

Backgrounder

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The Top 10 Examples of Government Waste

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President George W. Bush has proposed terminating or strongly reducing the budgets of over 150 inefficient or ineffective programs. This is a step in the right direction to pare back the runaway spending that has pushed the budget deficit over \$400 billion. In less than three years, the first baby boomers will begin to collect Social Security: Lawmakers must therefore begin to reduce spending *now* to make room for the massive Social Security and Medicare costs that will follow.

The first place to trim runaway federal spending is in waste, fraud, and abuse. Congress, however, has largely abandoned its constitutional duty of overseeing the executive branch and has steadfastly refused to address the waste littered across government programs. In 2003, an attempt by House Budget Committee Chairman Jim Nussle (R-IA) to address wasteful spending was rejected by the House of Representatives, and similar calls in 2004 by then-Senate Budget Committee Chairman Don Nickles (R-OK) were rejected by the Senate. A small group of House lawmakers has formed the Washington Waste Watchers, but their agenda has not been embraced by the whole House.

Lack of information is not the problem. Today, government waste investigations and recommendations can be found in hundreds of reports, such as:

- Studies published by the U.S. Government Accountability Office (GAO),¹
- The Congressional Budget Office's *Budget Options* book,

Talking Points

- Any effort to rein in the \$400 billion budget deficit or the \$20,000 per household in federal spending should begin with addressing waste, fraud, and abuse. Such reforms save taxpayer dollars and make government more effective and efficient.
- Not since the 1984 Grace Commission has Congress strongly attacked waste, fraud, and abuse. Twenty years of additional waste has since built up across government, partly because some of the most wasteful programs are also the most popular, and lawmakers fear being portrayed as "attacking" popular programs.
- Examples of waste include "missing" funds, government employee credit card embezzlement, student loans for fictitious students attending fictitious colleges, fraudulent government research, uncollected airplane ticket refunds, and massive program duplication—all totaling as much as \$100 billion annually.

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- Inspector general reports of each agency,
- Government Performance and Results Act reports of each agency,
- The White House's Program Assessment Rating Tool (PART) program reviews, and
- The Senate Governmental Affairs Committee's 2001 *Government at the Brink* reports.

For those seeking past recommendations that went unheeded, the 1984 Grace Commission report on government waste and the 1993–1995 publications of Vice President Al Gore's National Performance Review can still be found.

With all of this available information and in an era of tight budgets, why are lawmakers so resistant to reducing waste? One reason is that they see it as a thankless job that would go unnoticed back home. With Congress in session just 80 days annually, reducing waste would take precious time away from most lawmakers' higher priorities of increasing spending on popular programs and bringing pork-barrel projects home.

A second reason is that some of the most wasteful programs are also the most popular (e.g., Medicare), and lawmakers fear that opponents would portray them as "attacking" popular programs. Consequently, waste and inefficiencies continue to build up, costing taxpayers more while providing beneficiaries with less.

A real war on government waste could easily save over \$100 billion annually without harming the legitimate operations and benefits of government programs. As a first step, lawmakers should address the 10 following examples of egregious waste.

1. The Missing \$25 Billion

Buried in the Department of the Treasury's 2003 *Financial Report of the United States Government* is a short section titled "Unreconciled Transactions Affecting the Change in Net Position," which

explains that these unreconciled transactions totaled \$24.5 billion in 2003.²

The unreconciled transactions are funds for which auditors cannot account: The government knows that \$25 billion was spent by someone, somewhere, on something, but auditors do not know *who* spent it, *where* it was spent, or on *what* it was spent. Blaming these unreconciled transactions on the failure of federal agencies to report their expenditures adequately, the Treasury report concludes that locating the money is "a priority."

The unreconciled \$25 billion could have funded the entire Department of Justice for an entire year.

2. Unused Flight Tickets Totaling \$100 Million

A recent audit revealed that between 1997 and 2003, the Defense Department purchased and then left unused approximately 270,000 commercial airline tickets at a total cost of \$100 million. Even worse, the Pentagon never bothered to get a refund for these *fully refundable* tickets. The GAO blamed a system that relied on department personnel to notify the travel office when purchased tickets went unused.³

Auditors also found 27,000 transactions between 2001 and 2002 in which the Pentagon paid twice for the same ticket. The department would purchase the ticket directly and then inexplicably reimburse the employee for the cost of the ticket. (In one case, an employee who allegedly made seven false claims for airline tickets professed not to have noticed that \$9,700 was deposited into his/her account). These additional transactions cost taxpayers \$8 million.

This \$108 million could have purchased seven Blackhawk helicopters, 17 M1 Abrams tanks, or a large supply of additional body armor for U.S. troops in Afghanistan and Iraq.

1. Formerly known as the U.S. General Accounting Office.

2. See U.S. Department of the Treasury, *2003 Financial Report of the United States Government*, pp. 126, at fms.treas.gov/fr/03frusg.html (March 28, 2005). Unreconciled transactions totaled \$3.4 billion in 2004.

3. U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars in Unused Airline Tickets*, GAO-03-398, March 2004, at www.gao.gov/new.items/d04398.pdf.

3. Embezzled Funds at the Department of Agriculture

Federal employee credit card programs were designed to save money. Rather than weaving through a lengthy procurement process to acquire basic supplies, federal employees could purchase job-related products with credit cards that would be paid by their agency. What began as a smart way to streamline government has since been corrupted by some federal employees who have abused the public trust.

A recent audit revealed that employees of the Department of Agriculture (USDA) diverted millions of dollars to personal purchases through their government-issued credit cards. Sampling 300 employees' purchases over six months, investigators estimated that 15 percent abused their government credit cards at a cost of \$5.8 million. Taxpayer-funded purchases included Ozzy Osbourne concert tickets, tattoos, lingerie, bartender school tuition, car payments, and cash advances.

The USDA has pledged a thorough investigation, but it will have a huge task: 55,000 USDA credit cards are in circulation, including 1,549 that are still held by people who no longer work at the USDA.⁴

4. Credit Card Abuse at the Department of Defense

The Defense Department has uncovered its own credit card scandal. 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.⁵

5. Medicare Overspending

Medicare wastes more money than any other federal program, yet its strong public support leaves lawmakers hesitant to address program efficiencies, which cost taxpayers and Medicare recipients billions of dollars annually.

For example, Medicare pays as much as eight times what other federal agencies pay for the same drugs and medical supplies.⁶ The Department of Health and Human Services (HHS) recently compared the prices paid by Medicare and the Department of Veterans Affairs (VA) health care program for 16 types of medical equipment and supplies, which account for one-quarter of Medicare's equipment and supplies purchases. The evidence showed that Medicare paid an average of more than double what the VA paid for the same items. The largest difference was for saline solution, with Medicare paying \$8.26 per liter compared to the \$1.02 paid by the VA.⁷ (See Table 1.)

These higher prices not only cost the program more money, but also take more money out of the pockets of Medicare beneficiaries. In 2002, senior citizens' co-payments accounted for 20 percent of the \$9.4 billion in allowed claims for medical equipment and supplies.⁸ Higher prices mean higher co-payments.

Medicare also overpays for drugs. In 2000, Medicare's payments for 24 leading drugs were \$1.9 billion higher than they would have been

4. U.S. Department of Agriculture, Office of Inspector General, Headquarters Audit Report, "Adequacy of Internal Controls over the Individually Billed Travel Card Program," Report No. 50601-05-HQ, June 19, 2003, at www.usda.gov/oig/webdocs/50601-05-HQ.pdf (March 28, 2005).
5. U.S. General Accounting Office, *Travel Cards: Air Force Management Focus Has Reduced Delinquencies, But Improvements in Controls Are Needed*, GAO-03-298, December 20, 2002, p. 4, and "Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse," testimony before Committee on Government Reform, U.S. House of Representatives, GAO-03-148T, October 8, 2002, p. 8.
6. Janet Rehnquist, Inspector General, U.S. Department of Health and Human Services, testimony before the Subcommittee on Labor, Health and Human Services, and Education, Committee on Appropriations, U.S. Senate, June 12, 2002, at oig.hhs.gov/testimony/docs/2002/020611fin.pdf (March 28, 2005).
7. *Ibid.*
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.

Table 1 B 1840

Medicare Pays Inflated Prices for Equipment and Supplies

Item	2002 Price Paid by:		Medicare Markup
	Medicare	Veterans Affairs	
Saline solution (1,000 ml)	\$8.68	\$1.02	751%
Nebulizer, with compressor	\$206.22	\$32.34	538%
Standard wheelchair	\$570.68	\$127.72	347%
Enternal feeding supply kit, pump fed (per day)	\$10.67	\$2.40	345%
Pressure pad, alternating with pump (heavy duty)	\$251.58	\$71.00	254%
Commode chair	\$109.74	\$32.30	240%
IV pole	\$142.45	\$50.25	183%
Pressure pad, alternating with pump	\$227.01	\$94.20	141%
Semi-electric hospital bed	\$1,754.55	\$762.10	130%
Transcutaneous and/or neuromuscular electrical nerve stimulators	\$365.76	\$165.00	122%
Walker	\$83.43	\$39.36	112%
Blood glucose test, or reagent strips for home glucose monitor (per 50 strips)	\$38.32	\$19.50	97%
Motorized/power wheelchair	\$5,270.30	\$2,767.64	90%
Powered pressure-reducing air mattress	\$7,933.91	\$5,297.50	50%
Lancets (per box of 100)	\$12.68	\$8.69	46%
Average	\$1,132.40	\$631.40	230%

Note: These 15 items represent one-quarter of Medicare's spending for equipment and supplies in 2000. A 16th item is excluded because its Veterans Affairs price was not available.

Source: Janet Rehnquist, Inspector General, U.S. Department Health and Human Services, testimony before the Subcommittee on Labor, Health and Human Services, and Education, Committee on Appropriations, U.S. Senate, June 12, 2002, at www.oig.hhs.gov/testimony/docs/12002/020611fin.pdf (March 28, 2005).

under the prices paid by the VA or other federal agencies. Although Medicare is supposed to pay wholesale prices for drugs, it relies on drug manufacturers to define the prices, and manufacturers have strong incentives to inflate their prices.⁹

Nor are inflated prices for drugs and supplies the most expensive examples of Medicare's inefficiencies. Basic payment errors—the results of deliberate fraud and administrative errors—cost \$12.3 billion annually. As much as \$7 billion owed to the program has gone uncollected or has been written off.¹⁰ Finally, while Medicare contracts claims processing and administration to several private companies, 19 cases of contractor fraud have been

settled in recent years, with a maximum settlement of \$76 million.¹¹

Putting it all together, Medicare reform could save taxpayers and program beneficiaries \$20 billion to \$30 billion annually without reducing benefits. That would be enough to fund a \$3,000 refundable health care tax credit for nearly 10 million uninsured low-income households.

6. Funding Fictitious Colleges and Students

In 2002, the Department of Education received an application to certify the student loan participation of the YHica Institute in London, England.

9. *Ibid.*

10. 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.

11. Corrigan, testimony before House Committee on the Budget.

After approving the certification, the department received and approved student loan applications from three YHica students and disbursed \$55,000.

The Education Department administrators overlooked one problem: Neither the YHica Institute nor the three students who received the \$55,000 existed. The fictitious college and students were created (on paper) by congressional investigators to test the Department of Education's verification procedures. All of the documents were faked, right down to naming one of the fictional loan student applicants "Susan M. Collins," after the Senator requesting the investigation.¹²

Such carelessness helps to explain why federal student loan programs routinely receive poor management reviews from government auditors. At last count, \$21.8 billion worth of student loans are in default, and too many cases of fraud are left undetected.¹³ Tracking students across federal programs, verifying loan application data with IRS income data, and implementing controls to prevent the disbursement of loans to fraudulent applicants could save taxpayers billions of dollars.

7. Manipulating Data to Encourage Spending

The Army Corps of Engineers spends \$5 billion annually constructing dams and other water projects. Yet, in a massive conflict of interest, it is also charged with evaluating the science and economics of each proposed water project. The Corps' "strategic vision" calls on managers to increase their budgets as rapidly as possible, which requires approving as many proposed projects as possible.¹⁴ Consequently, the Corps has repeatedly been accused of deliberately manipulating its economic

studies to justify unworthy projects.

Investigations by the GAO, *The Washington Post*, and several private organizations have found that Corps studies routinely contain dozens of basic arithmetic errors, computer errors, and ridiculous economic assumptions that artificially inflate the benefits of water projects by as much as 300 percent.¹⁵ In one case, a study's authors inflated a project's benefits by using a 2.5 percent interest rate that dated back to 1954. In many cases in which the Corps calculated that a project would be a net benefit, arithmetic corrections revealed that the costs would be many times greater than the benefits.¹⁶ By that point, of course, the unnecessary and wasteful project is often underway and cannot be stopped.

These errors appear to reflect more deception than sloppiness. A *Washington Post* investigation uncovered managers ordering analysts to "get creative," to "look for ways to get to yes as fast as possible," and "not to take no for an answer." After a public outcry, in 2002, the Corps suspended work on 150 projects to review the economics used to justify them.¹⁷ However, given the combination of Congress's thirst for pork-barrel projects and the Corps' built-in incentives to approve projects that will increase its budget, real reforms seem unlikely.

8. State Abuse of Medicaid Funding Formulas

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.

12. U.S. General Accounting Office, *Department of Education: Guaranteed Student Loan Program Vulnerabilities*, GAO-03-268R, November 21, 2002.

13. Walker, "Federal Budget: Opportunities for Oversight and Improved Use of Taxpayer Funds."

14. Michael Grunwald, "An Agency of Unchecked Clout," *The Washington Post*, September 11, 2000.

15. Michael Grunwald, "GAO Details Errors in Army Corps Project," *The Washington Post*, June 11, 2002.

16. Grunwald, "An Agency of Unchecked Clout," and Michael Grunwald, "A Race to the Bottom," *The Washington Post*, September 12, 2000.

17. Michael Grunwald, "50 Projects Halted for Army Corps Review," *The Washington Post*, May 1, 2002.

This system gives states an incentive to overreport 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 like those experienced by most states today have increased the pressure to use such deceptive tactics.

The GAO and the HHS Inspector General have also uncovered some states' practice of recovering improper payments, retaining the funds, and then spending them on unrelated programs—a practice that costs the federal government well over \$2 billion per year. Congress could enact legislation to prohibit these actions more effectively.

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, if Congress acts, even larger savings are available.¹⁸

9. Earned Income Tax Credit Overpayments

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 this 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 complex than calculating regular income taxes. While the credit amount depends on the number of children in a household, the tax code does not clearly define how a child qualifies for the credit. In addition, fraud and underreporting of income 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 bet-

ter verification of incomes and by clearly defining the standards by which a child qualifies for the EITC.¹⁹

10. Redundancy Piled on Redundancy

Government's layering of new programs on top of old ones inherently creates duplication. Having several agencies perform similar duties is wasteful and confuses program beneficiaries who must navigate each program's distinct rules and requirements.

Some overlap is inevitable because some agencies are defined by *whom* they serve (e.g., veterans, Native Americans, urbanites, and rural families), while others are defined by *what* they provide (e.g., housing, education, health care, and economic development). When these agencies' constituencies overlap, each relevant agency will often have its own program. With 342 separate economic development programs, the federal government needs to make consolidation a priority.

Consolidating duplicative programs will save money and improve government service. In addition to those programs that should be eliminated completely, Congress should consolidate the following sets of 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;

18. Corrigan, testimony before House Committee on the Budget, and Walker, "Federal Budget: Opportunities for Oversight and Improved Use of Taxpayer Funds."

19. Walker, "Federal Budget: Opportunities for Oversight and Improved Use of Taxpayer Funds."

- 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
- Four overlapping land management agencies.²⁰

Conclusion

Lawmakers have an opportunity to take a strong stand for efficient government and spending restraint. Reforming wasteful programs will build essential momentum for the larger reforms that are needed to bring the budget under control.

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20. Examples are drawn from Committee on Governmental Affairs, U.S. Senate, *Government at the Brink, Volume I: Urgent Federal Government Management Problems Facing the Bush Administration*, and *Government at the Brink, Volume II: An Agency by Agency Examination of Federal Government Management Problems Facing the Bush Administration*, June 2001, and U.S. General Accounting Office, *Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap*, GAO/AIMD–97–146, August 1997.