.*

Key Facts:

The federal government has been waging a war on waste, fraud, and abuse of taxpayer dollars since the early years of the Republic.

Progress has been made over the years to institute financial controls and improve budget transparency, but as the government continues to expand, serious problems remain with improper payments and wasteful, duplicative programs.

Even if all waste, fraud, and abuse were instantly eliminated, this would only make a small dent in the projected trillion-dollar-plus annual deficits. To rein in the federal debt, lawmakers will have to turn their sights to entitlement reform.

The Constitution gives Congress the power of the purse and mandates regular reporting on expenditures and receipts. In 1791, Congress established the procedures for fulfilling this mandate, requiring the Secretary of the Treasury to provide annual accounting to the House of Representatives of expenditures and receipts. A century later, these reporting requirements were expanded to provide estimates of current and future inflows and outflows.

One of the earliest fiscal control issues faced by the federal government resulted from executive agencies spending down all of the funding provided by Congress and then purchasing additional items on credit, forcing Congress to pay the bills after the fact. Passage of the Antideficiency Act after the Civil War cracked down on this abusive practice by establishing civil and/or criminal penalties for officials who violate the law.

After a surge in spending for the First World War, the government's finances were a mess. To address this, passage of the Budget and Accounting Act of 1921 put in place the framework for the modern federal budget process. It established the Bureau of the Budget – now known as the Office of Management and Budget (OMB) – to develop and oversee annual budgets. It also created the General Accounting Office – now known as the Government Accountability Office – to investigate how money was spent.

The next most significant financial control legislation was enacted in the Budget and Accounting Procedures Act of 1950. This instituted standard, government-wide accounting principles and required agencies to maintain financial controls to improve transparency and program management.

But the government continued to expand, as attested to by President Ronald Reagan in his first State of the Union Address: "In 1960, the federal government had 132 categorical grant programs, costing $7 billion. When I took office, there were approximately 500, costing nearly $100 billion … ." To identify waste and inefficiency in the government, Reagan issued a 1982 Executive Order establishing the Private Sector Survey on Cost Control, also known as the Grace Commission. Two years later the Commission's report estimated that one-third of all income taxes at the time were consumed by waste across the government and recommended $424 billion in savings over three years.

Additional reports by GAO helped to shed light on waste and redundancy in federal spending, laying the groundwork for the Chief Financial Officers Act of 1990 to improve financial management by creating standards of fiscal responsibility and transparency. Under the Act, Congress created the position of chief financial officer (CFO) within each executive agency to chart and maintain financial control. It also required OMB to produce a five-year plan for financial management of the executive agencies.

CFOs have been critical in advancing strenuous oversight and fiscal responsibility in executive agencies. This year's October GAO report marks a number of improvements in financial management across the executive agencies, with only seven out of 24 agencies receiving clean financial audits in 1997. In 2018 there were 14 out of 24 agencies with a clean audit. Agency compliance with financial accounting standards that were revised and updated in the Federal Financial Management Improvement Act of 1996 (FFMIA) has been on the rise as well. Only four agencies met the accounting standards of the FFMIA in 1997. In 2018, 16 of 24 agencies met the FFMIA standards, as CFOs have overseen financial reform. Despite these advances, challenges remain: high rate of CFO turnover, the lack of a clear financial plan, and diffusion of financial decision-making responsibilities across agencies.[1]

The War on Waste Continues

While there has been some progress in addressing systematic abuse, fraud and waste persist as a significant problem across the government. For example, GAO has identified improper payments – payments that

[1] For additional, independent audit information see the GAO Independent Audit Report from FY 2018.

should not have been made or that were made in an incorrect amount – as a Tier 1 priority for executive agencies to combat. Agencies are required to report such payments under the Improper Payments Information Act of 2002, and the Congressional Research Service has identified four subsequent laws strengthening the reporting requirements and financial controls of improper payments. Despite these efforts, estimates have identified $1.5 trillion in improper payments since 2003, including $141 billion in FY 2017 and $151 billion in FY 2018. Medicare has been particularly susceptible to improper payments, putting the program on GAO's list of "High Risk" government programs every year since 1990.

As a testament to the size and complexity of the government, the number of government employees has increased by roughly 20%, from 18.1 million in 1990 to 22.6 million in 2019.[2] With an additional 4 million employees to account for, oversight grows increasingly difficult for agency finance watchdogs. As agencies grow, the financial responsibilities of CFOs expand, and an update to CFO responsibilities is sorely needed.

NTU Policy and Government Affairs Associate Andrew Lautz points out that executive agencies have been unable to produce a comprehensive inventory of all the programs that taxpayers are paying for. Nevertheless, data tracked by Chris Edwards of the Cato Institute helps to illustrate the government's expansion. He regularly tallies the number of grants-in-aid programs to provide assistance to state and local governments. Among the largest of these programs include Medicaid, highway funding, and education, but there are many others. In 2018 there were 1,386 grants-in-aid programs, three times as many as in 1990 when there were 463. This amounts to the creation of 33 new programs every year over the past nearly three decades.

With this expansion comes duplication of effort. Thanks to former Senator Tom Coburn (R-OK), GAO produces an annual report identifying fragmented and duplicative activities across agencies. The 2019 report includes 98 new actions that Congress or the executive branch could take to improve efficiencies that would save billions of dollars.

There are also perverse incentives that end up encouraging agencies to spend all of their allocated funding before it gets returned to the Treasury. Earlier this year, NTUF detailed the executive agencies' "use it or lose it" spending sprees at the very end of the fiscal year to the tune of billions of dollars. Moreover, if an agency spends less than its allotted amount in a given fiscal year, Congress is less likely to authorize and appropriate an increase in funding to that agency in subsequent years.

Increased Oversight of Defense Financial Management Sorely Needed

Financial control issues at the Department of Defense (DoD) have been on GAO's High Risk List since 1995 and remain a major concern. Previous federal law, including the CFO Act, required DoD to undergo a complete audit but this was not possible until 2018, and as the DoD's Inspector General described it, producing "one of the largest financial audit statements in history" was a "massive and expensive undertaking." As expected, the audit identified serious deficiencies in financial management and reporting.

The Pentagon underwent its second audit this year. A similarly herculean effort costing nearly $1 billion in fees and remediation costs. On the positive side, audit data published this month noted seven clean audit areas out of 24. The audit reported progress in automated solutions for data entry, saving the Army 15,500 labor hours, and closing inactive Air Force user accounts. The Defense Logistics Agency found $200 million worth of inventory that was returned to the system; however, those savings won't be applied to 2021 budget plans. Also, nearly 550 of the problems identified in the last audit were corrected. On the other hand, upwards of 1,300 new problems were found.

[2] This workforce number is adjusted for seasonal workers and does not include military employees.

Additional Reforms Are Needed to Tighten Financial Controls & Cut Waste

Congress has both the power and the duty to address waste and fraud to reduce federal deficits. The federal deficit was $984 billion in FY 2019, bringing the total level of publicly-held debt to $16.8 trillion. According to CBO, spending and revenues are on track to increase federal debt from 78 percent of GDP in 2019 to 144 percent by 2049. And even worse, it is likely that these projections underestimate the severity of the fiscal risks.

In testimony before a Senate Budget Committee hearing reviewing the CFO Act, Comptroller General Gene Dodaro noted that the size and scope of government agencies continue to expand and the responsibilities of CFOs have not kept pace despite best efforts, and recommended reforms:

- Update and expand the responsibilities of CFOs to match the expanded size of government over the last 30 years.

- Ensure continuity in operations when CFO vacancies occur, with clear responsibilities for deputy CFOs.

- Creation/re-introduction of government-wide and agency-wide financial management plans on an annual or semi-annual basis.

- New performance metrics for assessing the progress made by financial management reforms.

- General improvements to quality and precision of financial reporting throughout executive agencies, creation of annual reports on the effectiveness of financial reporting.

In conjunction with improvements and updates to the roles of CFOs, GAO recommends more strenuous and exacting oversight of the government's Information Technology (IT) investment. Fifteen out of 24 agencies questioned by GAO responded that the experience of working with old or obsolete financial management systems is "extremely, very, or somewhat challenging". Almost all respondents (22 out of 24) currently use or plan to use shared software to increase productivity and efficiency of financial management, but without careful attention to IT investment, taxpayer dollars may be wasted.

As noted by the Comptroller General, the size and scope of government agencies continue to expand and the responsibilities of CFO's have not kept pace, despite best efforts.

GAO has also recommended that the executive branch produce a five-year financial management plan in compliance with the CFO Act, the last report was submitted in 2009. GAO summarized the requirements:

> The plan, which is to be updated annually, is to describe planned OMB and agency activities for the next 5 fiscal years to improve the financial management of the federal government. It should be a vision of how financial management reform will be carried out—a blueprint for change with a set of clear expectations. Further, the [CFO Act] requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year financial management plan.

However, the Trump administration argues that its President's Management Agenda (PMA) meets the criteria of this requirement. The PMA lays out the administration's "long-term vision for modernizing the federal government in key areas that will improve the ability of agencies to deliver mission outcomes, provide excellent service, and effectively steward taxpayer dollars." Building on the Obama administration's e-government initiative, the PMA lays out Cross-Agency Priority goals to leverage IT and use of shared services to improve government operations and reduce overhead costs. Online dashboards of various metrics are updated quarterly.

The PMA and its results could be repackaged and submitted to Congress per GAO's recommendation, thus adding to the multiple sources of information that are available to Members. This includes reports like those mentioned above from the GAO, agency and department IG evaluations, and agency budget justifications. In fact, there are thousands of congressionally-mandated reports that are "maintained by the Clerk of the House in a comprehensive list that runs over 320 pages, instead of in an easily searchable system."

There are steps that Congress could take to further improve such transparency and make it easier for lawmakers and the public to find the currently published information. For example, the Congressional Budget Justification Transparency Act of 2019 would consolidate agencies budgetary requests (which often include information on program performance) into a single online hub, and the Taxpayers Right-to-Know Act to help OMB finally develop a comprehensive inventory of government programs.

The longevity of the war on waste indicates that additional corrective actions are required from lawmakers:

- **Reform the budget process.** Lawmakers should get rid of budgetary gimmicks and phony offsets like "Changes in Mandatory Spending" that are used to pad federal spending. They should also change budget laws to require CBO to produce a baseline based on the likely course of policy rather than the letter of the law. Eliminating the Overseas Contingency Operations slush fund would help restore some accountability to defense spending. These reforms will produce a more accurate projection of the course of outlays and revenues and help Congress to set fiscal targets and make the necessary decisions to prevent annual deficits.

- **Reform or eliminate duplicative and poorly performing programs.** Congress must engage its oversight power to ensure taxpayer dollars are well spent and follow through on recommendations to cut or reform federal programs. For example, since President George W. Bush's tenure, the annual budget submitted to Congress has included a document recommending reforms and terminations to federal programs. Many of the same programs have been recommended for reform by both the Bush and Obama administrations, yet continue to receive appropriations. In addition, the Congressional Budget Office (CBO) produces a Budget Options report, detailing billions of dollars in potential savings from reforming or eliminating programs across the government.

- **Implement the remaining GAO recommendations regarding overlapping and inefficient programs.** GAO says that corrective actions implemented by Congress and the executive branch made pursuant to its annual reports identifying waste and duplication have cumulatively saved taxpayers $260 billion. In addition to the 98 new recommendations noted above, GAO also notes fully implementing the remaining previous recommendations would save tens of billions.

Winning the War on Waste Would Still Only Make a Small Dent in the Deficit

If the federal government were to instantly and miraculously eliminate all improper payments and achieve all reforms and efficiencies recommended by GAO, the savings could add up to $300 billion. Unfortunately, this would only cover less than a third of the latest federal deficit. The government closed FY 2019 with a deficit of $984 billion, vaulting the previous year's level by $205 billion. Starting this year, annual deficits will exceed $1 trillion for the foreseeable future, putting the federal debt load (currently at just under $17 trillion) on track to overtake the size of the entire U.S. economy (currently at $21.5 trillion).

It is important for Congress to work with the executive branch to root out waste and abuse across the government, but the biggest threat on the fiscal horizon comes from the rising costs of entitlement programs. Along with debt interest payments, Social Security and Medicare are the source of two-thirds of the annual growth in outlays over the next decade, according to CBO. Starting this fiscal year, the cost of Social Security's benefit payments will exceed its tax revenues. The program is expected to fall into insolvency in fifteen years and its long-term unfunded liability now stands at $43 trillion. Medicare is in similar dire straits, facing unfunded liabilities of $37 trillion and insolvency as soon as 2026.

Conclusion

The 1990 CFO Act and a series of subsequently enacted reforms provided a meaningful step in the right direction for government oversight and financial responsibility. However, after 30 years of continued government expansion and program bloat, the war on waste continues to drag on. As GAO points out, the role of CFOs need an update in order to continue providing valuable financial management information across the executive agencies. But most importantly, Congress needs to exercise its power of the purse prudently and crack down on improper payments and poor performing programs that waste taxpayer dollars. Eliminating waste is an important step, but to turn the rising tide of yearly deficit spending, lawmakers will need to set their sights on entitlement reform.

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