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Comparison of Private Sector and Federal Fringe Benefits, 1981
(Employer Costs as a Percent of Total Payroll)

		(1)	(2)	(3)
	Paid as a Part of Direct Payroll	Federal	Private Sector	Federal Above/(Below) Private Sector
(1)	Vacation Used	6.99%	4.90%	2.09% pts.
(2)	Sick Leave Used and Short-Term Disability	3.95	1.70	2.25
(3)	Holidays (a)	2.80	3.40	(0.60)
(4)	Administrative Leave (a)	0.50	0.30	0.20
(5)	Work Breaks (a)	4.01	3.50	0.51
(6)	Cash Awards (a)	0.32	0.40	(0.08)
(7)	Total Payroll Benefits	18.57%	14.20%	4.37% pts.
	Paid in Addition to Direct Payroll			
(8)	Allowances	0.85%	0.70%	0.15% pts.
(9)	Retirement and Long-Term Disability (b)	39.65	5.80	33.85
(10)	Health Insurance (c)	4.25	5.80	(1.55)
(11)	Profit Sharing and Thrift	-	1.50	(1.50)
(12)	FICA (Social Security)	0.35	5.80	(5.45)
(13)	FECA (Workmen's Comp.)	1.31	1.60	(0.29)
(14)	Unemployment	-	1.40	(1.40)
(15)	Life Insurance	0.30	0.30	-
(16)	Total Non-Payroll Benefits	46.71%	22.90%	23.81% pts.
(17)	Total Fringe Benefit Costs	65.28%	37.10%	28.18% pts.

Note: Above does not include 6.29% of FY 1981 gross payroll for the present value of annual leave carried over or 23.20% for sick-leave carried over.

(a) When added together, holidays, administrative leave, work breaks, and cash awards in the Federal and private sectors are comparable in costs.
(b) Discussed under the Retirement section of this report.
(c) Employer cost only; employee and employer costs are 6.8% of total payroll.

Employer Federal fringe benefit costs are 28.2% pts. greater than average costs in the private sector. This results primarily from greater Federal costs for retirement, and vacation and sick leave used, offset somewhat by higher private sector costs for FICA, and thrift and profit sharing plans. Although employer health insurance costs in the private sector exceed Federal health insurance costs, employer and employee costs in the Federal Government exceed those in the private sector.

Regarding payroll related benefits, PPSS proposed changes in the Government's vacation and sick leave procedures which will be discussed in more detail later in this section. Work breaks and holidays are already handled in a manner generally consistent with private sector practices.

Retirement benefits, the principal non-payroll related fringe benefit, are discussed as a separate section of this report. Health benefits and Workmen's Compensation are addressed later in this section.

Specific areas where PPSS noted possibilities for improving Federal controls and procedures are summarized below:

- The Federal Employee Health Benefits Program (FEHBP) costs 6.8% of total payroll including payroll related fringe benefits compared to health benefit costs of 5.8% in the private sector. This 1.0% pt. difference results from the design of the FEHBP which allows employees many plan choices and frequent opportunities to change plans ("adverse selection" -- employees changing plans frequently in response to their needs for increased or decreased health insurance coverage). As a result, Government costs exceed comparable private sector costs by approximately $450 million annually.

- The amount of annual leave granted to Federal employees is from 1.2 to 1.9 times that granted in the private sector. The added yearly cost of annual leave is almost $1.3 billion.

- Federal employees take more than 1.6X the number of sick days as their private sector counterparts. As a result, annual Federal sick leave costs are approximately $1.2 billion higher than would be expected in the private sector.

- Procedures and controls to detect fraud and abuse in Federal Employment Compensation (FEC -- disability benefits comparable to private sector workmen's compensation) are inadequate, costing taxpayers $95 - $115 million annually.

PPSS also reviewed health care delivery systems in the Department of Defense and concluded that:

- Strong, centralized management is not in place to coordinate, plan, and oversee health care delivery and costs in the Department of Defense, wasting over $1 billion annually.

In general, PPSS recommended the following improvements:

- Regarding the FEHBP, control adverse selection (which results when employees who expect high medical costs concentrate in plans with extensive coverage) and improve program administration. (FEHBP administrative costs are less than 1/4 of 1% of premiums paid, compared to 1%-3% in the private sector.)

- Reduce annual leave and increase from 90 to 180 days the minimum service requirement for accruing initial vacation time so that Federal practices conform more closely to those in the private sector.

- Limit to 130 the number of sick days Federal employees can accumulate. (130 days is the number of days PPSS recommended as the qualifying period between occurrence of disability and eligibility for long-term disability payments. This qualifying period is comparable to that in the private sector.) Coupled with stricter supervision, this limit should reduce the amount of sick leave Federal employees use to a level comparable to that in the private sector.

- Reduce the number of employees receiving FEC benefits by implementing controls and reporting procedures typically found in private sector computerized disability payment systems. These controls and reports will help identify cases of fraud and abuse.

- Establish centralized authority and control over the DOD health care delivery system.

Health Benefits

The FEHBP provides health insurance benefits to Federal employees and retirees, as well as to their dependents. Enrollment is voluntary. As of June 1981, FEHBP covered approximately 10 million people (2.4 million employees, 1.3 million annuitants and 6.3 million dependents). The program is contributory with employees and the Government sharing costs. Total FEHBP costs in 1981 were $4.2 billion, with the Government paying $2.6 billion, or 62%.

As of January 1982, there were 168 FEHBP options, including four programs available to all Federal employees, 19 plans available only to members of employee organizations and their families, and 145 comprehensive medical plans (health maintenance organizations (HMOs), most of which were available on a regional basis).

Each year, employees and annuitants are permitted to change plans or options in the FEHBP. Further, an employee may switch plans upon a change in marital status or loss of coverage, and may cancel a plan at any time.

Q. What accounts for the $450 million in higher FEHBP costs when compared to health benefit costs in the private sector?

A. In addition to adverse selection, higher FEHBP costs result primarily from:

- o A high ratio of high cost annuitants and their dependents in FEHBP resulting from the liberal early retirement provisions of the Civil Service Retirement System and generous survivor eligibility. 20% to 30% of Federal annuitants over 65 are not covered by Medicare. Aged annuitants without Medicare coverage use more FEHBP benefits and thus impose greater costs on the total FEHBP program than other participants. The Blue Cross/Blue Shield national FEHBP plan (covering approximately 51% of FEHBP participants) estimated that 1980 payments for aged annuitants without Medicare were 150% of that of the average participant, even though Medicare and non-Medicare covered participants pay the same FEHBP premiums.

- o The difficulty of administering such a complex program and monitoring 168 separate plans each with different benefits, claims handling standards, cost containment practices, and financial stability.

Q. How does adverse selection cause health benefit costs to increase?

A. "Adverse selection" allows employees to enroll in plans with high benefit provisions when they anticipate large medical expenses. Under FEHBP, an employee can change plans at least annually. For non-emergency medical treatments, employees can elect more comprehensive benefit plans when treatment is anticipated. They can subsequently switch to less comprehensive and less expensive coverage when treatment is completed. To put the number of employees changing plans in perspective, about 5% of total FEHBP participants change plans annually. However, one of the two Blue Cross/Blue Shield plans lost 234,000 participants in 1982, or 16% of total enrollment.

During annual open enrollment, Federal employees and annuitants may choose from many FEHBP plans. Federal employees in Washington, D.C., for example, have a choice among 22 plans. It is not uncommon for other Federal employees to have a choice among 12 or more plans. Their private sector counterparts, however, are offered a single plan (50% of the time) or a choice between two plans (30% of the time). The choice of many plans, the frequency of choice, and the widely varying plan benefits and premiums contribute to adverse selection.

Adverse selection by a minority of employees results in higher costs for the majority of employees and the Government. As an example, one of the government-wide plans has coverage valued at approximately 6% more than coverage under four other comparable FEHBP plans. Premiums, however, are 18% higher in the government-wide plan because of adverse selection. Since the plan is included in the formula for determining the Government's contribution, higher premiums increase Government costs. Also, the higher premium is unfair to employees who have not changed plans in anticipation of higher medical expenses and who are, therefore, overpaying for their coverage.

Q. How do FEHBP benefits compare to private sector benefits?

A. FEHBP does not specify standard or minimum coverage, and benefits, plan-to-plan, vary widely. On average, the six largest FEHBP plans cover 73% of medical expenses compared to 82% coverage in private sector plans.

Q. What is the total cost for FEHBP benefits?

A. The Federal Government and employees share the costs of the FEHBP. The table below shows employee and Government shares of total FEHBP costs, 1970-1981:

Total Premium Costs, FEHBP
($ Millions)

		(1)	(2)	(3)	(4)
	Fiscal Year	Employee Share	Government Share	Total	Government as a % of Total
(1)	1970	$ 666	$ 250	$ 916	27.3%
(2)	1981	1,579	2,629	4,208	62.5
	Average Annual % Increase				
(3)	1970-1981	8.2%	23.8%	14.9%	3.2% Pts.

The cost to the Government for providing employee health insurance, 1970-1981, increased 23.8% per year, or about 40% faster than the comparable rate of increase in the private sector (16.9%). At the same time, the employee share increased only 8.2% annually, one-third as fast as the 23.8% increase in the Government share. The Government's share increased from 27.3% to 62.5% of total costs, an increase of 128.9% in 11 years.

Q. Does this mean that FEHBP costs per employee are greater than comparable costs in the private sector?

A. Yes. In 1981, the FEHBP average annual employee health care premium was $1,513. This compares to private sector costs as follows:

Annual Health Care Premiums Per Employee

	(1) Amount	(2) FEHBP as Multiple of Private Sector
(1) FEHBP	$1,513	---
(2) Chamber of Commerce	943	1.6X
(3) 236 Financial and Service Companies	1,116	1.4
(4) Banks and Insurance Companies	1,295	1.2

FEHBP premiums are 1.2X-1.6X as expensive per employee as the private sector cost comparisons shown above.

Federal employees and the Government together pay more and get less coverage than the private sector for medical insurance.

Q. What improvements does PPSS recommend to reduce FEHBP costs and increase benefits?

A. PPSS recommended sixteen improvements to the FEHBP, including the following:

1. Conduct open enrollment only in alternate years; require enrollees to remain in a plan, once chosen, until the next open enrollment except in limited circumstances.

2. Require all plans to offer minimum benefits at least equal in value to those under Medicare. This would reduce the wide range of plan benefits, a factor contributing to the frequency with which employees change plans.

3. Obtain bids from insurance companies on the government-wide plans to ensure that cost containment ideas are explored.

4. Require that benefits for annuitants be included as part of the budget for the agency from which they retire, to focus attention on the high cost of those benefits. (Annuitants accounted for 37% of 1981 FEHBP participants.)

5. Bring annuitant and survivor eligibility requirements for FEHBP in line with stricter private sector practice.

6. Improve program administration by:

    1. Establishing or strengthening cost controls, e.g., setting minimum standards for the time in which claims are processed and auditing the rates at which different plans are used, replacing those that are not cost effective. These controls would help ensure that one plan does not have an advantage over another in attracting Federal employees simply because it does not adequately control health care payments.

    2. Improving the information distributed to FEHBP participants about the plans and the choices that are available. These improvements would help FEHBP participants make informed choices about the benefits and options available to them so that health benefits are used effectively.

By reducing FEHBP costs from 6.8% to 5.8% of payroll, savings will be $1.357 billion over three years, enough to pay for the health premiums of approximately 300,000 Federal employees for three years.

Vacation Policy

The vacation policy for Federal employees is more liberal than in the private sector, specifically in regard to:

- Minimum length of service for first vacation;
- Length of vacation in relation to years of employment; and
- Maximum number of vacation days allowed to be carried over to the following year.

Employees of the Federal Government accrue vacation entitlement after three months of service. In comparison, employees at 53% of private sector firms do not accrue vacation pay until six months of service, and, at 22% of private sector firms, not until after twelve months -- i.e., Federal vacation policy is more liberal than at least 75% of private sector firms.

Payroll and vacation costs 1979, 1982 and as projected for 1987 are shown below:

Payroll and Vacation Costs
($ Billions)

	Fiscal Year	(1) Vacation Cost	(2) Total Payroll Cost	(3) Vacation Cost as a % of Total Payroll Cost
(1)	1979	$3.8	$52.7	7.3%
(2)	1982	4.7	66.7	7.1
(3)	1987E	6.9	97.3	7.1
	Average Annual % Inc./(Dec.)			
(4)	1979-1982	7.3%	8.2%	(0.1)% pt.
(5)	1982-1987E	8.0	7.8	-

Annual vacation costs have increased 1.2 times from 1979 to 1982, from a level of $3.8 billion in 1979 to $4.7 billion in 1982 and are expected to increase 1.5 times, or to $6.9 billion, by 1987.

Q. How do Federal and private sector vacation allowances compare for specific lengths of service?

A. The following compares average Federal and private sector vacation days provided by length of service:

Vacation Benefit

Length of Service	(1) Vacation Days Provided: Private Sector	(2) Vacation Days Provided: Federal	(3) Federal as % of Private Sector
(1) 6 months	4.8	6.5	135.4%
(2) 1-3 years	9.9	13.0	131.3
(3) 3-5 years	10.4	20.0	192.3
(4) 5-10 years	13.8	20.0	144.9
(5) 15-20 years	18.8	26.0	138.3
(6) 25-30 years	22.0	26.0	118.2
(7) 30 or more years	22.6	26.0	115.0

As shown, Federal employees receive between 115% and 192% of the vacation benefit received by private sector employees.

In addition, Federal employees can carry up to 30 days of vacation over to the following year. Private sector practices allow no carryover in 54% of the companies surveyed, while 24% allow less than 16 days of carryover.

Q. What changes to Federal vacation policy did PPSS propose?

A. PPSS proposed three changes in Federal vacation policy:

- vacation time should be provided to employees only after 180 days of continuous employment -- up from 90 days currently (savings of $298 million over three years);
- paid vacation time for Federal employees should be comparable to that granted in the private sector (savings of $3.486 billion over three years);
- unused annual leave should be forfeited (conservatively, no savings claimed since Federal employees would probably use their vacation allowance rather than lose it).

Sick Leave

Federal employees receive 13 days annually for sick leave. On the average, 9 of these days are taken each year and the remaining 4 days are accumulated. Nine days of sick leave used is excessive by private sector standards. The U.S. Chamber of Commerce reports that paid sick leave (sick leave plus short-term disability) totals 2.1% of gross pay (approximately 5.5 days per year) for nonmanufacturing industries -- Federal employees take, on average, 63.6% more sick leave days than are taken in the private sector.

The following shows Federal payroll and sick leave costs for 1979, 1982, and projected for 1987:

[Table on following page]

Payroll and Sick Leave Costs
($ Billions)

	Fiscal Year	(1) Sick Leave Used	(2) Total Payroll Cost	(3) Sick Leave Used as a % of Total Payroll Cost
(1)	1979	$1.6	$52.7	3.1%
(2)	1982	2.2	66.7	3.4
(3)	1987E	3.3	97.3	3.4
	Average Annual % Inc./(Dec.)			
(4)	1979-1982	11.2%	8.2%	0.1% pt.
(5)	1982-1987E	8.4	7.8	-

Annual sick leave costs have increased 1.4 times, from $1.6 billion in 1979 to $2.2 billion in 1982, and are expected to increase 1.5 times to $3.3 billion by 1987.

Q. How can sick leave usage be controlled?

A. By providing that unused sick leave accumulates to a maximum of 130 days. That number of days will be needed to bridge the gap between the time when disablility occurs and when long-term disability benefits begin. This policy, coupled with stricter supervision, should reduce usage to a level comparable to that in the private sector.

Q. How much is the extra sick leave used by Federal employees costing U.S. taxpayers?

A. Savings from implementing PPSS recommendations are estimated at $3.690 billion over three years. Savings are based on the assumption that changes in sick leave benefits would bring Federal employee utilization rates and costs within the range of private sector costs. Private sector costs average 2.1% of gross pay while Federal Government costs are 61.9% higher at 3.4% (1983 estimate). Savings are based on the difference (1.3% pts.) as a percentage of gross payroll.

Q. How does sick leave usage in the Postal Service compare to usage in Federal agencies and in the private sector?

A. USPS average sick leave usage of 9 days per employee per year is the same as the government-wide average. Of 70 agencies for which OPM has accumulated data, 29 have sick day usage rates higher than USPS; even though, on the whole, postal workers are more exposed to inclement weather and hazardous situations than other Federal workers. (More than 7,000 letter carriers, or 1 in 33, are bitten by dogs each year, for example.)

Nine sick days per Postal Service employee amount to a total of 21,734 work-years of lost productivity -- $652 million annually.

Q. What can be done to reduce sick leave in the Postal Service?

A. A system of recordkeeping needs to be established to identify chronic absenteeism. The goal would be to correct the behavior of those who are habitually absent, as well as to ensure that other employees understand that management expects regular and consistent attendance.

Workmen's Compensation

In 1982, approximately $880 million in compensation benefits, excluding medical expenses, were paid to claimants under the Federal Employees Compensation (FEC) system (workmen's compensation). The system was found to be open to fraud and abuse because of an excessively permissive claims payment policy and because the current Automated Data Processing (ADP) systems are not effective.

Q. What are the main deficiencies in the FEC system which allow fraud and abuse to continue?

A. The main deficiencies that PPSS found were the following:

- The system does not correlate specific disabilities with recovery periods in order to identify those instances where absence exceeds established medical guidelines. The Government does not make use of comprehensive experience data to aid in identifying possible abuse.
- The current system does not require that the medical credentials of physicians certifying disability be verified as a prerequisite to claim payment.
- Claims submitted to more than one Region cannot be detected.
- There is no cross reference to other wage replacement systems (such as unemployment insurance, black lung

compensation, etc.), and thus the possibilties for duplicate payment of benefits are great.

- o The system does not verify wage earnings (available in 38 states)to identify individuals who may be employed while collecting benefits.

- o Claims offices emphasize paying claims quickly with little emphasis on controlling potential abuse.

Q. What is the result of these deficiencies?

A.

- o In 1980, 6.3% of Federal employees filed on-the-job injury claims, and 3.2% lost time from work. The corresponding figures for a large insurance company employing approximately 48,000 people in 1980 were 1.7% and 0.42%, respectively; so the experience in the Federal sector was 271% and 662% worse than in this representative private sector sample.

- o For 1980, the Federal Government's experience of 3.2% of employees losing time does not compare favorably with the experience of other non-hazardous industries, e.g., banking (0.8%), communications (1.8%), and retailing (2.8%).

- o The Assistant Postmaster General stated that an investigation of all postal workers receiving disability benefits found that 50% to 55% of these individuals were not totally disabled and could be performing some form of work.

- o A 1982 investigation uncovered a number of extreme cases of fraud and abuse. In one instance, a letter carrier, who had been drawing benefits of more than $8,000 a year for total disability due to a knee injury, was running a pizza business. Another employee was receiving benefits of $14,000 a year while working in a flower shop. Another claimant was receiving benefits due to an elbow injury while operating a ceramics shop.

- o Over the last 15 years, the Federal civilian work force has decreased slightly from 3.0 million to 2.8 million employees. During the same period, the number of long-term disability cases has grown from 20,000 to approximately 48,000 while the amount of annual disability compensation has increased from $75 million to $650 million. Since (a) the definition of a traumatic injury has not changed, (b) there is no evidence that job categories of a more dangerous nature have been added, and (c) there was no shift of employees to existing, presumably more dangerous jobs, the number of cases should have remained at about 20,000. Had this occurred, the total annual payout based on the current $13,600 per case average would be approximately $270 million, $380 million less than current costs of $650 million.

Q. What can be done to correct this situation?

A. Because FEC monitoring and control functions are inadequate to detect abuse, PPSS recommended that the Federal Government:

- o Develop data and reporting systems to identify trends and supply the information necessary to assist in detecting abuse.
- o Develop a system that correlates specific disabilities with specified time periods for recovery in order to identify instances where (a) disability status is not justified and (b) the length of disability has exceeded the established medical guideline.

PPSS estimated that the $380 million increase in FEC benefits can be reduced by 25%-30%, or $95-$115 million, in the third year after implementing PPSS recommendations. Savings of $189 million over the first three years are possible by implementing private sector procedures and controls.

DOD Health Delivery Systems

DOD operates three direct health care systems, one for each of the three services. In addition, the Civilan Health and Military Program of the Uniformed Services (CHAMPUS) provides health care for civilian dependents of active duty personnel and for retired personnel and their dependents when health care is obtained from the private sector. The direct care system provides health care for active duty personnel, and for the dependents of active duty personnel, and for retirees and their dependents when space and resources are available.

Overall, the direct care hospitals are seriously underutilized, with average occupancy levels far below those considered marginal for civilian hospitals. While this should encourage diversion of CHAMPUS users to the direct care system, it has not. Because the direct care systems are budgeted within the Services and CHAMPUS is budgeted by the Office of the Secretary of Defense (OSD), financial incentives cause the direct care facilities to divert prospective patients to CHAMPUS.

To correct these problems, strong, centralized management must be put in place to coordinate, plan and allocate resources, and oversee health care delivery.

Q. What are some of the specific deficiencies in coordinating the CHAMPUS system with the direct health care systems of the Services?

A. Beneficiaries who live in catchment (surrounding) areas, i.e., within 40 miles of a military health care facility, are expected to get their inpatient care from that facility. Reimbursement via CHAMPUS for private sector inpatient care requires a nonavailability certificate (NAC) which must be obtained from the military direct care center. In FY 1979-1980, the military granted approximately 224,000 NACs.

The services do not have a specific coordinated policy on appropriate levels of approval or necessary documentation to support the NACs issued. An effective system for referrals to other direct care centers or other Federal health facilities has not been developed. If the present system is not changed, beneficiaries in catchment areas will continue to seek and obtain care from the private sector regardless of their proximity to military health care facilities. The lack of coordinated management between the direct care and CHAMPUS systems has led to inconsistent policy decisions and excessive costs.

Q. How much does CHAMPUS cost?

A. The estimated FY 1983 budget for CHAMPUS is $1.1 billion. DOD has estimated that approximately 55%, or $594 million, will represent expenditures for beneficiaries living within a catchment area. In fact, an additional appropriation of $110 million was requested for FY 1982 to fund the increasing use of the private sector for health care.

Q. Can the direct care system absorb the additional CHAMPUS patients? Are military hospitals operating at full capacity?

A. Only 77% of the operating bed capacity of military direct care hospitals in the continental United States is in use on an average day. Hospital administrators in the private sector use 85% as an optimal occupancy rate and 70% as a minimal rate, a criterion for closure. Using these criteria for the continental U.S. military direct care system, which includes 124 hospitals, only 6.5%, or eight hospitals, reach or exceed the optimal 85% utilization rate; 48 hospitals (38.7%) fall in the minimal category using 70% or less of operating bed capacity.

Q. What changes to CHAMPUS did PPSS recommend?

A. Nonavailability certificates (NACs) should not be issued for CHAMPUS beneficiaries who live within catchment areas except in emergency situations. The current 88% utilization rate of military health care facilities allows this change to be implemented with no strain on these facilities.

Q. What else can be done to increase the use of the military direct care system?

A. Under the existing DOD structure, four health care systems function independently of each other. A Defense Health Agency should be established. This agency should be responsible for managing all military treatment facilities worldwide. The potential benefits include: improved medical readiness and health care delivery; coordinated planning and budgeting for military health care resources; and development of uniform reporting and cost systems.

Q. Are there other ways in which DOD health care costs can be controlled?

A. Yes. Cost containment should become a priority in the management of military health care programs. Specifically, patients should be required to pay a greater share of health care costs. This would include charging for outpatient visits at direct care facilities, increasing the deductible for outpatient visits covered by CHAMPUS, and increasing patient payments for inpatient care at direct care facilities and under CHAMPUS.

Q. What savings did PPSS project from these recommendations regarding military health care costs?

A. Savings are estimated as follows over three years:

DOD Health Savings
($ Billions)

	Area	Amount
(1)	CHAMPUS NACs	$1.177
(2)	Defense Health Agency	0.943
(3)	Increasing Direct Care and CHAMPUS Patient Payments	0.934
(4)	Total	$3.054

Savings regarding CHAMPUS NACs are calculated based upon a 55% reduction in the $647 million spent in 1982 on non-psychotherapy and non-emergency claims, or 1982 savings of $356 million. Over three years, including inflation, savings would be $1.777 billion.

Establishing a Defense Health Agency would save 5% of direct health care costs ($5.7 billion in 1983), PPSS estimated. Over three years, savings would total $943 million.

Increasing patient payments for DOD supplied health care would yield three-year savings of $934 million. $773 million (or 83% of the $934 million) would result from charging a $10 fee for outpatient visits at direct care centers, with a $100 yearly maximum.

Savings in the Department of Defense from these three issues, estimated at $3.054 billion over three years, are enough to pay for over 300,000 hospital stays costing $10,000 each.

In addition to the issues described above, PPSS identified other fringe benefit areas where savings are possible. They represent estimated three-year savings of $24 million.

In FY 1982, 250 Air Force officers were projected to be involuntarily discharged for not achieving promotion grades within specific time periods. Severance pay costs were estimated at $30,000 each. PPSS recommended reducing severance pay to levels comparable to those in the private sector (which would result in severance pay of approximately $8,700 for each officer), saving $18 million over three years.

Army recruits discharged for "honorable" reasons during the first six months of service are entitled to accrued leave (vacation) pay. PPSS recommended delaying accrued leave benefits until a recruit demonstrates minimum suitability for the Army, a practice comparable to that in the private sector. Savings of $6 million over three years have been estimated.

Regarding Federal Workers' Disability Payments, PPSS recommended that a permanent capability to investigate cases on the rolls be established. Lack of adequate investigations in the past have resulted in abuse of benefits.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $12.092 billion -- equal to the three-year taxes of 1.8 million median income families.

E. OTHER OPPORTUNITIES WITH SIGNIFICANT SAVINGS POTENTIAL BEYOND PPSS

III-E. Other Opportunities with Significant Savings Potential Beyond PPSS

There were many opportunities for cost savings or revenue enhancement that were only partially developed by PPSS Task Forces, and there were other areas which were not investigated at all. Nevertheless, these issues are valuable in that they demonstrate the continuing need to investigate the operations of the Federal Government. Savings opportunities identified by PPSS, although substantial, represent only a small part of the potential savings available across the Federal Government.

In FY 1983, the Government spent $3.5 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $16.3 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $10.1 billion in 2000, a saving of $6.2 billion or 38.0%.

Inherent in a volunteer project such as PPSS are time constraints and personnel limitations which would preclude the comprehensive study of any organization, particularly one as large and as complex as the Federal Government. Accordingly, there were many opportunities for cost savings or revenue enhancement that were only partially developed by PPSS and other areas which were not investigated at all. In fact, many of the individual PPSS Task Force reports contain specific recommendations which, although reflecting careful thought, are not regarded as fully supported and defensible. Nonetheless, when viewed in total, these issues are valuable in that they demonstrate the continuing need to investigate the operations of the Federal Government.

Within the PPSS Task Force Reports, there are 54 recommendations with related three-year cost reduction and revenue enhancement opportunities of $8.557 billion, classified as "potentially justifiable and supportable." Due to time, personnel resources, and other limitations, recommendations in this category, while meritorious, are not regarded as fully supported by the Task Forces, but are deemed worthy of further analysis to determine the full extent of their merit.

In addition, the Task Forces identified about 190 potential opportunities which came to their attention during the review process. Unlike the "potentially justifiable and supportable" recommendations, these opportunities were not reviewed in depth by the Task Forces. However, taken as a whole, they represent important cost reduction opportunities for "further study."

Another source of opportunities for cost reduction is found in the Government's own GAO and OIG reports. Although the PPSS Task Forces used many of these reports in their reviews, these reports contain additional areas which were not specifically reviewed by the Task Forces.

Another avenue of additional savings and revenue enhancements is the extrapolation of savings identified by a specific Task Force government-wide. PPSS was divided into 36 Task Forces, each assigned to review either a specific agency, department, or a functional area, such as ADP. Task Forces worked independently of each other, but many recommendations developed by one Task Force have applicability within other governmental departments or agencies.

This government-wide applicability is a result of common structural, systemic, and procedural problems throughout the Government. For example, the Department of Labor (DOL) Task Force found that there were more telephones than employees within the DOL. As the usage of telephones is a common everyday practice, this issue was selected as having potential for extrapolation Government-wide. Total savings from reducing the amount of telephone equipment across Government amount to $848 million.

A total of eleven issues were extrapolated across the Government, resulting in estimated three-year savings of $17.885 billion.

Q. In addition to reducing the amount of telephone equipment usage, what other recommendations were extrapolated government-wide?

A. The following chart presents major extrapolated savings opportunities uncovered by PPSS:

	Extrapolated Issues	Government-wide Three-Year Savings ($ Billions)
(1)	Enforce Implementation of Contracting Out	$ 7.390
(2)	Limit the Issuance of Tax-Exempt Bonds	5.174
(3)	Increase Competitive Bidding for 8(a) Contracts and Military Spare Parts	2.213
(4)	Increase Emphasis on Cost Containment	1.089
(5)	Other (7 Issues)	2.019
(6)	Total	$17.885

The recommendation to enforce the implementation of contracting out represents government-wide three-year savings of $7.390 billion. Due to the significance of the savings estimates and the impact on the operations of the Government, this issue is discussed in detail in the section, "Optimizing the Use of the Private Sector."

Q. How would reducing the amount of tax-exempt bonds generate $5.174 billion in savings?

A. Tax-exempt bonds, by definition, are a source of "lost revenues" to the Federal Government. In addition, the easy availability of tax-exempt bonds, primarily used to finance the construction of new hospitals or to modernize or expand existing hospitals, has contributed to the current excess supply of hospital beds. Limiting the amount of hospital revenue bonds issued will increase competition for these bonds and ensure that funds are allocated on a needs/merit basis which will reduce the amount of "lost revenues" to the Federal Government and prevent unnecessary construction. This can be accomplished by:

- changing tax-exempt revenue bonds to a general obligations basis,
- imposing a ceiling on the amount of tax-exempt revenue bonds, and/or
- providing financial justification for the issuance of tax-exempt bonds (e.g., on a rate of return basis).

Assuming that all tax-exempt revenue bonds could be limited by one of the above methods, it is estimated that in total tax-exempt revenue bonds will be decreased by 30% which will result in a three-year revenue enhancement of $5.174 billion.

Q. Better procurement procedures are a major PPSS recommendation, and it is discussed in detail in the section, "The Impact of Not Buying Prudently." Do savings estimates of $2.213 billion shown in the preceding table duplicate the section on not buying prudently?

A. No. The issues discussed here relate specifically to military spare parts and the 8(a) Program, which are not included in "The Impact of Not Buying Prudently." Currently, in the Defense department, spare parts are purchased directly from the original manufacturer of the equipment. This practice results in buying from the manufacturer without price competition from other producers. Major cost savings are projected if spare parts and their related technical specifications were to be incorporated into a formal reprocurement process which included competitive bidding. As this PPSS recommendation was made only in relation to one military agency, extrapolating these savings Defense-wide would result in potential three-year savings of $1.375 billion.

Additional procurement cost savings can be obtained by modifying the 8(a) Program. This program, which is administered by the Small Business Administration (SBA), currently sets aside procurement funds to be awarded to socially and economically disadvantaged companies. Cost savings opportunities arise because there is no competitive bidding among the 8(a) companies, and the procuring agency must always use SBA as a middleman. The effect of competitive bidding and the elimination of SBA's role as the middleman would result in cost savings of $838 million in procurement and administrative costs. In total, extrapolated procurement cost savings from the two recommendations regarding spare parts and the 8(a) Program total $2.213 billion.

Q. Procurement programs intended to achieve social objectives, like the 8(a) program, can increase costs to the Government because of reduced competition. Are there controls in place to ensure that costs do not escalate out of control?

A. Cost controls are only partially in place. The Army Task Force found that there is a backlog in the implementation of cost containment within the Army. If it is assumed that each military service has a backlog of cost containment programs, the opportunity to extrapolate savings Defense-wide is possible. Information supplied by the Department of Defense (DOD) revealed that the Air Force and the Navy have estimated backlogs on productivity enhancement programs valued at $100 million each. The potential savings resulting from these programs -- 60% of the one-time program cost annually over a ten-year average economic life -- is extracted from the Army Task Force Report. Total three-year savings are estimated to be $1.089 billion.

Q. What are some of the other opportunities for cost savings that have been extrapolated across Government?

A. Reducing foreign exchange losses ($438 million), and eliminating Reserve forces dual pay ($331 million) are two defense-related issues which have potential three-year savings of $76.1 million when extrapolated Government-wide. The largest remaining extrapolated issue recommends more cost-effective shipment of goods, which would save $392 million over three years.

In total, the extrapolated savings opportunities represent $17.885 billion over three years, including the $7.390 billion in savings resulting from increased "contracting out."

The PPSS recommendations identified for further study offer additional opportunities to increase cost savings, revenue enhancements, and management efficiencies. The category "further study" is used to identify opportunities to eliminate waste and inefficiency within the Government, which, due to time and resource constraints, could not be thoroughly developed by PPSS.

Q. How many opportunities for further study has PPSS identified?

A. Hundreds. However, to cite every example would be too cumbersome and detailed. Instead, selected examples are shown to highlight additional areas for review. One area, for example, concerns consolidating programs and procedures with similar or overlapping functions or purposes. For example:

- Equal Employment Opportunity (EEO) complaints filed by U.S. Postal Office (USPS) employees are handled by EEO specialists within USPS. If an employee's complaint is not successfully resolved at USPS, it can be refiled at the Equal Employment Opportunity Commission (EEOC). Thus, the EEO specialists function is duplicated within USPS and at the EEOC. Preliminary analysis reveals that by eliminating the EEO specialists in the USPS, who perform the identical functions as the EEOC, the Government could save $252 million over three years.

In addition to eliminating duplicate programs, there is a recommendation by the Personnel Management Task Force to establish a central office to oversee productivity programs.

Q. What benefits will a central office to oversee productivity programs produce?

A. Substantial productivity gains could be realized by establishing a permanent office to develop, promote, and coordinate government-wide productivity programs. The success of these programs could be assured if performance appraisals of agency managers included an evaluation of their cooperation and participation in such programs. Based on Federal compensation costs of $63.6 billion in 1982, the Personnel Management Task Force estimates that a productivity increase of 5% would reduce personnel expenses by $10.521 billion over three years. Further study is needed to completely support a recommendation establishing a central office to increase productivity government-wide.

Q. Are there other areas reviewed by PPSS where increased oversight could reduce costs?

Yes. One area would be collective bargaining. Collective bargaining within the Government can cause wage differential problems for employees performing similar tasks. On average, Federal employees who bargain collectively for wages have higher rates of pay than employees under General Schedule (GS) and Federal Wage System (FWS) schedules. For instance, in FY 1981, the GAO determined that employees whose salaries were based on collective bargaining agreements averaged $4,857, or 26%, more per year than FWS employees in comparable jobs. Further study of this problem is recommended to ensure pay comparability for Federal employees who bargain collectively and FWS employees who perform similar tasks.

The existence of outdated and unwarranted programs is another result of the Government's lack of oversight. For example, the apparent objective of current farm legislation is to ensure adequate supplies of basic foodstuffs at affordable prices and to maintain minimum producer income at a modestly comfortable level, well above subsistence. A complicated system to maintain this "comfortable income level" is designed to shape market forces and stabilize farm supply and demand at price levels that will meet the objectives of producer income maintenance. The current programs have failed to meet these fundamental objectives.

Price Support Program outlays in any given year are a function of several economic factors which make future program costs difficult to estimate. A wide range of estimates for FY 1983 and FY 1984 exists. The Congressional Budget Office (CBO) estimates $2.900 billion for the two-year period, while USDA estimates $5.100 billion.

Price Support programs have, in general:

- Induced record production and stocks at a time of stagnant domestic and world demand;
- Weakened the U.S. farmer's competitive position in world markets;
- Preferentially diminished the economic viability of the small, family-owned farm; and
- Committed the Federal Government to future crop support outlays well beyond those projected.

PPSS recommended that Government Price Support programs be restructured so as to provide producers with a "safety net" in cases of substantial, sharp, short-term price declines instead of providing income maintenance through supply/demand stabilization. Savings are estimated at $13.157 billion over three years.

Complex eligibility criteria and benefit determination formulas in transfer programs present a fruitful area for cost savings. Eliminating duplication, and changing the method of determining benefit levels, could ensure a more equitable distribution of benefits. For example:

- An estimated one million recipients of Aid to Families with Dependent Children (AFDC) reside in housing that is subsidized by HUD or by state agencies. These same recipients also receive a shelter allowance in their monthly AFDC benefit payment. Further study is warranted to determine the effect of discontinuing the duplication in shelter allowance payments by HUD and AFDC currently estimated to be $300 million annually.

- Short-term workers contribute a relatively small amount of Social Security tax because they have had little work in covered employment, but they receive a higher return on their contribution than the average wage earner. This is a result of the benefit formula. By spreading the short-term worker's covered earnings over a lifetime and applying the resulting artificially low average wage to the benefit formula, the low wage earner is favored. The GAO recommends revising the benefit formula to save $15 billion over the next decade.

Q. Are there other areas where further study could achieve substantial cost savings?

A. Yes. As one example, the costs of elective surgery and the number of operations performed under Medicare and Medicaid could be significantly reduced by requiring a second medical opinion. Getting a second medical opinion is generally recommended to ensure that surgery is necessary. Beneficiaries of Medicare and Medicaid, however, usually will not bother getting a second opinion to determine if surgery is necessary because the cost of the surgery is borne by the Government. The HHS Office of the Inspector General recommends that requiring second opinions could reduce the incidence of elective surgery by as much as 29% for Medicaid and 18% for Medicare. This would save the Government $157 million per year.

Inherent in the structure of an organization as large as the Federal Government, with its different and incompatible computer and accounting systems, is the difficulty of maintaining adequate financial and information controls. As a result, overpayments, misappropriations, and outright theft can go undetected. Examples follow:

- The Food Stamp program suffers from an inordinately high overpayment error rate of at least 9.8% when compared with other entitlement programs, due to theft, illegal trafficking, and fraudulent use of program benefits. In FY 1981, losses due to overpayment errors alone exceeded $1 billion. For example, food stamp dollars often find their way into the wrong pockets as a result of grocery stores giving their customers credit slips, rather than cash, for change of less than 50¢. The Inspector General for the U.S. Department of Agriculture (USDA) estimates that $30 million in food stamp money goes to grocery store owners each year because the credit slips were never redeemed by customers. Further study is necessary to recommend an alternative delivery system for the Food Stamp program which would help reduce fraud and administrative costs.

- The Unemployment Insurance Program (UIP) also lacks adequate procedures to prevent overpayments. For example, in FY 1983, nearly $30 billion was paid in UIP benefits. This represents more than a 100% increase since 1980. The Department of Labor (DOL) OIG found that state procedures for preventing, detecting, and recovering overpayments were inadequate and estimated that the overpayment error rate in the UIP is as high as 12%. Based on this rate, overpayments in FY 1983 are estimated at $3.7 billion.

- As another example, HUD has programs which provide rental units or rent subsidies to low and moderate income families. One program, the Public Housing Agencies (PHAs), uses inadequate cost data furnished by developers and owners to calculate rents. The HUD subsidy is determined in part by evaluating this information. The HUD OIG recommends that improving the cost data used by HUD to calculate subsidies could save $18 million annually.

Adequate supporting data is an everyday practice in the private sector. There any many effective business practices which the Government could institute to increase cost savings. The following three examples demonstrate common private sector practices which could be implemented in the Government.

- According to the HUD OIG, Public Housing Authorities (PHAs) have not adequately managed their cash balances. Available funds have been invested in low or non-interest bearing accounts. The HUD OIG recommends that PHAs could realize substantial interest revenue by investing cash balances to realize the greatest return.

- Fixed-price, lump-sum contracts are those contracts which are bid and executed at a single price for a specified product. Components of the product are not broken out and are not priced individually on a unit basis. An issue arises for both the Government and the contractors when "change orders" become necessary in the course of work. Without unit pricing for specific components, any change order reopens the entire contract to negotiation. Further study is needed to determine the effect of establishing fixed profit margins in lump-sum contracts at the time of the contract award.

- Computer fraud in the Government is becoming an increasingly prevalent problem. According to the GAO, operators commonly tape access information to their terminals allowing anyone to illegally access that system. For example, a clerk used a Department of Transportation computer system to steal more than $800,000. The GAO recommends the implementation of a standard practice prohibiting display of access codes to minimize computer fraud.

Additional opportunities for cost savings would occur if the Government enforced existing laws.

- According to the GAO, the Government is losing millions of dollars in interest because the IRS is not enforcing laws that prohibit late deposits of weekly payroll taxes. By not following procedure, checks to pay these taxes may take up to two weeks beyond the due date to clear. During that time, companies earn interest on the float which should rightfully go to the Government. PPSS recommended that better enforcement of the law that prohibits these late deposits could save millions annually.

- A study by a Senate subcommittee found that fines assessed by judges have doubled since 1980 to nearly $100 million per year. Collection rates, however, are at an all time low of 35%. PPSS believes that increased efforts at the Department of Justice (DOJ) could help collect the estimated $180 million in delinquent fines.

Q. The majority of the previous examples represented cost savings. Are there any areas for further study which would increase revenues?

A. Yes. One significant area concerns the sale of off-shore leases. Currently, leasing of the Outer Continental Shelf (OCS), and the associated revenues from oil and gas exploration and development activities, provide the <u>largest source of non-tax revenues to the Federal government</u>. Although only 5% of the total 1.0 billion OCS acreage has been offered for sale, in FY 1982 OCS revenues were $6.2 billion and represented 1.0% of total Government receipts.

In FY 1983, OCS revenues are estimated to increase to $11.8 billion. In preparing the annual budget, OCS revenues from new lease sales cannot be estimated due to Congressional review of OCS's five year plan for lease sales. In FY 1982, Congress prohibited two lease sales which would have generated $5.7 billion in revenues. The Land/Facilities/ Personal Property Task Force recommends making the Minerals Management Service (MMS), which centrally manages OCS, an independent, self-funding entity -- i.e., requiring no appropriations. This would provide stability to both Government and private industry planning and budgeting processes, as Congress would only have to review the five year plan once. An additional benefit would be to minimize unplanned borrowing and the associated interest cost (conservatively estimated at $460 million for FY 1982) due to the unpredictable nature of these lease sales.

PPSS uncovered many instances where the Government could increase revenues by increasing user fees to recover operating costs. For example:

- In FY 1981, the Federal Government received $5.2 million, or about 2%, of the gross receipts collected by the approximate 530 concessioners operating in the national parks. This 2% franchise fee is insufficient to cover all repair and maintenance costs of the concessioners facilities. Consequently, taxpayers subsidize the costs to maintain these facilities instead of concessioners being charged user fees commensurate with operation and maintenance costs. PPSS recommended raising the franchise fee to a level that would cover costs. Increased revenues are estimated at $2 million over a three year period.

- The User Charges Task Force report recommends for further study that wastewater treatment facilities should at least charge user fees commensurate with costs. In FY 1978, approximately $1.8 billion, or 20% of the $9.1 billion required to operate and maintain 36 municipal wastewater treatment facilities, was not recovered by user fees. Unless these states raise their fees to cover costs, which are projected to exceed $200 billion by the year 2000, taxpayers will have to provide approximately $40 billion in subsidies.

- The Environmental Protection Agency (EPA) regulates, inspects, and analyzes conditions related to all forms of pollution. User charges, if any, to perform these tasks vary between programs and states. For example, air pollution control permit fees are levied by 21 states. However, these fees represent only 5% of the cost to operate Air Quality Programs. In contrast, user fees are not charged for ocean dumping, which costs $9 million per year. As user charges do not cover all costs, the States depend on the Federal

Government for additional funds. Further study is required to determine the effect of the EPA requiring states to charge user fees commensurate with pollution control costs, which were at least $50 million in FY 1982.

Transferring responsibility for some Federal activities to the private sector could also prove expeditious and economical, for example:

- The EPA estimates that over $118 billion in Federal funding will be required for wastewater treatment facilities by the year 2000 to meet the goals of the Clean Water Act. As the Federal Government will not be able to provide these funds, one alternative is to use the private sector for the construction and ownership of these facilities. The Federal Construction Task Force states that the tax benefits of ownership and revenues from fees would provide an incentive/justification for private sector investment. PPSS findings indicate that privatization of the facilities would expedite construction and eliminate the need for the $118 billion Federal funding requirement.

- Costs per revenue dollar to operate a U.S. Postal Service (USPS) "contract station" range from 2.8¢ to 12.0¢, or less than half those of a regular post office window. Contract stations, which presently total 2,700, operate within an existing store or office, with the retailer providing USPS services. PPSS found that USPS could save $165 million over three years by using more contract stations.

And the list goes on and on. PPSS has only touched the tip of the iceberg; as all of this shows, there is more, much more, that needs to be done.

> The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $8.557 billion -- equal to the three-year taxes of 1.3 billion median income families.

IV. A SUMMARY OF PPSS RESULTS AND A ROAD MAP FOR ACTION

IV. A SUMMARY OF PPSS RESULTS AND A ROAD MAP FOR ACTION

INTRODUCTION

As clearly indicated in the preceding pages, PPSS has identified many and diverse opportunities for cost savings and management efficiencies in the Federal Government and cited specific examples of where these opportunities may be found and why they exist. PPSS believes it is now essential that a "road map for action" be developed to ensure the expeditious implementation of those recommended improvements.

Before proceeding further, it should be noted that, for purposes of this analysis, the focus is on total, three-year duplicated dollar savings and revenue enhancements -- $544.985 billion -- rather than net, unduplicated dollar opportunities -- $424.351 billion. To comply with the intent of the Federal Advisory Committee Act and its provisions for ensuring public comment on the proposed findings, conclusions, and recommendations of Federal Advisory Committees, the 47 PPSS reports were released on an ongoing basis from April 1983 through January 1984. Accordingly, it was not possible to prevent the initial reporting of duplicated savings in reports concentrating on a specific department or agency and those reports focusing on functional issues which cut across the entire Federal Government. In addition, to have done so would have been to give an incomplete picture of the opportunities in specific departments or functional areas.

For some analytical purposes, however, the unduplicated savings are more useful, and they form the basis for a great deal of the overall impact analysis that appears throughout this Report.

As an example of duplicated opportunities, the recommendation to have the Department of Defense (DOD) "privatize" domestic commissary operations based on the private sector "warehouse" model was made by both the Office of the Secretary of Defense Task Force and the cross-cutting Privatization Task Force. Eliminating the duplication would have entailed removing the projected savings from one or the other of these reports, which would have resulted in an understatement of the potential for cost savings either through improvements in the management of DOD or through more extensive use of a Government-wide program of privatization.

OVERVIEW

There are a number of perspectives derived from a review of PPSS-identified opportunities and associated cost savings/revenue generation. For the development of a road map, PPSS has chosen to concentrate on the following:

- o Authority for implementation
- o Affected departments and agencies
- o Management functions

with emphasis on the bottom-line impact, rather than the sheer number of opportunities identified.

Implementation -- Although PPSS took care in identifying the responsible implementation authority, the complexities of the appropriations process could result in a change in these determinations.

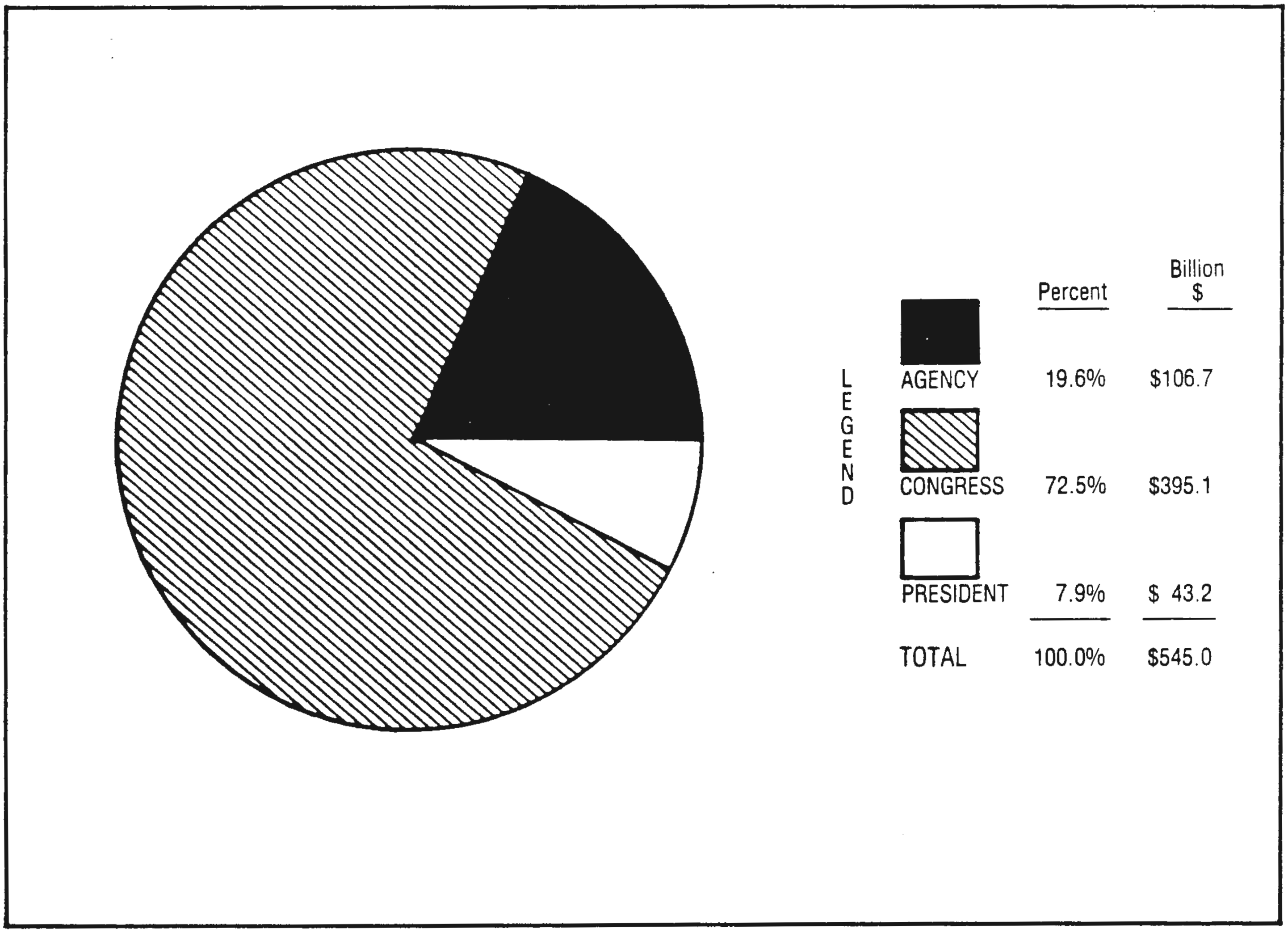
The following table and graph show the breakdown of three-year savings/revenue by implementation authority:

Authority	Amount (billions)	% of Total
Congress	$395.1	72.5%
Department/Agency	106.7	19.6
President	43.2	7.9
Total	$545.0	100.0%

The President can, of course, significantly influence department/agency actions:

[Chart follows]

CHART IV-1
SAVINGS/REVENUES BY
IMPLEMENTATION AUTHORITY



In cases where more than one implementation authority is involved, savings/revenue have been categorized logically under the implementation authority with the power to render a "go" or "no-go" decision with respect to implementation. For example, when the President can initiate administrative action but legislative approval is required to implement it, the opportunity has been categorized under Congressional rather than Presidential authority.

Department and Agency Perspective -- While the percentage of dollar opportunities actually under the control of the departments and agencies is significantly less than that under Congressional authority (27.5 percent versus 72.5 percent), PPSS believes that an identification of those departments and agencies where the greatest savings and revenue can be effected is important for purposes of development a Government-wide plan of action.

PPSS has identified DOD and the three agencies with Government-wide oversight responsibility -- the Office of Personnel Management (OPM), the Office of Management and Budget (OMB), and the General Services Administration (GSA) -- as the agencies representing two-thirds of the three-year PPSS savings and revenue opportunities, or approximately $355.8 billion in total.

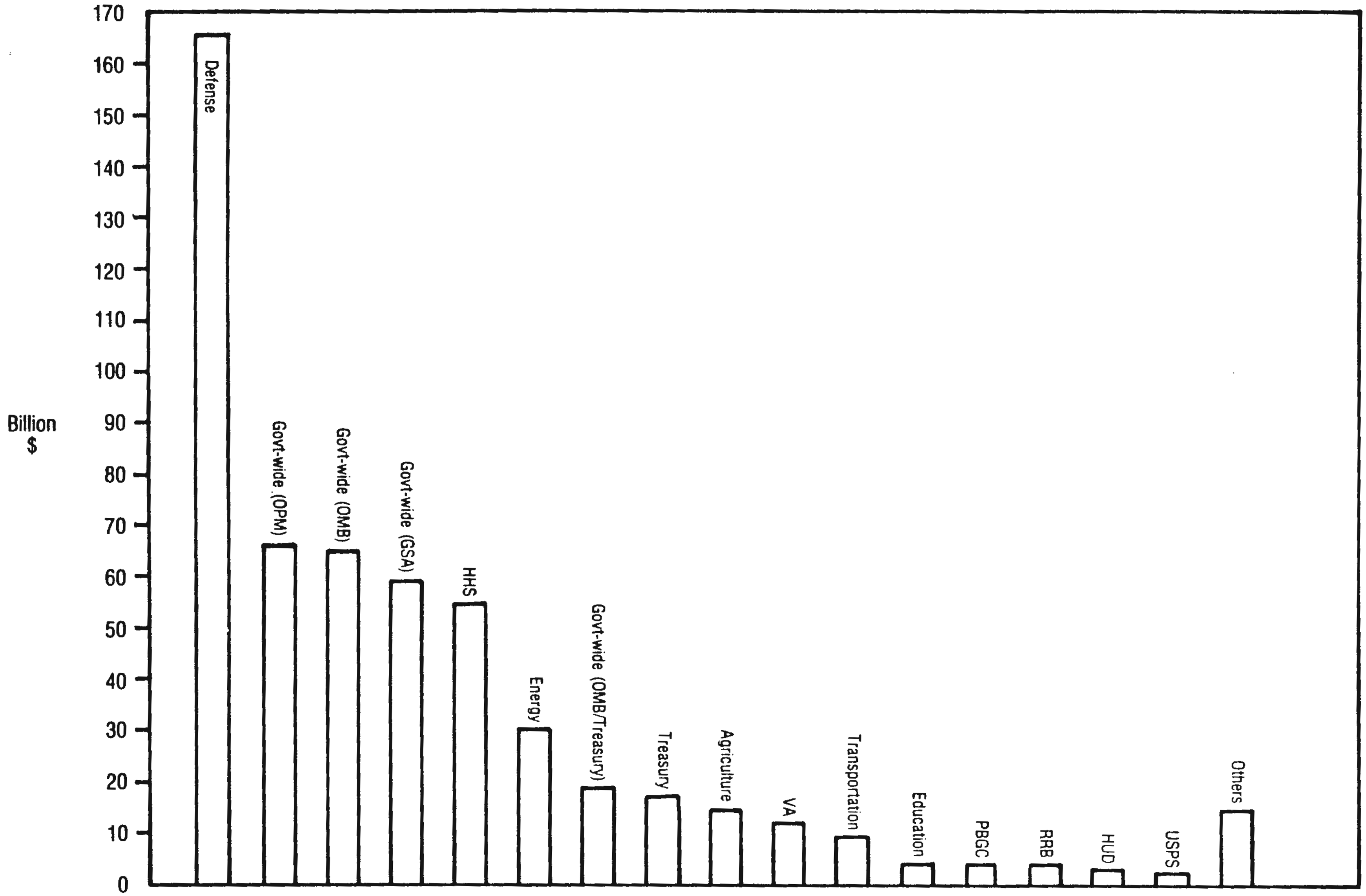
		($ billions)	% of total
(1)	Department of Defense (DOD)	$165.7	30.4%
(2)	Office of Personnel Management (OPM)	66.2	12.2
(3)	Office of Management & Budget (OMB)	64.7	11.9
(4)	General Services Administrative (GSA)	59.2	10.9
(5)	Subtotal	$355.8	65.4%
(6)	All Others	189.2	34.6
(7)	Total	$545.0	100.0%

Wherever functions are managed under guidelines set up and enforced by an oversight agency (such as OPM involvement with human resources management and GSA control of nonmilitary procurement), the savings opportunities have been categorized within the authority of that oversight agency.

The bar chart on the following page presents a more complete breakdown of three-year projected cost savings and revenue enhancements on a department/agency basis.

[Chart follows]

CHART IV-2
SAVINGS/REVENUES BY DEPARTMENT/AGENCY



NOTE:

HHS: Health & Human Services
VA: Veterans Administration
PBGC: Pension Benefit Guaranty Corp.
RRB: Railroad Retirement Board
HUD: Housing & Urban Development
USPS: U. S. Postal Service

Major Management Functions -- Although there are identifiable differences between the public and private sectors and the constituencies which they serve, there are, however, very real and numerous commonalities between the public and private sectors, such as:

a) human resources management
b) organization structures and procurement procedures and policies
c) financial controls
d) automated data processing
e) cash management
f) building services
g) transportation services
h) foreign exchange
i) overseas locations
j) hospital management
k) feeding (cafeterias)
l) retailing (consumers)
m) maintenance and repair
n) inventory and control of supplies
o) domestic and international shipment of goods
p) office automation
q) research and development
r) technology management
s) portfolio management
t) underwriting
u) insurance planning
v) lending
w) borrowing
x) budgeting
y) economic forecasting
z) expenditure control

Indeed, it was this commonality which provided the philosophical basis for the President's request that PPSS review and study Federal Government operations.

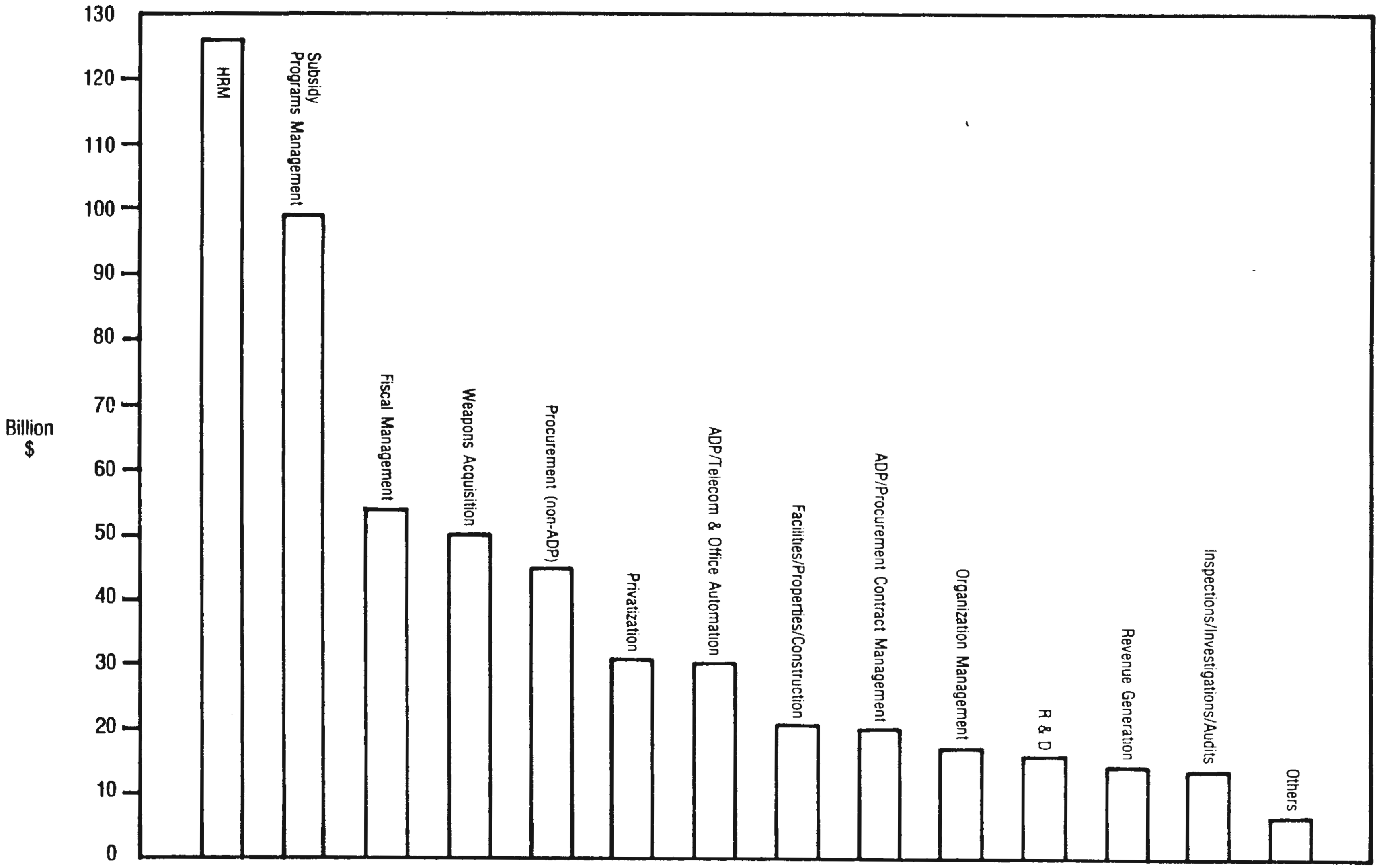
PPSS found that ten major management functions account for 90.5 percent of total PPSS three-year savings and revenue enhancements. Of these ten, five account for 68.6 percent, as shown in the following table, and may be compared to the private sector functions of human resources management, program/ product management, fiscal management, and procurement.

		($ billions)	% of total
(1)	Human Resources Management (HRM)	$125.9	23.1%
(2)	Subsidy Programs Management	99.0	18.2
(3)	Fiscal Management	53.8	9.9
(4)	Weapons Acquisition Management	49.9	9.2
(5)	Procurement Management (non-ADP)	44.7	8.2
(6)	Subtotal	$373.3	68.6%
(7)	Next Five Largest	119.7	21.9
(8)	Subtotal	$493.0	90.5%
(9)	All Others	52.0	9.5
(10)	Total	$545.0	100.0%

The following chart provides a graphic presentation of the savings and revenue impact of 14 major management functions.

[Chart follows]

CHART IV-3
SAVINGS/REVENUES BY MAJOR MANAGEMENT FUNCTION



NOTE:

HRM: Human Resources Management
R&D Research & Development

PPSS made specific recommendations about how the Federal Government can and should improve its management efficiency and effectiveness in each of the ten major categories which, as indicated earlier, account for 90.5 percent of total three-year PPSS savings/revenue. The areas covered in those recommendations are summarized in the following table.

[Table follows]

Table IV-1

Management Function Categories
Recommendation Descriptions

1. Human Resources Management	2. Subsidy Programs Management	3. Fiscal Management and Control	4. Weapons Systems Acquisition	5. Procurement/ Contract Management (Non-ADP)
o productivity o pensions o compensation o benefits o staffing	o payment-in-kind value o program consolidation o administrative efficiency	o cash management o debt management o budget formulation o portfolio investment	o multiyear contracting o dual sourcing o performance-based specifications	o contract labor rates o A-76 procurement policy o national contracting o competitive bidding

6. Privatization	7. ADP: Telecommunications and Office Automation Management	8. Facilities, Property & Construction	9. ADP: Procurement Contract Management	10. Organization Management
o power marketing o private sector contracting o private sector participation	o ADP obsolescence o ADP and OA planning o computer matching o claims/benefits automation	o hospital bed needs analysis o performance-based disposition o fleet management o maintenance productivity	o inventory management systems o economic order quantity procurement	o facilities consolidation o structural consolidation o structural streamlining

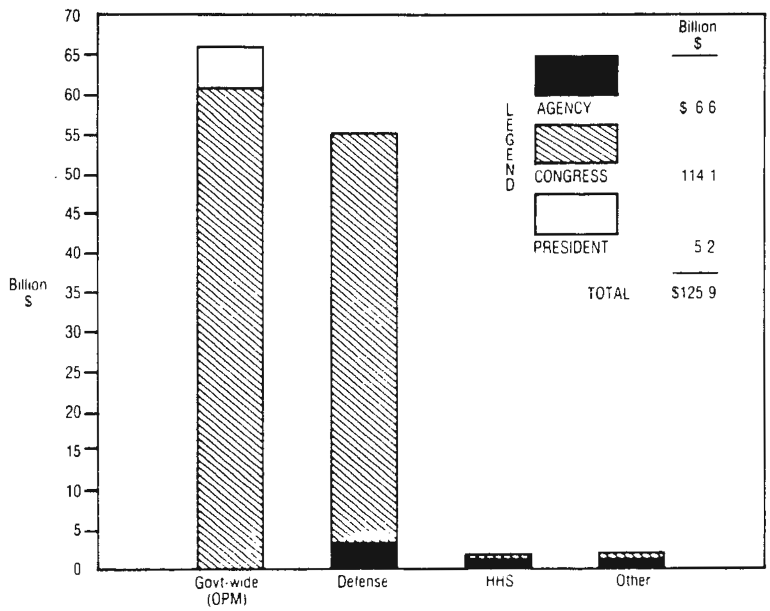
Setting Implementation Priorities -- The preceding three analyses provide several different perspectives from which to view the PPSS recommendations. Using the major management functions described earlier as the "driver" to integrate the analysis by department/agency and by implementation authority, PPSS sought to create an action plan for implementing its recommendations. Specifically, it has attempted to identify:

- what the main opportunities are -- by management function;
- where the opportunities exist -- by department and agency; and
- who is responsible for pursuing them -- by implementation authority.

The following ten charts (organized by management function with the greatest savings/revenue opportunities) provide such an integrated model, to be used as as a guide to implementing the 2,478 recommendations formulated by PPSS.

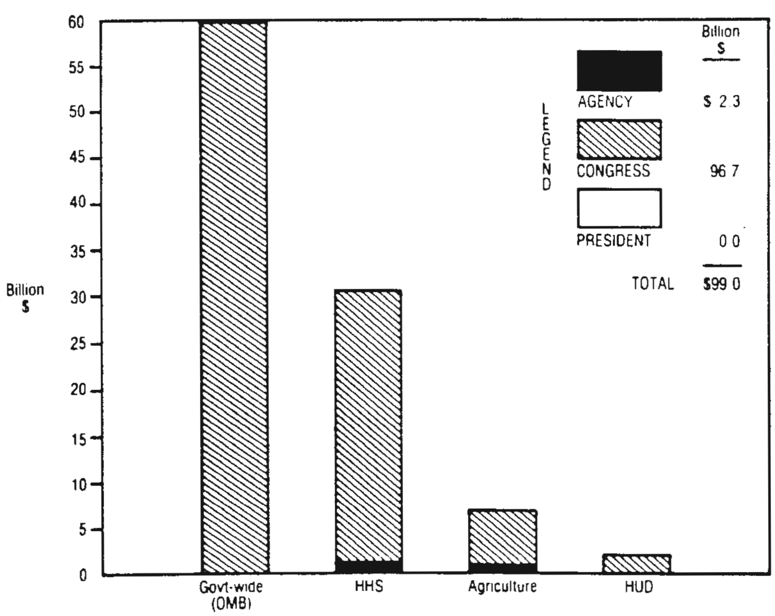
[Charts follow]

CHART IV-4
HUMAN RESOURCES MANAGEMENT



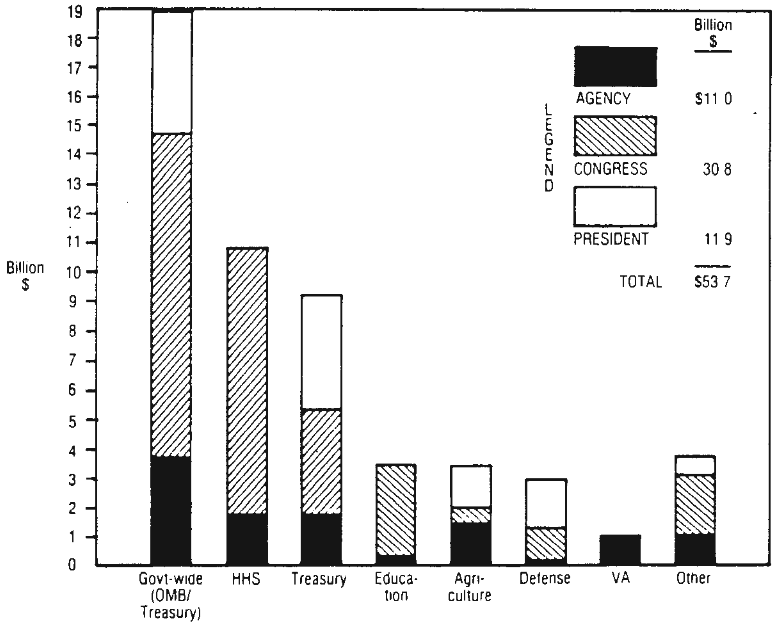
The opportunities in human resources management, the management function with the largest potential dollar savings ($125.9 billion), revolve around areas within the purview of OPM and the Department of Defense. Over 90 percent require Congressional authority for implementation.

CHART IV-5
SUBSIDY PROGRAMS MANAGEMENT



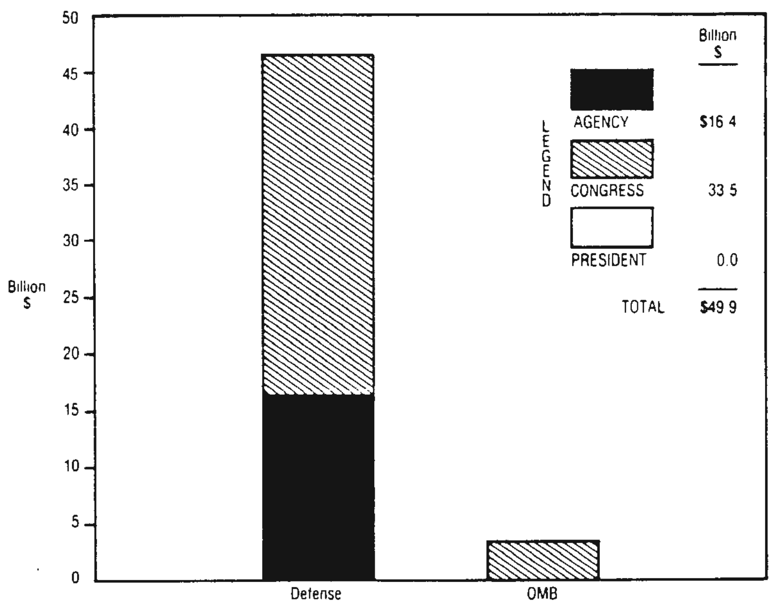
It will take Congressional action to realize $96.7 billion in subsidy programs management improvement opportunities. Emphasis will be on programs within the jurisdiction of OMB and three other departments.

CHART IV-6
FISCAL MANAGEMENT & CONTROL



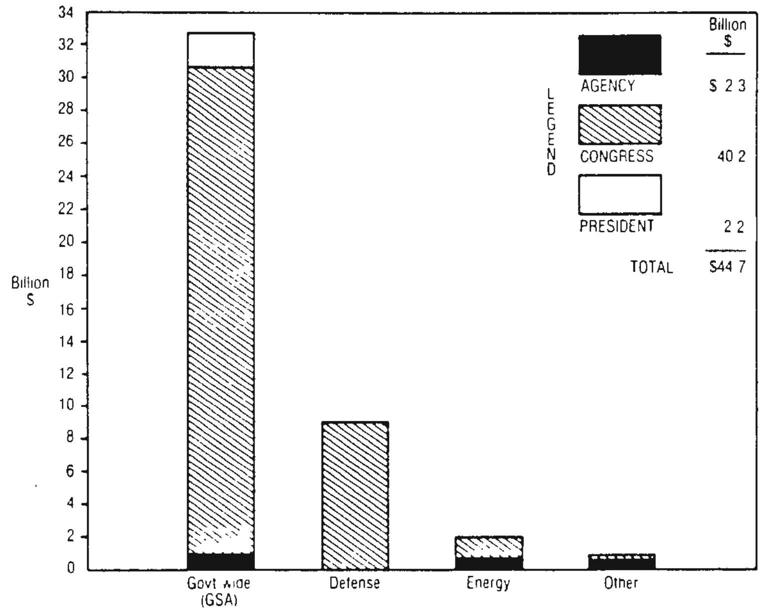
Savings and revenue opportunities in fiscal management and control appear throughout the Federal Government. The Treasury Department and OMB play a particularly significant role in this area as leaders and overseers of other departments.

CHART IV-7
WEAPONS SYSTEMS ACQUISITION



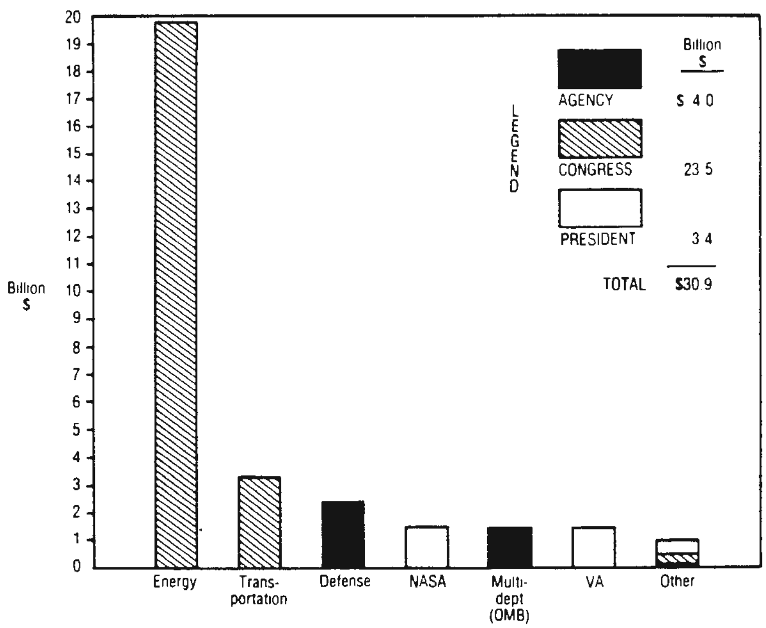
Improvements in weapons acquisition management are, understandably, concentrated in the Department of Defense, which can achieve approximately $16.4 billion in three-year savings on its own and an additional $30.1 billion over three years with the support of Congress.

CHART IV-8
PROCUREMENT/CONTRACT MANAGEMENT
(NON-ADP)



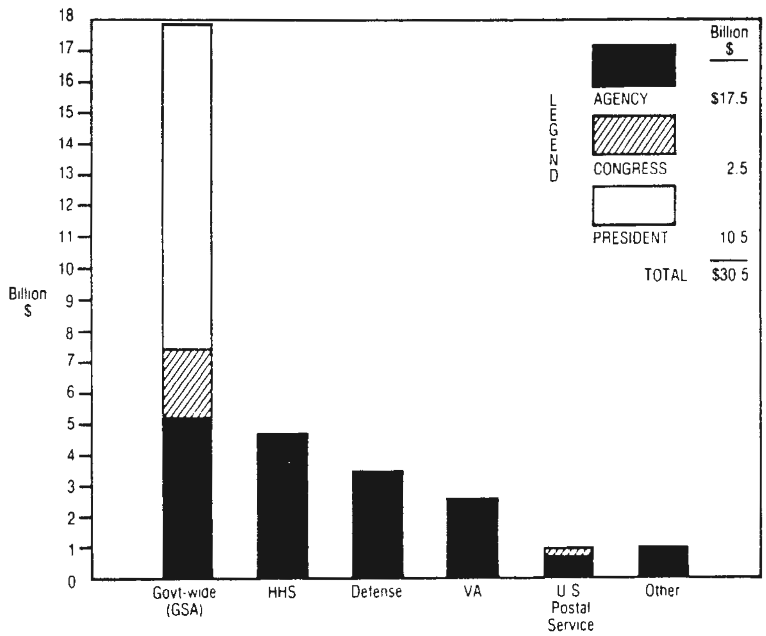
Congress can take action to implement improvements in procurement and contract management that could save $40.2 billion over three years. About three-quarters of the procurement opportunities ($33 billion) are within the purview of GSA, although $9.1 billion are specific to Defense.

CHART IV-9
PRIVATIZATION



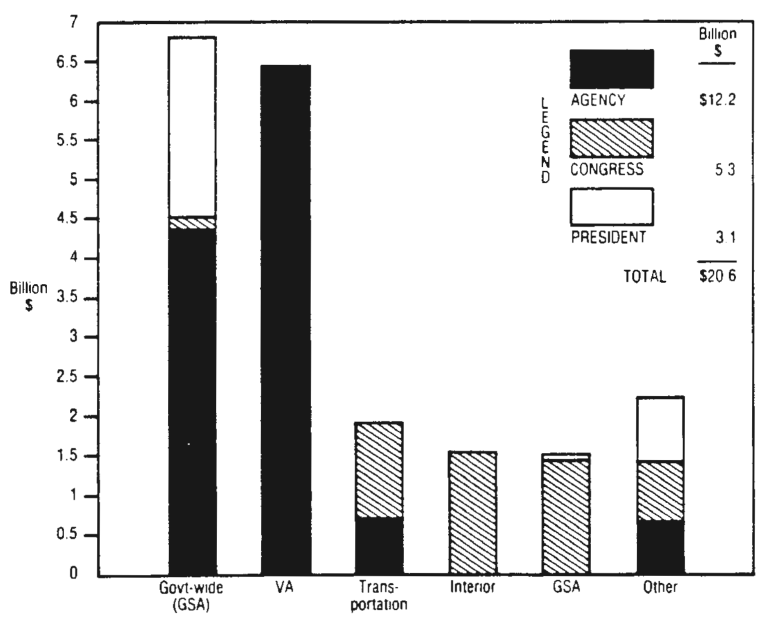
Savings and revenue opportunities through privatization of commercial functions and activities are often associated with specific departments. For each department there is generally only a single implementation authority involved -- frequently Congress. Almost two-thirds of the three-year savings relate to the Department of Energy.

CHART IV-10
ADP/TELECOMM & OFFICE AUTOMATION



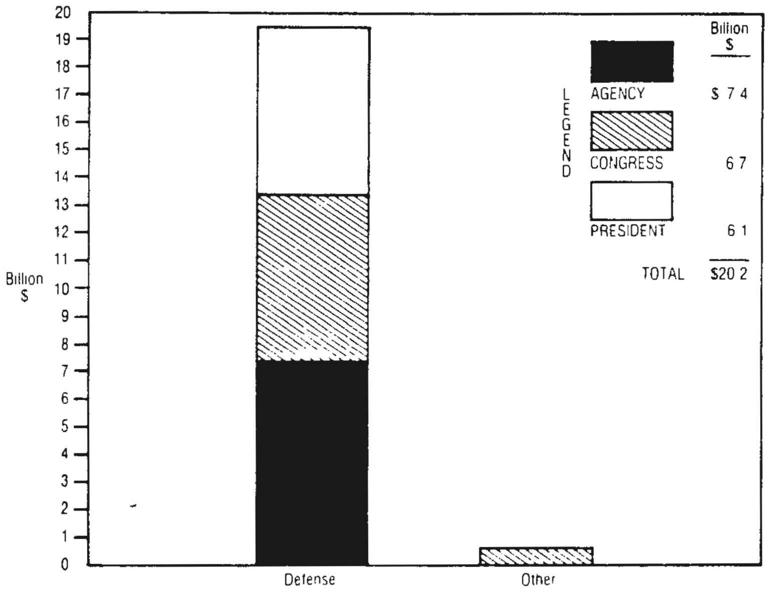
The Executive Branch is responsible for the implementation of most of the ADP recommendations in the telecommunications and office automation areas. Most departments can take action on their own, but Presidential initiatives are needed to achieve over $10 billion of the three-year savings through the key oversight agency in this category -- GSA.

CHART IV-11
FACILITIES/PROPERTY/CONSTRUCTION



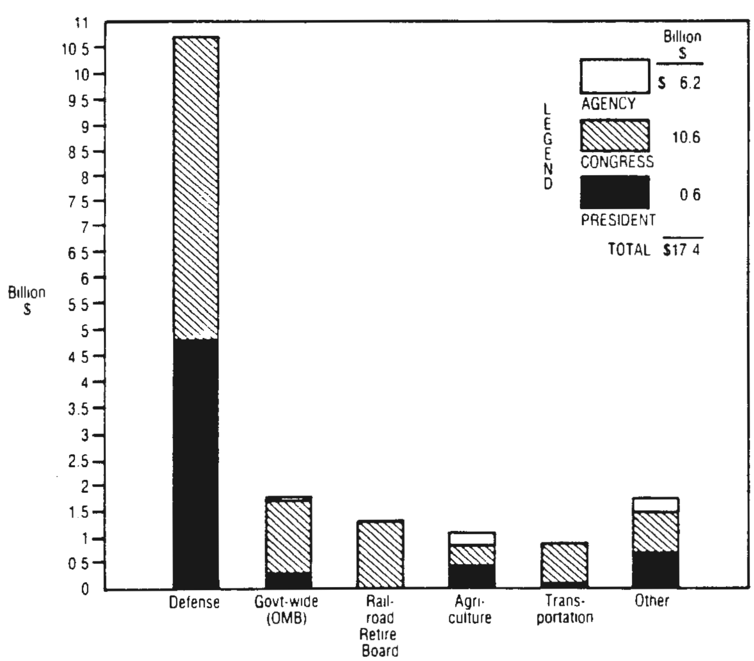
Through its own authority, the VA can save $6.5 billion over three years by improving the way it manages its facilities, properties, and construction projects. Government-wide, GSA can facilitate the saving of an additional $6.8 billion over three years.

CHART IV-12
ADP: PROCUREMENT/CONTRACT MANAGEMENT



The Defense Department, with the cooperation of Congress and the leadership of the President, can save $19.5 over three years billion in procurement and contract expenses by implementing ADP procurement and contract management improvements.

CHART IV-13
ORGANIZATION MANAGEMENT



Over a three-year period, the Defense Department can save $10.7 billion by improving its organization planning and design. While departments such as Defense have some authority over their organization, Congress must give its approval before more than half of the savings can be realized.

The preceding charts focus on the ten most significant management functions, based on cost savings and revenue generation potential. Collectively, they account for 90.5 percent of the total three-year PPSS cost savings and revenue opportunities. Using this same approach, all functional improvements shown in Charts IV-4 through IV-13 can be tracked to specific departments and/or oversight agencies, as well as to the primary implementation authority involved.

Focus on Implementation Authority: Where the Big Payoffs Are -- To develop a starting point for implementation, PPSS has prepared a table highlighting the key findings detailed in the ten charts, but reorganizing the data based on implementation authority. This reorganization creates a checklist of the five largest savings opportunities under each implementation authority, thus focusing attention on where the greatest and most immediate impact is possible. In addition to serving as a road map for implementing actions to realize the opportunities identified by PPSS, the following table presents additional information on the recommended solutions.

[Table follows]

TABLE IV-2
IMPLEMENTATION AUTHORITY
CHECKLIST

Implementation Authority	Rank	Management Function	Department	Savings ($ billions)	Detail
A. Congress	1.	Human Resources Management	Govt-wide (OPM)	$60.970	Adjust Civil Service Retirement System. Change pay comparability and position classification procedures. Bring Federal employee annual leave and sick leave practices in line with private sector. Adjust employee health benefits program.
	2.	Entitlement Program Management	Govt-wide (OMB)	59.829	Include payments-in-kind as earnings for entitlement programs' analysis, definition of poverty, and IRS's determination of income. Improve entitlement program administration.
	3.	Human Resources Management	Defense	51.831	Adjust Military Retirement System. Revise pension formulas and payment schedules. Increase certain health care charges, deductibles, and co-payments. Eliminate dual pay for reserve duty.
	4.	Weapons Acquisition	Defense	30.088	Utilize common weapons system parts and standards. Increase use of dual sourcing and multiyear procurement. Improve development project management and budgeting and accounting procedures.
	5.	Procurement Contract Management (non-ADP)	Govt-wide (GSA)	29.716	Revise/repeal Davis-Bacon, Walsh-Healy, and Service Contract Acts.
		Subtotal		$232.434	
******					
B. Agency	1.	Weapons Acquisition	Defense	$16.377	Navy should improve program stability; increase use of economic production rates, dual sourcing, and multiyear procurement; and facilitate modernization/productivity enhancements of contractors. Department-wide, procurement should be improved through better program planning, contracting, and management and through better weapons cost estimation and scheduling.
	2.	ADP/Procurement Contract	Defense	7.352	Increase use of economic order quantity system and improve inventory data systems.
	3.	Facilities/Property/Construction	Govt-wide (GSA)	6.455	Improve efficiency of in-house maintenance and increase control of energy costs in Government buildings. Improve control of environmental mitigation outlays and use of value engineering in construction projects.

Table IV-2 (Continued)

Implementation Authority	Rank	Management Function	Department	Savings ($ billions)	Detail
B. Agency (Cont'd)	4.	ADP/Telecommunications & Office Automation	Govt-wide (GSA)	$5.164	Improve hardware and software resources management and improve payment processes in hospital systems.
	5.	Organization Management	Defense	4.757	Consolidate department's base support operations and centralize health care administration.
		Subtotal		$40.105	

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Implementation Authority	Rank	Management Function	Department	Savings ($ billions)	Detail
C. President	1.	ADP/Telecommunications & Office Automation	Govt-wide (GSA)	$10.480	Improve strategic planning, budgeting, and support for office automation systems. Coordinate Federal agencies welfare recipient data and require standardized Federal and State recipient forms. Improve rail, freight traffic, and teleprocessing resources management.
	2.	ADP/Procurement Contract Management	Defense	6.074	Improve materials management systems.
	3.	Human Resources Management	Govt-wide (OPM)	5.164	Reduce overgrading and adopt position management plans. Review performance in these areas specifically.
	4.	Fiscal Management & Control	Govt-wide (OMB & Treasury)	4.216	Enforce Treasury's requirements for charging interest on all late loan payments. Decrease delinquent terms from 30 days to 15 days. Assess a non-refundable loan application fee to fully cover operating costs involved. Improve and coordinate agency debt collection procedures.
	5.	Fiscal Management & Control	Treasury	3.893	Improve collection of delinquent taxes through better classification of accounts, improved staffing, and more effective collection techniques.
		Subtotal		$29.827	
		Total in 15 Recommendations		$302.366	55.5% of duplicated savings of $545.0 billion.

A Strategy for Action

In the private sector, corporate strategy is viewed as a means of reducing general corporate objectives to manageable proportions, thus enabling employees across the company to work in unison toward the achievement of clearly identified goals and objectives. This unifying direction is critical for the successful coordination of management initiatives that cross departmental and functional boundaries, and for integrating disparate departmental projects.

The same principles apply to the public sector. If the President is to achieve the goal of sound fiscal management through improved efficiency in the Federal Government, then the Administration must develop and implement a strategy that will provide the required direction. With the understanding that sound fiscal management is indeed a goal of this Administration, PPSS has formulated hundreds of recommendations to improve specific Governmental operations. These recommendations have been summarized and grouped into a workable structure for analysis. It is now important that a Government-wide strategy for implementation be formulated.

PPSS believes that the Cabinet Council on Management and Administration (CCMA), working in concert with the Office of Cabinet Affairs, is the most effective group to lead the Administration's effort to restore principles of sound fiscal management to the Federal Government and, more specificallly, the implementation of PPSS's recommendations.

CCMA was established in September, 1982 and is the seventh of President Reagan's Cabinet Councils. The President has described the Cabinet Council system as a "means for deliberate consideration of major policy issues which affect the interest of more than one department or agency." CCMA's more specific directive is to control and supervise Reform 88, a long-term program to improve the management and administrative systems of the Federal Government. It also is charged with responsibility for monitoring and implementing the recommendations of PPSS. In addition, it formulates Government-wide policies pertaining to Executive Branch management, including administration and personnel issues.

In the view of PPSS, CCMA's membership makes it ideally suited to oversee the implementation of PPSS recommendations because it includes those with direct responsibility over most of the agencies and functions cited by PPSS as the major areas of opportunity. Collectively, this group has the authority to set priorities and articulate the Administration's strategy for realizing those opportunities.

PPSS, therefore, urges the President to call upon CCMA to make the implementation of PPSS recommendations its highest priority, and that he commit CCMA to the continued identification, formulation, and implementation of a Government-wide management strategy for the future, within its boundaries of authority.