

**WASTE AND INEFFICIENCY IN THE FEDERAL
GOVERNMENT: GAO'S 2016 DUPLICATION REPORT**

HEARING

BEFORE THE

**COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS**

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WASTE AND INEFFICIENCY IN THE FEDERAL GOVERNMENT: GAO'S 2016 DUPLICATION REPORT

Wednesday, April 13, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
WASHINGTON, D.C.

The committee met, pursuant to call, at 10:01 a.m., in Room 2154, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the committee] presiding.

Present: Representatives Chaffetz, Mica, Duncan, Jordan, Walberg, Amash, Gosar, Farenthold, Massie, Meadows, DeSantis, Buck, Walker, Blum, Russell, Carter, Grothman, Hurd, Palmer, Cummings, Maloney, Connolly, Cartwright, Kelly, DeSaulnier, and Lujan Grisham.

Chairman CHAFFETZ. The Committee on Oversight and Government Reform will come to order. Without objection, the chair is authorized to declare a recess at any time.

I appreciate the group that we have assembled today. This is always of keen interest, the duplication report. Government is so big, so wide, so expansive, we're talking about trillions of dollars in expenditures, and we're always seeking ways to make the government's dollars more effective, more efficient.

This morning the Government Accountability Office has released its sixth annual report on opportunities to reduce fragmentation, overlap, and duplication in the Federal Government to achieve financial and other benefits. And over the course of the 6 years, the GAO has highlighted 250 areas of the Federal Government and recommended more than 600 corrective actions.

We cannot thank enough the men and women who serve in the GAO, the good work that they do, doing hard work, looking under the hood, and really coming up with important recommendations that we as Members of Congress desperately need in order to do our jobs properly.

Forty-one percent of the recommended corrective actions have been fully addressed and closed, which GAO reports will save about \$125 billion by the year 2025. This report reveals that persistent efforts to address inefficiencies and resolve wasteful spending can provide significant benefits to the public. Yet, with only 41 percent of actions addressed, more, obviously, needs to be done. And taking action at just three agencies, the Department of Defense, the Department of Health and Human Services, and the Internal Revenue Service, if we did just those three, we would save literally billions

upon billions of dollars. Combined, these agencies account for more than half of all Federal spending in fiscal year 2015.

More than half of all corrective actions in GAO's annual reports are directed at these three agencies. Yet, all three agencies have more than 60 percent of the recommended actions still open. For example, the GAO estimates the IRS could save hundreds of millions of dollars in increased revenue by enhancing its online services.

In 2013, GAO recommended the IRS develop a methodology for its allocation of enforcement resources. The IRS developed a methodology, but to date it has chosen not to implement it. Such inaction costs taxpayers time and money. The IRS needs to explain their refusal to take this corrective action.

In a new area highlighted in this year's report, the IRS is using a paper-based system to receive and track tips on tax noncompliance through public referral programs in nine different offices. GAO estimates that coordination and information sharing could help the IRS identify and collect billions of dollars in tax revenue.

It shouldn't take a GAO report to point out that coordinating investigations prevents duplicative work and ensures taxpayer resources are used efficiently and effectively.

In 2015, GAO recommended the Centers for Medicare and Medicaid Services should ensure States report accurate and complete data on State sources of funds. Seems fairly reasonable. GAO estimates that CMS could save the taxpayers hundreds of millions of dollars, but CMS has not taken this action.

And in 2013, the GAO recommended the Department of Defense implement a plan to guide joint basing, meaning multiple military services using a single base to achieve efficiencies. The DOD has yet to complete this action, even though it could save as much as \$2.3 billion over a 20-year period.

Why do we need to come back year after year to discuss the same actions? That's in part what we're going to be discussing today. Obviously, the Federal Government has an obligation not to waste taxpayer dollars. We're pulling money out of somebody's pocket and then we're trying to give it to somebody else and use that, and we've got to be very, very cognizant of this wasteful taxpayer spending.

All Federal workers should consider it part of their job description to prevent waste and should embrace their role as fiduciaries for the American public. Disagreements over policy can lead to disagreements over appropriate spending, but the imperative to prevent waste is something we can all agree on on both sides of the aisle. When we know it's about waste and inefficiency, we have to act. This GAO annual report provides a roadmap to tackling that known waste and inefficiency is out there.

So we have a lot of questions, a host of questions here, but we do look forward to and want to maximize the time for member input. So with that, I'd like to recognize the ranking member, Mr. Cummings of Maryland, for his opening statement.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, for once again holding what has become a tradition for our committee and for making sure that GAO's report gets the attention it warrants. This type of oversight is one of the core functions of our committee.

Today, we will focus on GAO's sixth annual report on duplicative programs and opportunities for cost savings in the Federal Government. This report allows the executive branch and Congress to work together to identify critical areas where we can reduce waste and make Federal programs more efficient and effective. This report is interesting because it focuses on both the executive branch and Congress.

Since 2011, GAO's reports have consistently shown that Congress has been doing far worse than the executive branch in implementing GAO's recommendations. Today's report is no different. It shows that Congress could be doing much more to foster a more efficient, effective, and accountable government.

According to the GAO, the executive branch has fully or partially completed 81 percent of GAO's recommendations—81 percent. That is an impressive success rate, particularly in the light of the budget cuts agencies have endured in recent years.

Congress, on the other hand, has implemented only about 46 percent of GAO's recommendations. Even with that 46 percent, it's kind of generous because GAO gives Congress credit for taking partial action by just moving a bill through committee, even if it has not been passed either in the House or the Senate.

Mr. Chairman, during last year's hearing you thanked GAO for, "providing Congress and the executive branch with a roadmap for achieve needed savings." According to the GAO, the administration has done a much better job of following that roadmap than we here in Congress.

Specifically, GAO made 459 recommendations for the executive branch and 372 have now been fully or partially completed. In contrast, GAO has made 85 recommendations for Congress, but only 37 of those have been fully or partially completed. GAO's new report highlights areas where Congress could legislate right now to eliminate waste and duplication.

For example, GAO recommended that Congress pass legislation to protect private citizens who report tax fraud to the IRS from retaliation by their employers. It is vital that we protect these whistleblowers and reward them for their service.

That is why in February Senator Baldwin and I introduced the WARN Act. Our bill would increase incentives for people who blow the whistle on financial crimes, including misrepresentations of tax liabilities and public filings. The bill has been endorsed by many organizations, including POGO, Americans for Financial Reform, the AFL-CIO, and the Communications Workers of America, and I hope Congress can consider this bill this year.

GAO also recommended that Congress lower the threshold requiring employers to electronically file W-2s to help IRS detect fraudulent refund claims. The GAO's 2016 report also recognizes improvements by Federal agencies and includes a number of recommendations for Federal agencies going forward. For example, GAO highlighted a number of success stories at the Centers for Medicare and Medicaid Services, including eliminating duplicative contracts and improving processes for identifying improper payments. Through improvements to Medicaid, the Medicaid Integrity Program, CMS helped recover nearly \$657 million of improper Medicaid payments in fiscal year 2015, according to the GAO.

On the flip side, GAO found that the Department of Defense still has 79 major weapon systems programs of a total acquisition cost of over \$14 trillion. DOD spends \$100 billion each year on these systems but has failed to strategically manage those investments, resulting in inefficiency and waste. Taxpayers and our troops deserve better than that.

I want to thank all of our witnesses today. To Mr. Dodaro, you and your talented staff provide a critical service to the Congress and the American people with this annual report, as well as with the work you do every day to help ensure our tax dollars are spent wisely. And I hope that you will share with all of your employees how grateful we are for their pursuit of excellence and for them helping to provide us with the roadmaps to make a difference.

And with that, Mr. Chairman, I yield back.

Chairman CHAFFETZ. I thank the gentleman.

We'll hold the record open for 5 legislative days for any members who'd like to submit a written statement.

Chairman CHAFFETZ. And we'll now recognize our panel of witnesses. We have quite a few people to swear in. But we're first pleased to welcome the Honorable Gene Dodaro, who's the comptroller general of the United States at the United States Government Accountability Office.

Sir, we're pleased to have you come before our committee. Again, you are one of the more important people that we have come here, you have given your insight and your commitment to these issues. And, again, I can't thank your staff enough for the great work that they do behind the scenes.

A number of those key staff people are here. We wanted to maximize the opportunity for members to dive deeper into some of these issues. And pursuant to committee rules, we are going to swear these people in as well.

These experts that are here include Ms. Cathleen Berrick, managing director for defense capabilities on the management team; Mr. Paul Francis, managing director, Acquisition and Sourcing Management team; Mr. Chris Mihm, managing director, Strategic Issues team; Ms. Nikki Clowers, managing director, Health Care team; Ms. Orice Williams Brown, managing director, Financial Markets and Community Investment team; Mr. Phillip Herr, managing director, Physical Infrastructure team; Ms. Barbara Bovbjerg, managing director, Education, Workforce and Income Security team; Mr. Seto Bagdoyan—I hope I pronounced it properly—Forensic Audits and Investigative Services team; and Mr. Dave Powner, director, Information Technology team.

My apologies if I didn't get all of those names proper.

We also have Mr. John Dalrymple, deputy commissioner for services and enforcement at the Internal Revenue Service at the United States Department of Treasury; Mr. David Tillotson, deputy director and defense chief management officer at the United States Department of Defense; and Dr. Patrick Conway.

And, Doctor, you've got a title here. Acting principal deputy administrator, deputy chief administrator for innovation and quality, and chief medical officer at the Centers for Medicare and Medicaid Services at the United States Department of Health and Human Services.

So I thank you again for all of your good work and for your being here.

Pursuant to committee rules, all witnesses are to be sworn before they testify. For those on the panel as well as those accompanying Mr. Dodaro, if you all please rise and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Thank you. You may all be seated.

Please let the record reflect that all witnesses answered in the affirmative.

We would ask the four panelists that are here at the table to please limit your oral testimony to 5 minutes, then members will have ample time to ask questions.

And, Mr. Dodaro, it's your discretion if you want to yield time to particular individuals as we get into the questions, and we have a seat there if need be. But, Mr. Dodaro, you're now recognized for 5 minutes.

WITNESS STATEMENTS

STATEMENT OF GENE L. DODARO

Mr. DODARO. Thank you very much, Mr. Chairman. Good morning to you, Ranking Member Cummings, members of the committee. We're very pleased to be here today to discuss GAO's sixth annual report on overlap, duplication, and fragmentation in the Federal Government, and also other opportunities to achieve cost savings and revenue enhancements.

In this report, we introduce 92 new actions that the Congress and the executive branch can take in 37 different areas. And to give you some examples, in the overlap, duplication, fragmentation area, we highlight 12 areas. For example, we found that the Defense Department is procuring commercial services for satellites, and in the billion dollars that they spend, about 30 percent of that was spent outside their central procurement agency by the different services and other agencies throughout the Department. And as a result, in the central agency, the costs were about 15 percent less than purchasing it outside the central offices. So we think there's better money to be saved there, tens of billions of dollars.

We also found nine referral programs at IRS for whistleblowers and others to report improper activities that would give IRS some tips to follow up for tax enforcement purposes and potentially produce billions of dollars in additional revenue owed the government. But these systems were manually operated, they were fragmented, they weren't coordinated, and there were a lot of opportunities to streamline and provide better communication to the people providing tips.

Also, we found there was potential for duplicative healthcare spending between people who were on Medicaid or in the State exchanges. There's some amount of transfer time that could be made if people's income levels change or they become eligible for Medicaid or the services. But we found that activities outside that normal transition period, and we recommended that in order to minimize any duplicate Federal spending, that better coordination

would need to take place and better oversight by CMS over the Medicaid programs at the State level and with the exchanges.

In areas of cost savings and revenue enhancements, we've got a number of recommendations this year that are new. We have opportunities to save a lot of money in overpayments for disability programs by the Social Security Administration. There are billions to be saved in revamping some of the payment policies that guide Medicare spending. There's greater need for oversight to save—you could save hundreds of millions of dollars, if not billions, by greater oversight of CMS over Medicaid spending and the States' activities. There's also millions that could be saved by the Federal agencies having better access to excess personal property at DOD and ammunition that's discarded but could be used by other Federal agencies so we don't have to buy it twice in that process. And there's some fees that could be raised that haven't been raised in over 20 years to help provide more resources, in particular to deal with deferred maintenance in our National Parks.

To date, as Mr. Chairman mentioned and Mr. Cummings in their opening statements, Congress and the administration have acted on many of our recommendations. Of the 544 that we've made previously, 41 percent have been implemented, 34 percent partially, 20 percent not yet implemented at all. There are tens of billions of dollars in additional savings to be had in the offing here if those recommendations are fully acted upon.

To date, as you mentioned, Mr. Chairman, in your opening statement, it's about \$125 billion that have been saved or will be saved over the coming years. We're pleased that the Congress has taken action. A lot of the large dollar savings have come from congressional action. And also in a number of areas where the agencies have taken action, it's because of congressional urging as well.

But there's a lot more that could be done. I am very pleased to be here today to talk about those opportunities in addition to the new areas that we have added to the list. Thank you for holding this annual hearing. It makes a big difference in getting support.

And I will pass on to our staff your thanks and appreciation for their hard work, Mr. Chairman, Congressman Cummings. Thank you for your comments. And I would be happy to answer questions at the appropriate point.

[Prepared statement of Mr. Dodaro follows:]

GAO Highlights

Highlights of GAO-16-579T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The federal government continues to face an unsustainable long-term fiscal path based on the imbalance between federal revenue and spending. As the fiscal pressures facing the government continue, so too does the need for the Congress and executive branch agencies to improve the efficiency and effectiveness of government programs and activities. Such opportunities exist throughout government.

To bring these opportunities to light, Congress included a provision in statute for GAO to annually identify federal programs, agencies, offices, and initiatives (both within departments and government-wide) that are duplicative. As part of this work, GAO also identifies areas that are fragmented or overlapping as well as additional opportunities to achieve cost savings or enhance revenue collection. GAO's 2016 annual report is its sixth in this series (GAO-16-375SP).

This statement discusses

- new issues GAO identifies in its 2016 report;
- the status of actions Congress and executive branch agencies have taken to address issues GAO identified in its 2011-2015 reports; and
- opportunities to achieve significant benefits from selected areas included in this year's and past annual reports.

To identify what actions exist to address these issues and take advantage of opportunities for cost savings and enhanced revenues, GAO reviewed and updated prior work, including recommendations for executive action and matters for congressional consideration.

View GAO-16-579T. For more information, contact Orice Williams Brown at 202-512-9678 or orwilliams@gao.gov or A. Nicole Clowers at clowers@gao.gov or (202) 512-7114.

April 13, 2016

GOVERNMENT EFFICIENCY AND EFFECTIVENESS

Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits

What GAO Found

GAO's 2016 annual report identifies 92 new actions that Congress and executive branch agencies could take to improve the efficiency and effectiveness of government in 37 areas. GAO identifies 12 areas in which there is evidence of fragmentation, overlap, or duplication. For example, GAO found that the Internal Revenue Service could potentially collect billions of dollars in taxes owed and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes within its nine public referral programs. GAO also identifies 25 areas where opportunities exist to reduce the cost of government operations or enhance revenue collections. For example, GAO found that Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.

Congress and executive branch agencies have made progress in addressing the 544 actions government-wide that GAO identified in its past annual reports. As of March 2, 2016, 41 percent of these actions were addressed, 34 percent were partially addressed, and 20 percent were not addressed. Congressional and executive branch efforts to address these actions over the past 5 years have resulted in roughly \$56 billion in financial benefits, with at least an additional \$69 billion in estimated benefits projected to be accrued through 2025. These estimates are based on a variety of sources that considered different time periods, assumptions, and methodologies.

Status of 2011-2015 Actions Directed to Congress and the Executive Branch, as of March 2, 2016

Status	Number of executive branch actions (percentage)	Number of congressional actions (percentage)	Total (percentage)
Addressed	197 (43%)	27 (32%)	224 (41%)
Partially addressed	175 (38)	10 (12)	185 (34)
Not addressed	68 (15)	43 (51)	111 (20)
Consolidated or other	19 (4)	5 (6)	24 (4)
Total	459 (100)	85 (100)	544 (99)

Source: GAO | GAO-16-579T

Note: The total percentage does not add to 100 due to rounding.

While Congress and executive branch agencies have made progress toward addressing the actions GAO has identified, further steps are needed to fully address the remaining actions. GAO estimates that tens of billions of additional dollars would be saved should Congress and executive branch agencies fully address actions that are currently partially addressed or not addressed, including the new actions GAO identified in 2016. A substantial number of GAO's actions from the 2011-2016 annual reports fall within the areas of health care, defense, and revenues, and these areas have significant opportunities for cost savings or other financial benefits. For example, in the 2015 annual report, GAO reported that DOD could potentially achieve hundreds of millions of dollars in cost savings by re-evaluating its headquarters reductions efforts and conducting periodic reassessments of workforce requirements.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee:

I appreciate the opportunity to discuss our 2016 annual report, which presents 92 new actions for Congress or executive branch agencies to reduce, eliminate, or better manage fragmentation, overlap, and duplication and achieve other financial benefits.¹ My testimony today describes (1) new issues identified in our 2016 annual report; (2) the status of actions taken by Congress and executive branch agencies to address the issues identified in our past annual reports;² and (3) opportunities to achieve significant benefits from selected areas included in this year's and past annual reports.

My comments are based upon our 2016 annual report, which is being released today, as well as our update on the progress made in implementing actions that we have suggested in our previous annual reports.³ These efforts are based upon work GAO conducted in accordance with generally accepted government auditing standards.⁴

¹GAO, *2016 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-16-375SP (Washington, D.C.: Apr. 13, 2016).

²GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011); *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington, D.C.: Feb. 28, 2012); *2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-13-279SP (Washington, D.C.: Apr. 9, 2013); *2014 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-14-343SP (Washington, D.C.: Apr. 8, 2014); and *2015 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-15-404SP (Washington, D.C.: Apr. 14, 2015).

³See GAO's *Action Tracker*, a publicly available website that includes progress updates and assessments of the actions from this series of reports.

⁴Because our 2016 annual report is based on previously issued GAO products, in many cases we cite November 1999 internal control standards as criteria; see GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). When cited, these criteria were effective at the time of our review. However, new internal control standards for the federal government became effective beginning October 1, 2015; see GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014). Any corrective action that agencies plan to take should be in accordance with the new standards.

More details on our scope and methodology can be found in the full report.

Ninety-Two New Actions Identified to Improve Efficiency and Effectiveness across the Federal Government

Of the 92 new actions we identified in our 2016 annual report, 33 are directed at the 12 areas in which we found evidence of fragmentation, overlap, or duplication in government missions such as defense, economic development, health, homeland security, and information technology.⁵ As described in table 1, these 12 areas span a wide range of federal functions or missions.

Table 1. Fragmentation, Overlap, and Duplication Areas Identified in GAO's 2016 Report, by Mission

Mission	Areas Identified
Defense	<p>DOD Commercial Satellite Communication Procurements: Enforcing existing acquisition policy and identifying opportunities to centralize the Department of Defense's procurement of commercial satellite communications services could create opportunities to potentially save tens of millions of dollars annually.</p> <p>DOD's Storage of Occupational and Environmental Health Surveillance Data: Inconsistencies among the policies of the Department of Defense and the military services have contributed to fragmented and duplicative efforts to store occupational and environmental health surveillance data needed to track and assess service-related health conditions of returning servicemembers and veterans.</p> <p>Weapon System Portfolio Management: By using portfolio management more effectively, the Department of Defense could help ensure that the more than \$100 billion it spends annually on weapon system acquisitions contributes to its strategic goals and could reduce the potential for overlapping and unnecessarily duplicative investments.</p>
Economic development	<p>Manufacturing Loan Guarantees: The Economic Development Administration could better ensure that the activities carried out under the Innovative Technologies in Manufacturing program do not duplicate the efforts of other federal loan guarantee programs by working with other agencies to identify and target capital access gaps not filled by other programs.</p>

⁵This does not include the six new actions that were added to existing areas we previously identified in our 2011-2015 annual reports.

General government	<p>Financial Regulatory Structure: To reduce or better manage fragmentation and overlap, Congress should consider changes to the financial regulatory structure, and the Board of Governors of the Federal Reserve System and the Office of Financial Research should take steps to improve collaboration in monitoring systemic risk.</p> <p>IRS's Public Referral Programs: The Internal Revenue Service could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.</p>
Health	<p>Medicaid and Exchange Coordination: The Centers for Medicare & Medicaid Services should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage.</p>
Homeland security/law enforcement	<p>Department of Homeland Security's Human Resources Systems: To address issues related to fragmented systems and duplicative processes, the Department of Homeland Security should take steps to (1) ensure that its Human Resources Information Technology investment receives necessary oversight and attention from its steering committee and (2) evaluate and update the investment's strategic planning document.</p> <p>Security of Federal Facilities: The Federal Protective Service and General Services Administration need to improve collaboration in key areas to better manage fragmentation and enhance the agencies' ability to protect federal facilities.</p>
Information technology	<p>Tribal Internet Access: Greater coordination among the Federal Communications Commission's Universal Service Fund subsidy programs and the U.S. Department of Agriculture's Rural Utilities Service grant programs could result in more efficient and effective support of Internet access for tribal communities.</p>
International affairs	<p>U.S. Embassy Kabul Construction: A strategic facilities plan for construction projects in Kabul, Afghanistan, could enhance the planning and coordination among Department of State bureaus and reduce the likelihood of fragmented construction efforts and duplicative facilities.</p> <p>U.S.-Funded Development Innovation Programs: The U.S. Agency for International Development should establish a joint approach to collaboration among its Development Innovation Ventures program and other similar U.S.-funded programs in India to better manage overlap.</p>

Source: GAO | GAO-16-579T

We consider programs or activities to be fragmented when more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and there may be opportunities to improve how the government delivers services. We identified fragmentation in multiple programs we reviewed. For example, in our 2016 annual report, we reported fragmentation in the Department of Defense's (DOD) procurement of commercial satellite communications services. We found that approximately 34 percent (about \$290 million) of fixed commercial satellite communications was procured outside the Defense Information System Agency, contrary to DOD policy, and that DOD had not performed an analysis to identify inefficiencies and opportunities to consolidate purchases. Among other things, we recommended that DOD conduct a spend analysis that identifies procurement inefficiencies and opportunities to consolidate purchases in

order to potentially save tens of millions of dollars annually, DOD agreed with our recommendations but had yet to fully address them as of March 2016.

Fragmentation can also be a harbinger for overlap or duplication. Overlap occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. We found overlap among federal programs or initiatives in a variety of areas, such as the Internal Revenue Service's (IRS) nine public referral programs. We found that IRS could potentially collect billions of additional dollars in taxes owed through these programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes. We made several recommendations to IRS, including that it establish a coordination mechanism to communicate across the multiple referral programs, develop an online referral submission process, streamline the review process, and improve external communication. IRS agreed with our recommendations and plans to implement some of them by October 2016; however, it had not provided an action plan or time frames for other referral program recommendations as of March 2016.

In other aspects of our work, we found evidence of duplication or risk of duplication, which occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries. An example of potentially duplicative federal efforts involves coordination between Medicaid and federally subsidized health insurance purchased through the exchanges created under the Patient Protection and Affordable Care Act.⁶ Although a limited amount of duplicate coverage may be expected—and is permitted under federal law—for individuals completing the transition from subsidized exchange to Medicaid coverage, we found that duplicate coverage was also occurring outside of this transitional period. While the Centers for Medicare & Medicaid Services (CMS)—within the Department of Health and Human Services (HHS)—has taken some steps to minimize the potential for duplicate coverage in states with federally facilitated exchanges, we found that its policies and procedures were not sufficient based on federal standards for internal control.

⁶Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (2010). For the purposes of this statement, references to the Patient Protection and Affordable Care Act include the amendments made by HCERA.

We recommended that CMS establish a schedule for regular checks for duplicate coverage in states with federally facilitated exchanges and develop a plan to routinely monitor the effectiveness of the checks and other planned procedures to minimize duplicate coverage. HHS agreed with our recommendations and as of March 2016, was in the process of refining these checks, but had not established a schedule for doing so. By implementing our recommendation, HHS could ultimately help protect the federal government from unnecessary and duplicative expenditures.

In addition to areas of fragmentation, overlap, and duplication, our 2016 report suggested 59 new actions in 25 areas that Congress and executive branch agencies can take to reduce the cost of government operations or enhance revenue collections for the U.S. Treasury. These 25 areas exist in a wide range of federal government missions (see table 2).

Table 2. Cost Savings and Revenue Enhancement Opportunities Identified in GAO's 2016 Report, by Mission

Mission	Areas Identified
Defense	<p>Defense Excess Property Disposal: Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of the Department of Defense's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.</p> <p>DOD's Eligibility Determinations for Living Quarters Allowance: The Department of Defense (DOD) could potentially achieve cost savings by monitoring its components' reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance.</p> <p>DOD Excess Ammunition: The Department of Defense could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.</p> <p>DOD Leases and Use of Underutilized Space at Military Installations: The Department of Defense could potentially achieve millions of dollars in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies.</p>
Economic development	<p>Treasury's Foreclosure Prevention Efforts: The Department of the Treasury could potentially achieve billions in financial benefits by reviewing the potential for unexpended balances for the Making Home Affordable Program and deobligating excess funds, which Congress could rescind and direct to other priorities.</p>

<p>General government</p>	<p>Bridge Contracts: When bridge contracts—which include extensions to existing contracts and short-term noncompetitive contracts to avoid a gap in service—are used frequently or for prolonged periods of time, the government is at risk of paying more than it should for goods and services.</p> <p>Federal Supply Schedules: Agencies are paying insufficient attention to prices when using the Federal Supply Schedules program and may be missing opportunities for cost savings.</p> <p>Federally Leased Vehicles: The General Services Administration and selected agencies could potentially reduce costs by improving the processes for justifying the use of vehicles in the federal fleet and taking actions for any vehicles that may be underutilized.</p> <p>Financing of Improvements of Federally Leased Space: In order to achieve millions in potential cost savings, the General Services Administration should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates.</p> <p>Identity Theft Refund Fraud: The Internal Revenue Service and Congress could potentially save billions of dollars in fraudulent refunds by improving the agency's efforts to prevent refund fraud associated with identity theft.</p> <p>National Park Service Fees: The National Park Service could potentially increase revenues from the recreation fees it collects by millions of dollars annually if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees.</p> <p>Unobligated Balances: To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts.</p>
<p>Health</p>	<p>Distribution of Medicaid Supplemental Payments: The Centers for Medicare & Medicaid Services should provide written guidance to state Medicaid programs clarifying its policies that the distribution of Medicaid supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share—actions that could result in substantial cost savings.</p> <p>Eligibility of Medicare Providers and Suppliers: The Centers for Medicare & Medicaid Services could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the billions of dollars in improper payments that the program has paid out in recent years.</p> <p>Medicaid Demonstration Approved Spending: The Secretary of Health and Human Services could potentially curtail spending growth of Medicaid demonstrations, which have resulted in the authorization of billions of dollars in federal spending, by establishing specific criteria for assessing whether demonstration spending furthers Medicaid objectives and taking other steps to improve the transparency and accountability of the approval process.</p> <p>Medicaid Eligibility Determinations: The Centers for Medicare & Medicaid Services should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments.</p>

Health	<p>Medicaid Payments to Institutional Providers: The Centers for Medicare & Medicaid Services should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of hundreds of millions of dollars.</p>
	<p>Medicare Payments by Place of Service: Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.</p>
Income security	<p>Disability Insurance and Federal Workers' Compensation: The Social Security Administration should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.</p> <p>Disability Insurance Overpayments: To help prevent the loss of billions of dollars, the Social Security Administration should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.</p> <p>Disability Reviews: The Social Security Administration may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.</p> <p>VA's Individual Unemployability Benefit: To potentially achieve cost savings, the Department of Veterans Affairs should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated \$15 billion in savings from 2015 through 2023, according to the Congressional Budget Office.</p>
Information technology	<p>Federal Mobile Telecommunications: In order to achieve substantial government-wide savings, federal agencies should establish better controls on mobile device spending, and the Office of Management and Budget should monitor progress in achieving these savings.</p>
International affairs	<p>Cargo Preference for Food Aid: A clearer definition of "geographic area" in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.</p>
Training, employment, and education	<p>Post 9/11 GI Bill Overpayments: The Department of Veterans Affairs could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.</p>

Source: GAO. | GAO-16-579T

Examples of areas with opportunities to reduce costs or enhance revenue collections from our 2016 annual report include Medicare Payments by Place of Service, Disability Insurance Overpayments, and National Park Service Fees.

- *Medicare Payments by Place of Service:* In fiscal year 2015, Medicare served about 55 million beneficiaries at a cost of \$634 billion. In December 2015, we found that the program could save billions of dollars annually if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed. For example, Medicare spending on hospital outpatient department services was over \$40 billion in 2013 and is growing, in part because services that were typically performed in physician offices have shifted to more costly hospital settings. Following this shift, services once reimbursed at a lower total payment rate can be classified as hospital outpatient department services and reimbursed by Medicare at a higher rate, increasing program costs.

We recommended that Congress equalize payment rates between physician offices and hospital outpatient departments for certain services. While the Bipartisan Budget Act of 2015 addresses this payment differential for some new providers, many providers will continue to be paid more than necessary for certain services, such as office visits.

- *Disability Insurance Overpayments:* In fiscal year 2014, about 11 million individuals with disabilities and their dependents received approximately \$143 billion in Disability Insurance (DI) benefits, \$1.3 billion of which the Social Security Administration (SSA) identified as overpayments. Additionally, SSA permanently waived over \$2.4 billion in overpayment debt over the past 10 years. In our October 2015 report, we found that SSA's process for handling work reports by beneficiaries has internal control and other weaknesses that increase the risk of overpayments, even when DI beneficiaries follow program rules and report work and earnings. In addition, SSA's process for handling requests to waive overpayments lacks sufficient controls to help ensure appropriate decisions are made.

We made several recommendations to improve SSA's handling of overpayments, work reports, and waivers, including that SSA study automated reporting options and improve oversight of work

reports and waivers. SSA agreed with all of these except the recommendation to improve oversight of work reports. We clarified that oversight should help to ensure that staff are following proper procedures. As of March 2016, SSA has not fully addressed these recommendations. Until SSA takes these actions, it will likely continue to overpay beneficiaries and improperly waive overpayment debt, costing the federal government billions of dollars.

- *National Park Service Fees:* The Federal Lands Recreation Enhancement Act (FLREA) does not give the National Park Service (Park Service) and other agencies that charge recreation fees the authority to adjust the price of a lifetime senior pass, which has been \$10 since 1993.⁷ Without this authority, the Park Service is limited in its ability to increase revenue from this fee. In addition, the Park Service does not call for periodic reviews of recreation fees, even though federal policy on user fees instructs agencies to seek authority, if needed, to make changes warranted by their reviews⁸ and our guide on user fees states that federal agencies should regularly review fees and make changes if warranted.⁹

We suggested that Congress consider amending FLREA to give the agencies authority to adjust the price of a lifetime senior pass. A bill was introduced in September 2015 to increase the price of the senior pass to a one-time amount matching the price of the annual interagency pass, which is \$80, as of November 2015.¹⁰ If passed, this could generate millions of dollars in revenue annually. We also made recommendations to improve the Park Service's management of recreation fees. The Department of the Interior,

⁷Federal Lands Recreation Enhancement Act, Pub. L. No. 108-447, div. J, tit. VIII, 118 Stat. 3377 (2004) (codified as amended at 16 U.S.C. §§ 6801-6814 (2015)).

⁸Office of Management and Budget, OMB Circular A-25, *User Charges* (1993).

⁹GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008).

¹⁰National Park Service Centennial Act, H.R. 3556, 114th Cong. § 602 (2015). The annual interagency pass covers entrance fees and certain amenity fees for all federal recreational lands. The amount of additional revenue generated by adjusting the price of the senior pass could be lower if the amount of the price increase deters seniors from purchasing the pass.

which administers the Park Service, agreed with our recommendations and plans to begin addressing them in 2016. Improving the management of recreation fees could help the Park Service to better ensure that these fees are set at a reasonable level.

Congress and Executive Branch Agencies Continue to Address Actions That Span the Federal Government

In addition to the new actions identified in this year's annual report, we have continued to monitor the progress that Congress and executive branch agencies have made in addressing the issues we identified in our 2011-2015 reports. In response to our 2011-2015 annual reports, Congress and executive branch agencies have addressed a total of 224 actions, including 55 actions since April 2015.¹¹ We found that these efforts have resulted in roughly \$56 billion in financial benefits from fiscal years 2010 through 2015, with at least an additional \$69 billion in estimated benefits projected to be accrued through 2025.¹²

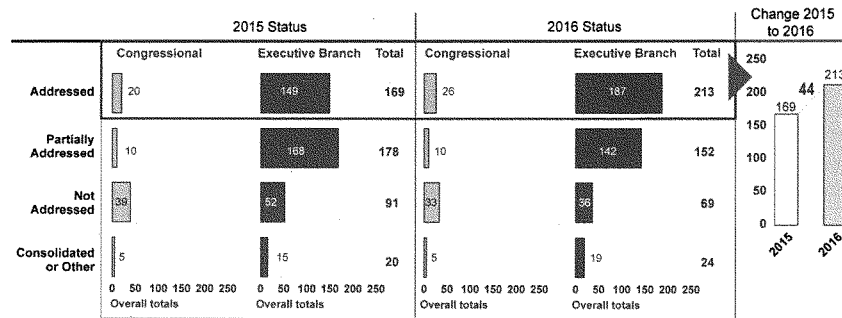
Progress toward Addressing Actions

Congress and executive branch agencies have addressed a total of 55 actions since our last report. Of these 55 addressed actions, 44 were identified in our 2011-2014 annual reports, bringing the total number of addressed actions for the 2011-2014 annual reports to 213 actions—47 percent of the 458 actions identified over that period (see fig. 1).

¹¹Actions were assessed as of March 2, 2016, the date we completed our audit work. In assessing actions suggested for Congress, we applied the following criteria: "addressed" means relevant legislation has been enacted and addresses all aspects of the action needed; "partially addressed" means a relevant bill has been enacted but only addressed part of the action needed; and "not addressed" means a bill may have been introduced but did not pass out of a committee, or no relevant legislation has been introduced. In assessing actions suggested for the executive branch, we applied the following criteria: "addressed" means implementation of the action needed has been completed; "partially addressed" means the action needed is in development, or started but not yet completed; and "not addressed" means the administration, the agencies, or both have made minimal or no progress toward implementing the action needed.

¹²In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. They represent a rough estimate of financial benefits and have been rounded down to the nearest \$1 billion.

Figure 1. Status of 2011-2014 Actions, as of 2015 and 2016



Source: GAO analysis. | GAO-16-579T

Note: Actions categorized as "consolidated or other" are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as "consolidated or other" may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

In our 2015 annual report, we identified 86 new actions for congressional or executive branch agency attention.¹³ As of March 2, 2016, we found that 11 (13 percent) of the new 2015 actions had been addressed and 33 (38 percent) had been partially addressed.

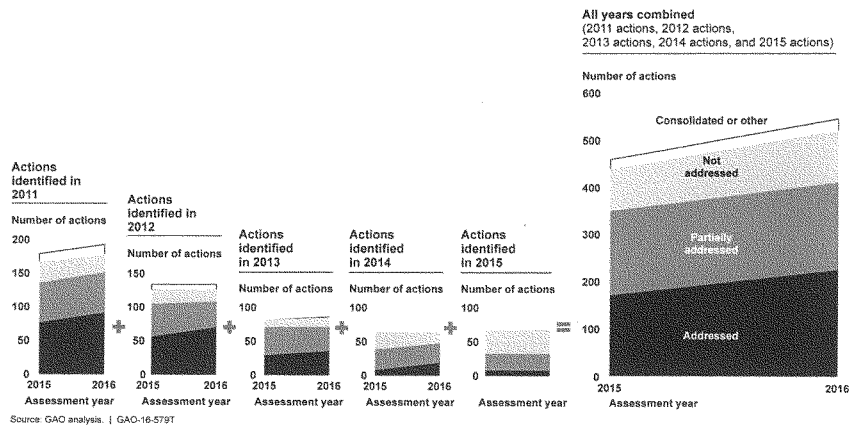
In total, of the 544 total actions we identified in our 2011-2015 annual reports, we found that 224 (41 percent) were addressed, 185 (34 percent) were partially addressed, and 111 (20 percent) were not addressed.¹⁴ As

¹³In addition to the new actions identified in our 2015 annual report, we also added 19 new actions to existing areas that we previously identified in our 2011-2014 reports.

¹⁴Percentages do not add to 100 due to rounding. In addition, this year, 4 actions were categorized as "consolidated or other" for a total of 24 actions (4 percent) in this category from 2011-2015. Actions categorized as "consolidated or other" are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as "consolidated or other" may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

figure 2 shows, many of the actions that have been addressed were identified in our 2013 or earlier reports—which suggests that it frequently takes multiple years for actions to be fully addressed.

Figure 2. Progress in Addressing 2011-2015 Actions, as of 2015 and 2016



Note: Actions categorized as "consolidated or other" are no longer assessed. In most cases, the actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as "consolidated or other" may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa. Additionally, actions identified in 2015 were not assessed in 2015 because that was the year that the actions were identified.

Financial Benefits Related to Actions Taken by Congress and Executive Branch Agencies The progress Congress and executive branch agencies have made as of March 2, 2016, to address the actions we identified will result in approximately \$125 billion in financial benefits from 2010 through 2025.¹⁵ Table 3 outlines examples of our addressed actions that have resulted in or are expected to result in cost savings or enhanced revenue.

Table 3: Examples of Addressed Actions with Associated Cost Savings and Revenue Enhancements, 2010-2025

Annual Report	Area Identified
2011	Domestic Ethanol Production (Area 13): Congress allowed the Volumetric Ethanol Excise Tax Credit to expire at the end of 2011, which eliminated duplicative federal efforts directed at increasing domestic ethanol production and reduced revenue losses by \$29 billion in fiscal year 2012 to fiscal year 2016.
2011	Farm Program Payments (Area 35): The Agricultural Act of 2014 eliminated direct payments to farmers and should save approximately \$44 billion from fiscal year 2015 through fiscal year 2023, of which \$5 billion has accrued and \$39 billion is expected to accrue in fiscal year 2016 or later, according to the Congressional Budget Office.
2014	Real Estate-Owned Properties (Area 18): GAO estimated that the Department of Housing and Urban Development saved as much as \$2.8 billion from July 2013 through June 2015 by implementing improvements to its property custody approach including reducing the number of foreclosed properties that it acquires by using other means of resolving troubled mortgages.
2015	Tax Policies and Enforcement (Area 17): Congress amended the audit procedures applicable to certain large partnerships to require that they pay audit adjustments at the partnership level. This should raise \$9.3 billion from fiscal years 2019 to 2025, according to the Joint Committee on Taxation.
2013	Combat Uniforms (Area 2): Consistent with our recommendation to avoid fragmentation, the Army chose not to introduce a new family of camouflage uniforms into its inventory, resulting in a cost avoidance of about \$4.2 billion over 5 years, of which \$1.7 billion has accrued since fiscal year 2014 and \$2.5 billion is expected to accrue in fiscal year 2016 or later.
2011	Federal Emergency Management Agency (FEMA) Grants (Area 26): GAO estimated savings of \$2.55 billion from fiscal years 2011 through 2013 due to Congress limiting preparedness grant funding until FEMA completes a national preparedness assessment of capability gaps.
2012	Overseas Defense Posture (Area 37): The United States Forces Korea conducted a series of consultations with the military services to evaluate the costs and benefits associated with tour normalization and decided not to move forward with the full tour normalization initiative because it was not affordable. The Department of Defense's (DOD) decision to not move forward with this initiative saved an estimated \$3.1 billion from fiscal years 2012 through 2016, of which \$2.5 billion has accrued through fiscal year 2015 and \$615 million is expected to accrue in fiscal year 2016.
2011	Overseas Military Presence (Area 36): In January 2015, DOD estimated that it would save \$1.2 billion annually by closing, consolidating, or realigning European installations after a comprehensive study of posture, as we had recommended.

¹⁵In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest \$1 billion.

Annual Report	Area Identified
2011	Medicare Health Care Payments (Area 74): Congress and the Centers for Medicare & Medicaid Services took several actions to improve the efficiencies of some Medicare payments for health care services, resulting in significant savings.

Source: GAO. | GAO-16-579T

Note: The estimates in our 2016 annual report, GAO-16-375SP, are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. The Tax Policies and Enforcement action (area 17) is newly addressed since GAO's 2015 report. Some estimates have been updated to reflect more recent analysis.

Congress also has taken a number of additional steps to address actions we have identified to achieve financial benefits or improve efficiency and effectiveness. For example, in our 2015 report we found the Department of Energy (DOE) could potentially realize savings by re-examining the appropriate size of the Strategic Petroleum Reserve (SPR)—which was valued at about \$22 billion as of January 2016—and depending on the outcome of the analysis, selling crude oil from the reserve and using the proceeds to fund other national priorities. In 2015, Congress required DOE to complete a long-range strategic review of the SPR and also authorized the sale of 124 million barrels of SPR oil. The Congressional Budget Office estimated potential savings to be \$8 billion from 2018 through 2025.

In another example, in our 2011 annual report we found that a proliferation of programs to improve teacher quality complicated federal efforts to invest dollars effectively. We verified that legislation passed by Congress in December 2015 did not include authorization for 19 overlapping programs that were on our 2011 list of 82 distinct programs designed to improve teacher quality.¹⁶ Using Department of Education (Education) data, GAO estimated the decision to not reauthorize saved approximately \$800 million based on fiscal year 2016 appropriations for these programs. In addition, Congress included language in appropriations acts that eliminated some barriers to educational program alignment and passed legislation to give Education broader discretion to realign program resources.

In other instances, Congress and executive branch agencies took steps to address issues that we identified during the course of our work that could also result in financial benefits. For example, in August 2014, we reported that the wage information that employers report on Form W-2

¹⁶Every Student Succeeds Act, Pub. L. No. 114-95 (Dec. 10, 2015).

was not available to IRS until after it issued most refunds. We found that if IRS had access to W-2 data earlier, it could match such information to taxpayers' returns and identify discrepancies before issuing billions of dollars of fraudulent identity theft refunds. The Consolidated Appropriations Act, 2016, enacted in December 2015, amended the tax code to accelerate W-2 filing deadlines to January 31.¹⁷ According to IRS, a program that would match W-2 data to tax returns before refunds are issued would save revenue by protecting a substantial part of the billions currently paid to fraudsters.

Also in August 2014, we reported that IRS had not fully assessed the costs and benefits of having available W-2 information for pre-refund matching, which could involve challenges such as a potential increase in W-2s that need to be corrected and required upgrades to IRS's information technology systems, among others. In response to our recommendation, in September 2015, IRS provided us with a report discussing (1) adjustments to IRS systems and work processes needed to use accelerated W-2 information, (2) potential impacts on internal and external stakeholders, and (3) other changes needed to match Form W-2 data to tax returns prior to issuing refunds. This report should help IRS determine how best to implement pre-refund W-2 matching, given the new January 31 deadline for filing W-2s.

Action in Several Remaining Areas Could Yield Significant Additional Benefits

While Congress and executive branch agencies have made progress toward addressing the actions we have identified, further steps are needed to fully address the remaining actions, as shown in table 4. More specifically, 53 percent of the actions (243 of 459) directed to executive branch agencies and 62 percent of the actions (53 of 85) directed to Congress that were identified in our 2011-2015 reports remain partially or not addressed. In addition, we identified 92 new actions in 2016. We estimate that tens of billions of additional dollars would be saved should Congress and executive branch agencies address our actions that are

¹⁷Pub. L. No. 114-113, div. Q, § 201, 129 Stat. 2242 (Dec. 18, 2015). This change goes into effect for W-2s reporting payments made in 2016 and filed in 2017.

partially addressed and not addressed, including the new ones we identified in 2016.¹⁸

Table 4: Status of 2011-2015 Actions Directed to Congress and the Executive Branch, as of March 2, 2016

Status	Executive branch ^a		Congress ^b		Grand totals	
	Number of actions	Percentage	Number of actions	Percentage	Total number of actions	Overall percentage ^c
Addressed	197	43%	27	32%	224	41%
Partially addressed	175	38	10	12	185	34
Not Addressed	66	15	43	51	111	20
Consolidated or other	19	4	5	6	24	4
Total	459	100	85	100	544	99

Source: GAO Analysis. | GAO-16-579T

Notes: This year, 4 actions were categorized as "consolidated or other" for a total of 24 actions in this category from 2011-2015. Actions categorized as "consolidated or other" are no longer assessed. In most cases, these actions were replaced or subsumed by new actions based on additional audit work or other relevant information. For example, actions categorized as "consolidated or other" may have been consolidated into other actions that we track based on subsequent audit work or significant changes in agency circumstances, or they may have been redirected from a congressional to an executive branch action, or vice versa.

^aExecutive branch agencies took steps that addressed five actions directed to Congress.

^bCongress took steps that fully addressed one action and partially addressed another action directed to executive branch agencies.

^cNumbers do not add to 100 percent due to rounding.

Our suggested actions that remain open span the government.¹⁹ We have directed actions to all 15 cabinet-level executive departments and at least 17 other federal entities. In particular, a substantial number of our actions are directed to three departments that make up 55 percent of federal obligations in fiscal year 2015—HHS, DOD, and the Department of the Treasury (Treasury).²⁰ Specifically, we have directed a total of 82 actions

¹⁸In calculating this estimate, we relied on individual estimates from a variety of sources, which considered different time periods, and utilized different data sources, assumptions, and methodologies. These individual estimates are subject to increased uncertainty, depending on whether, how, and when they are addressed. This amount represents a rough estimate of financial benefits.

¹⁹In some cases, these actions may be included in areas that have other actions with no associated cost savings or revenue enhancements.

²⁰HHS includes Medicaid and Medicare. DOD includes the Office of the Secretary of Defense, military services, and defense agencies. Treasury consists of 10 bureaus, the largest of which is IRS.

to HHS, 152 actions to DOD, and 112 actions to Treasury since 2011. Given the amount of federal dollars represented and number of unaddressed actions in the health care, defense, and tax areas, significant opportunities for cost savings and revenue enhancement exist in these three areas.

Improving the Efficiency of Health Care Programs

According to CBO, gross federal outlays for Medicare, Medicaid, and other major health care programs totaled \$1 trillion in 2015, equaling 5.8 percent of the gross domestic product (GDP).²¹ CBO estimates that gross federal outlays for those programs will jump to \$1.1 trillion, or 6.2 percent of GDP, in 2016.²² CBO further estimates that such spending will grow robustly, nearly doubling in dollar terms between 2016 and 2026, reaching \$2.0 trillion, or 7.4 percent of GDP, by the end of that period. This level of spending contributes to the fiscal challenges facing the nation.

In our 2011-2015 annual reports, we directed 64 actions to HHS to improve the efficiency and effectiveness of health care programs, among other areas. In addition, we directed 18 new actions to HHS in this year's annual report. Fifty-five of the 82 (67 percent) total actions we directed to HHS remain partially addressed or not addressed.²³ Many of these actions are directed at the Medicare and Medicaid programs, which had a combined total of over \$900 billion in federal outlays in 2015, representing 27 percent of total federal outlays.²⁴ Effectively implementing these actions would result in significant cost savings or revenue enhancement, including the examples shown in table 5.

²¹Due to their size, complexity, and susceptibility to mismanagement and improper payments, we designated Medicare and Medicaid as high-risk programs in 1990 and 2003, respectively. See GAO, *High-Risk Series: An Update*, GAO-15-290 (Feb. 11, 2015).

²²Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (Washington, D.C.: January 2016).

²³This includes new actions identified in our 2016 annual report. In addition, actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

²⁴This figure represents gross Medicare and Medicaid outlays. Net Medicare and Medicaid outlays represent 24 percent of total federal outlays.

Table 5: Examples of Health Care Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed

Annual report	Area identified (Click area name for more information)
Medicare	
2011/2013	Program Integrity (Areas 73/25): To help prevent billions of dollars in improper payments, the Centers for Medicare & Medicaid Services (CMS) should better target its claims review by requiring its contractors to develop thresholds for unexplained increases in billing and use them to develop automated prepayment controls, and by requiring that physicians receive a statement of home health services that beneficiaries received based on the physicians' certification.
2012	Medicare Advantage Payments (Area 45): To help ensure appropriate payments to Medicare Advantage plans, CMS should take steps to improve the accuracy of the adjustment made for differences in diagnostic coding practices between Medicare Advantage plans and traditional Medicare providers. We previously reported that these shortcomings in CMS's adjustment resulted in excess payments to Medicare Advantage plans totaling an estimated \$3.2 billion to \$5.1 billion over a 3-year period from 2010 through 2012.
2015	Medicare Payments to Certain Cancer Hospitals (Area 19): To achieve almost \$500 million per year in program savings, Congress should consider modifying how Medicare pays certain cancer hospitals.
2016	Medicare Payments by Place of Service (Area 30): Medicare could save billions of dollars if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.
2016	Eligibility of Medicare Providers and Suppliers (Area 26): CMS could use better information to help prevent ineligible providers and suppliers from enrolling in the Medicare program and improperly obtaining Medicare funds, potentially reducing the billions of dollars in improper payments that the program has paid out in recent years.
Medicaid	
2013/2016	Supplemental Payments (Areas 28/25): To save Medicaid hundreds of millions of dollars , (1) Congress should consider requiring CMS to take steps that would facilitate the agency's ability to oversee these payments, including identifying payments that are not used for Medicaid purposes or are otherwise inconsistent with Medicaid payment principles, and (2) CMS should clarify its requirement that supplemental payments be linked to the provision of Medicaid-covered services, and that such payments not be made contingent on the availability of local funding for the nonfederal share.
2014/2016	Demonstration Spending (Areas 21/27): To save billions of dollars , (1) Congress should consider requiring the Department of Health and Human Services (HHS) to improve the process for reviewing, approving, and making transparent the basis for approving spending limits, including ensuring that valid methods are used to demonstrate budget neutrality and (2) HHS should establish specific criteria for assessing whether demonstration spending furthers Medicaid objectives and take other steps to improve the transparency and accountability of the approval process.
2015	State Sources of Funds (Area 20): To potentially save hundreds of millions of dollars , CMS should ensure that states report accurate and complete data on state Medicaid sources of funds so that it may better oversee states' financing arrangements that can increase costs for the federal government.
2016	Medicaid and Exchange Coordination (Area 7): CMS should take actions to minimize the risk of duplicative federal spending on health insurance coverage for individuals transitioning between Medicaid and exchange coverage.
2016	Payments to Institutional Providers (Area 29): CMS should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of hundreds of millions of dollars .

Annual report	Area identified (Click area name for more information)
2016	Medicaid Eligibility Determinations (Area 28): CMS should assess the accuracy of federal Medicaid eligibility determinations to minimize the risk of improper payments.

Source: GAO | GAO-16-579T

Note: The estimates in our 2016 annual report, GAO-16-375SP, are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

More Effectively Targeting Defense Resources

Defense outlays represented about 17 percent²⁵ of the government's 2015 total outlays and were the largest component—almost half—of the federal government's \$1.2 trillion discretionary spending in that year.²⁶ Avoiding fragmented, overlapping, and duplicative investments could help ensure more efficient and effective use of resources.

In our 2011-2015 annual reports, we directed 130 actions to DOD, and in this year's annual report, we direct an additional 22 actions.²⁷ Ninety-five of the 152 (63 percent) total actions we identified remain partially addressed or not addressed.²⁸ Many of the actions fall within a few key areas, including acquisitions and contract management, support infrastructure, and headquarters management. Our work suggests that effectively implementing these actions, such as the examples in table 6, would yield significant financial benefits.

²⁵This figure represents net defense outlays from which offsetting collections have been deducted.

²⁶Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriations acts. The Department of Defense program management has been on our High Risk List since 1990. See GAO-15-290.

²⁷The 22 new actions include 19 actions in new defense-related areas and 3 actions added to an existing area from our 2013 annual report. See appendix III of GAO-16-375SP for more information on actions added to existing areas in 2016.

²⁸This includes new actions identified in our 2016 annual report. In addition, actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

Table 6: Examples of Defense Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed

Annual report	Area identified (Click area name for more information)
2013	Agencies' Use of Strategic Sourcing (Area 23): The Department of Defense (DOD) and other selected agencies could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategically sourced contracts and further expanding strategic sourcing practices to their highest-spending procurement categories. GAO estimated that savings of 1 percent from selected agencies' procurement spending alone would equate to over \$4 billion .
2013	Joint Basing (Area 20): DOD needs an implementation plan to guide joint bases to achieve \$2.3 billion dollars in cost savings over a 20-year period and efficiencies anticipated from combining support services at 26 installations located close to one another.
2015	Defense Facilities Consolidation and Disposal (Area 13): DOD should ensure that data on the utilization of DOD facilities—which were collectively valued at around \$680 billion in fiscal year 2014—are complete and accurate in order to identify opportunities for saving costs by consolidating or disposing of unutilized or underutilized facilities.
2015	DOD Headquarters Reductions (Area 14): DOD could potentially achieve hundreds of millions of dollars in cost savings and help ensure that headquarters organizations are sized properly to meet their assigned mission by re-evaluating its headquarters reductions efforts and conducting periodic reassessments of workforce requirements.
2015	Department of Defense US Family Health Plan (Area 6): To potentially save millions of dollars and eliminate duplication within DOD's health care system, Congress should terminate the statutorily required US Family Health Plan because it offers military beneficiaries the same health care benefit offered by other DOD health care contractors. GAO estimates this action could save \$189 million from fiscal years 2017 to 2022.
2016	DOD Commercial Satellite Communication Procurement (Area 1): Enforcing existing acquisition policy and identifying opportunities to centralize DOD's procurement of commercial satellite communications services could create opportunities to potentially save tens of millions of dollars annually .
2016	DOD Excess Ammunition (Area 15): DOD could potentially reduce its storage, demilitarization, and disposal costs by hundreds of thousands of dollars by transferring excess serviceable conventional ammunition, including small arms ammunition, to federal, state, and local government agencies.
2016	DOD Leases and Use of Underutilized Space at Military Installations (Area 16): DOD could potentially achieve millions of dollars in savings by identifying and implementing actions to increase use of underutilized facilities at its military installations, such as identifying opportunities to relocate some of its organizations currently in leased space to installations, communicating the availability of underutilized space to potential tenants, and seeking use by other federal agencies.
2016	Defense Excess Property Disposal (Area 13): Federal civilian agencies could potentially achieve millions of dollars in cost savings if they were able to obtain more of DOD's available excess personal property through the disposal process rather than purchasing similar property through a private sector supplier.
2016	DOD's Eligibility Determinations for Living Quarters Allowance (Area 14): DOD could potentially achieve cost savings by monitoring its components' reviews of eligibility determinations for the over \$500 million spent annually on living quarters allowance for civilian employees to better ensure that DOD components are not improperly providing this allowance.

Source: GAO analysis | GAO-16-479T

Note: The estimates in our 2016 annual report, GAO-16-375SP, are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

Addressing Challenges in Collecting Tax Revenue and Reducing the Tax Gap

IRS collected \$3.3 trillion in gross taxes, or 93 percent of federal receipts, in fiscal year 2015. Among the challenges IRS faces in collecting this money are combatting tax refund fraud associated with identity theft, addressing factors that contribute to the \$385 billion net tax gap (the difference between taxes owed and those ultimately collected), and reducing the causes of Earned Income Tax Credit improper payments.²⁹

In our 2011-2015 annual reports, we directed 99 actions to the Department of the Treasury, and we include 13 additional actions in this year's report. Seventy of the 112 (63 percent) total actions we identified remain open.³⁰ Effectively implementing our open recommendations, including the examples in table 7, would increase revenues or reduce costs.

Table 7: Examples of Tax Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed

Annual report	Area identified (Click area name for more information)
2011	Real Estate Tax Deductions (Area 59): Better information and outreach could help increase revenues by tens or hundreds of millions of dollars annually by addressing overstated real estate tax deductions. ²⁹
2011	Simple Tax Return Errors (Area 56): Broadening the Internal Revenue Service's (IRS) authority to correct simple tax return errors could facilitate correct tax payments and help IRS avoid costly, burdensome audits. The Joint Committee on Taxation estimated this action could raise \$274 million from fiscal years 2018 through 2026.
2013/2015	Tax Policy and Enforcement (Areas 22/17): By using more rigorous analyses to allocate enforcement resources and using data to improve management of enforcement programs such as large partnership and correspondence audits, among other things, IRS can increase revenue collections by billions of dollars .
2014	Online Taxpayer Services (Area 17): IRS could potentially realize hundreds of millions of dollars in cost savings and increased revenues by enhancing its online services, which would improve service to taxpayers and encourage greater tax law compliance.
2016	IRS's Public Referral Programs (Area 6): IRS could potentially collect billions of dollars in tax underpayments through its nine public referral programs and save resources by better managing fragmentation and overlap, improving communication, and streamlining processes.

²⁹The tax gap does not include taxes due from illegally derived income or various forms of fraud. For example, in general, refund fraud related to identity theft would not be included in the tax gap estimate because it does not involve evading a tax liability. In 2012, IRS estimated the net tax gap to be \$385 billion and the gross tax gap—the difference between taxes owed and taxes paid on time—to be \$450 billion based on data from tax year 2006. IRS plans to release an updated tax gap estimate in 2016, which will be based on tax years 2008, 2009, and 2010.

³⁰This includes new actions identified in our 2016 annual report. Actions directed to multiple agencies are not assessed as addressed until all agencies have made necessary progress.

Annual report	Area identified (Click area name for more information)
2016	Identity Theft Refund Fraud (Area 22): IRS and Congress could potentially save billions of dollars in fraudulent refunds by improving the agency's efforts to prevent refund fraud associated with identity theft.

Source: GAO analysis. | GAO-16-579T

Note: The estimates in our 2016 annual report, GAO-16-375SP, are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

*As part of its outreach efforts to date, IRS has distributed guidance to local jurisdictions that provides examples of what is and is not deductible.

Additional Areas with Significant Open Actions

In addition to the health care, defense, and tax areas, we have suggested a number of other actions that, if addressed, would result in significant cost savings or revenue enhancement across the government.³¹ Table 8 summarizes examples where additional leadership attention could promote progress.

Table 8: Examples of Areas in 2011-2016 Annual Reports with Actions Remaining to Be Addressed

Annual report	Area identified (Click area name for more information)
Energy and agriculture	
2011	Oil and Gas Resources (Area 45): Improved management of federal oil and gas resources could result in \$1.7 billion of additional revenue over 10 years, according to the Department of the Interior.
2012	Excess Uranium Inventories (Area 40): Marketing the Department of Energy's excess uranium could provide substantial revenue for the government. In 2014, GAO estimated that actions in this area could increase revenue by about \$1 billion .
2013	Crop Insurance (Area 19): To achieve up to \$2 billion annually in cost savings in the crop insurance program, Congress could consider limiting the subsidy for premiums that are provided on behalf of individual farmers, reducing the subsidy, or some combination of limiting and reducing these subsidies.
2015	U.S. Enrichment Corporation (USEC) Fund (Area 16): Congress may wish to permanently rescind the entire \$1.6 billion balance of the USEC fund—a revolving fund in the U.S. Treasury—because its purposes have been fulfilled.
General government	
2016	National Park Service Fees (Area 23): The National Park Service could potentially increase revenues from the recreation fees it collects by millions of dollars annually if Congress were to amend the authorizing legislation for this program and if the agency required park units to periodically review these fees.
2016	Financing of Improvements to Federally Leased Space (Area 21): In order to achieve millions in potential cost savings, the General Services Administration should explore the benefits and risks of loaning unobligated Federal Buildings Fund balances to tenant agencies to cover the costs of improving newly leased space, which would otherwise be financed by private lessors at private-sector interest rates.

³¹In some cases, these actions may be included in areas that have other actions with no associated cost savings or revenue enhancements.

Annual report	Area identified (Click area name for more information)
2016	Unobligated Balances (Area 24): To help ensure effective use of federal funds, the Departments of Energy and State should develop and finalize strategies for reducing tens and hundreds of millions of dollars of excess unobligated balances, respectively, in two budget accounts.
Homeland security/law enforcement	
2012	Immigration Inspection Fee (Area 49): The air passenger immigration inspection user fee should be reviewed and adjusted to fully recover the cost of the air passenger immigration inspection activities conducted by the Department of Homeland Security's U.S. Immigration and Customs Enforcement and U.S. Customs and Border Protection rather than using general fund appropriations. GAO estimated this action could increase revenue by almost \$175 million .
2013	Checked Baggage Screening (Area 28): By reviewing the appropriateness of the federal cost share the Transportation Security Administration applies to agreements financing airport facility modification projects related to the installation of checked baggage screening systems, the Transportation Security Administration could, if a reduced cost share was deemed appropriate, achieve cost efficiencies and be positioned to install a greater number of optimal baggage screening systems than it currently anticipates. More efficient baggage screening systems could result in roughly \$234 million in cost savings from 2015 through 2027, according to the Transportation Security Agency.
Income security	
2011	Social Security Offsets (Area 80): Social Security needs data on pensions from noncovered earnings to better enforce offsets and ensure benefit fairness. This action could result in estimated savings of \$2.4 billion to \$7.9 billion over 10 years if enforced both retrospectively and prospectively, according to the Congressional Budget Office and the Social Security Administration. If Social Security only enforced the offsets prospectively, the overall savings would be less as it would not reduce benefits already received.
2014	Veterans' and Survivors' Benefits (Area 23): The Department of Veterans Affairs' direct spending could be reduced—by an average of about \$4 million annually , according to the Congressional Budget Office—if new statutory provisions were enacted, namely, a look-back review and penalty period for claimants who transfer assets for less than fair market value before applying for pension benefits that are available to low-income wartime veterans who are at least 65 years old or have disabilities unrelated to their military service.
2014	Disability and Unemployment Benefits (Area 8): Congress should consider passing legislation to prevent individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits that cover the same period, which could save \$1.9 billion from fiscal years 2016 through 2025, according to the Congressional Budget Office.
2015	Children's Disability Reviews (Area 21): To prevent an estimated \$3.1 billion in potential overpayments over 5 years, the Social Security Administration needs to conduct timely disability reviews to better ensure that only eligible children receive cash benefits from the Supplemental Security Income program.
2016	VA's Individual Unemployability Benefit (Area 34): To potentially achieve cost savings, the Department of Veterans Affairs should develop a plan to study whether age should be considered when deciding if veterans are unemployable due to service-connected disabilities. By comparison, other benefit programs, such as Social Security Disability Insurance, consider retirement age a cause for ineligibility and convert benefits for those reaching their retirement age to a Social Security retirement benefit. If the department were to determine that Total Disability Individual Unemployability benefits should be provided only to veterans younger than their full Social Security retirement age, it could achieve an estimated \$15 billion in savings from 2015 through 2023, according to the Congressional Budget Office.
2016	Disability Insurance and Federal Workers' Compensation (Area 31): The Social Security Administration should take steps to minimize overpayments from the Social Security Disability Insurance program to individuals who also received federal workers' compensation, which could help to achieve potential cost savings associated with millions of dollars of overpayments from the Social Security Disability Insurance program.

Annual report	Area identified (Click area name for more information)
2016	Disability Insurance Overpayments (Area 32): To help prevent the loss of billions of dollars, the Social Security Administration should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.
2016	Disability Reviews (Area 33): The Social Security Administration may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.
Information technology	
2011	Federal Data Centers (Area 15): Consolidating federal data centers would provide an opportunity to improve government efficiency. Action in this area could potentially achieve cost savings and avoidances of \$8.2 billion through fiscal year 2019, of which \$2.8 billion has accrued from actions already taken and \$5.4 billion could potentially accrue if further action is taken, according to GAO's analysis of data from 24 agencies involved in the Federal Data Center Consolidation Initiative.
2013	Cloud Computing (Area 29): Better planning of cloud-based computing solutions provides an opportunity for potential savings of millions of dollars .
2013	Information Technology Operations and Maintenance (Area 30): Strengthening oversight of key federal agencies' major information technology investments in operations and maintenance would provide an opportunity for savings on billions in information technology investments.
2014	Information Technology Investment Portfolio Management (Area 24): The Office of Management and Budget and multiple agencies could help the federal government realize billions of dollars in savings by taking steps to better implement PortfolioStat, a process to help agencies manage their information technology investments.
International affairs	
2016	Cargo Preference for Food Aid (Area 36): A clearer definition of "geographic area" in legislation on cargo preference for food aid could allow the U.S. Department of Agriculture to achieve financial savings by more fully utilizing the flexibility Congress granted when it lowered the statutory cargo preference requirement.
Training, employment, and education	
2016	Post 9/11 GI Bill Overpayments (Area 37): The Department of Veterans Affairs could achieve substantial savings by developing guidance and controls to reduce the volume of annual Post-9/11 GI Bill overpayments—which amounted to over \$400 million in fiscal year 2014—and to improve the collection of overpayment debts, of which \$262 million was still outstanding as of November 2014.

Source: GAO analysis | GAO-16-579T

Note: The estimates in our 2016 annual report, GAO-16-375SP, are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated to reflect more recent analysis.

We will continue to conduct further analysis to look for additional or emerging instances of fragmentation, overlap, and duplication and opportunities for cost savings or revenue enhancement. Likewise, we will continue to monitor developments in the areas we have already identified in this series. We stand ready to assist this and other committees in further analyzing the issues we have identified and evaluating potential solutions.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer questions.

GAO Contacts

For further information on this testimony or our April 13, 2016, report, please contact Orice Williams Brown, Managing Director, Financial Markets and Community Investment, who may be reached at (202) 512-8678 or williamso@gao.gov, and A. Nicole Clowers, Managing Director, Health Care, who may be reached at (202) 512-7114 or clowersa@gao.gov. Contact points for the individual areas listed in our 2016 annual report can be found at the end of each area at GAO-16-375SP. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

Chairman CHAFFETZ. Thank you.
Mr. Dalrymple, you are now recognized for 5 minutes.

STATEMENT OF JOHN DALRYMPLE

Mr. DALRYMPLE. Thank you. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, I'm here to discuss findings of the Government Accountability Office, GAO, related to its sixth annual review of duplicative programs. We appreciate GAO's studies of the IRS and its programs. Their findings, insights, and recommendations are invaluable to us as they help assure we are successful in accomplishing our mission of collecting over \$3 trillion annually. Without independent auditors and evaluators, we simply could not be as effective.

Since fiscal year 2013, the IRS has taken action to address more than 82 percent of all of GAO recommendations made, including those highlighted in this report. Between fiscal year 2011 and 2015, the IRS received more than 2,100 recommendations from GAO and our inspector general's auditors, with GAO recommendations accounting for roughly 30 percent of those.

Given the sheer number and scope of recommendations the IRS receives on a wide variety of areas, the reality of resource and budget limitations precludes us from taking every action recommended as quickly as we might prefer. The IRS has to look at total universe of recommendations across the enterprise through a larger lens and make strategic decisions about actions most important to address those audit findings.

To that end, we very much appreciate the initiative GAO started this year where they review and prioritize the universe of open recommendations. This helps us better understand what they think are the most critical.

Overwhelmingly, GAO and IRS are on the same page. Our top priorities are generally the same as theirs. This increases our confidence that we are acting on the most important recommendations first.

The two IRS programs highlighted in this year's GAO duplicative program study, referrals and identify theft, are illustrative of the value we get from GAO recommendations and the actions we take. IRS referral programs, which involve individuals and businesses reporting alleged noncompliance with tax laws, the GAO study reports several areas needing improvements, and we got right to work. We now have a team in place tasked with reengineering parts of the referral process to be more streamlined and effective.

In fiscal year 2012 through 2015, about 93 percent of information referrals did not lead to audits, but about 7 percent did. This is a much higher overall audit rate, which is hovering around 0.7 percent for the general population. What's more, the audits based on those referrals yielded over \$209 million in addition tax assessments recommended.

What these figures reveal is that our screening process is effectively identifying the productive referrals for audit and it's making an important contribution to tax administration. With the improvements we plan to make as a result of the GAO recommendations, our referral processes are being streamlined and will be more efficient and effective.

While unique relative to other referrals, the GAO report on the IRS whistleblower program offers a snapshot in time for a program under constant scrutiny for its processes that are continually refined. Even before GAO began its most recent evaluation on the IRS whistleblower program, we had begun addressing the major issues that were identified. The GAO findings confirmed we were taking the right actions in streamlining the process for claims, making dramatic reductions to the inventory of cases at particular phases of the process, and instilling new leadership with a strong background in bringing about operational efficiencies.

Another IRS program highlighted in this year's GAO duplicative program report is our identify theft program, which GAO has almost continually reviewed in recent years and prompted important program improvements. As we confront the growing problem with stolen identify refund fraud, the IRS is using a multipronged approach to protect taxpayers and their information.

The IRS has made this area a high priority and has been making steady progress. The additional \$290 million in fiscal year 2016 funds afforded to IRS by the Congress had allowed us to allocate more resources to combating this insidious crime. About 2,000 individuals have been convicted on Federal charges related to refund fraud involving identify theft over the past few years. Using our improved filters, we stopped 1.4 million returns last year and kept criminals from collecting about \$8.7 billion in fraudulent refunds.

GAO has been helpful in identifying areas where improvement to this program can be made. We have acted on those recommended improvements and continue to look for ways to strengthen our defenses against this crime and stop the victimization of taxpayers and the entire tax ecosystem.

I'd be happy to take questions at the proper time. Thank you.

[Prepared statement of Mr. Dalrymple follows:]

**WRITTEN TESTIMONY OF
JOHN M. DALRYMPLE
DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT
INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
ON FINDINGS OF THE GOVERNMENT ACCOUNTABILITY OFFICE
APRIL 13, 2016**

INTRODUCTION

Chairman Chaffetz, Ranking Member Cummings and Members of the Committee, thank you for the opportunity to discuss findings of the Government Accountability Office (GAO) associated with duplication, overlap, and fragmentation and opportunities for cost savings and revenue enhancement in the federal government.

While we have not been able to fully review and analyze this year's report, which is being released today, we have been working on GAO recommendations from past years on an ongoing basis and we are making steady progress on the vast majority of actions recommended. In conducting its assessment for the annual duplication, overlap and fragmentation report, GAO categorized actions relevant to the IRS as "addressed," "partially addressed," or "not addressed" based on criteria GAO defined.

While we concur with GAO and Members of this Committee that there are more actions categorized as "not addressed" than we would like, we note that the GAO report represents a snapshot partway through a long-term effort, as we continue to address the remaining areas with the resources available.

IMPROVING INTERNAL CONTROLS AND TRACKING ACTIONS

Internal controls are a major part of managing an organization. They comprise the plans, methods, and procedures used to meet missions, goals, and objectives; and in doing so, support performance-based management. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. They help government program managers achieve desired results through effective stewardship of public resources. Systems of internal control provide reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The IRS continually works to ensure its programs and activities operate according to established policies and procedures. Tracking issues, findings, recommendations, and the current status of planned corrective actions (PCAs) resulting from annual audits is mandatory to comply with the intent of the standards of internal control. The U.S. Department of the Treasury implemented the Joint Audit Management Enterprise

System (JAMES) for use by all its bureaus to track, monitor and report the status of internal control audit results.

The information contained in JAMES is used by Treasury to assess the effectiveness and progress of bureaus in responding to material weaknesses, significant deficiencies, and remediation plans. PCAs are entered into JAMES and must be updated on or before their scheduled due date to reflect their current status. For each PCA, a description contains the details of the management corrective action or how management will implement a recommendation to address the issue and correct the weakness.

Since FY 2013, the IRS has taken actions to address more than 80 percent of the 266 recommendations proposed by GAO to the IRS according to JAMES as of March 31, 2016. Currently, 75 open items are in progress with 69 scheduled to be implemented in FY 2016 and FY 2017.

We continue to review and evaluate all of GAO's recommendations along with other outstanding recommendations in light of risk and security controls and processes currently in place. We are building corrective action plans where appropriate to address the recommendations, and we are prioritizing and addressing them as resources permit. Significant progress has been made in addressing these recommendations in areas where we are most vulnerable, and, with appropriate resources, continued progress will be made.

It is important to note that GAO's recommendations do not concern fundamental weaknesses in taxpayer-facing systems – an area of critical concern for the IRS. Rather, they concern weaknesses in our controls for internal systems – that is, systems and data that are behind our portal and firewalls. These systems have less risk of experiencing security issues because they are not connected directly to the external internet.

The IRS must also consider other factors in allocating our resources, including budget uncertainties, hiring freezes, skillset deficits, complexities associated with our antiquated legacy environment and cutbacks affecting our ability to update our infrastructure.

For the purposes of this hearing, the Committee expressed an interest in our progress addressing GAO recommendations in three areas: identify theft related refund fraud, information referral programs to report potential tax noncompliance, and the IRS Whistleblower Program.

IDENTITY THEFT/REFUND FRAUD

The IRS is using a multipronged approach to protect taxpayers and their information from stolen identity/refund fraud. Discovering that your identity has been stolen by having your tax return rejected because someone else has already filed a return using

your name and Social Security Number (SSN) can be a personal, and traumatic experience. We are doing everything we can to protect taxpayers from this situation. The problem of personal data being used to file fraudulent tax returns and illegally obtain refunds exploded from 2010 to 2012, and for a time overwhelmed private industry, law enforcement, and government agencies like the IRS. Since then, the IRS has made this area a high priority and has been making steady progress within our reduced resources, both in terms of protecting against fraudulent refund claims and criminally prosecuting those who engage in this crime.

Thanks to the work of our Criminal Investigation division, about 2,000 individuals have been convicted on federal charges related to refund fraud involving identity theft over the past few years. We currently have about 1,700 open investigations being worked by more than 400 IRS criminal investigators.

Meanwhile, we continue to improve our efforts at stopping fraudulent refunds from going out the door. For example, we have improved the filters that help us spot suspicious returns before they can be processed. Using those filters, we stopped 1.4 million returns last year that were confirmed to have been filed by identity thieves. By stopping those returns, we kept criminals from collecting about \$8.7 billion in fraudulent refunds.

Importantly, the IRS also continues to help taxpayers who have been victims of identity theft. Last year, the IRS worked with victims to close more than 700,000 such cases. We have stopped many individuals from participating in these crimes, but we find that the type of criminal we are dealing with has changed. This problem has become more than just random individuals stealing personal information, with each one filing a few dozen or maybe a few hundred false tax returns at a time. We are dealing more and more with organized crime syndicates here and in other countries.

Security Summit Group

To improve our efforts against this complex and evolving threat, the IRS held a sit-down meeting in March 2015 with the leaders of the electronic tax industry, the software industry and the states to create a partnership to deal with this issue together. We agreed to build on our cooperative efforts of the past to find new ways to leverage a new, public-private partnership to help battle stolen identity refund fraud. Motivating us was the understanding that no single organization can fight this type of fraud alone.

This meeting led to the development of the Security Summit group, an unprecedented partnership between private industry, state governments and IRS that has focused our joint efforts on making sure the tax filing experience would be safer and more secure for taxpayers in 2016 and beyond. This is an important step for taxpayers and for tax administration, because the critical work being done by this group is giving everyone involved a better defense against stolen identity refund fraud.

Over the past year, the Security Summit group has made progress on a number of initiatives helping taxpayers and the tax system for the current filing season. They include the following:

- Summit group members identified and agreed to share 20 data components from tax returns to improve fraud detection and prevention this filing season. For example, group members are sharing computer device identification data tied to the return's origin, as well as the improper or repetitive use of the numbers that identify the Internet "address" from where the return originates.
- Tax software providers agreed to enhance identity requirements and strengthen validation procedures for new and returning customers to protect against account takeover by criminals. This change is one of the most visible to taxpayers during the 2016 filing season, because it includes new verification procedures they need to follow to log in to their accounts. These actions will serve as the baseline for ongoing discussions and additional enhancements for the 2017 filing season.
- The Summit group created a new memorandum of understanding (MOU) regarding roles, responsibilities and information sharing pathways currently in circulation with states and industry. So far, 40 state departments of revenue and 21 tax industry members have signed the MOU, along with the IRS and endorsing organizations.
- Tax industry participants have aligned with the IRS and the states under the National Institute of Standards and Technology (NIST) Cybersecurity Framework to promote the protection of information technology infrastructure. The IRS and states currently operate under the Framework, as do many in the tax industry. Next steps in this area include follow-up sessions to develop strategy for how organizations within the tax industry can understand and use the Cybersecurity Framework. Recent reports of attempts by criminals to access private sector return preparers have highlighted the importance of this work.
- Summit group members agreed on the need to create an Information Sharing and Analysis Center (ISAC) to centralize, standardize, and enhance data compilation and analysis to facilitate sharing actionable data and information.
- Recognizing the critical role that the nation's tax professionals play within the tax industry in both the federal and state arenas, the Summit group created a team that will examine issues related to return preparers, such as how the preparer community can help prevent identity theft and refund fraud.

Our collaborative efforts are already showing concrete results this filing season. For example, Security Summit partners have helped the IRS improve its ability to spot potentially false returns before they are processed and thus before a possibly fraudulent refund is issued. Under our industry leads program, Security Summit partners and other external stakeholders such as banks provide information that allows us to improve our fraud filters, which in turn leads to more suspicious returns being identified for further

review. In Calendar Year (CY) 2016 through mid-March, leads from industry partners directly resulted in the suspension of 27,000 returns on which a total of \$119 million in refunds was claimed, up from 8,000 returns claiming \$57 million during the same period last year.

Of the additional funding for the IRS approved by Congress for FY 2016, we are using approximately \$6.1 million to invest in a number of activities that arise from the ongoing collaborative efforts with our Security Summit group partners. This includes funding the startup costs for the ISAC.

We have also centralized our assistance programs for taxpayers who are the victims of identity theft refund fraud. As a result, our inventory of cases in this area has dropped from over 60,000 in January 2015, to under 40,000 as of January 31, 2016. The average time for resolving most cases is now within our goal of no more than 120 days.

Identity Theft Public Awareness Campaign

Despite the progress being made against stolen identity refund fraud, we came to realize that we were missing an important partner in this effort – the taxpaying public. So in November 2015, with the strong support of all the Security Summit partners, we launched the “Taxes, Security, Together” campaign to raise awareness about actions people can take to protect themselves and avoid becoming victims of identity theft.

Many of the steps we are talking about are basic common sense, but given that 150 million households file tax returns every year, we believe these steps cannot be stressed enough. People continue to fall prey to clever cybercriminals who trick them into giving up SSNs, bank account numbers, password information or other sensitive personal data. So having the public’s help will greatly strengthen and improve the new tools we have to stop the crime of identity theft.

As part of this public awareness campaign, the IRS in the weeks leading up to the 2016 filing season issued weekly tax tips describing the actions people could take to protect their data. We have updated several publications for taxpayers and tax professionals. We have posted YouTube videos on this subject, and public-awareness information is being shared online across IRS.gov, state websites and platforms used by the tax software industry and many others in the private-sector tax community.

Our efforts to educate and inform members of the public about the need to protect themselves against identity thieves extend to businesses as well. Information returns, especially Forms W-2, are becoming a major target of these criminals, as they seek new sources of information that will help them file false returns that have a better chance of going undetected by our fraud filters. In this effort, they attempt to trick companies into providing the information returns.

One scheme uncovered recently involved identity thieves posing as a company’s chief executive and sending a legitimate-looking request via email to the payroll department

for a list of all company employees and the Form W-2 information for each one. In March, the IRS issued an alert to payroll and human resources professionals warning them about this scam.

Identity thieves' efforts to obtain Forms W-2 have not stopped there. We are increasingly concerned about efforts to create counterfeit Forms W-2s that are filed along with the false returns to make the return appear legitimate. That concern led the IRS to launch a pilot program earlier this year testing the idea of adding a verification code to Forms W-2 that would verify the integrity of Form W-2 data being submitted.

For this pilot, the IRS partnered with four major payroll service providers. These providers added a special coded number on approximately 2 million individual Forms W-2 in a new box on the Form W-2 labeled "Verification Code." Each coded number is calculated based on a formula and key provided by the IRS, using data from the Form W-2 itself, so that each number generated was known only to the IRS, the payroll service provider, and the individual who received the Form W-2. The verification code cannot be reverse engineered. Since this identifier is unique, any changes to the Form W-2 information provided when filed are detected by the IRS. Individuals whose Forms W-2 were affected by the pilot and who used tax software to prepare their return entered the code when prompted to by the software program. The IRS plans to increase the scope of this pilot for the 2017 filing season by expanding the number and types of Form W-2 issuers involved in the test.

INFORMATION REFERRAL PROGRAMS

Information referrals are a key mechanism for the public to report potential tax noncompliance to the IRS, and this information has the potential to assist the IRS in identifying tax revenue that may otherwise go uncollected. Currently, the IRS has several avenues in which alleged tax noncompliance by individuals and businesses can be reported. Our specialized information referral programs include identity theft, misconduct by tax return preparers, abusive tax promotions and wrongdoing by tax exempt organizations. Individuals submitting these referrals can do so anonymously, and this process operates outside of our Whistleblower Program (which is for individuals who are seeking a financial reward).

The information referrals that we receive go through a review and screening process to determine the usability of the information submitted, culling out information that is erroneous, vague or otherwise not actionable. As noted in GAO-16-155, in fiscal years 2012 through 2015, approximately 7 percent of information referrals routed to our operating divisions led to audits, which is a rate that is significantly higher than our overall audit rate of less than 1 percent. The audits generated based on those referrals yielded over \$209 million in additional tax assessments recommended. What these figures reveal is that our screening process is effectively identifying the productive referrals for audit, and these referrals are making an important contribution to tax administration.

In its report, GAO identified several opportunities for improvement of our information referral process; and recommended that we evaluate an organizational structure that would improve the overall effectiveness of the process, bringing about efficiency gains and improved management and oversight of our various referral programs. We appreciate GAO's insight on our referral programs, and in response, we have established a cross-functional working group that is tasked with taking into account GAO's findings to develop a streamlined, coordinated and efficient process with appropriate internal controls for managing this important tax program. We will also be exploring the feasibility of using a single form for the reporting of referral information, as well as considering whether and when we could offer a secure online option for the submission of this information to IRS.

IRS WHISTLEBLOWER PROGRAM

Information received from tax whistleblowers - individuals who report to the IRS on violations of tax laws by others - is an important tool for improving tax administration, and has assisted the IRS in detecting tax compliance issues and in collecting over \$3 billion dollars in tax revenue. Since 2007, the IRS has awarded more than \$403 million to whistleblowers.

It is without question that the Whistleblower Program makes an important contribution to the tax system, both by helping encourage compliance (through a deterrent effect on those who may otherwise engage in tax evasion or avoidance) and by reducing the Tax Gap (through submissions of valuable information that has resulted in a wide range of audits and investigations, and yielded significant collection of unpaid taxes). We are committed to maximizing the success of this program. Although staffing across the agency has been declining, the staffing for our Whistleblower Office has not incurred staffing reductions, but has grown significantly since the inception of the office in 2007.

We appreciate GAO's robust review of this IRS Program. The inefficiencies that GAO identified with the whistleblower claim process are ones that we had previously identified, and they are part of what led us to take action to strengthen this program. The report findings further confirm the existence of efficiency improvement opportunities. GAO's recommendations are timely and insightful and will assist us in making progress in our re-engineering of the whistleblower claim process.

To date, we have initiated the following actions, both to address the backlog of whistleblower claims that resulted from the existing claim process and to design the future process to be efficient and effective, while improving the timeliness of the claim process :

- To deal with the whistleblower claims backlog, we brought in employees from other divisions to work the inventory. The classification inventory, which peaked at 5,703 claims in March 2015, is down to a total of 865 claims requiring classification as of March 31, 2016. We also added six employees to the Whistleblower Office to work the award determination backlog, and we have

eliminated the denial and rejection letter backlogs in the Initial Claims Evaluation unit;

- We initiated a Lean Six Sigma (LSS) project in the Fall of 2014 that has been looking at ways to streamline operating processes by eliminating the multiple hand-offs between the Whistleblower Office and the operating divisions, and to provide opportunities for efficiencies in managing whistleblower claims, including technology improvements;
- Since last year, a senior executive from the Deputy Commissioner for Services and Enforcement's Office has been assigned to guide the Whistleblower Program re-engineering effort; and
- In August of 2015, Lee Martin assumed responsibility for directing the Whistleblower Program, bringing with him a strong background in LSS and organizational effectiveness. Once the LSS provides its recommendations and the new Whistleblower Office Director has an opportunity to complete his assessment, we will pursue full process improvement implementation.
- We have proposed statutory changes "to amend section 7623 to explicitly protect whistleblowers from retaliatory actions, consistent with the protections currently available to whistleblowers under the False Claims Act" and to "amend section 6103 to provide that the section 6103(p) safeguarding requirements apply to whistleblowers and their legal representatives who receive tax return information in whistleblower administrative proceedings and extend the penalties for unauthorized inspections and disclosures of tax return information to whistleblowers and their legal representatives."

The report from GAO also covered the issue of Whistleblower Office communications, both with whistleblowers directly and more broadly through the whistleblower annual report to Congress. With respect to communications with whistleblowers, we appreciate that whistleblowers would like to hear from IRS on the status of their claim. However, as noted in the report, section 6103 of the Code prohibits us from disclosing tax information. For example, whistleblowers often want to know whether we are auditing the taxpayer that they identified; however, we cannot disclose that information because confirming that a taxpayer is under audit would be revealing personal taxpayer information.

In an effort to address whistleblowers' communication concerns, we conducted a pilot whereby we sent letters to whistleblowers informing them that their claim is open and still under consideration. We are evaluating the results of that pilot, and will consider GAO's insights as we formulate our path going forward. We are also looking into situations where entering into a contract under section 6103(n) would be useful to the examination process while ensuring that there is no risk of tainting the audit. Likewise, we appreciate GAO's recommendations for our annual report to Congress. The most recent annual report for FY 2015, released on February 9, 2016, reflected meaningful changes with respect to content, format, and timing.

Finally, we recognize the importance of updating the policies and procedures of the Whistleblower Program, and all programs, for that matter. As we implement GAO's recommendations, as well as the changes from the LSS project, we will ensure that our policies and procedures are updated in a timely fashion and we will strengthen our internal controls. These are important oversight functions and they will be the focus of the Whistleblower Office.

REDUCED RESOURCES LIMIT PROGRESS

We appreciate the GAO's recognition of the work that the IRS has done and continues to do in an era of formidable budgetary challenges that have resulted in reduced resources and staffing.

We also appreciate that the Congress, including the members of this Committee, approved \$290 million in additional funding for the IRS for FY 2016, to improve service to taxpayers, strengthen cybersecurity, and expand our ability to address refund fraud and identity theft. This brings total IRS appropriations for FY 2016 to \$11.2 billion. This additional funding was an important development for the IRS and for taxpayers, and is the first time in six years that the agency has received significant additional funding. It is a major step in the right direction, and I can assure the Congress that we will use these resources wisely and efficiently.

Even with this additional funding, however, the IRS is still under significant financial constraints. This is illustrated by the fact that the IRS appropriation remains \$900 million below the FY 2010 enacted level and that the \$290 million increase is less than half the amount that had been requested in FY 2016 for the three critical areas mentioned above. In addition, the IRS must absorb mandated cost increases and inflation during FY 2016 that are greater than the additional funding provided. Therefore, this year we have to continue the exception-only hiring policy that began in FY 2011, leaving us unable to replace most employees we lose this year through attrition. Thus, although we will be undertaking additional seasonal and temporary hiring to improve our telephone level of service (LOS), we expect the permanent IRS workforce to continue to shrink by another 2,000 to 3,000 full-time employees during FY 2016, equaling a loss of over 17,000 full-time employees since FY 2010.

The President's FY 2017 Budget proposal for the IRS, described in more detail in written testimony provided earlier this year to congressional appropriators, requests a base funding increase of \$530 million above the FY 2016 enacted level. This would support improvements to a wide range of taxpayer service activities and would provide \$90 million in additional funding to help prevent identity theft and refund fraud and to reduce improper payments. This funding will increase the capacity of our most important programs, such as fraud referrals (discussed above), and will allow us to close almost 100,000 additional identity theft cases per year by helping victimized taxpayers who have engaged the IRS for assistance.

The Budget also proposes a multi-year program integrity cap adjustment for to restore and improve tax enforcement activities, including \$515 million in FY 2017 to reduce the deficit and narrow the tax gap. If approved, the cap adjustment would yield an estimated net taxpayer savings of \$46 billion over the next 10 years in direct revenue.

The IRS plays a significant role for the government, especially in the area of revenue enhancement. It is estimated that a one-percent drop in the compliance rate results in a revenue loss of approximately \$30 billion per year, or \$300 billion over the 10-year budget window. As such, we believe that it is extremely important to help taxpayers easily comply with their tax obligations, and to maintain a strong deterrent effect against non-compliance through diligent enforcement.

We continue to recognize the importance of spending taxpayer dollars wisely and working to strengthen our operations as we move forward.

CONCLUSION

The IRS is taking meaningful steps toward addressing areas of duplication, fragmentation and overlap, consistent with government-wide guidance and standards. Without waiting for many solutions to be fully funded, we have begun to take action using the resources available to us.

Chairman Chaffetz, Ranking Member Cummings and Members of the Committee, this concludes my statement. I would be happy to take your questions.

Mr. MEADOWS. [Presiding.] Thank you so much for your testimony.

Mr. Tillotson, you are recognized for 5 minutes.

STATEMENT OF DAVID TILLOTSON

Mr. TILLOTSON. Thank you, Mr. Chairman. First of all, good morning to the chair, ranking member—

Mr. MEADOWS. Can pull the mic a little bit closer to you? Thank you.

Mr. TILLOTSON. Certainly. Is that better?

Very good. Thank you to the chair, Ranking Member Cummings, members of the committee. Thank you for the opportunity to discuss the Department's progress on addressing the General Accountability Office's findings related to duplication, fragmentation, and overlap in the Department.

I also want to add my thanks to those of the chair and the ranking member to the Honorable Mr. Gene Dodaro and the GAO for the work that they do. Candidly, while one is not always happy to hear that we could be doing things better, the truth is we all know full well that we can do things better. And in fact, as the acting deputy chief management officer for the Department of Defense, that's actually my job description, is to find those things. So to be perfectly honest, having assistance in identifying opportunities bothers me not at all. So we look forward to our continued work with the Government Accountability Office.

As the ADCMO or assistant deputy chief management officer, I provide direction and advice on improvements to business processes and practices in the Department with a particular emphasis on finding efficiencies in overhead and mission support. So clearly our intent of my office and Mr. Dodaro align very well.

Last year, the deputy secretary asked the DCMO office to put together a series of efficiency initiatives that would help free up needed funds to meet emerging needs within the top line of the Department. Initiatives we are leading include headquarters reduction, service contract requirements reviews, information technology optimization and business optimization to include exchanges and commissaries. We've also been working on select business processes, to include the hiring process, conference approvals, and the process for coordinating and promulgating DOD issuances.

When completed, these initiatives will result in \$7.7 billion in forecasted savings over the period from fiscal year 2017 to 2021 and a further reduction of 25 percent of headquarters costs. Several of these topics are areas that were identified either in previous GAO reports or in the current 2016 report.

The Department appreciates the GAO's work in this area. The GAO identified a total of 101 recommendations directed solely to the Department in its first four annual reports from 2011 to 2014 and we have fully addressed or partially addressed 87 percent of these recommendations. The GAO identified an additional 19 recommendations in 2015 for the Department, and we've fully or partially addressed 47 percent of those. I fully acknowledge that means we have more to do, and we will continue to make progress.

One specific area in which we have made significant progress is in the area of DOD contract management for broad acquisitions. In

its High Risk Series Update Report published in February 2015, the GAO recognized progress made regarding the management and oversight of contracting techniques, noting that departmental leadership has taken significant steps to plan and monitor progress over the last several years. As a result, the GAO made a decision to remove contracting techniques and approaches from the scope of the DOD contract management high risk areas.

Another example of the Department's progress, and it aligns with a recommendation made in the 2016 report, involves the management of leased space. In 2014, the Department, using a baseline of 5.4 million square feet of DOD-occupied space in the national capital region set out to reduce that space. Our initial plan calls for reduction of 1.2 million square feet prior to 2020. To date, we've eliminated 267,000 square feet of leased space use in the national capital region by making better use of government space, and we intend to get an additional 886,000 square feet out of reductions in leased space use by 2020, which will save \$43 million a year.

In addition to those 14 efforts, we are going to look more broadly across the entirety of DOD property and broadly across the country. So I anticipate more progress in that area.

Mr. Chairman, Ranking Member, the Department looks forward to continuing to work both with this committee and with the GAO to continue to implement recommended actions. We take our duty to be a steward of the taxpayers' dollars very seriously and we look forward to continuing to work on the opportunities identified in the 2016 report. Thank you.

[Prepared statement of Mr. Tillotson follows.]

Good afternoon Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee. Thank you for this opportunity to discuss the Department's progress addressing the Government Accountability Office's (GAO) findings related to duplication, fragmentation and overlap in the Department.

My name is David Tillotson, and I am the Assistant Deputy Chief Management Officer (ADCMO) of the Department of Defense (DoD). Prior to my appointment as the DoD ADCMO, I was the Deputy Chief Management Officer, Office of the Secretary of the Air Force.

As the ADCMO, I provide direction and advice on improvements to business processes and practices in the Department with a particular emphasis on overhead and mission support functions. Last year, the Deputy Secretary asked this office to put together a package of efficiencies initiatives that would help free up needed funds to meet emerging needs in the current budget constrained environment. The initiatives that I am currently leading include headquarters reductions, service contract requirements reviews, information technology optimization, and business optimization to include commissaries and exchanges. I have also been working on improving select business processes, including the hiring process, the conference approval process, and the process for coordinating and promulgating DoD issuances. When completed, these initiatives will result in \$7.7 billion in forecasted savings over FY 2017 – FY 2021 and a reduction of 25 percent in headquarters costs.

The Department appreciates the work by GAO on identifying additional opportunities to reduce duplication, overlap and fragmentation. Over the past several years, the Department has made significant progress in implementing the recommended actions identified in GAO's 2011-2015 annual duplication reports. Specifically, the GAO identified a total of 101 recommended actions

directed solely to the Department in its first four annual reports (2011-2014); the Department has fully addressed or partially addressed 87 percent of these recommendations. Further, the GAO identified an additional 19 recommended actions in 2015, for which the Department has fully addressed or partially addressed 47 percent of those actions.

One specific area in which the Department has made significant progress is in the area of DoD contract management. The DoD obligates more than \$300 billion annually to contract for goods and services, including major weapon systems, support for military bases, information technology, and other mission areas addressed by the GAO's duplication reports. In its High Risk Series Update Report published in February 2015, the GAO recognized progress made regarding the management and oversight of contracting techniques and approaches, noting that Departmental leadership had taken significant steps to plan and monitor progress over the last several years. As a result, GAO made a decision to remove contracting techniques and approaches from the scope of the DoD contract management high risk area.

We have begun implementing the robust practices put in place in the military departments to review the requirements for and assess potential redundancies in service contracts supporting the OSD staff and the DoD Defense Agencies and Field Activities. This process, known as the Service Requirements Review Boards (SRRBs), is aimed at validating service contract requirements and streamlining service support contracts. The SRRBs require organizations within the Office of the Secretary of Defense (OSD) and the Defense Agencies and DoD Field Activities to review their service contract requirements and assess opportunities for efficiencies, to include the elimination of non-value-added services, identification and elimination of duplicative requirements, re-alignment of requirements to better align to mission, and the

identification of Strategic Sourcing opportunities. In addition, organizations are tasked with capturing savings to facilitate budget cuts over the Future Years Defense Program and re-invest funds into new capabilities. Regarding strategic sourcing opportunities, the Department is supportive of the Category Management concept championed by OMB and provides the co-lead of the Administration's Cross Agency Priority on Strategic Sourcing. Both initiatives further facilitate the elimination of redundant contracts and enable better pricing and management of purchased goods and services.

Another example of the Department's progress in implementing GAO recommended actions involves management of leased space. In 2014, the Department began reviewing use of government and leased space in the National Capital Region (NCR), with an objective of making better use of government facilities and reducing our requirement for leased space. The 2014 Leased Space Reduction effort started with a baseline of 5.4 million square feet (SF) of DoD occupied space within the NCR. The goal is to reduce our leased space inventory by 1.2 million SF prior to FY2020. To date we have eliminated 267 thousand SF of NCR leased space, resulting in savings to the department of \$10M per year beginning in FY2016. DoD will release an additional 886 thousand SF by FY2020 for a total saving of \$43M per year thereafter. In addition to the 2014 planned efforts, the Department continues to look for additional leased space savings within the NCR, and it is my intent to expand that effort nationwide.

In 2012, the GAO identified opportunities for consolidating or eliminating headquarters organizations based upon geographic proximity or span of control and centralizing overlapping functions or services. Additionally, GAO made specific recommendations on the need for improved information relative to Major DoD Headquarters Activities (MHA), including an

accounting of contractors supporting MHA and improved MHA data collection and tracking. Most recently, GAO identified the need for DoD to reassess personnel requirements for OSD, the Joint Staff, and the Military Service Secretariats. In 2013, then-Secretary Hagel directed a 20-percent cut to the cost of management headquarters operations through FY 2019, which resulted in the FY 2015 budget projecting reductions of over \$5.3 billion and 11,000 manpower authorizations to MHA through FY 2019.

However, each DoD organization was permitted to define its own headquarters elements for the purpose of this reduction. As a result, it has been difficult to measure the extent to which major DoD headquarters activities have actually gotten smaller. Some organizations applied under-inclusive definitions and may not have cut headquarters enough. Other organizations applied over-inclusive definitions, and may have cut elements that were not performing headquarters functions at all.

This year, the Department has adopted a comprehensive new definition of major DoD headquarters activities, which was subsequently codified in the FY 2016 NDAA. The Department is now in the process of applying the new definition on a uniform basis across the Department. When fully implemented, the new definition will be built into programming and budget elements, enabling the Department to track headquarters reduction consistently across organizations and over time. The new definition and framework essentially removes smaller operational organizations from consideration while counting more of the staff-like activity in the major DoD Components.

The organizations that are included in the new definition include:

- OSD, the Joint Staff, the Offices of the Secretaries and Chiefs of the Military Departments, and the Office of the Chief of National Guard Bureau and the National Guard Joint Staff (these organizations are considered 100% MHA).

- Headquarters functions of:
 - o The Combatant Commands and Sub-unified Commands.

 - o Major Commands and Component Commands of the Military Departments.

 - o Defense Agencies, DoD Field Activities, and the Office of the Inspector General, DoD.

- Headquarters functions of subordinate organizations that report to any of the above provided the organization is primarily non-operational, non-intelligence, or non-tactical.

The functions that are considered Headquarters functions include: Commander's immediate staff and direct support, numbered staffs, or those that are primarily involved in "directing, instructing, organizing, planning, preparing, communicating, managing, overseeing, analyzing, or assessing" activities.

The functions that are considered Non-Headquarters functions include: execution of military operational and tactical missions, training to execute military operational and tactical missions, provide support to customers outside the Component (except when they are simply interacting with external elements while conducting the business of the Component), and base operating or facilities support.

As of April 6, 2016, we have completed the re-baselining process for OSD, the Defense Agencies and Field Activities, the Joint Staff, and the Combatant Commands. We plan to complete the process with reviews of military department headquarters elements over the next month. At the same time, the Department has increased the targeted reduction in headquarters funding to 25 percent, consistent with the requirements in the FY 2016 NDAA.

Relative to OSD, Defense Agencies, and DoD Field Activities, my office has commissioned a Senior Review Panel (SRP), chaired by DCMO, AT&L, and Senior Services Managers from the MILDEPS. To ensure continued oversight and integration of effort, the SRP process is reviewing the re-baselining of MHA, the outcomes of the SRRBs, the planning for the execution of directed headquarters reductions, and the layering of the management structures. The SRP began its efforts in November 2015 and will complete their initial review cycle this month.

Mr. Chairman, this office is firmly committed to continuing efforts to implement GAO recommended actions to reduce duplication, overlap and fragmentation in the Department's programs. The Department has always taken its duty to be an excellent steward of taxpayer dollars very seriously, and we look forward to working with the GAO on improvement opportunities identified in its 2016 report.

Mr. MEADOWS. Thank you for your testimony.
Dr. Conway, you're recognized for 5 minutes.

STATEMENT OF PATRICK H. CONWAY

Dr. CONWAY. Thank you. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, thank you for the invitation to discuss the Centers for Medicare and Medicaid Services operation of the Medicare and Medicaid programs. We share this committee's commitment to serving beneficiaries and protecting taxpayer dollars.

As stewards of the Medicare and Medicaid Marketplace and the Children's Health Insurance Program, CMS is serving almost 140 million Americans, and we want these programs to be as effective and efficient as possible. We view the GAO as an important partner in these efforts and appreciate and take seriously GAO's work and their recommendations and are working to address and implement them.

We are making important progress in all our efforts to reduce duplication, improve efficiency, and protect taxpayer dollars, all while providing our beneficiaries with high quality care. And last year we have implemented 38 GAO recommendations and have submitted approximately 100 additional recommendations to the GAO for their review and closure.

One of our driving forces at CMS is changing the way health care is delivered in this country, moving towards paying providers based on quality rather than the quantity of care they give patients. As a practicing physician, I know how important this work is. Now an estimated 30 percent of Medicare payments are tied to alternative payment models and millions of American patients are benefiting from better-coordinated, improved quality of care.

Our work to reduce hospital-acquired conditions such as ulcers, infections, and avoidable traumas represents over 87,000 lives saved and an estimated \$20 billion in cost savings. We've seen an estimated 565,000 fewer hospital readmissions, meaning that beneficiaries didn't have to experience an extra hospital stay and Medicare did not face expenses for extra care.

Consistent with the recommendations from the GAO, CMS has taken several steps over the past years to improve transparency into supplemental payments in Medicaid and around the section 1115 research and demonstration programs used for States to pursue innovations. We are collecting annual upper payment limit data, which includes provider-specific information, and continue to review payment methodology to determine compliance with statutory requirements. All section 1115 demonstrations are available publicly and include specific terms and conditions that must be followed as a result of the demonstration. We've also identified and made publicly available the criteria we're using.

As the healthcare delivery system moves towards more integrated care and away from fee for service, more States are using managed care to serve Medicaid beneficiaries. Recognizing these changes in GAO's work, we proposed improvements to Medicaid managed care, aligning it with Medicare Advantage and private coverage plans, supporting State delivery system reform, promoting quality of care, strengthening program and fiscal integrity, incor-

porating best practices for managed long-term services and supports, and enhancing the beneficiary experience.

A commitment to program integrity underpins all our work. CMS is moving away from a so-called “pay-and-chase” program integrity model towards one focused on prevention. Today we are utilizing sophisticated predictive analytics technology, the Fraud Prevention System, to identify investigative leads to further protect the Medicare program from inappropriate billing practices. In the first 3 years of its implementation, the FPS identified and prevented \$820 million in inappropriate payments, and in calendar year 2014 alone the FPS had a 10 to 1 return on investment.

At the direction of Congress, CMS is using risk-based screening of providers and suppliers to enhance our ability to screen providers upon enrollment and identify those that may be at heightened risk for committing fraud. These new tools have saved the Medicare program approximately \$2.4 billion in avoided cost. We have deactivated billing privileges for more than 540,000 providers and suppliers that do not meet Medicare requirements and revoked an additional 34,000-plus providers and suppliers since 2011.

Perhaps most importantly, increased screening efforts have allowed CMS to deny over 7,000 applications in the last 12 months, preventing these providers and suppliers from ever submitting a claim. We are also increasing our site visits to Medicare-enrolled providers and suppliers.

CMS is dedicated to promoting better care, protecting patient safety, reducing healthcare costs, and providing people access to the right care at the right time, when and where they need it. This includes continually strengthening and improving Medicare and Medicaid programs that provide vital services to millions of Americans.

We look forward to working with both the GAO and this committee towards our mutual goals of providing value and quality to all the beneficiaries we serve and taxpayers. Thank you.

[Prepared statement of Dr. Conway follows:]

U.S. House Committee on Oversight & Government Reform
Hearing on
GAO's 2016 Duplication Report
April 13, 2016

Chairman Chaffetz, Ranking Member Cummings, and members of the Committee, thank you for the invitation to discuss the Centers for Medicare & Medicaid Services' (CMS') operation of the Medicare and Medicaid programs. We share this Committee's commitment to protecting beneficiaries and taxpayer dollars. Improving quality and enhancing efficiency is a top priority for the administration and an agency-wide effort at CMS. As stewards of Medicare and Medicaid, two large, complex programs providing vital services to millions of Americans, CMS is making important strides in preserving Medicare and Medicaid for generations to come.

CMS is using a multi-faceted approach to strengthen our programs by more closely aligning payments with the costs of providing care, encouraging health care providers to deliver better care and better outcomes for their patients, and improving access to care for beneficiaries. We have instituted many program improvements and are continuously looking for ways to refine and improve these efforts. Our work has already helped extend the life of the Medicare Trust Fund, with the most recent Medicare Trustees Report projecting that the trust fund that finances Medicare's hospital insurance coverage will remain solvent until 2030.¹

Improving the Health Care Delivery System

Today, almost 60 million Americans are covered by Medicare — and 10,000 become eligible for Medicare every day. For many years, Medicare was primarily a fee-for-service payment system that paid health care providers based on the volume of services they delivered, not the value of those services. In January 2015, the Administration announced measurable goals and a timeline to move the Medicare program, and the health care system at large, toward paying providers based on the quality, rather than the quantity of care they provide to patients. The Administration set a goal of tying 30 percent of traditional, or fee-for-service, Medicare payments to alternative payment models (APMs) — such as Accountable Care Organizations (ACOs), advanced primary care medical homes, or bundled payment arrangements — by the end of 2016, and tying 50

¹ <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/index.html?redirect=/ReportsTrustFunds>

percent of payments to these models by the end of 2018. The Administration also set a goal of tying 85 percent of all traditional Medicare payments to quality or value by 2016 and 90 percent by 2018 through programs such as the Hospital Value Based Purchasing and the Hospital Readmissions Reduction Programs. These goals for APMs and value-based payments are the first in the history of the Medicare program.

Over the past several years, CMS, through the Center for Medicare and Medicaid Innovation (“the Innovation Center”), has begun implementing many different payment models to test ways to improve the quality and value of care provided to beneficiaries in the Medicare program. Generally speaking, an APM is a model that holds providers accountable for the quality and cost of the care they deliver to a population of patients by providing a financial incentive to coordinate care for their patients. This helps ensure patients receive the appropriate care for their conditions and reduces avoidable hospitalizations, emergency department visits, adverse medication interactions, and other problems caused by inappropriate or siloed care.

Earlier this year, the Administration announced that it has already reached its first goal ahead of schedule: an estimated 30 percent of Medicare payments are tied to APMs as of January 2016, and millions of Medicare patients are benefitting from better coordinated and improved quality of care.² Ultimately, this shift towards quality and value will help patients receive, and doctors and other clinicians provide, the best care possible. We are already seeing national trends in health care improvements that are promising and likely a combined result of our efforts:

- There has been a 17 percent reduction from 2010 to 2014 in the number of hospital acquired conditions, such as pressure ulcers, infections, and avoidable traumas, representing over 87,000 lives saved and \$20 billion in cost savings.³
- Between April 2010 and May 2015, an estimated 565,000 readmissions were prevented across all conditions, compared to the readmission rate in the year prior to the passage of the Affordable Care Act (April 2009 to March 2010). That’s 565,000 times that a patient didn’t have to experience an extra hospital stay.⁴

² <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-03-03.html>

³ <http://www.ahrq.gov/professionals/quality-patient-safety/pfp/interimhacrate2014.html>

⁴ <http://www.hhs.gov/blog/2016/02/24/reducing-avoidable-hospital-readmissions.html>

- Per-enrollee health care spending in Medicare has grown at near historically slow rates since 2010, and these low growth rates have translated into substantial reductions in government spending on healthcare. For instance, Medicare spent \$473.1 billion less on personal health care expenditures between 2009 and 2014 than would have been spent if the 2000-2008 average growth rate had continued through 2014. In addition, if trends continue through 2015, that amount could grow to a projected \$648.6 billion, savings that are greater than all of Medicare's spending for personal health care expenditures in 2015.⁵

We are also working to implement the bipartisan Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), which supports the ongoing transformation of health care delivery by creating incentives for physicians and other clinicians to increase participation in rigorous Medicare payment and delivery models designed to improve quality and efficiency.

Strengthening Medicaid

The Medicaid program provides health insurance coverage for more than 70 million Americans, playing a particularly important role in providing coverage for low-income children, adults, pregnant women, people with disabilities, and seniors. The health benefits coverage Medicaid provides ranges from prenatal and pediatric care, to preventive care aimed at stemming chronic diseases, to long term care services and supports. Federal financial support and flexibilities in program rules, along with new tools and options made available through the Affordable Care Act, have helped provide a platform for CMS and states to adopt a range of improvements and innovations in their Medicaid programs.

Because Medicaid is jointly funded by states and the Federal Government and is administered by states within Federal guidelines, both the Federal Government and states are stewards of the program, and CMS and states work together closely to carry out these responsibilities. Under the Medicaid Federal-state partnership, the Federal Government sets forth a policy framework for the program and states have significant flexibility to choose options that enable them to deliver high quality, cost-efficient care for their residents. CMS is committed to working with states and

⁵ <https://aspe.hhs.gov/sites/default/files/pdf/190471/SpendingGrowth.pdf>

other partners to advance efforts that promote health, improve the quality of care, and lower health care costs

CMS is working with states to strengthen the program's ability to serve its beneficiaries in some key areas, including modernizing the eligibility and enrollment process for Medicaid and CHIP to support a strong consumer experience; strengthening payment and delivery systems reform to encourage coordinated, high quality, patient-centered care; and strengthening program integrity efforts to better combat and prevent fraud, waste, and abuse.

In our implementation of the Affordable Care Act, CMS has substantially simplified and modernized Medicaid and CHIP rules and processes for most people who apply for Medicaid and CHIP, creating an enrollment process that helps eligible consumers enroll in Medicaid and CHIP and access their coverage more quickly and smoothly. These rules are designed to align and coordinate with policies and procedures established for people who enroll in qualified health plans through the Marketplace. Before these changes, consumers would often encounter a paper-dependent process that was unnecessarily complex and time intensive, sometimes involving long waits for a decision on a family's eligibility that posed logistical challenges for working families and could delay access to needed care.

Now, consumers can use a single, streamlined application to apply for Medicaid, CHIP, and qualified health plans through the Marketplace. Consumers can apply online, over the phone, or by mail, and can get help from application assistors in their communities, or via call centers that help people apply for coverage. CMS and states have established an electronic approach to verifying financial and non-financial information needed to determine Medicaid, CHIP, and Marketplace eligibility. States now rely on available electronic data sources to confirm data included on the application, facilitating faster eligibility decisions and promoting program integrity. In addition, simplified renewal processes help ensure that people retain Medicaid and CHIP coverage for as long as they are eligible, and that beneficiaries who remain eligible get needed services like prescription medications.

As the Government Accountability Office (GAO) has noted, providing accurate eligibility determinations and reviewing expenditure data to make sure funds for Medicaid enrollees are allocated appropriately are important safeguards for the Medicaid program. CMS works continuously to provide accurate eligibility determinations for enrollment in Medicaid and has implemented various internal controls to verify applicants' eligibility. In addition, CMS conducts various reviews of expenditure data to make sure state spending is appropriately matched with federal funds.

CMS has also taken steps to ensure that Marketplace consumers are not receiving duplicate coverage through a State Medicaid program. The Marketplaces have a multi-layer verification process for applications, including checking applicants' enrollment in non-employer sponsored Minimum Essential Coverage in real-time using the Data Services Hub's trusted data sources. This real-time verification process includes checking the applicant's enrollment in Medicaid or CHIP with state Medicaid or CHIP agencies, and other mechanisms intended to protect taxpayer funds.

CMS is also taking additional steps to address other issues identified by the GAO related to coverage gaps and duplicate coverage, to help prevent such occurrences. CMS is currently collecting data from state Medicaid and CHIP agencies through periodic data matching, which allows CMS to identify consumers who are enrolled in Marketplace coverage with advanced payments of the Premium Tax Credit (APTC) or Cost Sharing Reductions (CSR) and Medicaid or CHIP, and conduct outreach/notification to them, regarding ending their Marketplace coverage with APTC/CSR. CMS is also working to implement additional internal controls to reduce duplicate coverage including automatically ending Marketplace coverage with APTC or CSRs for consumers who are found also to have been determined eligible for Medicaid or CHIP, who do not end their Marketplace coverage with financial assistance themselves. CMS is also considering the frequency at which periodic checks for Medicaid and CHIP enrollment will be conducted.

CMS takes seriously our responsibility to assure that Federal Medicaid funds are appropriately spent. Oversight of states' financial management of their Medicaid programs is a critical

component of CMS' work. Consistent with recommendations from the GAO, CMS has taken several steps over the past few years to improve transparency into supplemental payments in Medicaid. In 2013, CMS began collecting annual Upper Payment Limit (UPL) data which includes provider specific information as well as the Disproportionate Share Hospital (DSH) specific reporting information. CMS reviews payment methodologies to determine compliance with statutory requirements and requires additional information or justification if needed. Provider ownership information is collected through survey and certification systems and CMS is exploring ways to efficiently incorporate this information into the review process.

CMS is also working to increase transparency in the section 1115 research and demonstration programs. Section 1115 of the Social Security Act gives the Secretary of Health and Human Services (HHS) authority to approve demonstration projects that promote the objectives of the Medicaid and CHIP programs. As state and federal health policy is evolving rapidly, particularly in the area of payment innovation and delivery system reform, section 1115 demonstrations play a key role in States' ability to test new and innovative approaches. Section 1115 demonstrations must promote the objectives of the Medicaid program and all demonstrations are reviewed by CMS to determine whether these objectives are met. The demonstrations and programs reviewed by the GAO promote objectives such as including increasing and strengthening overall coverage of low-income individuals in the state and increasing the efficiency and quality of care through initiatives to transform service delivery networks.

In addition, CMS has implemented several initiatives to enhance transparency for section 1115 demonstrations. All section 1115 demonstrations are available publicly and include the specific terms and conditions that must be followed as a result of the demonstration. Additionally, any 1115 demonstration request is subject to a public notice and comment process at both the state and federal level. States are required to solicit meaningful public input in the development of a section 1115 demonstration request prior to submission to CMS. When completed 1115 submissions are submitted to CMS, we also facilitate public comment on the demonstration prior to approval or disapproval.

CMS also identified and made publicly available its long-standing criteria for assessing whether

section 1115 demonstrations are likely to promote Medicaid or CHIP objectives. CMS now clarifies in the terms and conditions that govern the demonstration how the approved program aligns with our published criteria.⁶

As the health care delivery system moves towards more integrated care and away from fee-for-service, states are increasingly moving to the use of managed care in serving Medicaid beneficiaries. Recognizing these changes, on June 1, 2015, CMS published in the Federal Register a proposed rule⁷ to modernize Medicaid and CHIP managed care regulations to update the programs' rules and strengthen the delivery of quality care for beneficiaries. This proposed rule is the first major update to Medicaid and CHIP managed care regulations in more than a decade and a major part of CMS' efforts to strengthen delivery systems that serve Medicaid and CHIP beneficiaries. The proposed rule incorporates several core principles to update the regulations, specifically aligning with Medicare Advantage and private coverage plans, supporting state delivery system reform, promoting the quality of care, strengthening program and fiscal integrity, incorporating best practices for managed long-term services and supports programs, and enhancing the beneficiary experience.

Strengthening Program Integrity

Program integrity is an integral focus of our efforts at CMS to be good stewards of taxpayer funds, and as we work to ensure that Medicare and Medicaid beneficiaries receive high quality care. With the assistance and recommendations of the GAO and other external partners, CMS has made progress in our efforts to move away from a "pay-and-chase" model towards one focused on prevention. For example, CMS is utilizing our sophisticated predictive analytics technology, the Fraud Prevention System (FPS), to identify investigative leads to further protect the Medicare program from inappropriate billing practices and provide oversight on provider enrollment actions. In its first three years of implementation, CMS has identified approximately

⁶ <https://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/1115/section-1115-demonstrations.html>

⁷ <https://www.federalregister.gov/articles/2015/06/01/2015-12965/medicaid-and-childrens-health-insurance-program-chip-programs-medicoid-managed-care-chip-delivered>

\$242 million in cost-avoidance savings from revoking provider billing privileges as a result of FPS leads.⁸

As required by MACRA and as the GAO has recommended,⁹ CMS will eliminate the use of beneficiaries' Social Security Numbers on Medicare cards by April 2019. CMS has begun the process to redesign Medicare cards, thus removing the current SSN-based identifier, known as the Health Insurance Claim Number (HICN), and replacing it with a Medicare Beneficiary Identifier (MBI). When this work is complete, for the first time, CMS will be able to terminate a Medicare number as soon as we confirm that it has been compromised and issue a new number to a beneficiary, similar to how credit card companies address stolen card numbers. Being able to immediately deactivate a compromised MBI will enable CMS to quickly respond and better prevent further misuse of a compromised number.

Provider Enrollment in Medicare

CMS is strongly committed to protecting the integrity of the Medicare program, including making sure only qualified providers and suppliers are enrolled in Medicare. The Affordable Care Act provided tools, including the use of risk-based screening of providers and suppliers, to enhance our ability to screen providers and suppliers upon enrollment and identify those that possibly may be at heightened risk for committing fraud.

We are seeing real results from our efforts, and we estimate that Affordable Care Act authorities have saved the Medicare program \$1.4 billion from revocations since March 2011, protecting both beneficiaries and the Medicare Trust Funds. These actions are part of a larger set of provider enrollment and screening activities which have saved the Medicare program \$2.4 billion in avoided costs.¹⁰ These savings reflect the actions CMS has taken to deactivate billing

⁸ Report to Congress: Fraud Prevention System Third Implementation Year. Available at: <http://www.cms.gov/About-CMS/Components/CPI/Center-for-program-integrity.html>

⁹ <http://www.gao.gov/products/GAO-13-761>

¹⁰ These savings estimates use the same methodology as the identified "costs avoided by revoking billing privileges" savings measure that was certified by the OIG in the 2nd and 3rd Year FPS Reports to Congress. Please see CMS' Report to Congress: Fraud Prevention System Third Implementation Year, for more information (available at: <http://www.cms.gov/About-CMS/Components/CPI/Center-for-program-integrity.html>). While these particular

privileges for more than 543,100 providers and suppliers that do not meet Medicare requirements, and to revoke the enrollment and billing privileges of an additional 34,800 providers and suppliers since 2011.¹¹

Additionally, increased screening efforts have led CMS to deny 7,293 applications in the last 12 months (February 2015-February 2016) based on improved enrollment screening, preventing these providers or suppliers from ever submitting a claim.

In addition to implementing the tools provided by the Affordable Care Act, we are strengthening our strategies designed to reinforce provider screening activities by increasing site visits to Medicare-enrolled providers and suppliers, enhancing and improving information technology (IT) systems, and implementing continuous data monitoring practices to help make sure practice location data are accurate and in compliance with enrollment requirements.

A recent GAO report¹², which identified areas for improvement in our Provider Enrollment, Chain, and Ownership System (PECOS) – the IT system for Medicare enrollment – regarding verification of provider or supplier practice locations, helped CMS target our efforts to further enhance our provider screening activities. We appreciate the GAO’s work in this area and are using the GAO’s findings to support our broader provider screening enhancements.

When enrolling in Medicare, providers and suppliers (including physicians and non-physician practitioners) are required to supply on their application the address of the location from which they offer services. As a result of our continuous review of policies, we have put into practice four tactics to strengthen strategies designed to reinforce provider and supplier screening activities.

estimates have not been certified by the OIG, they reflect comparable calculations applied to actions taken under authorities provided in both the Affordable Care Act and CMS’ previously existing authorities.

¹¹ Deactivated providers and suppliers have their Medicare billing privileges stopped; however, their billing privileges can be restored upon the submission and approval of an updated enrollment application. Revoked providers and suppliers have their Medicare billing privileges terminated and are barred from re-entering the Medicare program for a period of one to three years, depending on the severity of the revocation.

¹² <http://www.gao.gov/products/GAO-15-448>

We're increasing the number of site visits to Medicare-enrolled providers and suppliers, initially targeting those providers and suppliers receiving high reimbursements by Medicare that are located in high risk geographic areas. We're enhancing our address verification software in PECOS to better detect vacant or invalid addresses or commercial mail reporting agencies (CMRAs). Starting this year, CMS will replace the current PECOS address verification software with new software that includes Delivery Point Verification (DPV) in addition to the existing functionality. This new DPV functionality will flag addresses that may be vacant, CMRAs or invalid addresses. CMS has started to continuously monitor and identify addresses that may have become vacant or non-operational after initial enrollment. This monitoring is done through monthly data analysis that validates provider and supplier enrollment practice location addresses against the U.S. Postal Service address verification database. Beginning last month (March 2016) we've also begun deactivating providers and suppliers that have not billed Medicare in the last 13 months.¹³ This approach will remove providers and suppliers with potentially invalid addresses from PECOS without requiring site visits. This work will strengthen the integrity of the Medicare program while minimizing burden on the provider and supplier community.

Conclusion

CMS is dedicated to promoting better care, protecting patient safety, reducing health care costs, and providing people with access to the right care, when and where they need it. This includes continually strengthening and improving Medicare and Medicaid programs that provide vital services to millions of Americans. We take our responsibility to deliver better care at a better value seriously. We greatly appreciate the work of the GAO and this Committee and look forward to working together towards our mutual goals of providing value and quality care to beneficiaries and taxpayers.

¹³ Note: Providers and suppliers that may be exempted from the deactivation for non-billing include: those enrolled solely to order, refer, prescribe; or certain specialty types (e.g., pediatricians, dentists and mass immunizers (roster billers)).

Mr. MEADOWS. Thank you, Dr. Conway.

Thank each of you for your testimony.

And I'm going to recognize the gentleman from Tennessee for a series of questions. But before I do that, I think it's important as we look at this particular issue on duplicative services and efficiencies to recognize really one of the greatest assets that the Federal Government has, and that's its Federal employees. And in doing that it's very easy to start looking at the inefficiencies and the problems and undermine really our Federal workforce.

So I wanted to go on record to say a thank you to the 99.5 percent of the Federal workforce that does an outstanding job each and every day. And sometimes we focus on that 0.5 percent and paint a very broad brush. I don't want this hearing to do that as we really look at meaningful ways to make sure that we have a cost savings.

And so with that I would recognize the gentleman from Tennessee, my good friend Mr. Duncan, for 5 minutes.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman. And thank you and Chairman Chaffetz for calling this hearing, an annual hearing that I think is one of the most important hearings that we hold each year.

Mr. Dodaro, I think the work that your agency does is extremely important and valuable for us.

I have several different questions. I won't have time to get into all of them. But we have background information from the staff that says that the Department of Defense now has weapons acquisition programs that total \$1.3 trillion, spending over \$100 billion annually on weapon system acquisition. I know you've put out several recommendations over the years, and especially in 2011 a report saying it was very inefficient, their weapons acquisition program, and that there were duplications and so forth.

Do you think that the Department of Defense has done enough in regard to your recommendations that you've made on that in the past or could there be additional savings in that area?

Mr. DODARO. I think they can definitely do more. We've appreciated what they've done. They've adopted some of the best practices recommendations that we've suggested. They've begun looking at things. But I'm concerned that some of the reforms haven't been implemented very consistently over time. I'll ask Mr. Francis, who's our expert in this area, to give you a more thorough answer. But there's more that could be done.

Mr. DUNCAN. All right.

Mr. FRANCIS. Good morning, Mr. Duncan.

Yes, I think one of the things that we've talked about is portfolio management, which is basically an approach for the Department to look at its weapon system portfolio as a whole. Because one of the looming problems for defense is when you get beyond the next 5-year plan, there's much more demand for money for weapon systems than there's money available. And so the Department has to take a more holistic look across weapon systems to see what the best mix of investments are for them. And right now the Department has multiple processes that are fragmented for budgeting requirements and acquisitions and the services all do their own

thing. So we pretty much have a process that optimizes for individual weapon systems, but we need to look more across the board.

Mr. DUNCAN. All right. Well, thank you very much.

The week before last I was on a trip with three Senators and another Member of the House and we met with Admiral Harris, who is the head of the Pacific Command. And we were talking about the problems the Defense Department is facing in acquiring some of the more expensive weapons and things that they need, and we talked about how that the costs have been shooting way up have been in the pay and benefits and so forth.

And many top leaders have talked about that problem, how it's cutting into being able to buy the equipment that they want, and Admiral Harris said that he thought that we needed to have another BRAC.

Mr. Tillotson, do you have any opinion on that?

And also, Mr. Dodaro, if you all looked into that?

Mr. TILLOTSON. Surely. It is the Department's position that another round of BRAC would be appropriate. Mr. Dodaro's findings about the use of leased space and underutilization of government space relates to making better use of the space that we have and we certainly agree we should do that.

But having said that, there's a large amount of space that is more industrial and involves a lot of bases that are at this point largely underutilized and we do believe there's excess capacity that could be reviewed. So we would endorse another round of BRAC.

Mr. DODARO. There's definitely excess property. Our work, though, focused on reviewing past BRAC rounds have shown that the Department needs to make additional improvements in its methodology for estimating BRAC savings and actually bringing those savings to realization. The initial estimates are far in excess of what DOD eventually achieves through the BRAC rounds due to continual changes in requirements and other things.

So our opinion, if the Congress decides to grant them their request for another round of BRAC, they really need to implement our recommendations so that Congress has assurance that there really, at the end of the day, will be the savings that should be achieved through any process of this kind. We have many outstanding recommendations that the Department has not yet implemented in this regard.

Mr. DUNCAN. Another area, before my time runs out, you mentioned potentially saving billions on Social Security disability payments. Will you tell us about what needs to be done in that area?

Mr. DODARO. Yes. Right now people can receive full disability benefits and unemployment benefits at the same time. Now, there's some ability, if somebody's on disability, they can give permission to try to work, because, obviously, we want them to get back to work. But if they take a job and then they're eventually laid off from that position, they can collect both benefits, and we don't think that this is a prudent use of the Federal Government's money, to get both full disability benefits and unemployment benefits at the same time. CBO's estimated, I believe, they could save about \$1.3 billion over a few year period if this change is made.

Mr. DUNCAN. All right. Thank you very, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Pennsylvania, Mr. Cartwright, for 5 minutes.

Mr. CARTWRIGHT. I thank Chairman Meadows. And I also thank Chairman Chaffetz for calling this important hearing.

Mr. Tillotson, one of the issues GAO included in this year's duplication report is DOD's storage of occupational and environmental surveillance data. Am I correct in that?

Mr. TILLOTSON. Yes. That's correct.

Mr. CARTWRIGHT. Can you explain what the term means, occupational and environmental surveillance data?

Mr. TILLOTSON. Surely. As the Department conducts its industrial activities, there's a requirement, commensurate with both law and OSHA standards, that we collect information on any conditions that may eventually cause us to have to go back and look at impacts on the workforce or impacts on the work environment.

Mr. CARTWRIGHT. And so this has an impact on Active-Duty service men and women and also veterans. Am I correct in that?

Mr. TILLOTSON. That is correct.

Mr. CARTWRIGHT. All right. So DOD uses this information to track biological, chemical, and physical health hazards to our servicemen and our servicewomen, right?

Mr. TILLOTSON. That is correct.

Mr. CARTWRIGHT. All right. What benefit does DOD get from collecting that type of information?

Mr. TILLOTSON. So two benefits come out of it. First of all, we collect it. If we link environmental issues with impacts on Active-Duty servicemembers or even civilian workers, then it allows us to take corrective action to ensure that the condition does not continue. It also allows us to position ourselves to provide appropriate compensation should that condition actually emerge. And I think the Department is moving aggressively in the totality of its medical community to look at a better way to manage its medical information across both the Active-Duty and civilian force. So this is an activity area that's got great attention in the Department with significant investment.

Mr. CARTWRIGHT. I thank you for that. I think you just touched on it. The Department of Veterans Affairs also makes use of this type of environmental and health information to establish disability benefits for veterans. Am I correct in that?

Mr. TILLOTSON. That is correct.

Mr. CARTWRIGHT. So it's critical this kind of information be accurate and useable to help protect our Active-Duty servicemembers and our veterans, right?

Mr. TILLOTSON. Yes, sir.

Mr. CARTWRIGHT. Mr. Dodaro, thank you for being here as well, and all your good work.

According to GAO, it's not clear that the quality of the data that's being collected is reliable. In a report issued in May 2015, GAO said, "Some of the military services have developed their own guidance, resulting in inconsistent approaches in levels of effort, which has reduced DOD's ability to be confident that the data are sufficiently reliable." Have I read that correctly?

Mr. DODARO. That's correct.

Mr. CARTWRIGHT. So does it concern you that DOD does not know if the data it is collecting is accurate?

Mr. DODARO. Yes, it does.

Mr. CARTWRIGHT. Now, Mr. Tillotson, GAO recommended in that 2015 report that DOD establish clear policies and procedures for performing quality assurance reviews of the data collected. DOD responded to GAO that it would need additional resources to clarify its policies. Is DOD taking any actions to improve the quality of the data it is collecting?

Mr. TILLOTSON. Yes, we are in fact doing that. New policies are, in fact, in draft. They're due to be issued this year. And we did make the resources available to do this, because we, like you, felt that this was an important undertaking to put in place.

We've tied that into our broader issues of increasing standardization of medical practices across the Department. The establishment of the Defense Health Agency, the establishment of the Defense Health Program appropriation have all been value-added activities. This body, this Congress, has acted on those in prior years.

Mr. CARTWRIGHT. Well, thank you for that. But separate from the question of quality is how the information is processed and whether that's being done efficiently. According to the GAO report, OEHS data is stored in two different database systems.

Mr. Dodaro, did GAO identify problems with the use of two separate systems?

Mr. DODARO. I'm going to ask Ms. Clowers, who's the head of our Health Care team, to respond, please.

Ms. CLOWERS. Yes, sir, we did. We found, as you mentioned, there were two different systems, referred to as MESL and DOEHRS, in which the data is stored. So we found both potential for duplication of entry of the data, but importantly, that you couldn't get a comprehensive sense of all of the issues that were being raised by the data with using two different systems.

Mr. CARTWRIGHT. So two separate systems.

Mr. Tillotson, why is DOD using two separate systems?

Mr. TILLOTSON. So this is part of the corrective actions we have underway in the broader medical community. Prior to establishment of the Defense Health Program, prior to more integration across the Department, medical practices were run largely in the military departments.

Mr. CARTWRIGHT. Well, I want to jump in here. It's been more than 10 years since GAO first highlighted the issue of problems with DOD's management of occupational health data. Mr. Tillotson, why is it taking so long to fix these problems?

Mr. TILLOTSON. I can't give you a satisfactory answer to that. I can tell you we are working on it and we are looking to resolve the issue.

Mr. CARTWRIGHT. Well, look, we owe it to our servicemembers, Active-Duty men and women, and our veterans to collect this information accurately and to fix these problems, and I urge you to give it your every attention.

Mr. TILLOTSON. Thank you, Congressman. We will.

Mr. CARTWRIGHT. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Florida, Mr. Mica, for 5 minutes.

Mr. MICA. Well, thank you, Mr. Chairman. And thank you for holding this hearing.

Again, some of the waste and inefficiency of the Federal Government is identified annually by GAO. And I appreciate what you've done, Mr. Dodaro, of bringing this to our attention.

A couple of areas. First, some of DOD's—you probably have one of the biggest hawks in Congress. I vote for everything. I voted for the omnibus because we cut, cut, cut DOD. But I sit in these hearings, and I'm the senior person now on the National Security Subcommittee on the panel, been on it since the beginning of time, and I see more and more waste.

I see another report, Mr. Dodaro, that DOD, in fact, its inventory of properties and assets is almost nonexistent. Is that correct?

Mr. DODARO. Yeah. We've been very concerned about the lack of good information with—

Mr. MICA. Yeah, they don't have a good inventory even of their properties and their assets, and this report highlights it again. And that's a concern. We have billions of dollars' worth of assets, both domestically and internationally, and we can't even account for it. So, again, I think this is troubling.

Now, the other thing too is we work with some of the folks in the DOD committee, authorization committee. We did substantial acquisition reform. And you talk about procurement and acquisition, that's part of problem. Isn't it, sir? It's the procedures. They're cumbersome. They're outdated. They're bureaucratic. There's red tape. And sometimes you don't get the best buy for the taxpayers, right?

Mr. DODARO. Well, that's a problem, but it's also a problem, as you point out, if you don't know what you have, what condition it's in—

Mr. MICA. Well, okay. Those are assets, but acquiring new assets, it's just as bad. And one of the things that concerns me is we pass these reforms—now, I know it takes a while to implement, and I met with some of the folks. I have one of the biggest acquisition activities assimilation in the Army down in my district. I sit with the folks. We passed this stuff last year. Well, first there's no secretary of Army in place, or there hasn't been. Then there's no chief of staff. Then there's no one over the programs. You've got these vacancies, which is part of the problem.

And I ask: Have you implemented the acquisition reforms? No. It's no—sort of no, no, no I get. Or are they in place? No, no, no. Or decisions are somewhere in the chain of command.

Maybe, Mr. Tillotson, you can tell us what's happening there.

Mr. TILLOTSON. Certainly. So let me address kind of all three of your issues.

On the inventory, I agree with Mr. Dodaro, the inventory is not as it should be. It is part of the broader audit status of the Department, and, in fact, Mr. Dodaro, I, and the OMB folks are meeting this afternoon to talk about progress on audit, which will include inventory. So it's an area we are aware of.

Mr. MICA. So inventory we really can't even audit because we don't have—

Mr. TILLOTSON. Correct. You have to have full existence and complete to do that.

Mr. MICA. It's troubling.

Mr. TILLOTSON. We agree.

On the issue of acquisition reform, Mr. Kendall has moved out quickly with the new guidance to put some of those new procedures in place.

I would respond a little bit to Mr. Dodaro's earlier remarks about strategic portfolio management. We agree, and, in fact, over the last 3 years the deputy secretary of defense has led a strategic portfolio review on an annual basis. So not only are the reviews done within the military departments across their business space, but then it comes to a departmental level where the vice chairman of the Joint Chiefs, the deputy secretary of defense, and all the heads of the agencies do a strategic review of all the investments and investment plans so that to your point and to Mr. Dodaro's point, we can rationalize investments going forward.

Mr. MICA. Well, we have a bill actually that deals with some property disposal and management. How many people in the audience own property? Raise your hand. Almost everybody, right? Okay. Would you have the Federal Government manage that property? Hell, no. You'd be nuts. And we do that.

And the biggest property owner, probably the biggest one, is DOD. You can't get anyone to make a decision to dispose of property. I've been trying—we have 177,000 acres at NASA sitting there, an extra 16,000 acres with the Air Force. I'm trying to get 400 acres surplus property to transfer to do a commercial cargo center next to our port in Canaveral, not even in my district, 5,000 jobs it would create, and I've been working on it for 4 years.

The other thing too you got to do is you got to get some permanency to some of these military people. I'm now on my third commander. They change them every 2 years. We need to get these guys 3 years at least, maybe 4, some stability in the process. I was dealing with incompetent people in the past, then I get someone competent, and I got a second competent, but they're there and gone. How can you manage anything with the turnover that we have?

So just a little frustration, Mr. Chairman. But it drives me batty.

Just one thing for the members. Did you see what the private sector did this past week in landing that booster rocket on the barge? You got to look at that and see what the private sector can do when we unleash the private sector. God forbid we should give them a lease on doing things with private property and moving projects ahead.

Thank you. I yield back the balance of my time.

Mr. MEADOWS. I thank the gentleman from Florida. I know that excess properties has been something that has been a priority for the gentleman from Florida for a long time.

Mr. MICA. Mr. Chairman, incidentally, the bill that we're passing, I said it, I don't know if I said it, it does not apply to DOD—

Mr. MEADOWS. Right.

Mr. MICA. —the one that everyone's been working on. And that's something we need to look at. Thank you.

Mr. MEADOWS. The chair recognizes the gentlewoman from Illinois, Ms. Kelly, for 5 minutes.

Ms. KELLY. Thank you, Mr. Chair.

And welcome to the witnesses.

Dr. Conway, last year the United States spent over a trillion dollars on Medicare and health-related expenditures. I think we can all agree that there are opportunities to increase efficiency and reduce waste in Medicare and Medicaid spending.

I'm the chair of the Congressional Black Caucus Health Brain Trust, so this is something I'm very interested in and meet with a lot of people that are concerned with the future of Medicaid and Medicare.

I want to start by clarifying what is covered by the term "improper payments." Improper payments covers both overpayments and underpayments. Is that correct?

Dr. CONWAY. That is correct. So improper payments is both overpayments and underpayments.

Ms. KELLY. Okay. And improper payments can include payments made to fraudulent claims, but it also can include legitimate claims that include mistakes. Is that right?

Dr. CONWAY. Yes, it can. A proportion is fraudulent claims. But the majority of improper payments are actually due to documentation or other errors in the submission of the claim that was for, on further review, often legitimate medical service.

Ms. KELLY. Okay. One area GAO identified for potential duplication is in healthcare coverage for people who are hovering around the poverty line and moving between Medicaid and the federally subsidized coverage provided through the Affordable Care Act exchanges. In the report GAO released today it said that HHS concurred with GAO's recommendations and highlighted the actions the Department has already taken to ensure the accuracy of Medicaid eligibility determinations made through the exchanges.

What steps has CMS taken to ensure the recipients of Medicaid or Federal subsidies are not receiving duplicative coverage?

Dr. CONWAY. Yes. So we appreciate the GAO's work here. Let me describe briefly some of steps that we've taken.

One, the account transfer process. We have accounts transferring between Marketplace and Medicaid working closely with our States and private health plans on a daily basis. We now review account transfers on a weekly basis.

In terms of duplicative coverage, either by Medicaid and Marketplace, and the most common reason for this, to give you a tangible example, somebody may have Marketplace, for example, coverage, lose their job, then qualify for Medicaid.

We do what's called data matching with the States. We've been working closely with the States as they have a critical role here. We are doing periodic data matching now.

So we continue to work through the set of issues, both testing systems with States and private health plans, both at the Federal and State level. And through data matching and using data, reducing any people that may have coverage both in Marketplace and Medicaid at the same time.

Ms. KELLY. Okay. Another area was how CMS verifies the eligibility of Medicare providers and suppliers. And they found without

stronger controls and better verification, CMS may be making payments to providers without a legitimate address, whose licenses have expired or have been revoked, or in some cases who have actually died. One recommendation made was to upgrade the software.

Dr. CONWAY. Yes. Thank you for that question. We are doing that. We agree with the recommendation. We're updating the software. We're doing four major actions in this area. One, the software updates for address verification and other verification modalities. Two, increase site visits so that we are visiting sites at an increased frequency. Three, more continuous monitoring of data and checking with postal data and other sources in terms of the enrollment process. So we are upgrading our systems and using data to address these program integrity issues.

Ms. KELLY. Do you have enough people and the right people in place to carry this out?

Dr. CONWAY. Thank you for the question. You know, managing resources in the Federal Government, I've managed both in the private sector and the Federal Government, is incredibly challenging. We have, you know, in total approximately 6,000 CMS employees trying to manage a program of huge scope and complexity. I think whether it's program integrity or quality arenas or other policies or Marketplace Medicaid, we have a staff, and I appreciate the comments earlier, that I think is mission driven, wants to deliver on that mission. When you look at our employee viewpoint surveys, that comes across clearly. The other thing that comes across is a feeling that they don't always have the resources and the training and the ability to improve the system as much as they would want.

Ms. KELLY. Okay. And just quickly, Mr. Dodaro, just any comments about what you just heard or anything you want to add?

Mr. DODARO. No. I'm very pleased that CMS has taken action on a number of our recommendations in these areas. There are still some outstanding recommendations, particularly as it relates to Medicaid. I'm very concerned that we've not had a good oversight over the managed care portion of Medicaid at the State level. CMS is in the process of instituting a process that will provide more audits of what's going on in the managed care portion of Medicaid at that level.

I'm still concerned, though, that we have a disagreement with them about the definition of budget neutrality for demonstration projects. The ones that we've looked at we don't believe have been budget neutral and it's costing the Federal Government tens of billions of dollars in additional money. They've made their criteria more transparent, as Dr. Conway says, but we don't agree with the implementation of the criteria that we've seen in those areas.

There's also many things that we've recommended that Congress could do to streamline spending in Medicare and the Medicaid program as well.

So we're pleased. We've had ongoing dialogue with CMS. We plan to continue that and to press for full implementation of our outstanding recommendations.

Ms. KELLY. Okay. Thank you. And I yield back.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentleman from Michigan, Mr. Walberg, for 5 minutes.

Mr. WALBERG. Thank you, Mr. Chairman.

And thanks to the panel for being here. And, Mr. Dodaro, thanks for the heavy lifting and sharp penciling and pinpointing that you continue to do. One man's opinion in an overlarge Federal Government, but nonetheless.

One area that I'm interested in is the unobligated balances that are out there. Some staggering in nature, at least to my opinion. Is there any value to allowing agencies to hold excess appropriations to the next fiscal year? And I guess I would add quickly to that, at what point does it become a problem?

Mr. DODARO. Yeah. I think, you know, agencies need—and it depends on the program and the activity. So it's variable. They need to have a little bit of a potential buffer depending on the nature of the programs. But the ones we looked at, they had set criteria for what they thought they needed in addition to hold in appropriations. They were well above their own criteria. And that's why we called it excess.

So the amount of unobligated balances that we had pointed out in those areas are ones that, in our view, should be deobligated or rescinded by the Congress.

Mr. WALBERG. And specifically, let me get to a specific one here in the State Department, one area I've been in fact dealing with back in the district, the Consular and Border Security Programs. It was \$440 million over its target for unobligated balances in fiscal year 2014. How did that account end up almost half a billion dollars over target?

Mr. MIHM. Well, sir, as Mr. Dodaro mentioned, is that very often these types of programs, accounts for service, that you mentioned over at State Department environment, or Department of Energy was another, will have spending obligations or needs that will cross fiscal years.

Our point to this is, is that they have had targets that they have put in place of the amount of money that they need to have each year to handle that type of flexibility or to understand that their spending will cross years. When this is way out of whack, as it was with consular services, as it was with parts of the Department of Energy, they need to be able to roll that back or at least they need to have greater transparency and understanding as to what money they actually need, how they're going to spend it, and then be publicly reporting on where they are on that.

Mr. WALBERG. I guess my concern would be, if that'd be the case, and they said at 25 percent—

Mr. MIHM. Yes, sir.

Mr. WALBERG. —why not fix the problem by next year just saying we're going to set it at 40 percent? That doesn't seem to get in touch with reality of trying to live within one's means and truthfully set those targets.

Mr. MIHM. Well, setting it at—you know, they could flex—you know, move it each year and say: We're going from 25 percent to 40 percent or even down beyond that. What the goals—and, again, these are goals that they have set for themselves. These are based

on historically what they think they need to carry over from year to year—

Mr. WALBERG. And they have to justify it?

Mr. MIHM. Yes, but not at the level that we think that there should be that level of transparency. And that's the whole point on this.

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Mr. DODARO. One of the things we do every year, Congressman, is we scrub a lot of these accounts and provide the information to the appropriation committees. And in some cases, the appropriations committees will not approve additional money if there are large carryover balances. And so we keep an eye on these activities quite a bit. And the agencies have to justify, but we try to flag these for the appropriators so that they can focus on whether or not to take action.

Mr. WALBERG. Have any Customs and Border Patrol officials been held accountable for, as I see here, 2012, 2013, 2014, right around 40 percent than where they have ended up over target, have any accountability, thus far?

Mr. MIHM. There typically isn't accountability at any individual level on this or even an institutional level. What we are talking about is improving management processes that get a better transparency and better management over time so that you don't—there will be fluctuations, sir, is exactly what you are saying and that is to be expected. But what we do want to see is that if you set your own targets, you ought to be able to pretty consistently hit those targets, and if not, have good explanations to the Congress and others as to why a particular year was an anomaly.

Mr. WALBERG. Well, another problem—and thank you for that answer. Another problem that State, for instance, in their area of fraud prevention, they claim that they had that level of balance develop because fraud prevention activities fees could only be spent on antifraud activities. They didn't have enough fraud to spend it on? Do they have that significant problem in not being able to use the funds at other portions of their budget or their processes?

Mr. MIHM. Well, what we found, sir, is that, you know, when we look at all agencies across government, and State is no different than this, is that there are very often internal control weaknesses that are in place and opportunities for agencies to tighten up their antifraud activities. Certainly, we think, you know, within the parameters of the 25 percent, that that is something that State or any other agency ought to be able to improve internal controls with that amount of resources.

Mr. WALBERG. I see my time has expired. I yield back.

Mr. MEADOWS. I thank the gentleman from Michigan.

The chair recognizes the gentleman from Arizona, Mr. Gosar for 5 minutes.

Mr. GOSAR. Thank you, Mr. Chairman.

Mr. Dalrymple, in your own written testimony you state that the IRS is making steady progress on a vast majority of actions recommended by the GAO. However, in 2013 the Treasury Inspector General for Tax Administration recommended the Wage and Investment Division of the IRS assess the value of information refer-

ral process. Why has the IRS not acted on this recommendation yet?

Mr. DALRYMPLE. Well, we have begun acting on the GAO recommendation. We literally have a team of folks from across our various organizations looking at the referral program. We intend, within the 60 days from the date of the report, to actually put together a timeline. Our intentions at this point in time are to limit the number of organizations that have referrals. In other words, we intend to bring the referral process down to, you know, one centralized activity. And our intention is to, at some point in time in the very near future, have an online opportunity for taxpayers to make referrals.

So we are looking at all of the recommendations that have been made both by the GAO and the Treasury Inspector General for Tax Administration. And I believe we are going to be quite responsive to the issues that have been raised.

Mr. GOSAR. You know, there is an old adage, trust is a series of promises kept. The IRS is behind the 8 ball on that one. Can you explain why the IRS has failed to better coordinate and share information between programs?

Mr. DALRYMPLE. Well, a lot of these programs grew up over time. So, for example, we—

Mr. GOSAR. Well, I know. But what is happening is, is that you should have a constant evaluation and, you know, predication as an ongoing exercise, and we haven't seen that.

Mr. DALRYMPLE. Well, in this particular instance, we had a series of referral programs that grew up in each individual operating division over a period of time. Now, should we have looked at that and addressed it earlier? Yeah, I think we should have. The fact is that my view of this is that the auditors were very helpful in terms of focusing our attention on this. And now that we have focused attention on it, we are taking action.

Mr. GOSAR. And so we can expect some results here shortly?

Mr. DALRYMPLE. Absolutely.

Mr. GOSAR. Okay. Mr. Dodaro, as you may know, fraud within and throughout the VA is rampant. With regards to unemployment benefits, why doesn't the VA use IRS data to verify applicants' self-reported earnings?

Mr. DODARO. I am not sure. I will have to give you an answer for the record for that.

Mr. GOSAR. I appreciate that. I am going to go to a second one. What does the VA need to do to make sure that the process for determining unemployment eligibility is applied uniformly?

Mr. DODARO. Yeah, no. I am sorry, on this one, on the VA one I am going to have to get back to you on that.

Mr. GOSAR. You know, this is critical. I love you guys, but the VA is a mess, an absolute disgusting mess. And we need some actions in regards to this. And, you know, it behooves us to have those ideas, the facts so that Congress can address those.

Mr. DODARO. We will get you the facts. I will get you an answer today. But, you know, we agree in terms of the criticality of the VA. I added them to our high risk list last year in terms of health care that needs to be addressed.

Mr. GOSAR. We would also like to have some models that they can follow so that we are not reinventing the wheel for them. So I think they need some parenting outright.

I am going to bring up another one. It is the prevailing wage. I believe in a fair wage for a fair job that is fair to the taxpayers. But we have seen a huge rise in the number of businesses going out of business because of the Department of Labor in regards to the calculation of prevailing wage. This is a huge issue across the country. Do you see an equitable aspect of just recalculating this in a very transparent fashion?

Mr. DODARO. Yeah, we have not looked at that issue in a while, so I would have to go back and take a look. We did a long time ago, but it has been a number of years since we have had the resources to be able to look at it again.

Mr. GOSAR. We would love you to because, you know, I think from the standpoint, as long as it is a transparent schedule, which has been the major complaint for particularly smaller business along the lines in my district, in my State, we have had a lot of subcontractors, small contractors put out of business in regards to working with the Department of Defense. And this would be something that, I think, that both sides could go along with, making sure that it is a transparent schedule, that it is a fair wage for a fair job, and fair to the taxpayer.

Mr. DODARO. We will take a look at that. I understand your concern.

Mr. GOSAR. I appreciate it. And thank you for what you do.

Mr. DODARO. Sure.

Mr. GOSAR. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from North Carolina, Mr. Walker for 5 minutes.

Mr. WALKER. Thank you, Mr. Chairman. Thank you gentlemen and others for being here today. I have got a couple of questions. I would like to start with Mr. Dodaro. Why is the referral process being conducted by hand and through the mail? Isn't this an archaic, kind of out-of-date process? Can you speak to that for a minute?

Mr. DODARO. Yes, it is archaic.

Mr. WALKER. Okay.

Mr. DODARO. And particularly given the volume of complaints. I think at one information referral office had 87,000 referrals one year. And so they are manually reading them. But then when they refer it to another part of the IRS, they manually look at it again as well. So I am very pleased, as Mr. Dalrymple indicated, they are going through an online electronic process, but this is outdated.

Mr. WALKER. So, Mr. Dalrymple, you did talk about the plans to move it online. Can you give us a little more specificity on what that looks like and a timeline?

Mr. DALRYMPLE. Well, we are just in the planning stages right now so I really can't give you any more specificity about exactly what it is going to look like. We have to, you know, engineer that process, et cetera. But it is pretty clear to us that our process isn't working for either the taxpayers or for us at this point in time. So we are going to make some major changes to that program.

Mr. WALKER. I hear that sounds like you have got some great intentions there. But in your forecasting, is there any kind of timeline? I know you said you are talking about some plans. Can you be a little bit more specific?

Mr. DALRYMPLE. We will be responding to the GAO reports in May. And at that point in time, we will have a timeline together that will actually lay out what we are going to do and a timeline for getting it done.

Mr. WALKER. Okay. I look forward to seeing that in May.

Mr. Dodaro, how might greater coordination between the referral programs increase savings for the IRS and the American taxpayer? Can you talk about that for a minute?

Mr. DODARO. Sure, sure. I mean, well, first of all, I think it will increase the timeliness. A lot of the information that it gets, you know, they need to react quickly in order to be able to move and investigate, evaluate the referral, whether it is legitimate or not, and apply resources properly. Secondly, it will enable them to get back to whoever made the lead, if they identified themselves, in a way that will encourage people to send additional information in there as well.

As Mr. Dalrymple mentioned, the percentage of returns that the IRS has been auditing on their own has been going down. So they are auditing less returns, so that makes the ability to get leads and referrals all that more important and put it at a greater premium. So this will enable them to move more quickly. It will enable them to ferret out which ones they should spend time on and dedicate time on. So I believe this has high potential.

Mr. WALKER. It sounds like it. It is very encouraging to hear. I know the GAO has identified a lack of leadership within many levels of the IRS referral programs. What are we doing to improve this failure of leadership over programs that have the potential to reduce the tax gap? Can you speak to that?

Mr. DODARO. Sure. I will ask Mr. Mihm to take over.

Mr. MIHM. Well, thank you, sir, for the question. As Mr. Dalrymple noted in his conversation on an earlier question, is that the problem with the referral programs is that they grew up over time on a singular basis. And so one division within our business unit within the IRS would have a referral program, versus another one would have a referral program. And so they were viewed as referral programs rather than an integrated set of initiatives that are underway. Very similar to what local governments do when they have a 311 number, where you don't have to know what your problem is when you call. There is no wrong door. That is what needs to happen with the referral program.

We shouldn't make someone that has an issue referred understand and have to navigate the various processes and programs that are existing within the IRS. And I know from Mr. Dalrymple and his colleagues that that is something that they are committed to.

Mr. WALKER. Okay. I have one more question. It is a little lengthy so stay with me here. When whistleblowers contact the IRS, they are potentially taking considerable risk. I think we would agree with that part. Despite this, the IRS takes years to process claims with poor communications that goes back to these whistle-

blowers. Why are we not taking steps to evaluate the effectiveness of the whistleblower pilot program and other steps to improve communication with these people that come forward?

Mr. DODARO. Yeah. We have looked at the whistleblower program and made a number of recommendations. They need to more timely get back. The IRS has the pilot program underway. They need to evaluate whether or not that is going to be successful and meet the needs of the people who are providing the information. But communication here is really important.

The other thing that we point out in our evaluation is there are monetary awards for whistleblowers. And so far, the IRS has only issued about 31 specific monetary awards. So they have to look at whether or not they are providing enough incentives for people, both in communication and into awards.

Mr. WALKER. Thank you, Mr. Dodaro.

Mr. Chairman, I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Oklahoma, Mr. Russell for 5 minutes.

Mr. RUSSELL. Thank you, Mr. Chairman. Thank you for all of our witnesses that are here today. We do appreciate what you do. I am a big fan of our government accountants and also our inspectors general and others that help us ferret out waste and have responsible government.

Mr. Dodaro, the GAO found that the Commerce Department's new innovative technologies and manufacturing or ITM loan guarantee program was essentially performing the same function as four other Federal loan guarantee programs. The program was set up, as you I am sure are aware, as a result of the 2010 reauthorization of the America COMPETES Act. And Congress specifically directed Commerce to avoid duplication.

Given the preexisting programs, was it inevitable that ITM would overlap with existing loan programs, or was there more that Commerce could have done to avoid the now duplicate existing programs?

Mr. DODARO. We think there is more that could be done. We have made a recommendation to Commerce to work with the SBA and National Institute of Standards and Technologies. I think what Congress was trying to do here was to deal with a niche that there may be some gaps in the capital markets for innovation for this particular purpose. And it is going to be very difficult, though, I think, to find what that niche is going to be and to avoid duplication with the other programs.

I think that Congress was also, quite frankly, frustrated with the SBA's lack of timeliness in meeting these needs. And so we have recommended that Commerce work with them to identify what these capital needs are. I am pleased that they haven't made any loan guarantees yet until they can find out and make sure they are not duplicating. So we are going to stay on this. We have a regular requirement to review it.

Mr. RUSSELL. The report also shows that ITM's program is copying the forms and application process used by the Small Business Administration for its own loan program. How does this contribute to duplication in the issuance of loans?

Mr. DODARO. Well, it is going to duplicate it. Unless they follow our recommendation and find the right niche to focus on, it inevitably will result in duplication, in my opinion.

Mr. RUSSELL. The GAO also recommended in the report that the Commerce Department create targeted marketing materials in coordination with the National Institute for Standards and Technology so that the program offers guarantees to manufacturers who do not currently have access to Federal loan guarantees. If NIST has the best overall idea of which borrowers would benefit most from the program, would you recommend, or the GAO, that the loan guarantee program simply be consolidated under NIST, or would one of the other agencies with a preexisting program, and if not, why not?

Mr. DODARO. I think that is a possibility that has to be identified once Commerce does their homework and that there is a proper plan. I think at that point somebody ought to reassess. Now, I also would note, my understanding is Commerce has talked to other Federal departments and agencies about carrying out the program, and so far there have been no takers in that regard. So I think that, you know, I will be very interested to see what Commerce does with our recommendation. And once it has the marketing materials and once it has identified potential, you know, gaps in the capital markets, whether or not it could be done by another existing program or whether we really need another program.

Mr. RUSSELL. Thank you for that.

Mr. DODARO. I think the jury is out on that.

Mr. RUSSELL. I appreciate that.

And, Mr. Chairman, being a true conservative, I will yield back the balance of my time.

Mr. MEADOWS. Well, I thank the gentleman from Oklahoma.

The chair recognizes the gentleman from Alabama, Mr. Palmer for 5 minutes.

Mr. PALMER. Thank you, Mr. Chairman.

Mr. Dodaro, I really appreciate the work you guys do. I hate to say it, but I enjoy reading your reports. That probably speaks volumes about my personality. But I do want to go back to this issue of unobligated balances. And I know that you may or may not be in a position to make a judgment on whether or not this is sound fiscal policy, but I don't think we can make the case that it is absolutely necessary to hold almost \$900 billion in unobligated balances. Would you agree with that?

Mr. DODARO. Yes.

Mr. PALMER. Okay. My point here, then, is that we are going to debate over our budget in which we are being asked to increase spending by \$30 billion. If we were to reduce the unobligated balances by approximately 3.5 percent, that would more than cover the increase in spending. Does it not make sense to do that, particularly in the context of if we are holding money in unobligated balances and then having to borrow money to fund other agencies, isn't there an interest cost incurred in addition to the additional spending?

Mr. DODARO. Well, it is definitely not an efficient way to operate. I would say, though, that I don't believe it would be probably prudent to do an across the board kind of reduction there. I think you

have to look at targeted areas and agencies, and that is why we focused on specific areas. We do that every year for the Congress, you know, because in some cases it may make sense to have that and other cases not. But in no case should it be in excess of what the needs are.

Mr. PALMER. Right. And I just use that as a generalization, not in specific. I think you would have to look at each agency individually. But the point is that it is not sound fiscal management.

Mr. DODARO. That is correct. That is why we focus on it.

Mr. PALMER. Okay. Mr. Dalrymple, I am going to direct some questions to you about the tax gap. And the inspector general for the Tax Administration, the Treasury Inspector General, issued a report and in his report said that there needs to be more timely and more accurate estimates of the tax gap. Currently, the IRS reports this about every 5 years. Has the IRS acted on the inspector general's recommendations?

Mr. DALRYMPLE. We intend to have the new tax gap report out later this month, as a matter of fact. So we are acting on it as we speak.

Mr. PALMER. Can you tell me how much the IRS collected? What was the revenue total collected for 2015, fiscal year? It was over \$3 trillion, wasn't it?

Mr. DALRYMPLE. It was over \$3 trillion, yes.

Mr. PALMER. Based on a report from the Urban Institute and the Brookings Institution, over the past 30 years the tax gap has ranged from 16 to 20 percent. Let's just say it is 16 percent. And if \$3 trillion came into the IRS last year, that means 16 percent—that is 84 percent of what should have been collected. Now, I won't get into the math, but I will just give you an idea. That means that somewhere in the range of \$500 billion to \$550 billion went uncollected. What is the IRS doing to collect the taxes that are owed it?

Mr. DALRYMPLE. Well, we have a number of initiatives. I mean, the tax gap itself, one of the things that needs to be completely understood about the tax gap is that it is made up of a lot of different moneys owed. And if we were going to go after every sort of last cent of the tax gap, it would be an incredibly intrusive process. Having said—

Mr. PALMER. Well, let me suggest this. Eighty-four percent of it is underreporting, 10 percent is underpayment, 6 percent is just flat nonfiling. And the point I am trying to make here—and this may not be the proper forum to do it—but, you know, even when you do collect some of the taxes, you still have a net gap of somewhere between \$380 billion and \$400 billion. And I am on the Budget Committee, and this is one of the things that makes me want to pull my hair out and at my age I don't need to be doing that. We do everything in a 10-year window. And if it is \$380 billion a year, that is \$3.8 trillion in our 10-year window. Okay?

And then we have got improper payments. That is another one of your reports I read, Mr. Dodaro, \$124.7 billion in 2014. If that is the average, that is \$1.25 trillion over that 10-year window. And we are looking at a \$19 trillion debt? And we just identified \$5 trillion? Okay. It seems to me that it begs for a flat tax, or a consumption tax, some way of collecting every dime that is owed the government.

So I just want to see if the IRS can be more diligent in making sure that we collect the revenue that is owed us because we have got some serious fiscal issues facing the country.

Thank you for your indulgence, Mr. Chairman. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Texas, Mr. Hurd for 5 minutes.

Mr. HURD. Thank you, Mr. Chairman, for saving the best for second to last.

Mr. Dodaro, it is always a pleasure to see you, sir. And I want to shift gears a little bit, talking about Internet availability on tribal lands. The GAO report on tribal Internet access noted a lack of coordination between the FCC and USDA in their efforts to increase Internet access on tribal lands. What risks of duplication or inefficiency are presented by this lack of coordination?

Mr. DODARO. I am going to ask Mr. Herr who lead that work to respond.

Mr. HERR. Yes, thanks for the question. One of the challenges we saw there was that they were not doing coordinated training. And one of the challenges for the tribal groups is, one, getting to that training, but also just having the administrative staff to take advantage of some of those programs.

Mr. HURD. Have the agencies made any progress on increasing coordination?

Mr. HERR. We did the report last year. We will be following up with them this year. They concurred with the recommendations, so hopefully they are taking some steps forward.

Mr. HURD. Is this lack of coordination creating a risk that the FCC and USDA is going to offer conflicting advice to folks seeking to increase access on their land?

Mr. HERR. I think it is possible, yes.

Mr. HURD. I am curious as you continue with this, so please keep us informed on that.

Mr. HERR. We will. Thank you.

Mr. HURD. Mr. Dodaro, to you and your team, commercial satellite communications procurement is something I'm interested in. And, Mr. Tillotson, we will get to you on some questions on this.

And, Mr. Dodaro, first for you, or whoever on your team. How has the DOD commercial satellite procurement strategy changed over the past decade?

Mr. DODARO. They have become more reliant on purchasing commercial satellite services.

Mr. HURD. Was the DOD procurement policy willfully ignored, in your opinion?

Mr. DODARO. Well, it definitely wasn't followed. And I will leave it at that.

Mr. HURD. And has the DOD or was the DOD procurement policy effectively communicated to the various components?

Mr. DODARO. I will ask Mr. Francis to respond to that. He lead the work.

Mr. FRANCIS. Mr. Hurd, my understanding is it was effectively communicated. There is a couple of things that get in the way. The two agencies that enforce the procurement policy for CENTCOM is the Defense intelligence security agency and the U.S. Strategic

Command. While they have authority, they don't necessarily have enforcement powers, so there are some weaknesses there.

And then the funding for satellite communications actually is done through the supplemental budget. So the incentives aren't as strong, to be up front about that. And then when the agencies or components go around the normal procurement regulations, it is for reasons of exigency and so it becomes harder to enforce.

Mr. HURD. Mr. Tillotson, why has the DOD ignored several recommendations over the past decade for more strategic commercial satellite procurement strategy?

Mr. TILLOTSON. Sorry, I forgot to hit my button. So I would not agree that we have ignored the policy. In fact, let me just start with a couple of facts and figures. Since 2011, we have actually reduced expenditures on commercial satellite usage by \$571 million. Right now DISA, the Defense Information Services Agency manages about 90 percent of commercial satellite communications. I think at the time the criticism was rendered or the findings were rendered, there were certainly issues in how coherent that policy should have been implemented. Since that time, the Department has put more energy and effort into this.

GAO correctly identifies that there are two agencies involved. One is the Defense Information Services Agency, DISA, who does largely kind of the commercial backbone kind of work. And then there is the Strategic Command and the associated military department space agencies that do the military satellite communications. The Department has established the Defense Space Council so that we can—

Mr. HURD. So have all those entities been educated on what the DOD procurement policy is?

Mr. TILLOTSON. Yes. Yes.

Mr. HURD. So then why have some components independently procured satellite communications as opposed to following the department policy?

Mr. TILLOTSON. So with the establishment of the Defense Space Council, in some cases we have deliberately allowed some of those contracts to continue because it is cheaper to continue the contract than simply to reissue the contract. Again, I will go back and point out, we have actually reduced commercial satellite communications use by \$571 million since 2011.

Mr. HURD. In my remaining 15 seconds, Mr. Dodaro, DHS and their human resources IT investments, what is the best next action there?

Mr. DODARO. I think that this is a classic case for good congressional oversight to find out exactly what their current plan is. This to me was a classic case of mismanagement of this effort over a number of years. There are 422 different systems over there. There was lack of attention by management. They have supposedly now focused more on it in coming up with a validating business case again and a model. But I think congressional oversight would be very appropriate and prudent at this point to make sure that they right the ship here.

Mr. HURD. Well, Mr. Dodaro, I do know someone that sits on Oversight and Government Reform and Homeland Security Committee, so I'll make sure he follows up on it.

Mr. MEADOWS. I thank the gentleman for his personal interest on that particular topic.

And the chair recognizes the gentleman from California, Mr. DeSaulnier for 5 minutes.

Mr. DESAULNIER. Thank you, Mr. Chairman. And to Mr. Dorado, just thank you for your good work. It is always interesting and thrilling to be here in this committee and see a government agency doing so well, not that a lot of government agencies don't do well.

I want to ask you a couple of questions that sort of segues from the last comment about oversight. But the comparison between the executive branch implementing your recommendations and how you measure that versus us in Congress. And I am told this is really a partisan issue. It just happens between the administration and Congress, irrespective of who holds control over those levels of power.

So, for instance, the GAO has made 459 recommendations of the executive branch and 372 have now been fully or partially completed, by your analysis. In contrast, the GAO has made 85 recommendations for Congress, but only 37 have been fully or partially completed. That is 46 percent as opposed to 81 percent. So over time, have you or your predecessors given friendly suggestions as to how we could be more successful or is it just part of our role as a deliberative process that makes it difficult?

Mr. DODARO. I give friendly suggestions all the time, as often as I can.

Mr. DESAULNIER. Well, hopefully they received it—

Mr. DODARO. And they are, and they are. But, you know, I pointed out in my opening statement, although the numbers, the percentages are different, where the big dollar savings have come from—

Mr. DESAULNIER. Is here.

Mr. DODARO. —is through the Congress' actions. I also pointed out that Congress has encouraged and indeed directed, for example in the Defense Authorization bill, certain actions by the DOD to implement our recommendations. So Congress has a little bit of a hand in the executive branch implementation as well.

But I have got a long list of specific legislative recommendations for the Congress to act on that would save billions of dollars for—I can give examples now, if you'd like. For example, in Medicare, the number of hospitals have moved to do what they call vertical integration, which is to have physician practices operate as affiliates of the hospital. So people get certain services there the same as they could in a doctor's office. But right now, the hospital—if they go to one of these hospital affiliated outpatient services, the government reimburses them much more than if you go to a physician office. We think it ought to be equalized. There are billions of dollars that could be saved there. There are certain cancer hospitals that were originally deemed special rate payment hospitals in the 1980s, when there weren't that many hospitals providing cancer services, that if their payment rates are equalized now to other hospitals for similar treatments, you could save \$500 million right there.

On Medicare Advantage, there is an annual adjustment factor that is supposed to be made to compare it to fee for service. We

don't think CMS is using the most up-to-date information to make that adjustment. And we think that they could—the last time we looked at it, we thought it could be several billion dollars, at least \$2 billion to \$3 billion could be saved, perhaps, on an annual basis going forward.

We are recommending that the Congress take action to lower the requirement for electronic filing from 250 down to about 5, for employers. This will help the IRS have better ability to match and prevent identity theft, refund fraud, which last year, by IRS estimates, the government lost about \$3 billion, and it could be more in that area.

So we have got also recommendations to the Congress where they could eliminate payments that are made by the disability program, where people can also collect unemployment insurance at the same time so they are getting double benefits. And we don't think that that is prudent to be able to do that. There is also—

Mr. DESAULNIER. Let me stop you there.

Mr. DODARO. Okay.

Mr. DESAULNIER. I get the sense you could go on long beyond my 5 minutes. So all of those things I think we can agree on, all the members.

Mr. CONNOLLY. So in other words, there are no savings to be had. Right?

Mr. DESAULNIER. So is there a way—the way I read your report, it is sort of like when I was in local government and civil grand jury, you know, how many of these recommendations have you actually implemented? So since that is our measurement, I just wonder—and this is just an open-ended question. Perhaps you could respond to it at your leisure to me or to the chair.

Is there a better measurement to get us to do what we need to do in a friendly manner? Because, for instance, you give us partial credit for passing a bill, even though it doesn't become effectuated and signed into law. So it just strikes me that these measurements, when you look at the executive branch, it is pretty clear, either they have or have not or partially. With us you get big advantages, you say. So is there another way that we can measure that more clearly so we and the general public can understand it?

Thank you, Mr. Chairman.

Mr. DODARO. I will take a look at that.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Iowa, Mr. Blum for 5 minutes.

Mr. BLUM. Thank you, Chairman Meadows. And I would like to also thank the panel for being here today. I appreciate it very much.

Mr. Dodaro, good to see you again.

Mr. DODARO. Good to see you.

Mr. BLUM. And I would like to commend you on the work that you do and the work that the GAO does. It is very impressive. I am a career businessman from the private sector, and I for one can appreciate what your department does, many times unsung, many times reports probably not read. But I share Mr. Palmer's zest for reading your reports, and I think it is extremely important to the

taxpayers in this country the job that you do. So thank you very much.

Mr. DODARO. Thank you for those comments.

Mr. BLUM. I would like to, as opposed to digging into the details today, if you and I could just go to the 60,000-foot level, I would appreciate that. I would like to ask you a couple of questions. I am very interested, and I think my constituents are interested in your answers, and the taxpayers are as well.

First question, has the Federal Government, in your estimation, your opinion, grown so large, so big that it cannot effectively—that is the key word—be managed any longer? Because as a businessman, I see this time and time again. And I am coming to the conclusion it is so large it can't be managed. What is your opinion of that?

Mr. DODARO. There are definitely challenges in this regard. Some of the Federal entities are very large entities. The Department of Defense, for example; the IRS is a large agency; HHS is huge. All three agencies represented today. But in my view, that there are good management practices that could be taken and to effectively manage these departments and agencies, but there are not consistently applied management practices that should be made that are made. And as a result, you don't have as good of an effective management as you should to be able to do this.

Mr. BLUM. Great point, great point. What needs to change or what needs to happen so that we apply management practices to this huge bureaucracy that we have here? What needs to change, in your estimation?

Mr. DODARO. Yeah. No, no.

Mr. BLUM. That is a very good point you raised.

Mr. DODARO. Yeah, no. And it is a fair question. I think part of the issue is there needs to be stronger congressional oversight over the process. You know, when you think about it, the executive branch agencies—and we are about ready to have this happen again. Every change in the administration you take out your top 3,000 political appointees and put all new people in there in these agencies. There are vacancies that occur over time. Nobody in the private sector would take your top tier management all at once and move them out.

Mr. BLUM. Correct.

Mr. DODARO. But that is part of our democracy and it is part of what happens. But Congress has a role for continuity purposes, for confirming new people to lead these agencies. I think there should be more attention by the executive branch on management capabilities and experiences of people who are put into these positions to manage them, that they have the right qualifications, and they have the right experience. And that there needs to be proper oversight and stewardship by the Congress to ensure that they effectively carry out their responsibilities. And the President needs to pay attention to management issues as well as policy matters when they come into place.

And so this whole notion of management often gets a second-class status compared to policy orientations. And that is a fundamental problem that plagues a lot of agencies.

Mr. BLUM. We are going to spend nearly \$4 trillion of our citizens' money this next 12 months. What percentage do you think is ineffectively spent or is wasted due to things like duplication of services, due to waste, fraud, and abuse? Because strong America now estimates it is as high as 30 percent in the Federal Government. What is your estimation? Because you are here every day. You see it every—you are in the belly of the beast, so to speak.

Mr. DODARO. Yeah. Right, right. It is hard to give you a good figure. But here is the way I look at it. All right? The way I look at it is we have the latest estimate of improper payments was \$137 billion for 2015. Since improper payments have been required to be reported by the Congress, it is over \$1 trillion in improper payments. So you have a lot of money going out the door that perhaps shouldn't be going out the door. Most of that is overpayments, not underpayments.

You have a tax gap that we talked about briefly earlier, \$385 billion in that tax gap, according to IRS's last estimate. I am anxious to see what the new figure will be when it is released. That is a lot of money that should be coming in the door that is not coming in the door. And the duplication, tens of billions of dollars in additional money could be saved.

Mr. BLUM. A billion here and there adds up, doesn't it?

Mr. DODARO. Fast.

Mr. BLUM. And my last question to you is, what do we need to do as a Congress, as a government to help make the GAO—which I think is outstanding, by the way—more effective? What can we do?

Mr. DODARO. Well, we need your support to implement our recommendations. I would do that number one. Most people in my position would say give me more money, but I would say implement our recommendations and work with us more. Congress is a great partner with us. We don't have any enforcement authority at the GAO. We can't compel people to implement our recommendations, but Congress can and that is our enforcement approach.

Mr. BLUM. My time is up. And once again, I would like to commend you on the great job that your organization does.

Mr. DODARO. Thank you.

Mr. BLUM. And I yield back the time I don't have, Mr. Chairman.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from the 11th District of Virginia, my good friend, Mr. Connolly for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman. And just picking up on your last point, my colleague from Iowa, Gene, I don't want you to miss the opportunity. Yes, of course, we ought to implement your recommendations. But every dollar we invest in the GAO has what return on it?

Mr. DODARO. \$134 back for every dollar invested.

Mr. CONNOLLY. So to your point, I know it is not always a great idea on the conservative side of the aisle, but this one has a return on it. And so investing in the GAO is a very smart investment.

Mr. MEADOWS. And I join the gentleman in supporting his notion there that we need to invest more in the GAO.

Mr. CONNOLLY. I thank the chair.

You hear that, Gene? Run with it. For God's sake, it is a special moment here.

And, by the way, to Mr. Blum's questioning too, this committee in the past has done, I think, some very thoughtful hearings on both the issue of improper payments, the largest single chunk of which—identifiable chunk—is Medicare fraud. And the second is money left on the table that the IRS could not collect, did not collect, but is owed.

Those two categories, which if we actually could bring it down theoretically to zero, would be an enormous dent on the debt over 10 years. I mean, it would be in the trillions of dollars. And it is something we ought to take a look at as a Congress because that is low-hanging fruit. I know it involves making the IRS more efficient and more effective, but it also has a return on it. And right now we need it. Thank you, Mr. Dodaro, for your thoughtful work again.

I want to talk, Mr. Dalrymple, about identity theft, because identity theft, you know, diversion of refunds, especially at IRS, has now become almost epidemic, has it not?

Mr. DALRYMPLE. That is true.

Mr. CONNOLLY. That is true. And if I were to ask about identity theft at the IRS, say 8 or 10 years ago, it would have been a small part of your portfolio concern, would it not?

Mr. DALRYMPLE. It would have been—

Mr. CONNOLLY. And if you can speak into the mic so we can hear you.

Mr. DALRYMPLE. It would have been primarily 10 years ago, unrelated to refund fraud.

Mr. CONNOLLY. Right. And today, best estimate, how many Americans are affected by refund fraud?

Mr. DALRYMPLE. I don't have estimates on how many people at this point, but I can tell you that—

Mr. CONNOLLY. Well, number of returns then.

Mr. DALRYMPLE. 1.4 million returns—

Mr. CONNOLLY. Yeah.

Mr. DALRYMPLE. —in 2015 equated to about \$8.7 billion in refunds that were stopped.

Mr. CONNOLLY. Right. And 10 years ago it would have been negligible?

Mr. DALRYMPLE. Negligible, yes.

Mr. CONNOLLY. And here is the other problem, is it not, it is virtually a cost-free crime? The chances of us identifying you for illegally diverting somebody's refund, and prosecuting you, and convicting you, and even punishing you are pretty nil, are they not?

Mr. DALRYMPLE. Well, we have prosecuted—

Mr. CONNOLLY. I didn't ask that question.

Mr. DALRYMPLE. —prosecuted a lot of people but—

Mr. CONNOLLY. A lot?

Mr. DALRYMPLE. Two thousand folks. But it pales in comparison with the number of folks.

Mr. CONNOLLY. Right, Right. That's an improvement, but it is still a drop in the bucket. And again, I think Congress has to provide resources to beef up that effort and to help restore American confidence. I mean, here I am in a transaction with the Federal

agency trusting, of course, that that transaction will be protected. And as a matter of fact, it is not going to be, or for a lot of Americans.

Mr. Dodaro, to what extent is this problem the IRS is experiencing a function of antiquated IT?

Mr. DODARO. IT is definitely a solution to this issue for—one thing I would do—

Mr. CONNOLLY. Is it also part of the problem?

Mr. DODARO. Well, there are benefits and risks associated with any information technology initiative. And the idea is to maximize your benefit, minimize your risk. Here I would give Congress very good credit for acting on our recommendation.

For example, we found there was—one of the problems that they had was the IRS did not have the W-2 information from employers until April. And so the crooks were filing early, and the IRS didn't have the W-2 to match. Congress fixed that in the last year, and now the IRS will be getting the W-2 information at the end of January. So this put them in a better position to identify this area.

We think also Congress ought to lower the threshold for electronic filing of employers from 250 to 5 to 10, they will give more data. Now, the issue is, though, is can the IRS change its processes and systems to now take advantage of this electronic information that is available? And also, the IRS needs to do a better job of authenticating people before they are using their systems and the approach.

So there are ways and techniques to do this. So if managed properly, IT can be a big help here, even though it is causing the problem to occur.

Mr. CONNOLLY. Yeah. Well, I hope at some point we have a chance to talk more in depth about this.

And, Mr. Chairman, we talked about it collaboratively, but so much of the IT at the IRS is legacy systems, antiquated systems, and multiple systems incompatible with each other and often not suitable for encryption. No wonder we have a growing problem. Thank you very much.

Mr. MEADOWS. I would note to the IRS that is a code word for you need to come up with a plan to try to address it, because we are willing to work in a bipartisan way to help you address that problem.

Mr. DALRYMPLE. We appreciate that.

Mr. MEADOWS. All right. The chair recognizes the gentleman from Georgia, Mr. Carter for 5 minutes.

Mr. CARTER. Thank you, Mr. Chairman, and thank all of you for being here today. We appreciate your presence here. This is very important.

Mr. Dodaro, I want to start with you. I want to speak specifically on a project that is listed in your list of fragmentation and duplication, and that is the U.S. Embassy in Kabul. It is my understanding that the State Department didn't—did not have either a strategic facilities plan nor did they follow their own cost containment and risk mitigation project—policies, I should say. Is that true? Is that the way you understand it?

Mr. DODARO. I am going to ask Mr. Herr who lead the project to respond.

Mr. CARTER. I am sorry. Your name?

Mr. HERR. Phil Herr.

Mr. DODARO. Phil Herr.

Mr. CARTER. Okay.

Mr. HERR. That is correct, sir.

Mr. CARTER. That is correct. So you are telling me that they didn't have a strategic facilities plan, they didn't follow their own cost containment and their own risk mitigation policies.

Mr. HERR. Right. That is what we reported last year to this committee.

Mr. CARTER. So what does this say about the State Department? What does this say about their construction planning in general? Am I to take from this that it is not very good at all?

Mr. HERR. Well, I think in this case the conditions on the ground in Kabul are really challenging. We think that this kind of a plan, a 2-year to 5-year period that could be updated periodically would really help orient folks that come and go. Many people are serving 1-year tours there.

But to your point about Kabul, it does not look good there. We also have a large embassy construction program underway now.

Mr. CARTER. So am I to understand that all these developments and how dangerous a place it became while it was under construction, they didn't plan for that? And when they were planning, they didn't know that in advance?

Mr. HERR. Well, obviously, they would have known something. But the idea of an overarching plan, that was not in place, which we think would have been very helpful to them.

Mr. CARTER. Would you say that the State Department's failure to follow cost containment and to follow their own cost mitigation policies is a good stewardship of taxpayers' money whenever we are talking about a project of the magnitude of \$2.17 billion?

Mr. HERR. No, I would not.

Mr. CARTER. Mr. Dodaro or Mr. Herr, in your May 2015 report on the construction of the U.S. Embassy in Kabul, that is the one you referenced earlier.

Mr. HERR. Yes.

Mr. CARTER. You stated that the State Department's failures to follow its cost containment/risk mitigation procedures likely contributed to the fact that the cost for this project increased 27 percent and that the project will finish 3 years later than it was planned. Is that correct?

Mr. HERR. Yes.

Mr. CARTER. So would I be correct in saying that when we are talking about a project of this magnitude, and the State Department is not only not following their own policies on this, what are we to expect for smaller projects? I mean, we are talking about a \$2.17 billion project. That is big, even by our standards.

Mr. HERR. I agree.

Mr. CARTER. So I can only take from that and when we talk about smaller projects, that they are not doing that either and they are wasting money.

Let me get to the point. I have belabored the point too long. Here is what is bothering me. Okay? I have the Federal Law Enforcement Training Center in my district in Glynco, Georgia. Okay? Full

disclosure. Here is the State Department, needs to build a new training facility or says they need to build a new training facility for embassy personnel. And I understand that. And listen, all of us understand what happened in Benghazi. We don't want it to ever happen again. We want to be as prepared as we can be.

Initially, in the report comparing FLETC with where they are going to build it now at Fort Pickett, FLETC came in at \$260-some-odd million. Fort Pickett came in at \$965-whatever million. Then they went back. And you even compared both sites, the GAO did, as did the State Department. In 6 different factors the site at FLETC came out ahead in 4 of the 6. Only one favored Fort Pickett. Yet they went back and they said, okay, let's review it one more time. And then they came back and said, no, it is not going to be \$965 million to do it at Fort Pickett, it is only going to be \$465 million. We got it down that much. Huh? I mean, come on. I was born at night, but it wasn't last night. I mean, seriously. So what did they do? They decide, well, we are going to build it in Fort Pickett because that is where it needs to go. And here we are duplicating.

You know, it is one thing for us to come here and talk about where we have wasted money in the past, but my problem is I can't let this go. It is with me. I have only been here for 15 months now and I just can't let it go because I see us wasting money. Why are we doing—what can I do? Tell me. This is keeping me up at night. I want to sleep. Tell me what I can do.

Mr. DODARO. Well, with regard—I mean, Congress has the power of the purse, and they need to use it when they don't believe that the agencies are taking appropriate actions. I mean, you have the authority to be able to—nobody can spend money without Congress' authority, and they can only spend it on what you tell them to spend it on.

Mr. CARTER. I hope you can understand my frustration with this. This is very, very frustrating. And I guarantee you, I will bet you every penny I have got in my pocket that when it is finished at Fort Pickett, that it will be closer to \$965 million than it will be to \$465 million. You know that, I know that, and they know that. So you see why I am frustrated? You see why the American people are frustrated?

Mr. DODARO. I look at this across government every day, so I share your frustration.

Mr. CARTER. Well, then share with me how can I get used to it? Because I have to get some sleep, and I am not sleeping tonight.

Mr. MEADOWS. The gentleman's time has expired.

Mr. CARTER. Mr. Chairman, I need to know how I can get to sleep tonight.

Mr. DODARO. My advice to you, I have never gotten used to it. Okay? You just have to work where you can to make improvements and make it better.

Mr. CARTER. Thank you, Mr. Chairman. I apologize.

Mr. MEADOWS. I thank the gentleman.

And the chair recognizes the ranking member of the full committee, Mr. Cummings, the gentleman from Maryland, for 5 minutes.

Mr. CUMMINGS. Thank you very much.

Mr. Dodaro, the Defense Department has 79 major weapon systems programs, with a total estimated acquisition cost of over \$1.4 trillion. In August of 2015, the GAO released a report on DOD's process for buying weapon systems. That report said, "DOD and the military plan to acquire more weapons than they can afford, given the anticipated levels of funding."

Are you familiar with that report, Mr. Dodaro?

Mr. DODARO. Yes, I am familiar with it. And I have the author here with me.

Mr. CUMMINGS. Okay. And the GAO also found that the DOD makes decisions to invest in weapons on a piecemeal basis with each individual service making its own decisions about spending. According to the GAO, and if the DOD managed its investments as a department-wide portfolio rather than using this piecemeal approach, it would ensure that these investments are, "strategy driven, affordable, and balance near and long-term needs." But the DOD is not doing that, are they?

Mr. DODARO. Not to the extent we think they should.

Mr. CUMMINGS. And according to the Congressional Budget Office, the DOD's projected cost for weapons and other major equipment is going to increase by 21 percent by 2019 is a whopping \$541 billion. That is an enormous investment of taxpayer dollars. Do you believe that the DOD could save money if it used a portfolio approach rather than the piecemeal approach it is currently using?

Mr. DODARO. Yes. I will ask Mr. Francis to explain why.

Mr. CUMMINGS. All right.

Mr. FRANCIS. Yes, Mr. Cummings, we think they can save money. What you can do with portfolio management is look at what is the right mix of weapons for a given level of funding. If you don't do that to the extent that is possible, you end up optimizing for individual systems and then you will pay as much as you can to get those systems in.

Now, the Department has taken some efforts, and I am sure Mr. Tillotson will have some comments on that. But the DOD does look at portfolios, but each organization looks at them differently, defines them differently, and they can't integrate the budgeting and acquisition requirements processes. So you are right on the number.

CBO estimates a bow wave in the out years for procurement. If you look at the Navy, the Navy is going to need about 30, 32 percent more money to bring the programs in that it already has underway. And we have Joint Strike Fighter that is going to start hitting peak years of \$15 billion a year. So there is real questions about how we are going to manage all of that. And what you don't want to do is do that system by system because you will give everything a haircut.

Mr. CUMMINGS. Well, Mr. Tillotson, I am surprised to see that the DOD does not agree with most of the GAO's recommendations. For example, according to the GAO, "DOD does not plan to designate the Deputy Secretary of Defense when appropriate delegate responsibility for overseeing portfolio management as we recommended." Why is the DOD not planning to implement GAO's recommendation?

Mr. TILLOTSON. So the Department actually agrees with the GAO on the intent to move in the direction of strategic portfolio management and to do a better job of it. So in fact, we are not in disagreement with the direction the GAO is suggesting. In fact, I would also state that over the last 3 years, the Deputy Secretary of Defense and the vice chairman have conducted strategic portfolio reviews across families weapon systems with this very outcome in mind that the GAO is suggesting of how do I make a more rational investment decision.

I think the key here has been that the Department recognizes that the military departments tend to bring forward individual piece parts, and as a result we needed to integrate this at a department-wide level. That has been taking place now consistently for the last—we have actually executed it the last 2 years. There is a third round in progress. That is something that Deputy Secretary Work brought on board when he came and took the job. So we are moving in the direction the GAO suggests.

Mr. CUMMINGS. The GAO also said, “DOD does not plan to require annual enterprise level portfolio reviews that integrate key portfolio review elements from the requirements, acquisition, and budget processes as we recommended.” Why not?

Mr. TILLOTSON. I think the disagreement is more over the specifics of how to do it than it is over the intent. We think that the requirements process needs to be scrubbed at a portfolio level. The actual management of programs is a management of programs issue. We don't want to make that the centerpiece of the decision, but then the actual decision of what resources do we apply against what programs is the place where the portfolio process comes back into being. So we are actually in agreement again with the intent of the GAO. I think the differences are in implementation.

Mr. CUMMINGS. All right. I see that my time has run out. Thank you.

Mr. MEADOWS. The chair recognizes the gentleman from Ohio, Mr. Jordan for 5 minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Dalrymple, how long have you been at the IRS?

Mr. DALRYMPLE. I have been at the IRS for a total of about 33-1/2 years. I had a stint there, retired and come back.

Mr. JORDAN. Oh, two tours. And what are your responsibilities exactly?

Mr. DALRYMPLE. My responsibilities include all of the enforcement activities at the IRS, examination, collection, criminal investigation, all of the customer service activities, including telephone services, submission processing.

Mr. JORDAN. Do you deal with the Tax Exempt Division?

RPTR YORK

EDTR ZAMORA

Mr. DALRYMPLE. The Tax Exempt Division is part of—

Mr. JORDAN. In your 2 tours at the IRS, did you have any overlap with Ms. Lerner.

Mr. TILLOTSON. Actually, I think I overlapped with Ms. Lerner for about 3 months.

Mr. JORDAN. Just a short time. Okay. And do you report directly to the Commissioner, or is there someone—

Mr. TILLOTSON. I do.

Mr. JORDAN. —between—you report directly to the Commissioner. Okay.

Now, my understanding of Mr. Dodaro's report, there is that \$385 billion tax gap. Is that accurate? Do you agree with that, with what they concluded?

Mr. DALRYMPLE. We are going to put out a new tax gap report that actually—

Mr. JORDAN. Do you disagree?

Mr. DALRYMPLE. —now on the end of the year, and that figure will be adjusted based on the new information we have. But it is not going to change dramatically.

Mr. JORDAN. So he is close?

Mr. DALRYMPLE. Yes, yes.

Mr. JORDAN. All right. And then he has 112 recommendations. Right? I understand there is 112 recommendations for Treasury to implement to help deal with the fact that we are not collecting \$385 billion.

Mr. DALRYMPLE. I am not certain how many of the recommendations are exactly on point with the tax gap, but I—

Mr. JORDAN. Overall recommendations that they recommend that Treasury and IRS implement.

Mr. DALRYMPLE. Actually, I believe there is—

Mr. JORDAN. How many are there, Mr. Dodaro?

Mr. DODARO. I believe the 112 figure is correct.

Mr. JORDAN. One hundred and twelve. Okay. And is it true, Mr. Dalrymple, that you have only implemented about 50? Seventy remain? You know, you haven't dealt with, haven't implemented, unimplemented?

Mr. DALRYMPLE. We have unimplemented or partially addressed actions without question.

Mr. JORDAN. Mr. Dodaro, how many have they put in place?

Mr. DODARO. There is still about 63 percent that need to be implemented.

Mr. JORDAN. So less than half. They have implemented less than half to deal with this huge tax gap.

Changing subjects somewhat. So you are in charge of enforcement. Do you know anything, Mr. Dalrymple, about the StingRay technology?

Mr. DALRYMPLE. I know about the—I know the technology exists. I know that we have employed it in certain circumstances.

Mr. JORDAN. How many times did the IRS use this technology that mimics a cell phone tower, grabs up everyone in that particular area's cell phone data, and gives the IRS, the same IRS that targeted people, access to people in that geographic location, the IRS knows where they are at and their cell number and cell information? How many times has the IRS used that technology?

Mr. DALRYMPLE. I would have to come back with the exact number. I think it is about 37 times.

Mr. JORDAN. Thirty-seven times. And in those 37 times, do you know if the IRS got a warrant to use that technology?

Mr. DALRYMPLE. In every instance we would have had some sort of court—

Mr. JORDAN. That is not what I asked. Did you get a warrant, probable cause warrant?

Mr. DALRYMPLE. Again, I would have to come back to you on that.

Mr. JORDAN. Can you get that back to me?

Mr. DALRYMPLE. Certainly.

Mr. JORDAN. Does the IRS have a nondisclosure with the FBI not disclosing that it is actually used? So when you employed it and you supposedly grab somebody's—you know, not paid their taxes or whatever you are trying to get, did you disclose to them that you used StingRay technology to get them?

Mr. DALRYMPLE. Disclose it to the FBI?

Mr. JORDAN. No. Do you have an agreement with the FBI that says you will not disclose to the individual that you are using the technology to, I assume, get information from or maybe get that individual, not disclose to them or their counsel?

Mr. DALRYMPLE. Again, I would have to answer that for the record. I am not certain.

Mr. JORDAN. Okay. We would appreciate that as well. And do you know if the IRS has received the Jones memo that the Justice Department put together outlining how you will deal with StingRay, how Federal agencies will deal with StingRay technology, as we move forward?

Mr. DALRYMPLE. I am not familiar with the Jones memorandum. Again, I would have to get back to you on that.

Mr. JORDAN. Okay. So those four things.

Mr. DALRYMPLE. Sure.

Mr. JORDAN. How many times you have used it; did you get a warrant, probable cause warrant, not just something else or whatever the IRS says may be sufficient or based on what courts have said is not sufficient; do you have a nondisclosure with the FBI; and have you received the Jones memo.

Mr. DALRYMPLE. We will get back to you on all four of those.

Mr. JORDAN. I appreciate it. Thank you, Mr. Chairman.

Mr. MEADOWS. I thank the gentlemen. And I want to add one thing to that in terms of StingRay technology. Since you are answering the gentleman back, I would like to ask if you have ever bifurcated the information, i.e., if you didn't get a warrant, if you were following them into their personal household. And I would like you to respond to that as well.

The chair recognizes the gentlewoman from New Mexico, Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you very much, Mr. Chairman. And I am going to kind of go off topic, and I apologize kind of. Except that I think that generally speaking, as Dr. Conway as the chief medical officer—and while I absolutely appreciate your discussion about ways to improve quality, and when we really do that, those investments, in fact, save money in the healthcare system. And I really want to talk about some issues that I am sure you are aware, and if you weren't, this is a great place to make you aware. But I have talked about it in nearly every context that I can as a member of Congress.

But given the situation in our State, our governor determined that all, 100 percent, of our behavioral health providers were en-

gaged in billing practices that rose to the level of a credible allegation of fraud and so suspended payments to all 15. Now, I disagree with that effort, but be that as it may, that is a decision that the executive makes and has full power to make that.

Here is the issue for me, given that 3 years later the companies that came in are largely now gone, that there is no behavioral health—and let me repeat that—there is no behavioral health infrastructure, that there was no continuity of care. There was no transition plan requirement. There has been no requirement by the Federal Government for there to be accurate, credible—I want to use that word on purpose—credible data from the State of New Mexico, which HHS and CMS have both agreed are completely missing in this design. We have the worst public health outcomes in the country, including the second highest overdose deaths related by and large to a very fragile, very complex behavioral health population in the State of New Mexico.

It would seem to me that as the chief medical officer, one rule is we know that hospitalizations, overdose, incarcerations, acute institutional care, is not the right investment for both cost savings or quality in terms of treating these patients. And I would guess that you probably are also very aware that when you have got a highly complex patient, say someone with schizophrenia, who has developed a relationship with a provider, who is now successfully on a medication management—which is very hard for many of these patients to achieve—and then that is completely taken away, and if you can get in, you see a different psychiatrist or psychologist every single time you try to get access. Wouldn't you agree that this would not be the kind of investment or sound practices that any State or any Medicaid environment should be engaged in?

Dr. CONWAY. Yes. So, Congresswoman, thanks for your question. And I am very aware of the issue and do agree that appropriate mental health and behavioral health treatment is critical to Medicaid beneficiaries. We, CMS, have had— have been working with the State, as you said, since 2013 on this issue. And recently, in March, responded in a letter summarizing some of that work. We are currently working to improve their behavioral health workforce.

Ms. LUJAN GRISHAM. Can you talk about that a little? Because I should also mention to the committee, and for the record, that all 15 have been cleared by the Attorney General. It has taken us 3 years to get this administration to require the Human Services Department to repay these providers the millions of dollars that they are—but they are defunct. So what exact workforce investments are occurring in our State? Because I am really aware of very little.

Dr. CONWAY. Yeah. So we are directly working with the State assuring that the State is currently following CMS payment suspension toolkit guidance with respect to—

Ms. LUJAN GRISHAM. But how does that get us a new workforce and behavioral health system up?

Dr. CONWAY. So on the Medicaid side, we are working directly with the State on access-of-care issues, on ensuring proper networks. We both, from the program integrity side, have put in place guidance and are working directly with the State on these issues moving forward on the Medicaid side as was—

Ms. LUJAN GRISHAM. Given that 3 years has gone by—and I apologize for interrupting you, but this—as a physician, I was a cabinet secretary for health, this is untenable. Can you provide something to this committee in writing that would talk about ways in which, God forbid this ever occurs in any other State anywhere ever again, what CMS ought to be doing to assure that you didn't spend the kind of acute care dollars?

And, in fact, Mr. Chairman, people lost their lives in my State and continue to do so. So I would appreciate that response in writing to this committee, if I may, Mr. Chairman.

Dr. CONWAY. I agree with the principle of quality and safety and access to care being paramount, and we will provide a response.

Ms. LUJAN GRISHAM. Thank you. Mr. Chairman, I yield back my time. Thank you, sir.

Mr. MEADOWS. I thank the gentlewoman.

The chair recognizes the gentleman from Wisconsin, Mr. Grothman for 5 minutes.

Mr. GROTHMAN. Sure. We will do a followup on Mr. Jordan's questions there to Mr. Dalrymple.

First of all, could you explain what that StingRay technology is a little bit for our listening audience?

Mr. DALRYMPLE. As I understand it, it is technology that allows law enforcement to capture cell phone information, basically.

Mr. GROTHMAN. Okay. You said you didn't know if you were getting a warrant. You said you used it 37 times. Do you think you should be getting a warrant?

Mr. DALRYMPLE. I am not certain we didn't get a warrant. So—

Mr. GROTHMAN. Well, the question is, though, do you think you should have? I mean, if it turns out you didn't get a warrant, are you going to say that was an oversight? We screwed up? Are you going to say: We don't need a warrant? I mean, what is the attitude of the IRS on this?

Mr. DALRYMPLE. I am not certain, to be honest, what the requirements are for use of this technology, whether it is required to have a warrant or not. So I will respond to that question in full when we send the response back.

Mr. GROTHMAN. Okay. You said you have used it 37 times.

Mr. DALRYMPLE. I said I think we have used it about 37 times and I would get back to the committee on exactly how many times it has been used.

Mr. GROTHMAN. Could be 36 or 38. Why did you use it?

Mr. DALRYMPLE. I am sorry?

Mr. GROTHMAN. Why did you use it?

Mr. DALRYMPLE. We use it in the course of a tax investigation.

Mr. GROTHMAN. Like what sort of crisis was there that you kind of had to know where people are? I mean, I would think that would be kind of a really major thing. Can you give me like a hypothetical or even real fact situation that caused you to have to use this stuff?

Mr. DALRYMPLE. Well, we use it in drug cases. We use it in counterterrorism work that we do. I mean, we use it across a broad spectrum of activities that we have responsibility for.

Mr. GROTHMAN. Those would be things that would be on just the IRS' purview. Right? Terrorism and drugs—

Mr. DALRYMPLE. It is things that we have responsibility for but not exclusively, yes.

Mr. GROTHMAN. Like how do you mean responsibility? Just that somebody is not reporting income?

Mr. DALRYMPLE. I am sorry?

Mr. GROTHMAN. How do you mean responsibility?

Mr. DALRYMPLE. I mean, we do a lot of counterterrorism work around anti-money laundering, drug cases that we are involved in that affect tax administration. So, yeah, we have responsibilities there.

Mr. GROTHMAN. Are all the times you use it things for like terrorism related or drug related?

Mr. DALRYMPLE. As I said earlier, I would have to get back to the committee on exactly when we used it and how.

Mr. GROTHMAN. Okay. Well, we will go on to Mr. Dodaro. Okay. I want to ask you a little bit about disability benefits, what you are doing on that sort of thing. I would like to ask you, what do you do about overpayment on disability benefits, getting them back? Could you give us kind of an overview of what you are doing there?

Mr. DODARO. Yes. We have issued a report on that. We feel that the Social Security Administration could do a much better job not only in preventing overpayments, but also their concern—they waived, permanently waived, repayment of about over \$2 billion, I think, over a 10-year period of time. We think that they are not properly processing work requirements.

When people start working, they are supposed to report that to Social Security, and then they are supposed to take action. But they weren't effectively processing the returns very quickly for the work requirements because then they should take them off the disability roles and cut off their payments.

Mr. GROTHMAN. I want to ask you a general question here on this disability. I, like I am sure just about every Congressman up here, gets constant complaints of people who are on disability who nobody can figure out why they are disabled. What are you doing about that, and what can you do about it? Can you comment on your position on that problem?

Mr. DODARO. Yes. We do always have audits underway to look at the processes for the initial disability claims. What they are doing on continuing disability reviews, they are supposed to continue to evaluate these people. We made lots of recommendations to improve the process over there. Some of them have been implemented, some of them have not been implemented. Some require legislative action.

Mr. GROTHMAN. How often do you check somebody? If I am on disability for a bad back today, how often am I going to be checked or see if it is all on the up and up?

Mr. DODARO. It depends on—you know, we made recommendations that they target better criteria on that sort of thing. There are supposed to be reviews on a regular basis. I can provide for the record what that schedule is, but there is a schedule. They are behind in meeting the schedule. They have backlogs of cases.

Mr. GROTHMAN. Okay. I am out of time, but I will talk to you later off the camera.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes himself for a series of questions. I want to thank all of you for your input today and the informative dialogue that we have had. Additionally, I would be remiss if I didn't thank our staff here. It certainly is just an unbelievable, Herculean job that our staff does on a regular basis to not only prepare the members of Congress, but to really look in detail at the reports, Mr. Dodaro, that you provide. And so I want to just acknowledge them.

Additionally, I would like to recognize a previous colleague, Dr. Coburn. Obviously, this was part of his brain trust, and the fact that we have duplicative services so long past him leaving the upper chamber, we continue to see the fruits of his vision. And so I want to acknowledge that as well.

Mr. Dodaro, I want to come to you and certainly thank you and your staff, and really for the other witnesses, just to let you know, if the GAO ain't happy, I am not happy. And I will just put it very bluntly. We are reading what they have, and I think in a bipartisan way we are willing to attack it. There may be some ideologically differing views on what we should attack first. But as much as I have tried to make the GAO be a political instrument, they won't do that. They keep it in a nonpartisan. In fact, there are times when I want them to be outraged, and you get the calm, cool Gene Dodaro there going, well, we need to address this and address that. And I can't, you know, I can't evoke emotion out of him.

And so I would say that because it is of benefit, I really believe, to the three of you who are here today because you have been asked to testify, because the implementation of those recommendations have really fallen short of where most of us believe that it should. And I say that in a kind way. But when you don't implement the majority, words like "we are making progress," really are like nails on a chalkboard to me. Because what I want to do is see a matrix of what you are going to get done, when you are going to get it done. And so that is what I would ask you.

Mr. Dodaro, one of the things that has been shared with me is about shared services. And so we have had John come in a couple of times and talking about the benefits of potentially using shared services. We have had Ms. Cobert, Beth, come in and talk about some of the shared services that she is looking at. Now, there is some challenges in terms of, you know, who is at fault, you know, if they don't provide, and who is ultimately responsible. But are you looking at that? Can you look at that further? And perhaps maybe not across our entire Federal Government, but in terms of some of those duplicative services, how we could save some money where you have one agency using services that perhaps we don't have to create individual departments. I will let you respond to that.

Mr. DODARO. Yes. I mean, one classic good example of where there has been a lot of benefit, years ago there used to be a proliferation of payroll systems across the Federal Government. A lot of consolidation has taken place there through shared services operations. Even with the GAO, we use shared service providers.

Mr. MEADOWS. Right.

Mr. DODARO. So I don't, you know, use them. So I think there is a lot of potential there. We have looked at it principally in the area of financial management services because that is common, in

terms of payroll processing and other things. So that is an area I would like, quite frankly if we had additional resources, to do more in, but we haven't done a whole lot beyond the financial management area.

Mr. MEADOWS. Well, if you would see if there is a couple of areas that we could address there more. I am making that official request today. Perhaps we look in the IT area. There is, you know, certainly some IT services that might be able to be shared. You know, I see some of our experts here from that particular field, but if you will look at it and get that back to the committee.

Mr. DODARO. Sure.

Mr. MEADOWS. Yes.

Mr. DODARO. Sure.

Mr. JORDAN. Mr. Dalrymple, the IRS sent a letter back to Mr. Chaffetz in November of last year. And at the bottom of page 2, top of page 3, at the end of the letter, it says: Until July 2015, the IRS had one cell site simulator, one StingRay, which was acquired in 2011. In July 2015, you began the process to procure an additional cell site simulator.

Do you know if the IRS has actually received a second StingRay?

Mr. DALRYMPLE. I am not certain whether we have it or not. Again, I will get back to you on that too. We will come back.

Mr. JORDAN. But the process was started, according to the letter.

Mr. DALRYMPLE. Right.

Mr. JORDAN. You know that?

Mr. DALRYMPLE. That part I do know, so I will—

Mr. JORDAN. You don't know if you got the second one or not?

Mr. DALRYMPLE. I am not certain at this point.

Mr. JORDAN. We need that information too.

Mr. Dodaro, there is 112 recommendations that the GAO made to the IRS to deal with the tax gap. Were any of those recommendations for the IRS to procure another StingRay?

Mr. DODARO. No. I have not heard of StingRay before this hearing.

Mr. JORDAN. So you gave 112 things, good ideas to do to deal with a \$385 billion tax gap, and they have implemented less than 50 percent, 37 percent, according to what you said, of the recommendations you gave them, and yet they are using StingRay technology and potentially purchasing a second unit to potentially infringe upon Americans' Fourth Amendment liberties.

Mr. Dalrymple, that is why Mr. Grothman and I raised the questions we did. You know, why don't you start with the 112 recommendations that Mr. Dodaro and his group did, the good work they did on how to deal with the fact we ain't collecting the money we are supposed to collect in light of the fact we got a \$19 trillion debt and everything else, instead of buying StingRay technology and potentially infringing upon the liberties of taxpaying Americans?

Mr. MEADOWS. I thank the gentleman.

Reclaiming my time, let me—Dr. Conway, I saw you shaking your head yes when Gene Dodaro talked about the fact that we needed to make sure that hospitals and private physicians, in terms of the amount of money that we are actually paying them

back. I saw you shaking your head that—and I don't want to put words in your mouth—but it is not linear or fair. Is that correct?

Dr. CONWAY. There is—in the President's budget is a recommendation around site-neutral payments which would equalize payments for services across the hospital, outpatient, and physician setting. And as you know, Congress passed—

Mr. MEADOWS. Right.

Dr. CONWAY. —legislation starting in January.

Mr. MEADOWS. So, Dr. Conway, can we get to this committee within the next 120 days a plan on how CMS plans to address that particular recommendation?

Dr. CONWAY. We will work to get back to you with that information. Yes, sir.

Mr. MEADOWS. All right. So in 120 days, we will have some kind of response from you?

Mr. CONWAY. We will attempt to meet that timeframe.

Mr. MEADOWS. Okay. What timeframe would be reasonable, Dr. Conway?

Okay. I see the person that actually is doing the work who says you can make the 120 days. All right. That is great. Thank you.

And my final question, then I am going to recognize the ranking member for his closing remarks.

Mr. Tillotson, let me share a concern that I have. We want to always give our fighting men and women the resources that they need. And yet what I heard today was a less than robust implementation of some of the GAO reports as it relates to your particular area. I also heard you saying, well, we are making progress and all of that. What I don't want to do is see that 40 percent of what you implement that really have no impact, substantial impact, in terms of the bottom line, get implemented year after year, and the 60 percent that actually would make very systemic changes continue to get rolled over. And that is what I am seeing, that is what I am reading, is that we are making limited progress as it relates to that. And what happens is it makes it very difficult on someone who is trying to make those appropriation decisions on giving you the tools that you need, and yet we hear about gross inefficiencies.

So it is incumbent upon you to help prioritize the recommendations that the GAO is making on an annual basis and say we are going to implement these. These have the most significant—will you be able to report back to this committee within 120 days on the top recommendations for the GAO that have yet to be implemented and how you are going to implement those?

Mr. TILLOTSON. Mr. Chairman, we will report back. Thank you.

Mr. MEADOWS. Within 120 days?

Mr. TILLOTSON. Yes, sir.

Mr. MEADOWS. All right. Thank you. With that, I will recognize the ranking member for his closing remarks.

Mr. CUMMINGS. Mr. Dodaro, I just want to go back to Mr. Jordan's questions. And talking about, I guess, not only recommendations that may have been made with regard to the IRS, but to other agencies, but let's zero in on the IRS. How much—I mean, you take into consideration budget cuts. Right?

Mr. DODARO. Yes, sir.

Mr. CUMMINGS. And the ability to get these things done?

Mr. DODARO. Yes. Yes. We make sure that our recommendations are going to be, you know, cost-effective recommendations. Now, typically, when we make a recommendation, the agency has flexibility in how to implement it. We don't tell them, you know, exactly how they need to implement the recommendation. So they have flexibility in order to do that. But we take that into account. And we believe our recommendations, if implemented, will be cost effective. Now, some of them require perhaps a little bit of an upfront investment to implement the recommendations, but we believe that the benefits will exceed the cost of implementing our recommendations.

When I report to you and the rest of the members of the Congress that our recommendations implemented last year resulted in financial benefits over \$70 billion, that is net of cost. So that is a net figure. So that is what we track.

Mr. CUMMINGS. And we can do a lot better. Can't we?

Mr. DODARO. Yes.

Mr. CUMMINGS. Is the DOD spending too big to count?

Mr. DODARO. Well, they haven't been able to account for it, let me put it that way. I mean, they are the only major Federal agency that has not been able to pass the test of an independent audit. They have—just in the last year alone, they have scaled back the audit requirements. They don't prepare a full set of financial statements, only a 1-year budget data. And they have not been able to get an opinion on 1-year budget data. So I am concerned.

As Mr. Tillotson mentioned, you know, I have been having meetings with the DOD—in fact, we have another one this afternoon—to focus on the areas where they need to make improvements. They are not fixing the underlying problems satisfactorily. And what they have promised me is that they were going to present a comprehensive corrective action plan for making the changes necessary to be able to do it. But right now, there is not proper accounting for the money that is being spent, and there is not proper oversight over the assets that the DOD has, the property, plant, and equipment issues that they have. And they are in need of significant improvement.

Mr. CUMMINGS. And, of course, everything you just said just opens the door for all kinds of mischief, for lack of a more stronger word.

Mr. DODARO. What we say is control problems.

Mr. CUMMINGS. Yeah. All right.

Mr. DODARO. In an unemotional fashion.

Mr. CUMMINGS. All right. Thank you all very much. I appreciate it.

Mr. MEADOWS. I thank the gentleman.

Again, I want to thank each of you. Let me tell you why not only this hearing is important, but it sets a benchmark every year for us to look at. Whether it is a high-water mark or a low-water mark, we will leave that up for debate for another day. But in doing that, we need to set that standard for each one of you. What I would encourage each of you, I would hope that next year, that it is not the same 3 agencies that are here that have yet to implement. And let me tell you the reason why.

It is because along with that, improper payments of which we will have a hearing in the coming weeks, those improper payments go right across the same groups. You know, when we look at improper payments, whether it is Medicaid, Medicare, or any of those, certainly it is HHS and CMS having a role in that. You know, there is a headline today or within the last few hours, actually, "The IRS admits that it encourages illegals to steal Social Security numbers for taxes." Now, you can't control what is in the press, but here my point is this, is that it is all about the earned income tax credit. And if there is something that is not allowing the IRS to go after those improper payments, because this is not the first hearing, I have been in four or five, where we continue to have this problem. Enough is enough. It is time that we address that problem. And if there is something from a statute standpoint that doesn't allow you to share the Social Security numbers so that you can do the proper vetting that you need to do, let us know. We will work about that in a bipartisan way to address it. But I hope that this is the last hearing where we are not addressing that particular problem.

From a DOD standpoint, you know, there is too many stories out there in terms of what we are spending. And the fact that you can't pass an independent audit where you have the most responsible, hardest working people willing to put, you know, their lives on the line for the freedom of our country, and yet from an accounting standpoint we can't do it. It is time that we get our house in order. And so I encourage all of you to work with the GAO on implementing those. I thank you.

If there is no other further business before the committee, the committee stands adjourned.

[Whereupon, at 12:33 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

April 22, 2016

The Honorable Mark Meadows
Committee on Oversight and
Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Meadows:

Thank you for the recent opportunity to appear before your Committee and testify on the Government Accountability Office's 2016 report on duplication, fragmentation and overlap in federal programs. During the hearing, members of the Committee had a few questions relating to the IRS' use of "Stingray" technology, to which I committed to provide additional information. This letter sets forth some background information on Stingray technology, along with the answers to the Committee's specific questions.

The use of the cell-site simulator (sometimes referred to as Stingray) technology is limited to IRS' Criminal Investigation Division (CI) and is a law enforcement tool that only trained law enforcement agents can use in carrying out criminal investigations in accordance with all appropriate federal and state judicial procedures. The technology has never been used, nor will it ever be used, in any civil cases.

CI is the law enforcement arm of the IRS. CI special agents investigate potential criminal violations of the Internal Revenue Code (Code) and related financial crimes, such as tax-related identity theft fraud and cybercrimes, offshore tax evasion, money laundering and Bank Secrecy Act laws, corruption and terrorist financing that adversely affect tax administration. While other federal agencies also have investigative jurisdiction for money laundering and some bank secrecy violations, IRS is the only federal agency that can investigate potential criminal violations of the Code. Using its unique statutory jurisdiction and financial expertise, the CI Division makes significant contributions to important national law enforcement priorities. CI special agents work with the 94 United States Attorney's Offices all across the country, including the Tax and Criminal Divisions of the DOJ. They are known as the best financial investigators in the government, achieving a 93.2 percent conviction rate in FY2015, the highest in all of federal law enforcement.

By way of background information on this cell-site technology, we note that the cell-site simulator receives and uses an industry standard unique identifying number assigned by a device manufacturer or cellular network provider. When used to locate a known cellular device, a cell-site simulator initially receives the unique identifying number from multiple devices in the vicinity of the simulator. Once the cell-site simulator identifies the specific cellular device for which it is looking, it will obtain the signaling information relating only to that particular device. By transmitting as a cell tower, cell-site simulators acquire the identifying information from cellular devices. This identifying information is, however, limited. Cell-site simulators provide only the relative signal strength and general direction of the subject cellular device; they do not function as a GPS locator, as they do not obtain or download any location information from the device or its applications.

Moreover, cell-site simulators used by CI must be configured as pen registers and may not be used to collect the contents of any communications, in accordance with 18 U.S.C. § 3127(3). This includes any data contained on the device itself. The simulator does not remotely capture voice communication, emails, texts, contact lists, images or any other content data from the device. Moreover, cell-site simulators used by CI do not provide subscriber account information (for example, an account holder's name, address, or telephone number).

CI's current policy regarding the use of cell-site simulator technology dated November 30, 2015, is enclosed herein, as are our responses to your specific questions regarding the use of this technology. I hope this information is helpful. I am also writing to your colleagues, Congressman Grothman and Congressman Meadows, to share this information in response to their questions. If you have any questions, please contact me or a member of your staff may contact Leonard Oursler, Director, Legislative Affairs, at (202) 317-6985.

Sincerely,


John M. Dalrymple
Deputy Commissioner for
Services and Enforcement

Enclosures (2)

Questions Regarding the Use of Cell-Site Simulator Technology (Stingray)**1. How many times has the IRS used this technology?**

The IRS Criminal Investigation Division (CI) has used cell-site simulator technology (also known as Stingray), in support of eleven federal grand jury investigations- in particular, stolen identity refund fraud and money laundering investigations- led by the U.S. Attorney's Office (USAO), which provided oversight and guidance in obtaining appropriate authorization, such as court orders and/or tracking warrants. CI used the technology to track 37 cellular devices as part of these investigations.

In addition, CI has used the cell-site simulator to assist in four non-IRS-CI investigations, one federal and three state investigations. The federal case was a Drug Enforcement Agency (DEA) federal grand jury narcotics investigation and tracked one cellular device. In this instance, IRS-CI operated the cell-site simulator, based upon the appropriate federal court order obtained by DEA, and followed all applicable laws under the guidance of an Assistant United States Attorney. The three state cases involved the tracking of six cellular devices. In each instance, IRS-CI special agents operated the cell-site simulator, and CI followed guidance from the USAO or state prosecutors, as well as CI's underlying policies for securing appropriate authorization (that is, court orders and/or tracking warrants) for the type of information captured by cell-site simulation technology.

2. What was the legal authority for its use? Has IRS secured warrants for the use of Stingray?

Prior to the DOJ Memorandum in September 2015 and Chief IRS-CI Policy Memorandum Regarding the Use of Cell-Site Simulator Technology on November 30, 2015 (enclosed), a warrant was not required in every case. Therefore, CI followed the law and DOJ guidance and worked through the USAO or state prosecutor to obtain a court order or warrant, depending on the judicial district's requirements, to track a cellular device.

In each of the 37 instances where CI has used cell-site simulator technology, CI worked with an Assistant United States Attorney or state prosecutor in obtaining approval for authorization before obtaining the appropriate warrant or order from federal or state courts. In 36 of the instances, the warrant or order was obtained based on the finding of probable cause by the court. On 1 occasion out of the 37, a Pen Register was the authority obtained which did not require a probable cause finding for its application.

Since implementation of the DOJ Memorandum in September 2015 and Chief IRS-CI Policy Memorandum Regarding the Use of Cell-Site Simulator Technology on November 30, 2015, Stingray technology has been used on 1 occasion and was authorized by a search warrant based on probable cause. CI Policy is consistent with DOJ policy and includes a requirement to obtain a probable cause search warrant.

3. Does IRS have a nondisclosure agreement with the FBI?

CI does not have a nondisclosure agreement with the FBI.

4. Has the IRS received the Jones DOJ memorandum?

CI has not received the Jones memorandum.

5. Has the IRS procured a second Stingray?

The IRS procured a second cell site simulator (Stingray) and it was received in December 2015.



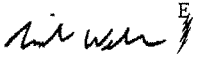
Chief, Criminal Investigation

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 30, 2015

MEMORANDUM FOR SPECIAL AGENTS IN CHARGE

FROM:

Richard Weber ^E
Chief, Criminal Investigation

SUBJECT:

Policy Regarding the Use of Cell-Site Simulator Technology

Cell-site simulators are valuable law enforcement tools that locate or identify mobile devices during active criminal investigations. The Department of Justice ("DOJ") recently released a policy specific to this technology: **DOJ Policy Guidance, Use of Cell-Site Simulator Technology**. This new DOJ policy now requires federal agencies to obtain a search warrant supported by probable cause prior to using the technology. The policy also addresses the use and retention of the information collected using this technology. IRS-CI's policy¹ is being issued to address and incorporate DOJ's recently released policy specific to this technology.

As with any law enforcement capability, Internal Revenue Service, Criminal Investigation ("IRS-CI") must use cell-site simulators in a manner that is consistent with the requirements and protections of the Constitution, including the Fourth Amendment, and applicable statutory authorities, including the Pen Register Statute. Moreover, any information resulting from the use of cell-site simulators must be handled in a way that is consistent with the array of applicable statutes, regulations, and policies that guide law enforcement in how it may and may not collect, retain, and disclose data. As technology evolves, IRS-CI must continue to assess its use of tools and applicable policies to ensure they reflect its law enforcement mission and support its commitment to respect all individuals' privacy and civil liberties.

Through this memorandum, I am directing immediate implementation of this policy on the use of cell-site simulator technology. This policy provides guidance and establishes common principles for the use of cell-site simulators by IRS-CI, as well as the use and retention of the information collected through this technology. This policy applies to the use of cell-site simulator technology in furtherance of criminal investigations.

¹ This policy is not intended to create or confer any rights, privileges, or benefits on any person. It is not intended to have the force of law.

BACKGROUND

Law enforcement agents may use cell-site simulators to help locate cellular devices whose unique identifiers are already known to law enforcement,² by collecting limited signaling information from devices in the simulator user's vicinity. This technology is one tool among many traditional law enforcement techniques and is deployed only in the fraction of cases in which the capability is best suited to achieve specific law enforcement objectives.

Cell-site simulators, as governed by this policy, function by transmitting as a cell tower. In response to the signals emitted by the simulator, cellular devices in the proximity of the device identify the simulator as the most attractive cell tower in the area and thus transmit signals to the simulator that identify the device in the same way that they would with a networked tower.

A cell-site simulator receives and uses an industry-standard unique identifying number assigned by a device manufacturer or cellular network provider. When used to locate a known cellular device, a cell-site simulator initially receives the unique identifying number from multiple devices in the vicinity of the simulator. Once the cell-site simulator identifies the specific cellular device for which it is looking, it will obtain the signaling information relating only to that particular device. By transmitting as a cell tower, cell-site simulators acquire the identifying information from cellular devices. This identifying information is, however, limited. Cell-site simulators provide only the relative signal strength and general direction of the subject cellular device; they do not function as a GPS locator, as they do not obtain or download any location information from the device or its applications. Moreover, cell-site simulators used by IRS-CI must be configured as pen registers and may not be used to collect the contents of any communication, in accordance with 18 U.S.C. § 3127(3). This includes any data contained on the device itself: the simulator does not remotely capture emails, texts, contact lists, images or any other content data from the device. Moreover, cell-site simulators used by IRS-CI do not provide subscriber account information (for example, an account holder's name, address, or telephone number).

MANAGEMENT CONTROLS & ACCOUNTABILITY

IRS-CI personnel require training and practice before operating cell-site simulators. To that end, the following management controls and approval processes will help ensure that only knowledgeable and accountable personnel will use the technology.

² Although cell site simulators also have the capability to determine the unique identifiers of an unknown device, at this time, the IRS Policy limits the use of the technology to the location of known devices.

1. IRS-CI personnel must be trained and supervised appropriately. Cell-site simulators may be operated only by trained personnel who have been authorized to use the technology and whose training has been administered by a qualified expert.
2. Prior to deployment of the technology, use of a cell-site simulator by IRS-CI must be approved by a Special Agent in Charge ("SAC"). Any use pursuant to the exigent circumstance provision below, must be approved by an Executive Director of Field Operations ("DFO").

Operations Policy and Support and Special Investigative Techniques will review current training protocols and ensure that the training covers privacy and civil liberties laws.

LEGAL PROCESS & COURT ORDERS

The use of cell-site simulators is permitted only as authorized by law and policy. While IRS-CI has, in the past, appropriately obtained authorization to use a cell-site simulator by seeking an order pursuant to the Pen Register Statute, as a matter of policy, IRS-CI must now obtain a search warrant supported by probable cause and issued pursuant to Rule 41 of the Federal Rules of Criminal Procedure (or applicable state equivalent), except as provided below.

As a practical matter, because agents/operators, in consultation with prosecutors, will need to seek authority pursuant to Rule 41 and the Pen Register Statute, prosecutors should, depending on the rules in their jurisdiction, either (1) obtain a warrant that contains all information required to be included in a pen register order pursuant to 18 U.S.C. § 3123 (or the state equivalent), or (2) seek a warrant and a pen register order concurrently. The search warrant affidavit also must reflect the information noted in the immediately following section of this policy ("Applications for Use of Cell Site Simulators").

There is one circumstance in which this policy does not require a warrant prior to the use of a cell-site simulator.

1. Exigent Circumstances under the Fourth Amendment

Exigent circumstances can vitiate a Fourth Amendment warrant requirement, but cell-site simulators still require court approval in order to be lawfully deployed. An exigency that excuses the need to obtain a warrant may arise when the needs of law enforcement are so compelling that they render a warrantless search objectively reasonable. When an agent/operator has the requisite probable cause, a variety of

types of exigent circumstances may justify dispensing with a warrant. These include the need to protect human life or avert serious injury; the prevention of the imminent destruction of evidence; the hot pursuit of a fleeing felon; or the prevention of escape by a suspect or convicted fugitive from justice.

In this circumstance, the use of a cell-site simulator still must comply with the Pen Register Statute, 18 U.S.C. § 3121, et seq., which ordinarily requires judicial authorization before use of the cell-site simulator, based on the government's certification that the information sought is relevant to an ongoing criminal investigation. In addition, in the subset of exigent situations where circumstances necessitate emergency pen register authority pursuant to 18 U.S.C. § 3125 (or the state equivalent), the emergency must be among those listed in Section 3125:³ immediate danger of death or serious bodily injury to any person; conspiratorial activities characteristic of organized crime; an immediate threat to a national security interest; or an ongoing attack on a protected computer (as defined in 18 U.S.C. § 1030) that constitutes a crime punishable by a term of imprisonment greater than one year.

Further, this policy requires that the case agent/operator first obtain the approval from a DFO in order to use a pen register under the exigent circumstances provision, before using a cell-site simulator. In order to comply with the terms of this policy and with 18 U.S.C. § 3125, the case agent/operator must contact the duty Assistant U.S. Attorney in the local U.S. Attorney's Office, who will coordinate approval within the Department of Justice. Upon approval, the Assistant U.S. Attorney or state or local prosecutor must also apply for a court order within 48 hours as required by 18 U.S.C. § 3125. Under the provisions of the Pen Register Statute, use under emergency pen-trap authority must end when the information sought is obtained, an application for an order is denied, or 48 hours has passed, whichever comes first.

APPLICATIONS FOR USE OF CELL-SITE SIMULATORS

When making any application to a court, IRS-CI law enforcement personnel must disclose appropriately and accurately the underlying purpose and activities for which an order or authorization is sought. Law enforcement personnel must consult with the prosecutors⁴ in advance of using a cell-site simulator, and applications for the use of a

³ Knowing use of a pen register under emergency authorization without applying for a court order within 48 hours is a criminal violation of the Pen Register Statute, pursuant to 18 U.S.C. § 3125(c).

⁴ While this provision typically will implicate notification to Assistant U.S. Attorneys, it also extends to state and local prosecutors when such personnel are engaged in operations involving cell-site simulators.

cell-site simulator must include sufficient information to ensure that the courts are aware that the technology may be used.⁵

1. Regardless of the legal authority relied upon, at the time an application for use of a cell-site simulator is made, the application or supporting affidavit should describe in general terms the technique to be employed. The description should indicate that investigators plan to send signals to the cellular phone or device that will cause it, and non-target devices on the same provider network in close physical proximity, to emit unique identifiers, which will be obtained by the technology. The description should also indicate that investigators will use the information to determine the physical location of the target cellular device. If investigators will use the equipment to determine unique identifiers at multiple locations and/or multiple times at the same location, the application should indicate this also.
2. An application or supporting affidavit should inform the court that the target cellular device (e.g., cell phone) and other cellular devices in the area of influence of the cell-site simulator might experience a temporary disruption of service from the service provider. The application may also note, if accurate, that any potential service disruption would be temporary and all operations will be conducted to ensure the minimal amount of interference to non-target devices.
3. An application for the use of a cell-site simulator should inform the court about how law enforcement intends to address deletion of data not associated with the target device. The application should also indicate that law enforcement will make no affirmative investigative use of any non-target data absent further order of the court, except to identify and distinguish the target device from other devices.

DATA COLLECTION & DISPOSAL

IRS-CI is committed to ensuring that its law enforcement practices concerning the collection or retention⁶ of data are lawful and respect the important privacy interests of

⁵ Courts in certain jurisdictions may require additional technical information regarding the cell-site simulator's operation (e.g., tradecraft, capabilities, limitations or specifications). Sample applications containing such technical information are available from the Computer Crime and Intellectual Property Section ("CCIPS") of the Department of Justice's Criminal Division.

⁶ In the context of this policy, the terms "collection" and "retention" are used to address only the unique technical process of identifying dialing, routing, addressing, or signaling information, as described by 18 U.S.C. § 3127(3), emitted by cellular devices. "Collection" means the process by which unique identifier signals are obtained;

individuals. As part of this commitment, IRS-CI operates in accordance with rules, policies, and laws that control the collection, retention, dissemination, and disposition of records that contain personal identifying information. As with data collected in the course of any investigation, these authorities apply to information collected through the use of a cell-site simulator. Consistent with applicable existing laws and requirements, including any duty to preserve exculpatory evidence,⁷ IRS-CI's use of cell-site simulators shall include the following practices:

1. When the equipment is used to locate a known cellular device, all data must be deleted as soon as that device is located, and no less than once daily.
2. Prior to deploying equipment for another mission, the agent/operator must verify that the equipment has been cleared of any previous operational data.
3. IRS-CI will ensure that the data is deleted in the manner described above. Standard Operating Procedures will address the specifics of the audit conducted by SIT Program Analysts during the Annual Sensitive Review.

FEDERAL, STATE AND LOCAL PARTNERS

IRS-CI often works closely with its state and local law enforcement partners and provides technological assistance under a variety of circumstances. This policy also applies to all instances in which IRS-CI uses cell-site simulators in joint criminal investigations. IRS-CI will not use cell site simulators in support of other federal agencies and/or state and local law enforcement agencies outside of a joint investigation, unless under the exigent circumstances provision of this policy.

TRAINING AND COORDINATION, AND ONGOING MANAGEMENT

Periodic review of this policy and training shall be the responsibility of the office of Special Investigative Techniques with respect to the way the equipment is being used (e.g., significant advances in technological capabilities, the kind of data collected, or the manner in which it is collected). Any significant changes in technology information

"retention" refers to the period during which the dialing, routing, addressing, or signaling information is utilized to locate or identify a target device, continuing until the point at which such information is deleted.

⁷ It is not likely, given the limited type of data cell-site simulators collect (as discussed above), that exculpatory evidence would be obtained by a cell-site simulator in the course of criminal law enforcement investigations. As in other circumstances, however, to the extent investigators know or have reason to believe that information is exculpatory or impeaching, they have a duty to memorialize that information.

collection, maintenance, use, or retention protocols will be reviewed and implemented accordingly.

Each field office shall report to SIT its annual records reflecting the total number of times a cell-site simulator is deployed in the jurisdiction, to include the number of times the technology is deployed in exigent circumstances.

The Internal Revenue Manual (IRM) will be updated to include this new policy and Standard Operating Procedures (SOPs) will be forthcoming. If you have any questions, please contact the Executive Director of Operations Rebecca Sparkman.

Attachments: DOJ Policy Guidance, Use of Cell-Site Simulator Technology

cc: Senior Staff

House Oversight and Government Reform
Follow-Up Questions to April 13, 2016 Hearing

1. **Before the November 30, 2015, IRS Memorandum on Policy Regarding Use of Cell-Site Simulator Technology, had any IRS component collected non-metadata using a cell-site simulator (including, but not limited to, the content of calls, text messages, pictures, or messaging through apps) [in] investigations after January 1, 2006? If so, for each instance please list (i) the component, (ii) the type of content collected, and (iii) the date of collection.**

Before the November 30, 2015, IRS Memorandum on Policy Regarding Use of Cell-Site Simulator Technology, no IRS component collected non-metadata using a cell-site simulator.

2. **In previous responses to Committee questions, the IRS has indicated the cell site simulators in their possession must be configured as pen registers and may not be used to collect the contents of any communications. Are IRS's Cell-site Simulators capable of being reconfigured to collect content, including, but not limited to, the content of calls, text messages, pictures, or messaging through apps?**

The two cell-site simulators acquired by IRS Criminal Investigation are not capable of being reconfigured to collect content such as calls, text messages, pictures, or messaging through apps.

3. **In any criminal prosecution since January 1, 2006, has the IRS disclosed the use of a cell-site simulation device to the defendant?**

No. All criminal prosecutions in which the cell site simulator was used as part of the investigation were Grand Jury cases. Therefore, any disclosures regarding the use of the cell site simulator during the investigation would have been made by the appropriate prosecutor's office during the normal course of the investigation or prosecution, to the extent and in the manner required by law.

4. **If the IRS deploys a cell-site simulator device as part of an investigation, and criminal charges are never pursued, does the IRS notify the individuals whose IMSI numbers were collected by the IRS?**

No. IRS-CI does not make any disclosures to an individual not charged criminally. All criminal investigations in which the Cell Site Simulator are

used are Grand Jury investigations. Therefore, any disclosures regarding the use of the cell site simulator during the investigation would be made by the appropriate prosecutor's office during the normal course of the investigation, to the extent and in the manner required by law.

5. **Are there Cell-site Simulators on the market and available to the IRS capable of collecting content, including but not limited to, the content of calls, text messages, or messaging through apps?**

IRS Criminal Investigation is unaware of other manufacturers who market cell-site simulators that are capable of collecting content.

6. **For each instance of the IRS Criminal Investigation Division's (IRS-CI) tracking of cellular devices, please provide (i) the dates of the tracking, (ii) a brief description of the alleged illegal activity, (iii) the jurisdiction where the technology was deployed, (iv) whether the investigation resulted in any indictments or filing of criminal charges, and (v) how the criminal case was resolved.**

Please see the enclosed Appendix A. The jurisdiction where the technology was deployed is being withheld because it is law enforcement sensitive information that could reduce the effectiveness of the technology in future IRS investigations.

7. **For the state cases involving IRS-CI special agents tracking cellular devices, please provide (i) the dates of the tracking, (ii) a brief description of the alleged illegal activity, (iii) the jurisdiction where the technology was deployed, (iv) whether the investigation resulted in any indictments or filing of criminal charges, and (v) how the criminal case was resolved.**

Please see the enclosed Appendix A. The jurisdiction where the technology was deployed is being withheld because it is law enforcement sensitive information that could reduce the effectiveness of the technology in future IRS investigations ; however, Appendix A indicates the incidents when the technology was used in a state case (reference numbers 40-46).

8. **Please provide the name, make, model and cost of every cell-site simulation device the IRS has purchased, possessed or operated since January 1, 2006.**

IRS Criminal Investigation has purchased two cell-site simulators from Harris Corporation. The first purchase was the Stingray II, model number STINGRAY II. This unit later received the Hailstorm upgrade; model number SRAY-II-HLS-UP. This upgrade allows tracking of the more modern 4G/LTE

cellular phones. The total cost of this unit including all hardware and software upgrades was \$598,334. The second purchase was the Hailstorm, model number 3228214-301 at a cost of \$345,855.

Phone Reference number	Judicial District	Tracking Date Range	Alleged Illegal Activity	Indictment (Y or N)	Resolution
	The locations of the operational use of the Cell-site Simulator are law enforcement sensitive.				
1		11-15-11 to 12-31-11	Money Laundering	N	Target dropped phone before identification could be made
2		12-23-11 to 02-05-12	Money Laundering	N	Target dropped phone before identification could be made
3		01-17-12 to 03-17-12	Money Laundering	Y	Indicted for Money Laundering - seized approx. \$100k in drug proceeds - Pending Extradition from Colombia
4		02-27-12 to 04-27-12	Money Laundering	N	Target dropped phone before identification could be made
5		03-26-12 to 05-24-12	Money Laundering	N	Target dropped phone before identification could be made
6		07-13-12 to 09-11-12	Money Laundering	N	Arrest and Seizure of \$80,000 in narcotics proceeds
7		11-07-12 to 12-07-12	Money Laundering	N	Arrest and Seizure of \$200,000 in narcotics proceeds
8		04-19-12 to 06-17-12	Money Laundering	N	Target returned to Puerto Rico
9		04-19-12 to 06-17-12	Money Laundering	N	Target returned to Puerto Rico
10		08-22-13 to 10-06-13	Money Laundering	N	Target was identified as being investigated another agency.
11		01-14-13 to 02-28-13	Money Laundering	N	Target discontinued use of the phone prior to identification being made.
12		02-06-13 to 04-06-13	Money Laundering	N	Target discontinued use of the phone prior to identification being made.
13		04-23-14 to 06-07-14	Money Laundering	N	Target location was identified - target discontinued use of the phone prior to identification
14		08-12-14 to 10-11-14	Money Laundering	Y	2 Targets Indicted for Money Laundering.
15		09-26-14 to 11-10-14	Money Laundering	Y	Target was identified and charged with drug trafficking.
16		12-04-12 to 01-18-13	Money Laundering	Y	Target identified and charged with Drug Trafficking offenses
17		02-28-14 to 04-28-14	Money Laundering	N	Target location was identified - target discontinued use of the phone prior to identification
18		11-10-14 to 12-25-14	Money Laundering	N	two Targets Arrested and Seizure of \$112,000 in drug proceeds
19		11-03-14 to 12-18-14	Money Laundering	N	Prosecution was declined
20		08-10-15 to 09-24-15	Money Laundering	Y	Target is a fugitive currently in Colombia
21		06-15-15 to 07-30-15	Money Laundering	N	Arrest of two targets and seizure of \$50,000 in narcotics proceeds; Case is ongoing.
22		06-15-15 to 07-30-15	Money Laundering	N	Arrest of two targets and seizure of \$50,000 in narcotics proceeds; Case is ongoing.
23		07-08-14 to 08-22-14	Money Laundering	N	Arrest and seizure of \$92,000 in narcotics proceeds; Indictment Pending

Phone Reference number	Judicial District	Tracking Date Range	Alleged (Illegal) Activity	Indictment (Y or N)	Resolution
24		1/5/2016	Money Laundering	N	Target identified as being investigated by another office; case is ongoing
25		07-10-15 to 09-07-15	Money Laundering	N	Case is ongoing
26		05-12-14 to 05-26-14	Money Laundering	N	Case is ongoing OCDEF investigation.
27		04-11-14 to 05-21-14	Money Laundering	N	Case is ongoing.
28		03-19-14 to 05-03-14	Identity Theft	Y	6 months and 36 months probation.
29		same	same		Restitution of \$21,406.
30		03-11-14 to 04-25-14	Identity Theft	Y	6 months and 60 months probation.
31		same	same		Restitution of \$33,131.
32		04-10-13 to 05-10-13	Identity Theft	Y	Received 30 months imprisonment. Will be deported upon release.
33		same	same		
34		same	same		
35		same	same		
36		04-18-14 to 06-02-14	Identity Theft case	N	Case Closed (numerous other associates were forwarded for prosecution).
37		09-25-14 to 10-09-14	Identity Theft case	Y	Plea of not guilty, awaiting trial.
38		07-20-12 to 09-03-12	Identify Theft case	Y	Sentenced to 24 months probation for violation of 18-641. Restitution of \$2,753, forfeiture of \$1,000 and fine of \$1,000.
39		05-08-14 to 05-18-14	Structuring	N	USAO Declined Prosecution
40	State/Local PD	6/22/2015	Attempted Murder.	Y	Target was arrested for Attempted Murder
41	State/Local PD	Same	Assault, Weapons	Y	Seizure of Illegal Firearm - Pending Trial
42	State/Local PD	7/23/2015	Same		
43	State/Local PD	same	Homicide	Y	Target arrested for Murder- Pending Trial
44	State/Local PD	6/27/2012	Illegal Firearms Distribution & Illegal possession of Firearm	Y	Three targets arrested and convicted of state narcotics and firearms violations
45	State/Local PD	same	same		
46	State/Local PD	same	same		

* The date range relates to the dates of tracking pursuant to the authorized order/warrant



OFFICE OF THE DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

SEP 08 2016

September 2, 2016

The Honorable Jason Chaffetz
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On April 13, 2016, the Department of Defense (DoD) testified to the Committee on its progress to implement Government Accountability Office (GAO) recommendations made in its annual reports on duplication, overlap and fragmentation in federal programs. At the end of our testimony, the Committee requested that the DoD provide a report within 120 days describing how the DoD planned to implement its top priority GAO recommendations. Specifically, the Committee urged the DoD to prioritize the GAO recommendations that were significant to the Department's ability to make systemic changes.

On behalf of the Secretary of Defense, I am pleased to provide the status of the DoD's progress to implement priority GAO recommendations. Over the past several years, the DoD has made significant progress in implementing the recommended actions identified in GAO's 2011-2016 annual duplication reports. The GAO directed a total of 129 recommendations to the DoD in its body of duplication work. After a comprehensive review of the 129 recommendations, DoD found that 57 have been closed by GAO. An additional 36 are considered closed by DoD based on work completed by the DoD Components and reported in responses to GAO.

Of the 36 recommendations that DoD considers open, DoD has identified 6 recommendations that it considers priorities due to their alignment to the Department's Agency Strategic Plan v2.0 and/or their identification by GAO as a priority. The Agency Strategic Plan outlines departmental priorities for achieving its mission, and DoD is tracking and measuring component performance in meeting the established priorities. In a letter to the Department, the Comptroller General called attention to open recommendations associated with the expenditure of billions of dollars and recommendations with significance in providing for military service member personnel, retirees, and their families. The six priority recommendations identified accordingly are related to the areas of Business Systems Modernization, Headquarters Management, Strategic Sourcing, TRICARE payments, and Federal Software Licenses.

The attached enclosure provides our status updates and implementation plans for resolving these priority recommendations. The Department will continue to actively work to

resolve all of the remaining open recommendations, and plans to provide regular updates to the GAO through normal staffing channels.

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Date: 2016.09.02 15:55:23 -0400

David Tillotson III
Assistant Deputy Chief Management Officer

Enclosure:
As stated

cc:
The Honorable Elijah Cummings
Ranking Member

Status Updates and Implementation Plans for DoD Priority Duplication, Overlap and Fragmentation Recommendations

Area 8(2011): DoD's Business Systems

The GAO reported that opportunities exist for DoD to optimize its business operations and systems.

Recommendation 4: The DoD must ensure that effective system acquisition management controls are implemented on each business system investment.

DoD Position: Concur

DoD Implementation Plan: The Department issued a significant update to DoD Instruction (DoDI) 5000.02, "Operation of the Defense Acquisition System," dated January 7, 2015, that provides definitions and dollar thresholds of acquisition categories, and makes use of acquisition risk (cost, schedule, and performance), tailoring and streamlining based on program complexity and required timelines. The Instruction directs milestone decision authorities to tailor program strategies and oversight based on the specifics of the product being acquired, including complexity, risk factors, and required timelines to satisfy validated capability requirements. DoDI 5000.02 includes a separate enclosure addressing acquisition of defense business systems (DBS), and it applies a threshold of expected of life-cycle cost in excess of \$1 million over the current Future Years Defense Program for use of that enclosure. The instruction also includes four basic models and two additional hybrid models that serve as examples of defense program structures tailored to the type of product being acquired or to the need for accelerated acquisition. For example, Model 3: Incrementally Deployed Software Intensive Program is a model that has been adopted for many DBSs, and many DBSs involve acquiring commercial off-the-shelf software. In addition, the department issued updated problem statement in 2015 that is used to develop and update problem statements referred to in the DoDI 5000.02 DBS enclosure.

Finally, the Department will be issuing guidance as required by the FY 2016 National Defense Authorization Act for major automated information systems acquisition programs to promote the use of best acquisition, contracting, requirement development, systems engineering, program management, and sustainment practices. It is anticipated that this guidance will start coordination within the Department by mid-August 2016, with a goal of publishing the guidance no later than November 2016.

Area 34(2012): Defense Headquarters

The GAO reported that DoD should review and identify further opportunities for consolidating or reducing the size of headquarters organizations.

Recommendation 1: To facilitate reliable reporting on headquarters staffing and improve information available for decision making, the DoD should revise its Instruction on tracking of headquarters resources to include all major DoD headquarters activity organizations.

This action was revised in GAO's March 2012 report, "Defense Headquarters: Further Efforts to Examine Resource Needs and Improve Data Could Provide Additional Opportunities for Cost Savings" (GAO-12-345). Specifically, GAO recommended that the Secretary of Defense direct the Director of Administration and Management, in consultation with the Under Secretary of Defense for Personnel and Readiness to revise DoD Instruction 5100.73, Major DoD Headquarters Activities (MHA), to include all major DoD headquarters activity organizations.

DoD Position: Concur.

DoD Implementation Plan: The Department plans has used the MHA re-baselining work and component inputs to develop informed foundational rulesets for MHA policy. The Department will promulgate the revised framework and guidance in a comprehensive re-issuance of the MHA policy (Agency Priority Goal 3.5.1: Realigning Major DoD Headquarters Activities; Increase funding for high priority core missions by reducing the cost of overhead and management structures and redirecting those savings to core missions; Performance Measure 3.5.1.5, Revise MHA Policy).

Status of revised policy. The revised framework has been developed and has been applied to account for manpower in major headquarters across the Department. The Department is now in the process of updating its budget database to reflect the framework and to identify resource allocations to major headquarters. The rewrite of the instruction will follow the update to the budget database. The budget database update will be complete by end of October 2016. As a result, previously reported milestone dates have slipped as reported below. The Department is on track to meet the major headquarters reduction goals established in the FY2016 NDAA.

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
Work group efforts	No later than 4th Quarter FY16 (MHA) (September 2016)	Collaborative MHA Component Working Groups are providing Component inputs on MHA/non MHA data calls, rebuttals, and assessment follow-up. Update budget database.

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
Draft Issuance for formal coordination	No later than 1st Quarter FY17 (MHA) (October 2016)	Re-baselining effort is informing the rulesets, definitions/lexicon, and institutional processes and data systems that will constitute the details of the provisions of the policy issuance. Re-baselining still underway. Draft issuance still under development.
Draft Issuance for principal signature	No later than 2nd Quarter FY17 (January 2017)	This timeline will slip to the 2nd Quarter FY17, due to work on the Department-wide MHA re-baselining.
Final Issuance	No later than 2nd Quarter FY17 (March 2017)	This timeline will slip to the 2nd Quarter FY17, due to work on the Department-wide MHA re-baselining.

Area 23(2013): Agencies' Use of Strategic Sourcing

The GAO reported that selected agencies could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategically sourced contracts and further expanding strategic sourcing practices to their highest spending procurement categories-savings of 1 percent from selected agencies' procurement spending alone would equate to over \$4 billion.

Recommendation 1: The Secretary of Defense should evaluate the need for additional strategic sourcing guidance, resources, and strategies, and focus on the DoD's highest-spending categories.

DoD Position: Concur

DoD Implementation Plan:

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
Identify FY15 top categories of spend, strategic sourcing initiatives currently under way relative to those categories, and current strategic sourcing policies	1 st Quarter FY17	FY15 spend data pull; Query MILDEP Strategic Sourcing offices; Outline of Category Management Leadership Council initiatives; Compilation of past issuances related to strategic sourcing
Task Military Departments (MILDEPs) and Defense Agencies to identify specific DoD-wide contract vehicles available for acquisitions planned for execution in FY17-FY18	1 st Half FY17	Data call from MILDEPs/Defense Agencies; Acquisition Strategy Reviews (for Defense Agency acquisitions > \$1B)
Conduct a gap analysis to determine whether additional strategic sourcing guidance is needed, with a particular focus on any gaps related to the acquisition of DoD-specific non-commercial end items (e.g., weapons systems, aircraft, etc.)	2 nd /3 rd Quarter FY17	Analysis of FY15 spend data, current strategic sourcing policies/issuances, and information received from MILDEP Strategic Sourcing offices

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
Prepare guidance to further promote government-wide and DoD-wide sourcing opportunities and identify non-traditional management processes	2 nd /3 rd Quarter FY 17	Guidance highlighting specific government-wide or DoD-wide vehicles available for use in the top categories of FY15 spend and encouraging services/agencies to require justification of the use of other vehicles for acquisitions within these spend categories; further guidance, as necessary, relative to the strategic sourcing of non-traditional, non-commercial DoD end items

Area 18(2015): DoD TRICARE Improper Payments

The GAO reported that the DoD should implement a more comprehensive improper payment measurement methodology and develop more robust corrective action plans for the military health care program known as TRICARE to achieve potential cost savings associated with billions of dollars of improper payments.

Recommendation 1: The Secretary of Defense should implement a more comprehensive TRICARE improper payment measurement methodology that includes medical record reviews, as done in other parts of its existing audit programs.

DoD Position: Concur. The Defense Health Agency’s (DHA) policy, procedures and contractual requirements for identifying improper payments include the review of TRICARE purchased care contractors’ claims processing procedures by an independent contractor, and the statistically valid sampling of medical, pharmacy, and active duty dental claims. As noted, reviews have been performed to ensure that purchased care contractor’s claims are processed in accordance with TRICARE policy and contract requirements.

Implementing a more comprehensive improper payment measurement methodology that includes medical record reviews is possible, but will require time to:

1. Conduct in-depth discussions with agency components;
2. Develop and enterprise-wide implementation plan; and
3. Hire or contract for the workforce required to achieve the proposed recommendation.

DoD Implementation Plan:

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
DHA is implementing a more comprehensive improper payment measurement methodology by developing contract acquisition requirements to have retrospective medical record reviews conducted by an external independent claims review contractor. The contract solicitation request for proposal is anticipated to be released in the 4 th Quarter of FY16.	Contract Award / 2 nd Quarter FY17 Initiation of medical record reviews / 3 rd Quarter FY17	DHA will include improper payment error amounts identified as a result of medical record reviews, when calculating the overall improper payment error rate for the Military Health Benefits program and will publish the results in the annual Agency Financial Report.

Recommendation 2: Once a more comprehensive improper payment methodology is implemented, the Secretary of Defense should develop more robust corrective action plans that address underlying causes of improper payments, as determined by the medical record reviews.

DoD Position: Concur

Implementation Plan:

Key Corrective Actions	Key Milestones/Completion Deadlines	Measure(s) to Capture Demonstrated Results
DHA is implementing a more comprehensive improper payment measurement methodology by developing contract acquisition requirements to have retrospective medical record reviews conducted by an external independent claims review contractor. The contract solicitation request for proposal is anticipated to be released in the 4 th Quarter of FY16.	Contract Award / 2 nd Quarter FY17 Initiation of medical record reviews / 3 rd Quarter FY17	DHA will publish improper payment findings as a result of medical record reviews to the appropriate Program Offices for any corrective actions deemed appropriate.

Area 23(2015): Federal Software Licenses

The GAO reported that in order to achieve hundreds of millions of dollars in government-wide savings, federal agencies should apply better management of software licenses and the Office of Management and Budget should issue a directive to assist agencies in doing so.

Recommendation 6: Each of the 24 agencies covered by the Chief Financial Officers Act of 1990 should analyze agency-wide software license data, such as costs, benefits, usage, and trending data, to identify opportunities to reduce costs and better inform investment decision making.

DoD Position: Concur.

DoD Implementation Plan: The DoD license inventory analysis and reporting plan, proposes using the FY14 NDAA Section 931 requirement for a software license inventory reporting process for selected software licenses; the DoD Financial Improvement and Audit Readiness (FIAR); and Cybersecurity Information Systems Continuous Monitoring (ISCM) efforts as the core for a holistic approach for software license reporting and analysis.

Achieving audit readiness through the FIAR efforts will ensure that DoD establishes and maintains an inventory and audit trail of the commercial software licenses purchased. ISCM will provide DoD the ability to report the installed software inventory, and once linked with the accounting inventory data, report utilization and license compliance.

DoD CIO will synchronize FIAR and ISCM efforts to include common data standard and management controls that will enable reporting and analysis across the accounting and cybersecurity domains. Visibility into license quantities owned, prices paid, and usage will enable DoD CIO to optimize license acquisition and utilization across the Department.

Additionally, DoD uses the DoD Enterprise Software Initiative to create enterprise-wide software licensing through use of best practices in commodity category management, and, continues to award joint enterprise license agreements to maximize volume discounts and align license purchase quantities with needs. Since 2012, DoD has awarded joint enterprise license agreements for Microsoft software, Adobe software, and Cisco SMARTnet maintenance, which collectively recognized \$260 million in cost avoidance for the Department between fiscal years 2012 and 2014. DoD is increasing procurement and maintenance of enterprise license agreements, and will expand enrollments to cover the entire Department, where appropriate.

ISCM implementation is in progress and requires investments through 2020 to automate all of the security automation domains required for license management. The FIAR schedule is underway and targets 2018 for supporting audits of all DoD Components. Therefore, inventory reporting for new license purchases can begin in 2018, and reporting of owned versus in-use software and license compliance will begin in 2020.