

Progress made in Developing a Dashboard and Detailed Implementation Plans for Each of DOD's Strategic Initiatives as of January 13, 2012

Description of DOD's strategic initiatives	Dashboard approved?	Implementation plan approved?	Estimated net savings ^a
Implement the Patient Centered Medical Home model of care to increase satisfaction, improve care and reduce costs ^b	✓	✓	\$39.3 million
Integrate psychological health programs to improve outcomes and enhance value	✓		
Implement incentives to encourage adherence to medical standards based on evidence to increase patient satisfaction, improve care and reduce per-capita health care costs	✓		
Implement alternative payment mechanisms to reward value in health care services	✓		
Revise DOD's future purchased care contracts to offer more and varied options for care delivery from private sector health care providers	✓		
Improve the measurement and management of DOD's population health by moving away from focusing on illness and disease to an emphasis on prevention, intervention, and wellness by health care providers	✓		
Optimize pharmacy practices to improve quality and reduce cost			
Implement policies, procedures, and partnerships to meet individual servicemembers' medical readiness goals			
Implement DOD and Veterans Affairs joint strategic plan for mental health to improve coordination			
Implement modernized electronic health record to improve outcomes and enhance interoperability			
Improved governance to achieve better performance in multiservice medical markets			

Source: GAO analysis of DOD information.

^aThe net savings is DOD's estimate and it covers fiscal years 2012 through 2016. GAO did not independently assess the reliability of this cost savings estimate.

^bDOD estimates that its investment in Patient Centered Medical Home will be \$571.4 million in total from fiscal years 2010 through 2016.

As shown above, DOD has not fully completed the dashboards, implementation plans, and cost savings estimates for its 11 initiatives as of January 13, 2012. GAO has found that comprehensive, results-oriented plans are key to effectively implementing agency strategies.¹³ As DOD completes its dashboards, implementation plans, and cost savings estimates, it could benefit from the application of a comprehensive, results-oriented management framework, including a robust description of the initiatives' mission statement; problem definition, scope, and methodology; goals, activities and performance measures; resources and investments; organizational roles, responsibilities, and coordination; and key external factors that could affect goals. Without completing its plans

¹³GAO, *Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism*, GAO-04-408T (Washington, D.C.: Feb. 3, 2004).

and incorporating these principles into them, DOD will be limited in its ability to implement these initiatives and achieve cost savings.

In addition, DOD has not completed the implementation of an overall monitoring process across its portfolio of initiatives for overseeing the initiatives' progress and has not completed the process of identifying accountable officials and their roles and responsibilities for all of its initiatives. Further, GAO's work on results-oriented management practices has found that a process for monitoring progress and defining roles and responsibilities is key to successful implementation.¹⁴ As Military Health System leaders develop and implement their plans to control rising health care costs, they will also need to work across multiple authorities and areas of responsibility. As the 2007 *Task Force on the Future of Military Health Care* noted, the current Military Health System does not function as a fully integrated health care system.¹⁵ For example, while the Assistant Secretary of Defense for Health Affairs controls the Defense Health Program budget, the services directly supervise their medical personnel and manage their military treatment facilities.

As GAO reported in October 2005, agreement upon roles and responsibilities is a key step to successful collaboration when working across organizational boundaries, such as the military services.¹⁶ Committed leadership by those involved in the collaborative effort, from all levels of the organization, is also needed to overcome the many barriers to working across organizational boundaries. For example, Health Affairs manages the medical budget by allocating money to the services, but it lacks direct command and control of the military treatment facilities. DOD's one approved implementation plan provides further information on how DOD has applied a monitoring structure and has defined accountable officials and assigned roles and responsibilities in the case of this one initiative. However, DOD has not completed this process for the remainder of its initiatives. Without sustained top civilian and military leadership that is consistently involved throughout the implementation of its various initiatives and until DOD fully implements for all of its initiatives a mechanism to monitor progress and identify accountable officials including their roles and responsibilities, DOD may be hindered in its ability to achieve a more cost-efficient military health system and at the same time address its medical readiness goals, improve its overall population health, as well as increase its patients' experience of care.

¹⁴GAO-04-408T.

¹⁵Defense Health Board, *Task Force on the Future of Military Health Care*, December 2007.

¹⁶GAO, *Results-Oriented Government: Practices That Can Enhance and Sustain Collaboration Among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

Actions Needed and Potential Financial or Other Benefits

Based on ongoing work, GAO expects to recommend that, in order to enhance its efforts to manage rising health care costs and demonstrate sustained leadership commitment for achieving the performance goals of the Military Health System's strategic initiatives, DOD should

- complete and fully implement the dashboards and detailed implementation plans for each of the approved health care initiatives in a manner consistent with results-oriented management practices, such as the inclusion of upfront investment costs and cost savings estimates; and
- complete the implementation of an overall monitoring process across its portfolio of initiatives for overseeing the initiatives' progress and identifying accountable officials and their roles and responsibilities for all of its initiatives.

DOD may realize projected cost savings and other performance goals by taking the actions GAO describes to help ensure the successful implementation of its cost savings initiatives. Given that DOD identified these initiatives as steps to slow the rapidly growing costs of its medical program, if implemented these initiatives could potentially save DOD millions of dollars. For example, according to a DOD calculation, if it had met its cost growth target for fiscal year 2011, it could have saved approximately \$300 million.

Agency Comments and GAO's Evaluation

GAO provided a draft of this report section to DOD for review and comment. DOD provided technical comments, which were incorporated as appropriate. DOD agreed with GAO's finding on the need to complete, implement and monitor plans for each of its approved health care initiatives. Further, DOD officials agreed with GAO's expected recommendation to complete and fully implement, for each of their initiatives, detailed implementation plans in a manner consistent with results-oriented management practices, such as the inclusion of upfront investment costs and cost savings estimates. They stated that quantifying the financial benefits of programs that change the way care is delivered is an extremely complex task but that they are committed to trying to do so. Additionally, these officials agreed with GAO's second expected recommendation to complete and fully implement, for each of their initiatives, an overall monitoring process across DOD's portfolio of initiatives, and to identify accountable officials and their roles and responsibilities. As part of its routine audit work, GAO will track the extent to which progress has been made to address the identified actions and report to Congress.

How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section as well as additional work GAO conducted to be published as a separate product in 2012. GAO interviewed DOD officials in the Health Budgets and Financial Policy Office and in the Office of Strategy Management, within the Office of the Assistant Secretary of Defense for Health Affairs, as well as officials in the TRICARE Management Activity concerning their 11 health care initiatives and obtained and reviewed documentation concerning their efforts. GAO compared DOD's efforts to its prior work on results-oriented key management practices. GAO obtained available documentation and interviewed DOD officials to determine DOD's approach for monitoring the initiatives' progress, identifying accountable officials, and defining their roles and responsibilities. GAO did not assess the reliability of any financial data since GAO was using the data for illustrative purposes to provide context on DOD's efforts and to make broad estimates about potential cost savings from these efforts, and GAO determined that this data did not materially affect the nature of its findings.

Related GAO Products

Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. GAO-11-318SP. Washington, D.C.: March 1, 2011.

Defense Health Care: DOD Needs to Address the Expected Benefits, Costs, and Risks for Its Newly Approved Medical Command Structure. GAO-08-122. Washington, D.C.: October 12, 2007.

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37. Overseas Defense Posture

The Department of Defense could reduce costs of its Pacific region presence by developing comprehensive cost information and re-examining alternatives to planned initiatives.

Why This Area Is Important

According to the 2010 *Quadrennial Defense Review*, approximately 400,000 U.S. military personnel are forward-stationed or rotationally deployed, or postured, around the world on any given day—including those involved in operations in Afghanistan and Iraq. In addition to the costs of supporting ongoing combat operations, the Department of Defense (DOD) spends billions of dollars annually on its network of installations around the world that supports its overseas defense posture. In last year's report on opportunities to reduce potential duplication in government programs, GAO reported that DOD should assess the costs and benefits of its overseas installations before committing to costly realignments and construction plans. For this year's analysis, GAO is focusing on DOD's presence in the Pacific region.

As GAO reported in May 2011, from 2006 through 2010, DOD obligated \$24.6 billion to build, operate, and maintain installations in support of its defense posture in the Pacific. Additionally, the report stated that DOD is currently conducting the largest transformation of its defense posture in the Pacific since the end of World War II, including initiatives that will cost billions of dollars in resource investments and take many years—perhaps decades—to complete. Although DOD's new defense strategy identifies U.S. presence in the Pacific as important, questions have arisen about the magnitude and costs of overseas basing projects and whether DOD's planned investments support a coherent and affordable strategy.

What GAO Found

Although DOD has taken steps to improve its planning for overseas defense posture, it has not fully identified costs or provided an analysis of alternatives for basing U.S. forces in the Pacific. Having U.S. troops permanently stationed overseas provides benefits—such as deterring aggression against U.S. allies—but it incurs significant costs. In previous GAO reports on overseas defense posture, GAO emphasized the need for DOD to assess the costs and benefits of options for the U.S. overseas military presence before committing to costly personnel realignments and construction plans. However, in the case of DOD's overseas presence in the Pacific, GAO found that comprehensive cost information is not systematically used to inform DOD's planning for its overseas defense posture. As a consequence, DOD and Congress lack reasonable assurance that overseas presence in the Pacific is being planned and implemented in a cost-effective and financially sustainable way. Reliable and complete cost estimates are critical to allow analyses of alternatives and oversight by decision makers.

As GAO reported in May 2011, several evolving defense posture initiatives in the Pacific have the potential to cost the department billions

of dollars. Through informed decision making based on comprehensive information and analysis of alternatives for some of its planned defense posture initiatives in that region, DOD may be able to reduce some of these costs. For example:

- *South Korea tour normalization initiative.* DOD is transforming its defense posture in South Korea through a series of interrelated initiatives that DOD estimates will total \$17.6 billion through fiscal year 2020. The largest of these initiatives, tour normalization, would increase the tour lengths of personnel stationed in South Korea and move thousands of military dependents to South Korea. According to DOD officials, the decision to move forward with tour normalization was made to achieve certain strategic objectives, such as providing military commanders greater flexibility in how U.S. military forces assigned to South Korea are used and to improve the quality of life for military service members and their families. This initiative alone could cost DOD \$5 billion by fiscal year 2020 and \$22 billion or more through 2050; however, prior to making the decision to move forward with the tour normalization initiative, DOD did not complete a business case analysis that would have considered alternative courses of action for achieving its strategic objectives, and the costs and benefits associated with any alternatives. Potential alternatives might be to maintain current primarily 1-year unaccompanied tour lengths, partially implement tour normalization at select locations, or other possibilities that would help achieve United States Forces Korea's strategic objectives. DOD is embarking on an initiative that involves moving thousands of U.S. civilians to locations in South Korea, mainly Camp Humphreys, and constructing schools, medical facilities, and other infrastructure to support them—without fully understanding the costs involved or considering potential alternatives that might more efficiently achieve U.S. strategic objectives.
- *Japan and Guam realignment initiatives.* DOD has embarked on a major realignment of its defense posture in mainland Japan, Okinawa and Guam but has not developed comprehensive cost estimates for this work. Approximately \$29.1 billion in costs—primarily in construction costs—is anticipated to be shared by the United States and Japan to implement these realignment initiatives. DOD officials stated that total cost estimates for these initiatives—including operation and maintenance costs to DOD—were not available because of the significant uncertainty surrounding initiative-implementation schedules. In February 2012, the United States and Japan released a joint statement indicating that the two governments have started official discussions to revise current posture plans, specifically the plans to relocate the Marines to Guam. In July 2010, the Senate Appropriations Committee directed DOD to provide status updates on defense posture initiatives in Korea, Japan, Guam, and the Northern Mariana Islands, as an appendix to the annual DOD Global Posture Report, to address such items as schedule status, facilities requirements, and total costs—including operation and maintenance costs. These updates should be provided annually, beginning with the submission of the fiscal year 2012 budget request,

until the restructuring initiatives are complete or funding requirements to support them are satisfied. The Committee renewed its direction in June 2011. If DOD is fully responsive to the Committee's reporting direction, these updates should provide needed visibility into the cost and funding of the initiatives. According to DOD officials, DOD will submit an appendix as part of its 2012 Global Posture Report that includes updates to posture initiatives in Korea, Japan, and Guam. They anticipate the report will be issued in the spring of 2012.

- *U.S. Pacific Command operation and maintenance costs.* Service officials estimated that operation and maintenance costs for installations in the Pacific region would be about \$2.9 billion per year through 2015.¹ However, GAO found that, of the approximately \$24.6 billion reported as obligated by the military services to build, operate, and maintain installations in the Pacific from 2006 through 2010, approximately \$18.7 billion—or about \$3.7 billion per year—was for operation and maintenance costs, an increase of over 27 percent per year over the service officials' estimate through 2015.² Further, the planned defense posture initiatives in South Korea, Japan, and Guam may significantly increase operation and maintenance costs over the long term, potentially through 2015 and beyond. For example, DOD has yet to estimate costs associated with furnishing and equipping approximately 321 new buildings and 578 housing units in Okinawa. In the *United States Department of Defense Fiscal Year 2011 Budget Request Overview*, prepared by the Office of the Under Secretary of Defense (Comptroller), DOD outlined the need to reform the way it buys its weapons and other important systems and investments, including strengthening front-end scrutiny of costs and not relying on overly optimistic or underestimated cost estimates. In June 2011, DOD revised posture-related guidance to require full project costs, including any operation and maintenance costs, for all ongoing, current, and 5-year planned posture initiatives to be submitted as part of a combatant commander's theater posture plan. In the October 2011, U.S. Pacific Command's Theater Posture Plan, neither operation and maintenance, nor total costs for posture initiatives had yet been included. GAO will continue to monitor future updates to the plan.

¹Operation and maintenance funding provides for a large number of expenses. With respect to DOD installations, operation and maintenance funding provides for such aspects as base operation support and sustainment, restoration, and modernization of buildings and infrastructure.

²These costs do not include (1) supplementary funding provided to support ongoing operations, (2) costs reimbursed by tenant organization at installations in the U.S. Pacific Command's area of responsibility, and (3) personnel costs for troops stationed at installations in the U.S. Pacific Command's area of responsibility.

Actions Needed and Potential Financial or Other Benefits

To provide DOD and Congress with the comprehensive defense posture cost information needed to fully evaluate investment decisions and the affordability of defense posture initiatives, GAO recommended in May 2011 that the Secretary of Defense

- identify and direct appropriate organizations within DOD to complete a business case analysis, including an evaluation of alternative courses of action, for the strategic objectives that have to this point driven the decision to implement tour normalization in South Korea;
- identify and limit investments and other financial risks associated with construction programs at Camp Humphreys, South Korea, that are affected by decisions related to tour normalization until a business case analysis is reviewed and the most cost-effective approach is approved by the Secretary of Defense; and
- direct the Secretaries of the military departments to develop annual cost estimates for defense posture in the Pacific that provide a comprehensive assessment of defense posture-related costs, including costs associated with operating and maintaining existing defense posture, as well as costs associated with defense posture initiatives, in accordance with guidance developed by the Under Secretary of Defense (Comptroller).

Additionally, in light of the United States and Japan's joint statement announcing discussions to revise U.S. posture plans in the Pacific, it will be critical for DOD to develop comprehensive cost estimates—including estimates of operation and maintenance costs—as it evaluates cost effective alternatives for the future. To facilitate congressional oversight of plans to realign U.S. defense posture in the Pacific, and to provide reasonable assurance that DOD will take all appropriate measures to mitigate financial risks and better define future requirements, the Secretary of Defense should provide Congress

- specifics regarding corrective actions the department plans to take; and
- time frames for completion.

By assessing alternatives, conducting comprehensive cost analyses, and providing comprehensive annual defense posture cost estimates, DOD will be in a better position to fully evaluate investment requirements, and make more informed decisions regarding the affordability of its overseas defense posture. Furthermore, congressional committees will have the appropriate financial context to determine funding needs for specific posture-related initiatives and construction programs. Cost savings or avoidance would depend on the nature of changes made to DOD's plans and how DOD implements its chosen options.

Agency Comments and GAO's Evaluation

GAO provided its May 2011 report to DOD for review and comment. DOD agreed with GAO's recommendations and stated that it would work with its components to implement them. Insufficient time has passed since the issuance of the report for GAO to fully evaluate DOD's implementation. As part of its routine audit work, GAO will track the extent to which progress has been made to address the identified actions and report to Congress.

How GAO Conducted Its Work

The information contained in this analysis is based on findings from the reports listed in the related GAO products section. GAO assessed DOD policies and procedures, interviewed relevant DOD and State Department officials, and analyzed cost data from the military services.

Related GAO Products

Defense Management: Comprehensive Cost Information and Analysis of Alternatives Needed to Assess Military Posture in Asia. GAO-11-316. Washington, D.C.: May 25, 2011.

Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. GAO-11-318SP. Washington, D.C.: March 1, 2011.

Defense Management: Additional Cost Information and Stakeholder Input Needed to Assess Military Posture in Europe. GAO-11-131. Washington D.C.: February 3, 2011.

Defense Planning: DOD Needs to Review the Costs and Benefits of Basing Alternatives for Army Forces in Europe. GAO-10-745R. Washington D.C.: September 13, 2010.

Force Structure: Actions Needed to Improve DOD's Ability to Manage, Assess, and Report on Global Defense Posture Initiatives. GAO-09-706R. Washington D.C.: July 2, 2009.

Defense Management: Actions Needed to Address Stakeholder Concerns, Improve Interagency Collaboration, and Determine Full Costs Associated with the U.S. Africa Command. GAO-09-181. Washington D.C.: February 20, 2009.

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38. Navy's Information Technology Enterprise Network

Better informed decisions are needed to ensure a more cost-effective acquisition approach for the Navy's Next Generation Enterprise Network.

Why This Area Is Important

In 2007, the Department of the Navy (Navy) established the Next Generation Enterprise Network (NGEN) program to replace and improve the Navy Marine Corps Intranet, which provides about 382,000 workstations to approximately 700,000 users across 2,500 Navy and Marine Corps locations around the world. NGEN is intended to provide secure data and information technology services, such as data storage, e-mail, and video-teleconferencing. It is also intended to provide the foundation for the Navy's future Naval Networking Environment—a set of integrated, phased programs that share a common enterprise architecture and standards.

As envisioned, NGEN's capabilities are to be incrementally acquired through multiple providers (contractors). The first increment is to provide capabilities comparable to the Navy Marine Corps Intranet, as well as enhanced information assurance and increased government control over network operations.

To date, according to the President's fiscal year 2012 budget, the NGEN program has spent about \$434 million on work associated with the transition from the Navy Marine Corps Intranet. The first increment is to be fully operational in March 2014 and is to cost approximately \$50 billion to develop, operate, and maintain through fiscal year 2025.

What GAO Found

As GAO reported in March 2011, the Navy did not have sufficient basis for knowing that it is pursuing the most cost-effective approach for acquiring NGEN capabilities. According to the Department of Defense guidance,¹ an analysis of alternatives should examine viable solutions with the goal of identifying the most promising option, thereby informing acquisition decision making. While the Navy conducted an analysis of alternatives, it ultimately selected an approach that was not considered in this analysis and that the Navy estimated would cost at least \$4.7 billion more than any of the four assessed alternatives. Further, the analysis of alternatives highlighted the potential for greater schedule and performance risks as the number of contractual relationships in the approach increases. Given that the selected approach includes a larger

¹Defense Acquisition University, *Defense Acquisition Guidebook*, Section 3.3 "Analysis of Alternatives" (accessed Mar. 19, 2010).

number of such relationships than the assessed alternatives, the relative schedule and performance risks for this approach are likely greater, and therefore are likely to result in greater costs. (See the table below for the contractual relationships and Navy's estimated costs of the assessed alternatives and the selected approach.)

NGEN Alternative and Selected Approaches

	Status quo	Alt. 2	Alt. 3 variant	Alt. 3	Selected approach
Contractual relationships	3	3	10	15	21
Estimated cost ^a	\$10.3	\$10.8	\$10.8	\$10.7	\$15.6

Sources: Navy data (status quo and alternatives 2, 3 variant, and 3); GAO analysis of Navy data (selected approach).

^aFiscal years 2011-2015 in billions (adjusted for inflation).

Navy officials did not view the differences in contractual relationships and schedule and performance risks between the approach selected and the assessed alternatives as significant, despite the difference in cost. Nevertheless, by using this acquisition approach, Navy decision makers lack assurance that their selected approach is the most promising and cost-effective course of action.

GAO also determined that the Navy's schedule for NGEN did not adequately satisfy key schedule estimating best practices, which GAO has previously identified, such as establishing the critical path (the sequence of activities that, if delayed, impacts the planned completion date of the project) and assigning resources to all work activities. Because it did not satisfy these practices, the schedule does not provide a reliable basis for program execution. According to program officials, schedule estimating was constrained by staffing limitations. However, these weaknesses have contributed to delays in key NGEN events and milestones, including the completion of multiple major acquisition reviews and program plans.

Additionally, successful execution of system acquisition programs depends in part on effective executive-level governance, to include having organizational executives review these programs at key milestones in their life cycles and make informed performance- and risk-based decisions as to how they should proceed.² NGEN acquisition decisions were not always performance- and risk-based. In particular, senior executives approved the program's continuing progress in the face of known performance shortfalls and risks. For example, in November 2009, the program was approved at a key acquisition review despite the lack of defined requirements, which officials recognized as a risk that

²GAO, *Information Technology: Federal Agencies Need to Strengthen Investment Board Oversight of Poorly Planned and Performing Projects*, GAO-09-566 (Washington, D.C.: June 30, 2009).

would impact the completion of other key documents, such as the test plan. According to Navy officials, the decisions to proceed were based on their view that they had sufficiently mitigated known risks and issues. However, Navy officials later realized the risk from a lack of defined requirements was a critical issue.

By selecting an approach that carries greater relative schedule and performance risks than other alternatives and that is being executed against an unreliable program schedule, the department increases the risk that its approach will lead to future cost overruns. Furthermore, if the department proceeds along its current course, the issues GAO has identified with the program's schedule, along with the delays already experienced, raise concerns that it will be unable to complete the transition as planned.

Actions Needed and Potential Financial or Other Benefits

To ensure that NGEN capabilities are acquired in the most cost-effective manner, GAO recommended in March 2011 that Secretary of Defense should

- limit further investment in NGEN until the Navy conducts an immediate interim review to reconsider the selected acquisition approach. At a minimum, this review should ensure that the Navy pursues the most advantageous acquisition approach, as evidenced by a meaningful analysis of all viable alternative acquisition approaches; it also should consider existing performance shortfalls and known risks.

Furthermore, to facilitate implementation of the acquisition approach resulting from this review, the Secretary of the Navy should

- ensure that the NGEN schedule substantially reflects the key schedule estimating practices, and that future NGEN acquisition reviews and decisions fully reflect the state of the program's performance and its exposure to risks.

The Navy has subsequently indicated that changes to the acquisition strategy are under way. GAO is undertaking work that will assess the extent to which the Navy has conducted its interim review to reconsider its acquisition approach and evaluate the revised strategy, including the basis for determining that this approach is the most cost-effective. GAO will also determine the extent to which Navy has implemented key schedule estimating practices and has made performance- and risk-based decisions. If fully implemented, GAO's key recommended actions should help the Navy ensure that the most cost-effective approach is pursued.

Agency Comments and GAO's Evaluation

GAO provided a copy of its March 2011 report to the Department of Defense for review and comment. The department agreed with the recommendation to ensure that future NGEN acquisition reviews and decisions fully reflect the state of the program's performance and its exposure to risks. The department did not concur with the recommendation to reconsider its acquisition approach. However, as noted earlier, the Navy is currently in the process of reviewing and making changes to its acquisition strategy. Further, the department partially concurred with the recommendation to ensure that the NGEN schedule substantially reflects the key schedule estimating practices, stating that it would consider incorporating practices found to be beneficial. GAO believes that incorporating all of the best practices for schedule estimating in the NGEN master schedule would help the department manage and measure its progress in executing the work needed to transition from the Navy Marine Corps Intranet to NGEN. As part of its routine audit work, GAO will track agency actions to address these recommendations and report to Congress.

How GAO Conducted Its Work

The information contained in this analysis is based primarily on findings from the products listed in the related GAO products section. GAO analyzed the NGEN alternatives analysis report and underlying support, the program's master schedule, program performance assessments and risk reports, and executive acquisition decision briefings and meeting minutes, among other things. GAO also interviewed cognizant agency and program officials regarding the analysis of alternatives' development and results, development and management of the program schedule, and NGEN performance and program risks.

Related GAO Products

Information Technology: Better Informed Decision Making Needed on Navy's Next Generation Enterprise Network Acquisition. GAO-11-150. Washington, D.C.: March 11, 2011.

Information Technology: DOD Needs to Ensure That Navy Marine Corps Intranet Program Is Meeting Goals and Satisfying Customers. GAO-07-51. Washington, D.C.: Dec. 8, 2006.

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39. Auto Recovery Office

Unless the Secretary of Labor can demonstrate how the Auto Recovery Office has uniquely assisted auto communities, Congress may wish to consider prohibiting the Department of Labor from spending any of its appropriations on the Auto Recovery Office and instead require that the department direct the funds to other federal programs that provide funding directly to affected communities.

Why This Area Is Important

In 2008 and 2009, the Department of the Treasury (Treasury) committed \$62 billion in Troubled Asset Relief Program funding to General Motors (GM) and Chrysler to help the companies restructure. Anticipating the possible effects of the companies' restructuring on communities that relied heavily on these companies and their suppliers for employment and economic investment, in June 2009 the President issued Executive Order 13509 establishing the White House Council on Automotive Communities and Workers (the Council)—composed of over 20 members, including the heads of all domestic cabinet agencies and key White House offices—to coordinate a federal response to issues affecting these communities and others that rely on GM, Chrysler, or other auto companies and suppliers.¹ The staff and the funding for the Council were housed within the Department of Labor's Office of Recovery for Auto Communities and Workers (Auto Recovery Office).

As GAO reported in May 2011, GM and Chrysler restructured their operations from 2008 through 2010 in part by closing or halting production at 22 plants² (16 GM and 6 Chrysler), and communities in which these plants were located experienced economic challenges in addition to those they already faced. GAO visited six of these communities and found that unemployment in all of them increased after the plants closed. Staff of the Auto Recovery Office have tried to help communities address these challenges by serving as a listening post and federal liaison to agencies and programs that might assist them, but it is not clear whether the office provided communities with assistance that they otherwise would not have received. Nevertheless, the Department of Labor received funding for its management expenses, which it allocated to the office in fiscal years 2011 and 2012. The office spent approximately \$1.2 million in fiscal year 2011. The Auto Recovery Office does not receive a direct line item appropriation, but rather negotiates an annual spending plan with the Secretary of Labor based on projected needs and historical data, and officials told GAO that they expect the same will occur for the fiscal year 2013 budget.

¹Executive Order No. 13509, 74 Fed. Reg. 30903 (June 23, 2009).

²In September 2011, GM announced that it planned to reopen its Spring Hill, Tennessee, plant where it had previously halted production.

What GAO Found

Since the Auto Recovery Office was established, it has not accomplished half of the responsibilities set forth in executive orders, and has not been able to demonstrate the results of its efforts to assist auto communities. In July 2011, the President issued Executive Order 13578 to continue assisting auto communities and workers.³ While this executive order revoked the previous one establishing the Council, it contains essentially the same responsibilities, but with the Secretary of Labor performing them instead of the Council. These responsibilities include (1) working among executive departments and agencies to coordinate a federal response to issues that impact auto communities and workers; (2) conducting outreach to nonprofits, businesses, local governments, and others that could assist in bringing to the President's attention concerns, ideas, and policy options for enhancing efforts to revitalize auto communities; (3) advising the President on the potential effects of pending legislation; and (4) providing recommendations to the President on changes to federal policies and programs to address issues of special importance to automotive communities and workers.

As GAO reported in May 2011, the Auto Recovery Office's efforts were focused primarily on the first two of these functions—coordinating the efforts and support of federal agencies to ensure a coordinated federal response to issues that affect auto communities and workers, and conducting outreach—and this continues to be the case. As part of their coordination efforts, the Council members and Auto Recovery Office staff visited auto communities around the country, met with local officials to understand the key challenges facing each community, and connected them to the appropriate federal agencies and resources. A specific Auto Recovery Office staff member was assigned to each auto community and state to serve as a point person for each auto community. These staff members responded to their assigned communities' needs, such as by providing technical assistance or identifying contacts, and continued to connect the communities to resources and individuals as appropriate.

Although officials in communities GAO visited in 2010 and 2011 acknowledged the efforts of Council members and Auto Recovery Office staff, they also reported securing much of the assistance they received following plant closures without those efforts. For instance, officials told GAO that much of the federal assistance they received was targeted to individuals recently laid off from auto plants and delivered through Department of Labor resources outside the Council and Auto Recovery Office, such as the Workforce Investment Act Dislocated Workers Program and Trade Adjustment Assistance.

In August 2011 a new executive director joined the Auto Recovery Office, filling a position that had been vacant for almost a year. The new director and staff have visited eight communities, including communities and

³Executive Order No. 13578, 76 Fed. Reg. 40591 (July 6, 2011).

officials identified by the office in the past as well as new individuals. They are also planning to visit additional communities where office staff noted that automotive plant closures have been announced, such as Shreveport, Louisiana and St. Paul, Minnesota. The office staff stated that they continue to provide technical assistance to auto communities and have also participated in webinars and other events related to auto community interests, such as events hosted by the Mayors Automotive Coalition, and RACER—the environmental trust established to remediate old GM plants. However, while the Auto Recovery Office has continued its efforts, it still has not fulfilled its other two responsibilities—advising the President on pending legislation and making recommendations to the President on changes to federal policies and programs—for which it was established. Auto Recovery Office officials told GAO that they plan to make policy recommendations to the White House in fiscal year 2012.

Further, as GAO also reported in May 2011, neither the Council nor the Auto Recovery Office systematically tracked, measured, or assessed their assistance to auto communities and GAO recommended that they do so. GAO has reported in the past that federal agencies engaged in collaborative efforts need to create the means to monitor and evaluate their efforts so that they can identify areas for improvement.⁴ However, since the Council and Auto Recovery Office did not keep an inventory of assistance that they had provided or funding they had helped communities secure, analyze the inventory for trends, or publish the results of their analysis, it was difficult to identify that assistance. In their response to GAO's May 2011 report, the Department of Labor noted the challenges in developing a set of metrics that measures activities such as facilitation and process and that the more traditional measures of performance-based results are being tracked by the agencies that are responsible for administering the actual delivery of services.

Since then, the office has provided some additional examples of assistance provided to specific communities, for example noting that its staff helped Kokomo, Indiana, secure Economic Development Administration funding to hire a "recovery coordinator" to support a regional economic development strategic plan, and helped Kokomo negotiate with Chrysler to receive over \$25 million in personal property taxes the company owed the county. The office plans to publish some of these examples on its website. In addition, the office reported that it is in the process of developing measures to assess its work, including "assessments of needs of affected communities" and "strategic collaboration/recovery plans tailored to affected communities." However, the Auto Recovery Office still does not have a process to systematically inventory and analyze all assistance provided to auto communities, without which it cannot ensure that it has identified all relevant areas for

⁴GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

improvement or made the appropriate recommendations, including to the President, as it was tasked to do.

Finally, Auto Recovery Office officials told GAO the office's unique role is to serve as an ombudsman between auto communities undergoing economic and social distress and federal initiatives that could be of value to those communities, and that they see a need for this role continuing as long as auto factories are marked for closure. However, there are other efforts within the executive branch to assist economically distressed communities. For example, the White House's Office of Domestic Policy is overseeing the Strong Cities, Strong Communities program, which also involves multiple agencies collaborating to assist communities facing economic challenges. This program has selected six communities to receive technical assistance, and at least one—Detroit—is an auto community that the Auto Recovery Office has also assisted.

Actions Needed and Potential Financial or Other Benefits

Though the Auto Recovery Office has made progress toward tracking its assistance to auto communities, it still has not implemented three of GAO's prior recommendations, making it difficult to identify the office's assistance or benefit to auto communities. GAO recommended in May 2011 that the Secretary of Labor

- direct the Auto Recovery Office to (1) document the office's achievements to date, including its assistance to various auto communities; (2) establish a process for measuring the office's results; and (3) determine when and how the specialized assistance provided by the office can be transitioned to existing federal programs.

In addition, in the absence of documented results, Congress may wish to

- consider prohibiting the Department of Labor from spending any of its appropriations on the Auto Recovery Office and instead require that the department direct the funds to other federal programs that provide funding directly to affected communities.

Agency Comments and GAO's Evaluation

GAO provided a draft of this report section to the Department of Labor for review and comment. The department provided written comments and agreed with GAO's recommendations. In its comments, the department reiterated that the Auto Recovery Office is the only executive office that deals specifically with the needs of auto communities, and thus it is more effective than other federal programs at helping communities address the complex effects of automotive industry restructuring. The department notes that Strong Cities, Strong Communities, the initiative GAO cites as an example of other interagency efforts to assist economically distressed communities, was not designed to deal with issues unique to automotive communities, and therefore GAO should not suggest that it replace the Auto Recovery Office. In the report, GAO does not suggest that this initiative replace the Auto Recovery Office, but rather highlights that other

executive efforts exist to help communities facing economic challenges, regardless of the cause of these challenges. The department also provided additional examples of auto communities the office is assisting, which GAO incorporated as appropriate. Finally, the department writes that the Auto Recovery Office has fulfilled its responsibilities to advise the President on pending legislation, in part by participating in administrative review of pending legislation, preparing portions of the President's budget, and engaging with the National Economic Council's Office of Manufacturing Policy to inform policy decisions affecting proposed manufacturing legislation. While GAO recognizes that the Auto Recovery Office is involved in executive branch discussions regarding policies that could affect auto communities, the tasks the department cites, such as preparing the President's budget, are tasks in which all executive agencies engage. Outside of these typical agency tasks, the department did not identify instances in which the Auto Recovery Office formally advised the President. More importantly, the Auto Recovery Office has not fulfilled GAO's recommendations to track and measure its assistance, without which neither GAO nor Congress can identify what the office has done or accomplished with the funding provided to date. Given the challenges auto communities face, it is important to maximize federal assistance to these communities. As such, GAO suggested the department, if unable to demonstrate the results of the Auto Recovery Office's efforts, redirect funds from the office to other departmental programs. As part of GAO's routine audit work, GAO will track agency actions to address these recommendations and report to Congress. All written comments are reprinted in appendix IV.

How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed in the related GAO products section as well as additional work GAO conducted. GAO interviewed the Auto Recovery Office to obtain updated information on its activities and accomplishments. GAO also reviewed existing documentation related to the data and interviewed Auto Recovery Office staff. GAO determined that the data were sufficiently reliable to describe the Auto Recovery Office's spending.

Related GAO Products

Troubled Asset Relief Program: Treasury's Exit from GM and Chrysler Highlights Competing Goals, and Results of Support to Auto Communities Are Unclear. GAO-11-471. Washington, D.C.: May 10, 2011.

Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM. GAO-10-151. Washington, D.C.: November 2, 2009.

Contact Information

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40. Excess Uranium Inventories

Marketing the Department of Energy's excess uranium could provide billions in revenue for the government.

Why This Area Is Important

Uranium—a naturally occurring radioactive element—is used in nuclear weapons, as well as in fuel for nuclear power plants. In the United States, 20 percent of the nation's electricity comes from nuclear power, and growing anxiety over climate change generated by ever-growing demand for fossil fuels has sparked interest in increasing the use of nuclear power, despite ongoing concerns about safety in light of the March 2011 nuclear accident in Japan. A healthy domestic uranium industry is considered essential to ensuring that commercial nuclear power remains a reliable option for supporting the nation's energy needs.

The Department of Energy (Energy) maintains large inventories of uranium that it no longer requires for nuclear weapons or fuel for naval nuclear propulsion reactors. A large portion of Energy's inventories consists of depleted uranium hexafluoride, otherwise known as "tails"—a byproduct of the uranium enrichment process. Although once considered an environmental liability, recent increases in uranium prices could transform these tails into a lucrative source of revenue for the government. Hundreds of thousands of metric tons of tails are stored at Energy's uranium enrichment plants in Portsmouth, Ohio, and Paducah, Kentucky.

In addition to tails, Energy maintains thousands of tons of natural uranium, which likewise could be sold to utilities or others for additional revenue. For example, since December 2009, Energy has used some of this uranium to pay for environmental cleanup work at its Portsmouth uranium enrichment plant.

What GAO Found

The Energy uranium inventories are worth potentially billions of dollars to commercial nuclear power plants that can use the material as fuel in their reactors.

With regard to the Energy depleted uranium tails, as GAO reported in March and April 2008 and again in June 2011, under certain conditions, pursuing the following options could generate significant revenue:

- *Energy could contract to re-enrich the tails.* Uranium tails lack sufficient quantities of the fissile uranium-235 isotope necessary for nuclear fuel. Considerable enrichment is required to further increase the concentration of uranium-235. In the past, low uranium prices meant that the cost of enrichment would have been greater than the proceeds the government would receive for the relatively small amount of uranium-235 extracted. But increases in uranium prices—from a nominal price of approximately \$21 per kilogram of uranium in the form of uranium hexafluoride in November 2000 to about \$160 per

kilogram in May 2011—could make tails re-enrichment profitable. Although Energy would have to pay for processing, the resulting re-enriched uranium could be profitably sold if the sales price of the uranium exceeded processing costs.

- *Provided appropriate statutory authority, Energy could sell the tails “as is.”* Although GAO found that Energy generally has the legal authority to process the tails and sell the resulting re-enriched uranium, GAO found that the department lacks authority to sell depleted uranium tails in their current form. While Energy disagrees and believes it currently has the necessary legal authority, it is nonetheless planning no sale of depleted uranium tails in the near term. Instead, Energy is committed to converting the tails to a more stable chemical form for safe long-term storage, which involves additional processing and stockpiling thousands of protective cylinders to contain the material indefinitely. If Congress were to provide the department with the needed legal authority to sell the tails, however, firms such as nuclear power utilities and enrichment companies might find it cost-effective to purchase these tails and re-enrich them as a source of nuclear fuel.

With regard to Energy’s inventories of natural uranium, as GAO reported in March and April 2008 and again in June 2011, the department has the general legal authority to sell this material; and in September 2011, GAO reported that in seven transactions executed since 2009, Energy has, in effect, “sold” nearly 1,900 metric tons of natural uranium into the market, using its contractor as a sales agent, receiving from \$109 to \$183 per kilogram. The total proceeds from these transactions funded over \$250 million in environmental cleanup services by that contractor at the Portsmouth uranium enrichment plant. Although Energy characterized these sales as barter transactions— exchanges of services (environmental cleanup work) for materials (uranium)—GAO’s review showed that they were sales of natural uranium through a sales agent. While Energy received no cash from the transactions, it allowed USEC, Inc. to keep cash from the sales. Energy thus violated the miscellaneous receipts statute, which requires an official or agent of the government receiving money for the government from any source to deposit the money in the U.S. Treasury. Executed in accordance with federal law, however, future sales of natural uranium by Energy could generate additional revenue for the government.

Ultimately, the extent to which sales of Energy’s uranium inventories would generate financial benefits for the government depends on several factors:

- *The market price of uranium.* The price for uranium is historically volatile, affected greatly by speculation regarding supply and demand, the price of competing energy resources, and domestic and international political and economic events or natural disasters, such as the March 2011 nuclear accident in Japan.

- *The price and availability of re-enrichment services.* Only two companies currently provide enrichment services domestically. Energy would have to find a company with excess enrichment capacity beyond its current commitments, which may be difficult if large amounts of enrichment processing were required.
- *An existing commitment to domestic uranium producers to limit Energy inventory sold.* Under its December 2008 Excess Uranium Inventory Management Plan, Energy committed to limit the amount of uranium sold in a given year to no more than 10 percent of the domestic requirements for nuclear fuel. The sudden introduction of hundreds of tons of uranium into the market could topple prices and not only reduce the government's revenue from such sales, but could also undermine profitability of the domestic uranium industry.

As GAO reported in June 2011, the potential value of Energy's tails is currently substantial, but changing market conditions could greatly affect the tails' value over time. GAO estimated the value of the tails at \$4.2 billion based on May 2011 uranium prices and enrichment costs and assuming sufficient re-enrichment capacity was available.

Actions Needed and Potential Financial or Other Benefits

In Energy's 2008 uranium management plan, the department summarized its intent to sell or transfer uranium to the commercial market through 2017, including plans to re-enrich and sell depleted uranium tails. But because DOE has decided to use uranium to fund environmental cleanup at the Portsmouth site, more uranium has been released into the market than articulated in the 2008 plan. As a result, Energy tabled plans to also sell uranium tails, because doing so would violate the commitment the department made to domestic uranium producers to limit the amount of uranium Energy sells in a given year.

Even in the absence of such a commitment, however, legal obstacles to the pursuit of certain options for its uranium tails and natural uranium exist. GAO previously found that Energy lacked the necessary legal authority to pursue potential options for its tails and natural uranium and that the following congressional action may be needed. Specifically

GAO recommended in March 2008 that Congress may wish to

- clarify Energy's statutory authority regarding depleted uranium, explicitly providing direction about whether and how Energy may sell or transfer the tails in their current form. Depending on the terms of the legislation, and given the significant amount of tails in inventory, the government could garner substantial revenue as a result.

GAO recommended in September 2011 that if Congress sees merit in using the proceeds from the barter, transfer, or sale of federal uranium assets to pay for environmental cleanup of uranium enrichment plants, it could consider

-
- providing Energy with explicit authority to barter excess uranium and to retain the proceeds from all three types of uranium transactions (barter, transfer, and sale). Likewise, Congress could direct Energy to sell uranium for cash and make those proceeds available by appropriation for decontamination and decommissioning expenses at Energy's uranium enrichment plants.

Congress has taken some actions in response to GAO's work. For example, the Consolidated Appropriations Act, 2012, among other things, requires the Secretary of Energy to report to the House and Senate Appropriations Committees not less than 30 days prior to the transfer, sale, barter, distribution, or other provision of uranium in any form specific details on the transactions, including the amounts of uranium to be provided and an estimate of the uranium value along with the expected recipient of the material. The act also requires the Secretary to submit a report evaluating the economic feasibility of re-enriching depleted uranium.

Agency Comments and GAO's Evaluation

GAO provided a draft of its September 2011 report to Energy. Energy provided written comments that stated that because it did not receive money for the uranium it used to pay for environmental cleanup work, it did not violate the miscellaneous receipts statute. However, GAO and the courts have found in a number of instances that an entity does not have to receive actual cash to trigger a responsibility to deposit money into the U.S. Treasury. Energy also disagreed with GAO's estimate of the value of Energy's depleted uranium tails, stating that it did not include additional costs that may be incurred processing tails including, among other things, the costs of re-enriching the tails and packaging and transporting the material. The estimate does include the costs of re-enriching the tails, but it does not include some other costs, including packaging and transportation, because those costs are unknown. Furthermore, as GAO's March and April 2008, June 2011, and September 2011 reports noted, GAO's estimate is very sensitive to changing uranium prices, as well as to the availability of sufficient enrichment capacity. Uranium prices are volatile, and a sharp rise or fall can greatly affect the value of the tails. Any estimates of the value of the Energy tails are therefore subject to great uncertainty. As part of its routine audit work, GAO will track agency actions to address its recommendations and report to Congress.

How GAO Conducted Its Work

The information contained in this analysis is based on findings from the products listed the related GAO products section. These reports reviewed Energy's management of its uranium inventories and the department's transactions using its uranium to pay for environmental cleanup and other services. GAO reviewed Energy documents detailing the transactions the department has engaged in involving its uranium, assessments of the value of uranium in each transaction, and analyses of the impact of DOE's activities on the uranium market.

Related GAO Products

Excess Uranium Inventories: Clarifying DOE's Disposition Options Could Help Avoid Further Legal Violations. GAO-11-846. Washington, D.C.: September 26, 2011.

Nuclear Material: DOE's Depleted Uranium Tails Could Be a Source of Revenue for the Government. GAO-11-752T. Washington, D.C.: June 13, 2011.

Department of Energy: December 2004 Agreement with the United States Enrichment Corporation. B-307137. Washington, D.C.: July 12, 2008.

Nuclear Material: Several Potential Options for Dealing with DOE's Depleted Uranium Tails Could Benefit the Government. GAO-08-613T. Washington, D.C.: April 3, 2008.

Nuclear Material: DOE Has Several Potential Options for Dealing with Depleted Uranium Tails, Each of Which Could Benefit the Government. GAO-08-606R. Washington, D.C.: March 31, 2008.

Contact Information

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41. General Services Administration Schedules Contracts Fee Rates

Re-evaluating fee rates on the General Services Administration's Multiple Award Schedules contracts could result in significant cost savings governmentwide.

Why This Area Is Important

In recent years, federal agencies spent nearly \$40 billion each fiscal year procuring goods and services through the General Services Administration's (GSA) Multiple Award Schedules (MAS) contracts. MAS contracts are operated to help leverage the buying power of the federal government by providing cost savings at prices associated with volume buying on millions of commercial goods and services. GSA awards and administers over 19,000 contracts with vendors under the MAS program.

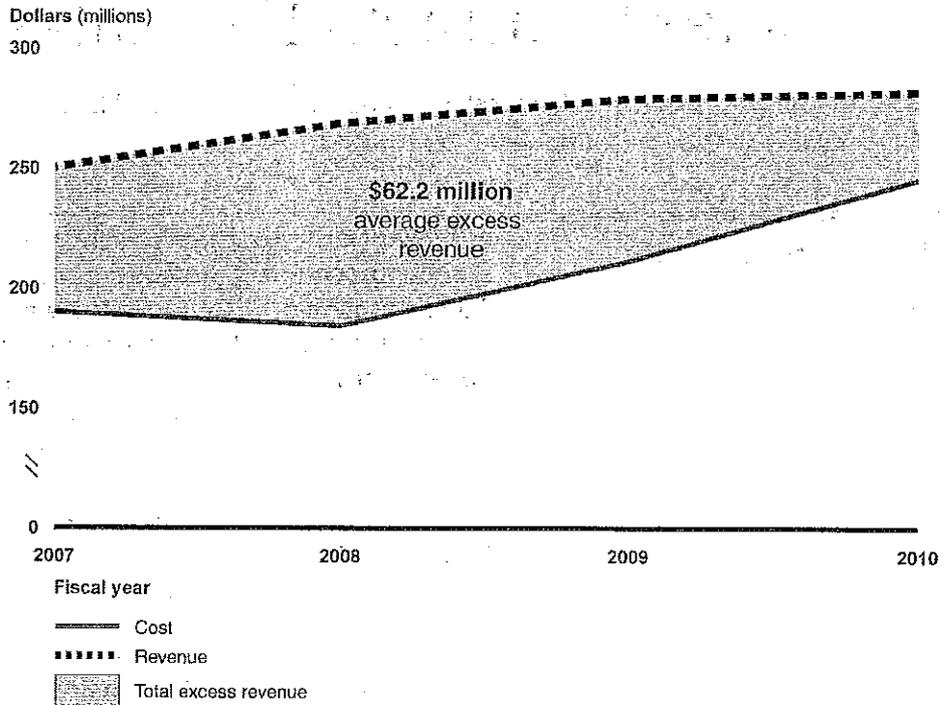
As permitted by statute, GSA charges customer agencies a fee when they place orders under MAS contracts. The MAS program's fee rate, which is expressed as a percentage of the dollar value of the order, has remained stable for the last 5 fiscal years at 0.75 percent. In fiscal year 2010, GSA collected approximately \$282 million in fee revenue from agencies that use the MAS contracts. GSA retains this revenue to support the MAS program.

What GAO Found

As GAO reported in September 2011, the revolving fund statute under which GSA operates its MAS program requires that GSA set its interagency contract fee rate to recover the costs of the program's operations.¹ It also provides that GSA may establish reserves for operating needs. The program is not required to break even on an annual basis. As such, the program is permitted to have excess revenue in a given year or annual costs that exceed revenue. The figure below shows the fee revenue GSA collected and GSA's costs to operate the MAS program during fiscal years 2007 through 2010, and illustrates the difference between those amounts, which GAO refers to as excess revenue. The figure also illustrates that although the annual excess revenue generated by GSA's MAS program has declined over those years, GSA's MAS program averaged an excess of \$62.2 million in revenue over program costs, before contributions to reserves, each fiscal year.

¹40 U.S.C. § 321(d)(2), which requires cost recovery "so far as practicable."

Fee Revenue versus Costs for the GSA MAS Program—Fiscal Years 2007 through 2010



Source: GAO analysis of GSA financial data.

Note: All data and calculations are in nominal dollars.

GSA maintains three reserves for all the programs operated through the revolving fund that includes the MAS program:

- the Working Capital Reserve, an operating reserve,
- the Business Reserve, which is to be used for planned improvement projects, and
- the Investment Reserve, which is to be used for improvements that were not planned when the revenue was placed in the reserve.

Excess revenue accumulates in the reserves until it is used for operations or improvement projects.

From fiscal years 2007 to 2010 GSA's reserve balances grew significantly, largely due to this excess revenue generated annually by the MAS program. At the end of fiscal year 2010, the combined balance of GSA's three reserves was over \$800 million—about \$350 million of which resided in the Working Capital Reserve to cover shortfalls in operating funds. Although GSA reviews its program fee rate annually as part of its budget process, there is nothing in GSA's internal guidance that would trigger an evaluation of the fee rate of an individual program, such as the MAS program, that consistently generates excess revenue resulting in the continuous growth of the reserve balances.

A reduction in the fee rate for the MAS program could generate significant cost savings for every agency of the federal government that uses the MAS program. For example, a reduction of 0.10 percentage points—from the current rate of 0.75 percent to 0.65 percent—would generate a savings of almost \$40 million per year.

Actions Needed and Potential Financial or Other Benefits

To improve the management of the MAS program, GAO recommended in September 2011 that the Administrator of General Services direct the Federal Acquisition Service Commissioner to

- develop and implement guidance for evaluation of current fee rates when an individual program consistently transfers excess revenue to the reserve funds.

Such an evaluation would allow GSA to determine whether a reduction in the fee rate of any of its programs might be warranted. A reduction of the fee rate for the MAS program alone would provide federal agencies potentially significant cost savings.

Agency Comments and GAO's Evaluation

GAO provided GSA with a copy of its September 2011 report for review and comment. GSA agreed with GAO's recommendation to develop and implement guidance. GSA is planning to issue a new policy in February 2012 that establishes an annual process to determine the need to conduct fee rate reviews for programs that produce an excess (or shortfall) of over \$5 million in revenue on average over any 3-year period. The draft policy also requires an automatic review of the fee rate of the MAS program each year. GSA plans to perform these assessments annually beginning in March 2012. GSA expressed concern about reducing the current fee rate in light of recent reductions in excess revenue. In this regard, GSA pointed out that it needs to ensure sufficient levels of reserves to fund needed improvements in the information technology systems that support its programs. GAO believes the annual process will provide for a more rigorous monitoring of the fee rates charged by GSA and provide a trigger for fee rate reviews when appropriate. The annual process could also give GSA further insight into the level of reserve funds that will be available for its information technology improvement projects.

As part of its routine audit work, GAO will track agency action to address the recommendation and report to Congress.

How GAO Conducted Its Work

The information contained in this analysis is based on the findings in the report listed in the related GAO product section as well as additional work GAO conducted. GAO analyzed cost and revenue data on the program for fiscal years 2007 through 2010. GAO also interviewed officials from GSA's MAS program, policy, and financial offices.

Related GAO Product

Interagency Contracting: Improvements Needed in Setting Fee Rates for Selected Programs. GAO-11-784. Washington, D.C.: September 9, 2011.

Contact Information

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42. U.S. Currency

Legislation replacing the \$1 note with a \$1 coin would provide a significant financial benefit to the government over time.

Why This Area Is Important

Over the past 40 years, many nations have replaced lower-denomination notes with coins as a means of providing a financial benefit to their governments. GAO has reported five times over the past 22 years that replacing the \$1 note with a \$1 coin would provide a net benefit to the government of hundreds of millions of dollars annually.¹

What GAO Found

The federal government realizes a financial gain when it issues notes or coins because both forms of currency usually cost less to produce than their face value. This gain, which is known as "seigniorage," equals the difference between the face value of currency and its costs of production.² Seigniorage reduces the government's need to raise revenues through borrowing, and with less borrowing, the government pays less interest over time, resulting in a financial benefit.

GAO updated its most recent March 2011 estimate³ due to changes by the Federal Reserve and Department of the Treasury (Treasury) in note processing and \$1 coin production⁴ and found that replacing the \$1 note with a \$1 coin would provide a net benefit to the government of approximately \$4.4 billion over 30 years, amounting to an average yearly discounted net benefit⁵ of about \$146 million. This benefit occurs because, based on differences in how notes and coins are used in the economy, more coins than notes will have to be circulated to meet

¹Over time, GAO's estimate has changed due to a variety of reasons, including the increased lifespan of the \$1 note and different assumptions in its analyses.

²Traditionally, seigniorage is defined as the difference between the face value of coins and their cost of production. As long as there is public demand, the government creates this net value when it puts coins into circulation. Similarly, when the Federal Reserve issues notes, it creates an analogous net value for the federal government, equal to the face value of the notes less their production costs.

³In March 2011, GAO estimated that replacing the \$1 note with a \$1 coin would provide a net financial benefit to the government of about \$5.5 billion over 30 years.

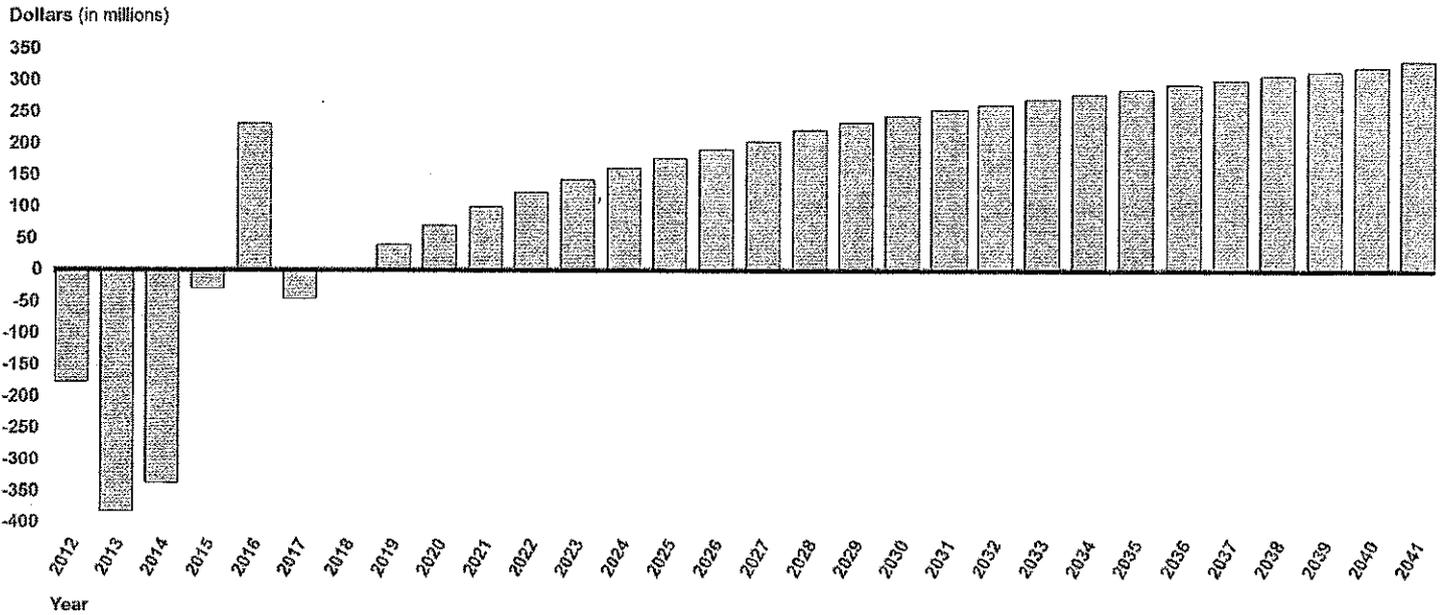
⁴In April 2011, the Federal Reserve put in place new equipment to process notes that extended the life of the \$1 note to approximately 56 months; GAO used an estimated note life of 40 months in its 2011 report. In December 2011, the Treasury Department decided to stop producing \$1 coins for circulation, relying on coins currently stored at the Federal Reserve to meet the relatively small transactional demand for \$1 coins.

⁵A discounted net value uses a rate, known as the discount rate, to convert the value of payments or receipts expected in future years to today's value, taking into account that the further into the future an amount is paid or received, the smaller its value is today. Applying a discount rate establishes a consistent basis for comparing alternative investments that will have differing patterns of costs and benefits over many years.

demand, and therefore more seignorage will be created. This estimate differs from what GAO reported in March 2011 because it takes into account the Treasury's decision in December 2011 to stop producing \$1 coins for circulation immediately. To meet public demand for the coins, the Treasury intends to rely on the approximately 1.4 billion \$1 coins currently stored with the Federal Reserve as of September 30, 2011. The current estimate also differs from the 2011 estimate because it uses a revised forecast that anticipates a lower government borrowing rate over the next 30 years and a longer life expectancy for the \$1 note that results from efficiencies in the way the Federal Reserve processes notes, which began in April 2011.

GAO's current estimate assumes a 4-year transition period beginning in 2012 during which the production of \$1 notes stops immediately and \$1 coins are quickly produced to meet demand for this currency denomination. This replacement scenario is compared to a status quo scenario under which \$1 notes remain the primary single dollar currency. The status quo scenario also incorporates the Treasury's December 2011 decision to rely on \$1 coins in storage to meet public demand for \$1 coins until that stock is nearly depleted, at which time production of \$1 coins would resume. According to the Treasury, the coins in storage could meet current levels of circulating demand for more than a decade. As shown in the figure below, the annual net benefit from replacing the \$1 note with a \$1 coin would vary over the 30 years—the government would incur a net loss in 6 of the first 7 years and then realize a net benefit in the remaining years. The early net loss from replacing the \$1 note is due in part to the up-front costs to the United States Mint of increasing its coin production during the transition, together with the limited interest expense the government would avoid in the first few years after replacement began. GAO's net benefit estimate is due solely to seignorage and not to reduced production costs. In fact, the production costs of transitioning to a \$1 coin are never recovered during the 30-year period. And like all estimates, it is uncertain, particularly in the later years, and thus the benefit could be greater or smaller than estimated.

Discounted Net Benefit to the Government of Replacing \$1 Notes with \$1 Coins over 30 Years, by Year



Source: GAO analysis.

The December 2011 action by the Treasury to stop producing \$1 coins for circulation and to meet public demand for the coin by using the \$1 coins currently being stored will reduce government costs by preventing the overproduction of \$1 coins. The overproduction results from the presidential \$1 coin program, which requires four new presidential \$1 coin designs, featuring images of past presidents in the order they served, to be issued each year.⁶ According to Federal Reserve officials, because the United States Mint delivers each new presidential coin design to banks in large quantities, banks have no choice but to order more coins than they ultimately need to fulfill the demand for new coins.⁷ As a result, unneeded coins are returned to the Federal Reserve, which held over 1.4 billion \$1 coins in storage as of September 30, 2011. The Treasury estimates that stopping production of \$1 coins for circulation while it draws down the coins in storage will save about \$50 million per year over the next several years in coin production costs. However, GAO estimates that eliminating \$1 notes and replacing them with a \$1 coin will have larger net benefit over time.

⁶Presidential \$1 Coin Act of 2005, Pub. L. No. 109-145 (2005), *codified at* 31 U.S.C. § 5112(p)(3)(D).

⁷Twelve regional Federal Reserve banks order coins from the United States Mint, which distributes coins directly to those banks. The Federal Reserve banks distribute coins as well as notes to commercial banks to meet the demand of retailers and the public. Some coins and notes are returned by commercial banks as deposits to the Federal Reserve banks, where they are processed for storage or recirculation. According to Federal Reserve officials, each new presidential coin design is delivered in units of 1,000.

Actions Needed and Potential Financial or Other Benefits

To reduce the costs associated with the \$1 note and \$1 coins in the long term, Congress may wish to consider

- replacing the \$1 note with a \$1 coin to achieve an estimated financial benefit of \$4.4 billion over 30 years. Legislation has been proposed that would make this replacement.⁸

Agency Comments and GAO's Evaluation

GAO provided a draft of this report section to the Federal Reserve and Treasury for review and comment. The Federal Reserve provided written comments that noted it believes GAO's estimate overstates the net financial benefit to the government because it does not (1) adequately address the costs to the Federal Reserve to reinforce the floors of its bank vaults to accommodate the heavier weight of coins or (2) consider potential increases in raw material costs for coins or possible future changes in discount rates. GAO included all costs to the Federal Reserve that the agency provided data on. The Federal Reserve provided no estimate of the additional cost to accommodate heavier coins. GAO used the best data available on coin production costs, which accounts for the cost of raw materials, and discount rate. The Federal Reserve also noted an increased risk of counterfeiting \$1 coins and the lack of a GAO sensitivity analysis that reflected further increases in electronic payments by the public. GAO reported in 2011 that counterfeiting of U.S. coins is currently minimal, according to the U.S. Secret Service. Furthermore, in 2011, GAO reported the results of a sensitivity analysis in which the replacement leads to a decrease in the demand for currency as people switch to electronic means of payment. GAO recognizes that changing conditions, such as how people use cash and the cost of materials in the future, may alter the total cost savings associated with the \$1 coin. The Treasury provided e-mailed comments that pointed out that GAO's analysis does not account for the impact on or costs to the private sector; both Treasury and the Federal Reserve noted that the analysis should not include seigniorage. As GAO reported in 2011, it found no quantitative estimates of the cost of replacement to the private sector that could be evaluated or modeled. GAO believes that seigniorage cannot be set aside since it is a result of issuing currency. The Treasury also provided technical comments, which were incorporated as appropriate. All written comments are reprinted in appendix IV.

⁸Currency Optimization, Innovation, and National Savings Act, H.R. 2977, 112th Cong. (2011). Other legislation has been proposed that would postpone the minting of new \$1 coins until the inventory of stored \$1 coins has been reduced (Currency Efficiency Act of 2011, S. 1624, 112th Cong. (2011)).

How GAO Conducted Its Work

The information contained in this analysis is based on findings from the product listed in the related GAO products section as well as additional work GAO conducted. GAO reviewed the Federal Reserve's June 2011 report on the \$1 coin⁹ and recent proposed legislation; and conducted interviews with senior officials from the Federal Reserve, the United States Mint, the Bureau of Engraving and Printing, and the Department of the Treasury. To estimate the net benefit to the government of replacing the \$1 note with a \$1 coin, GAO constructed an economic model with data from the Federal Reserve, the Bureau of Engraving and Printing, and the United States Mint. GAO's model assumptions covered a range of factors including the replacement ratio of coins to notes, the expected rate of growth in the demand for currency over 30 years, the costs of producing and processing both coins and notes, and the differential life spans of coins and notes. GAO arrived at its estimate of net benefit to the government by subtracting the benefit from a status quo scenario from the benefit of a replacement scenario. In the status quo scenario, notes remain the dominant form of currency at the \$1 denomination, the United States Mint ceases production of \$1 coins until the current stored coins are all released into circulation to meet public demand, and production of \$1 coins resumes after the stored coins are depleted. In the replacement scenario, GAO assumed, among other things, that the production of \$1 notes would stop immediately; no notes would be withdrawn from circulation, but because of their shorter life span, they would naturally fall out of circulation within a few years; and the United States Mint would expand its production of \$1 coins during the first 4 years. In estimating the net benefit to the government of replacing the \$1 note with a \$1 coin, GAO considered only the financial effect of this change on the government and did not consider other factors, such as the relative environmental and societal costs and benefits due to data limitations. GAO conducted sensitivity analyses that decreased the demand for currency as people switch to electronic payments and changed the number of coins needed to replace each note.

Related GAO Product

U.S. Coins: Replacing the \$1 Note with a \$1 Coin Would Provide a Financial Benefit to the Government. GAO-11-281. Washington, D.C.: March 4, 2011.

Contact Information

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⁹Board of Governors of the Federal Reserve System, *Annual Report to the Congress on the Presidential \$1 Coin Program* (June 2011).

43. Federal User Fees

Regularly reviewing federal user fees and charges can help the Congress and federal agencies identify opportunities to address inconsistent federal funding approaches and enhance user financing, thereby reducing reliance on general fund appropriations.

Why This Area Is Important

Federal user fees and charges are generally related to some voluntary transaction or request for government goods or services beyond what is normally available to the public, such as fees for national park entrance, patent applications, and customs inspections. Twenty-three federal agencies reported collecting nearly \$64 billion in fees or charges in fiscal year 2010. As GAO reported in May 2008, well-designed user fees can reduce the burden on taxpayers to finance those portions of activities that provide benefits to identifiable users. Regular, comprehensive fee reviews can help identify duplicative fee-funded activities, prevent misalignment between fees and the activities they cover, and maximize opportunities for user financing.

What GAO Found

In many instances, Congress has provided specific authority to federal agencies to assess user fees in agency authorization or appropriations legislation. Agencies that lack specific statutory authority to charge fees can rely on the Independent Offices Appropriation Act of 1952¹ which provides broad authority to assess user fees or charges on identifiable beneficiaries by administrative regulation.² When a fee's authorizing statute does not specify review and reporting requirements, and for fees that derive their statutory authority from the Independent Offices Appropriation Act, the CFO Act of 1990³ (CFO Act) and OMB Circular No. A-25 directs agencies to biennially review their fees and to recommend fee adjustments as appropriate. In addition, OMB Circular No. A-25 directs agencies to include non-fee-funded programs in these reviews to determine whether fees should be initiated for government services or goods for which fees are not currently charged. Further, if imposing such fees is prohibited or restricted by law, agencies are to recommend legislative changes as appropriate. Moreover, agencies are to discuss the

¹Pub. L. No. 82-137 (Aug. 31, 1951), *codified at*, 31 U.S.C. § 9701.

²User fees assessed under the Independent Offices Appropriation Act's authority must be (1) fair and (2) based on costs to the government, the value of the service or thing to the recipient, public policy or interest served, and other relevant facts. Fees collected under this authority are deposited in the general fund of the U.S. Treasury and are generally not available to the agency or the activity generating the fees. Unless otherwise authorized by law, the act requires that agency regulations establishing a user fee are subject to policies prescribed by the President.

³Pub. L. No. 101-576 (Nov. 15, 1990), *codified at*, 31 U.S.C. § 902. The CFO Act requires agencies to report on "fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides." For the purposes of this discussion, GAO collectively refers to all of these as user fees.

results of these reviews and any resulting proposals, such as adjustments to fee rates, in the CFO annual report required by the CFO Act. This discussion may be included in agency performance and accountability reports. Lastly, budget formulation guidance to agencies in OMB Circular No. A-11 directs agencies to follow fee review guidance in OMB Circular No. A-25 and to report on the results of fee reviews in CFO Act reports.

GAO previously reported that not reviewing fees regularly can result in large fee increases and create costly challenges. For example, prior to its 2007 fee review, U.S. Citizenship and Immigration Services had not conducted a comprehensive review of its immigration and naturalization fees in 9 years and, as a result, had to increase fees by an average of 86 percent to cover its costs. Further, during the month before the fee increase took effect, applications increased an unprecedented 100 percent over the prior month, far outpacing the agency's processing capacity. As a result, 1.47 million applications were delayed and the agency incurred unplanned costs to secure additional facilities to store these applications.

In May 2008, GAO issued its User Fee Design Guide, which examined how the four key design and implementation characteristics—how fees are set, collected, used, and reviewed—may affect the economic efficiency, equity, revenue adequacy, and administrative burden of the fees. The Design Guide also stated that the tools for congressional and stakeholder oversight could be enhanced by agencies reporting the methods for setting fees, including an accounting of program costs and assumptions it uses to project future program costs and fee collections.

In GAO's 2011 survey of the 24 agencies covered by the CFO Act and OMB Circular No. A-25, 21 of the 23 agencies that responded reported charging more than 3,600 fees and collecting nearly \$64 billion in fiscal year 2010, but agency responses indicated varying levels of adherence to the biennial review and reporting requirements of the CFO Act and OMB Circular No. A-25.⁴ The survey responses indicated that for most fees, agencies (1) had not discussed fee review results in annual reports, and (2) had not reviewed the fees and were inconsistent in their ability to

⁴Twenty-three of the 24 departments covered by the CFO Act and OMB Circular No. A-25 responded to GAO's survey. The Department of Defense did not respond to GAO's survey. The Department of Education and the National Science Foundation reported no fees. The Department of Commerce's National Technical Information Service is a fee-based agency that charges more than 3 million different fees as a clearing house for government-funded, technical, engineering and business related information. The service reported these as a single fee. For all Department of Commerce Bureaus, other than the U.S. Patent and Trademark Office, fee collections are as of June 30, 2010, per the Department of Commerce. The U.S. Patent and Trademark Office reported collections for all of fiscal year 2010. There may be some duplication of reported fees as both the Department of Commerce and Department of State reported collecting fees for Commercial Services. The Mint reported a single fee and collection amount for the fees related to all Numismatic products which account for \$3.25 billion of the Department of the Treasury's total collections.

provide fee review documentation. Specifically, agencies reported that only 29 percent of the fees (1,064 fees), representing only 37 percent (\$23.6 billion) of total fee collections in fiscal year 2010 were discussed in their CFO annual report as directed by OMB Circular No. A-25. However, agencies reported reviewing 1,687 fees, which make up about 46 percent of the total 3,666 fees charged.⁵ This suggests that agencies are reviewing more fees than are being discussed in their annual reports. For agency responses, please see the table below. While these reviews may provide information for agency management and decision making, the extent to which this information is being shared with congressional decision makers or other stakeholders appears far more limited. When asked why they did not review individual reported fees, agencies most commonly chose "other" amongst the survey responses provided. When selecting "other," agency-provided responses included that fees were based upon market prices, that the fee was set or administrated by another agency, or that they did not review some fees because the fee was set in legislation, and therefore they may not have the authority to revise the fee. Agencies also commonly selected responses that GAO provided, including minimal total fee collections or that fee requirements were not clear. GAO has previously reported that to ensure decision makers have complete information about program costs and activities, agencies must substantively review and report on all cost-based fees regularly, regardless of whether agencies have sole discretion for revising fee rates.

⁵Agency documentation of these fee reviews varied, limiting GAO's ability to corroborate individual fee reviews and the recency and frequency of these fee reviews.