No. 105
May 31, 1996

HOW GOVERNMENT WASTES YOUR MONEY: REPORT NO. 1

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Defenders of big government would have us believe that Congress and the President have shown tremendous fiscal restraint in recent years and that this Congress's efforts to reduce spending further can be achieved only by cutting muscle and bone. But waste, fraud, and abuse still abound in many government programs. Consider the following recently revealed examples:

Doing Well by Doing Good.

The Baltimore Public Housing Authority's operations are funded largely by the U.S. Department of Housing and Urban Development (HUD)—$52 million in operating subsidies for FY 1994—and the PHA has a waiting list of 25,000 poor families in line for housing assistance. Yet the Baltimore authority was found to have improperly used the public's money by buying eight new Chevy Blazers as take-home cars for its top managers, hiring a high-bid security firm that employed 29 convicted felons, and spending more than $25 million of building repair funds on no-bid contracts to contractors, including some who were friends and relatives of Authority employees. HUD asked that $725,000 be returned because of inflated costs or work never completed.[1] Despite this record of mismanagement, HUD just awarded the same housing authority $115 million to construct 338 new apartment units for the poor as part of a court-imposed desegregation settlement.

Who's in Charge: Kevin E. Marchman, HUD's Assistant Secretary-Designate for Public and Indian Housing, (202) 708-0950.

1 See Audit Report, Office of the Inspector General, U.S. Department of Housing and Urban Development, No. 94-PH-201-1016, September 23, 1994.

They All Threatened to Leave.

According to the U.S. General Accounting Office and the U.S. Office of Personnel Management, 95 percent of the bonuses recently granted by the managers of the U.S. Export-Import Bank to their employees were "improper and excessive" and cost the taxpayer as much as $1 million in overpayments.[2] According to the GAO, 1995 bonuses were granted to 200 of the Bank's 448 employees, but only 10 of the 200 employees were actually eligible to receive the money. Ex-Im's bonus abuse was uncovered a year earlier when a GAO audit revealed that just five government agencies accounted for 94 percent of these special retention bonuses. Although the Ex-Im Bank had the smallest work force of the five agencies reviewed, it accounted for 25 percent of all bonuses government-wide, and the GAO auditors noted that many of these awards "did not appear to comply with the statutory requirement." Whereas the Department of Defense granted such bonuses to only 0.03 percent of its work force in 1994, 21 percent of Ex-Im employees received such bonuses that year, and nearly 45 percent received them in 1995.

Although the acting head of the Ex-IM Bank was stripped of his authority to grant bonuses by the Office of Personnel Management, his April 1996 recess appointment to the top Bank post by President Clinton was accompanied by the reinstatement of bonus-granting authority. And although Ex-Im Bank officials have argued that they are merely continuing Bush Administration practices, the GAO audit indicates that no such bonuses were granted by the Ex-Im Bank during those years.

Who's in Charge: Martin Kamarck, President and Chairman-Designate of the Export-Import Bank, (202) 565-3500.

Deadbeat Schools.

Students attending proprietary trade schools are eligible for federal student loans, and these loans have experienced excessively high default rates over the past several years, hitting a high of 41.2 percent in 1990. Included among the hundreds of proprietary schools that were selected for direct federal student loans are the California Medical School of Shiatsu, the Hypnosis Motivation Institute, the Trend Benders Academy, the Milpitas Electrolysis and Thermolysis College, and the Las Vegas Gaming and Technical School. Although improvements have been made in reducing the default rates at proprietary schools during both the Bush and Clinton Administrations, students from more than 200 of these schools have current default rates in excess of 40 percent, and these schools are still eligible for federal student loans.[3]

Who's in Charge: Deputy Assistant Secretary Elizabeth M. Hicks, Office of Student Financial Assistance Programs, U.S. Department of Education, (202) 260-6536.

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2 U.S. Office of Personnel Management,"Use of Retention Allowances and Recruitment Bonuses at the Export-Import Bank of the United States," Merit Systems Oversight Review, January 1986, and "Retention Allowances: Usage and Compliance Vary Among Federal Agencies," Government Accounting Office, GAO/GGO-96-32, December 1995.

3 U.S. Department of Education press release, "ED Crackdown on High Default Schools Shows Results; Trade School Rates Drop Sharply," March 22, 1996.

How Sweet It Is.

American consumers pay a heavy price to subsidize the sugar barons, of whom some of the richest are foreign citizens. The brothers Alfonso Jr. (Alfie) and Jose (Pepe) Fanjul, immigrants from Cuba but citizens of Spain, possess a fortune estimated at over $500 million. This fortune includes several Florida sugar mills, 170,000 acres of cane in south Florida, and another 240,000 acres of land in the Dominican Republic. But as "domestic" growers, they are entitled to the sugar import protection enforced by the U.S. Department of Agriculture, which adds about 8 cents a pound to what the American consumer pays for sugar and about $65 million to the annual income of the Fanjuls.[4] As if this were not enough government help, the Fanjuls' other business interests have benefited from federal, state, and local affirmative action programs that provide minority set-asides for qualified firms. For example, the Fanjuls' investment firm, FAIC Securities, enjoys the right to market the debt of Florida municipalities and such government-sponsored enterprises as the Federal National Mortgage Association and the Federal Home Loan Banks.

Who's in Charge: Daniel Glickman, Secretary of Agriculture, (202) 720-3631.

Putting on My Top Hat, Tying up My White Tie . . .

Years of financial mismanagement have left the District of Columbia's government bankrupt and D.C. officials coming to Congress for yet another taxpayer bailout of hundreds of millions of dollars. So serious is the shortfall that clinics for the poor have been closed, teachers furloughed, snow covered streets unplowed, and police cars left unrepaired. But despite the fiscal crisis, Lloyd Arrington, Jr., President of the city-funded Economic Development Finance Corporation (EDFC), was able to maintain most of his costly perks despite the poor performance of the EDFC. Created in 1986 to encourage business development in the District of Columbia, and provided with $6.75 million in funds to loan to promising businesses, the EDFC and its wholly owned subsidiary, the Neighborhood Economic Development Corporation, made only 17 loans through 1994, or less than two loans per year. Although nine were in default or charged off as of 1994, the audit[5] reported that EDFC's President Arrington received a bonus of $17,000 on top of his $70,000 salary, another $1,650 to pay for parking, and $600 in "improper expenditures" for rented formal wear, dinners, and entertainment. Nonetheless, the audit does indicate that progress toward fiscal restraint is being made: The EFDC's annual spending on flowers, which had hit a high of more than $2,000 per year in 1989 and 1990, had been phased out to zero by 1993.

Who's in Charge: City Council of the District of Columbia, (202) 724-8176.

Coming up in Report No. 2: HUD's $300,000 junket to Puerto Rican Casinos; the Altoona, Pennsylvania, Bus Testing Program; and *flying blind*: electrical blackouts in the Federal Aviation Administration's air traffic control system.

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4 Phyllis Berman and Alexandra Alger with Toddi Gutner Block, "The Set-Aside Charade," *Forbes*, March 13, 1995, pp. 78-86.

5 Reports of the District of Columbia Auditor, "Program Review of the Economic Development Finance Corporation for Fiscal Years 1989 Through 1993," October 5, 1994, and "Program Review of the Economic Development Finance Corporation for Fiscal Year 1994," March 1, 1996.