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# TARGET: WASTE, FRAUD, & ABUSE

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WHAT THE COMMITTEES OF THE 109TH CONGRESS HAVE BEEN  
DOING TO FIGHT WASTEFUL SPENDING AND BAD GOVERNMENT

The federal government today is far larger and far more expansive and intrusive than the Founding Fathers ever envisioned it would be. As the size and scope of government has ballooned, so has the potential for waste, fraud, and abuse in the use of the tax dollars the American people entrust to their leaders. For this reason, Congress' oversight mission is more important now than at any other era in our Nation's history, particularly with respect to Congress' obligation to monitor the use of taxpayer funds in the functions of government.

The purpose of this report, which is being released in June 2006 as the House prepares for action on the "Spring Cleaning" project proposed by Speaker Dennis Hastert (R-IL), is to highlight some of the oversight accomplishments of the 109th Congress to date. The report presents a series of case studies that provide a representative sample of the oversight work to target federal waste, fraud, and abuse conducted by Republican-led House committees between January 2005 and the present.

Effective oversight is but one part of a larger Republican effort to curb waste, fraud, and abuse and fundamentally change the way in which it spends taxpayer dollars. Other important reforms – such as enactment of earmark reform, the presidential line-item veto, "rainy day" funds for disaster response, and a "sunset" commission that evaluates whether federal programs are serving the taxpayers' interests – represent additional tools House Republicans are proposing to enact this year to support these efforts as well.

During the 109th Congress, Republican-led House committees have exercised their congressional oversight responsibility to expose – and in many cases, eliminate – billions in waste, fraud, and abuse in federal programs. These steps have collectively saved billions of dollars for the American taxpayer and exposed the need for further oversight by Congress of the vast federal bureaucracy. And, notably, these steps have occasionally been taken without help from Democratic Party leaders, who have often sought to block GOP reforms while pressing for new government programs and new spending. In some cases, House Democrat committee leaders themselves have even wasted taxpayer dollars by conducting fraudulent online "hearings" designed to fool participants and observers into thinking they are witnessing official congressional hearings.

The successful oversight activities of House committees during the 109th Congress prove that waste, fraud, and abuse remains an enormous problem within the federal government, and that even more vigorous oversight by the legislative branch of existing federal programs and laws is needed in the future. It is clear taxpayers would benefit if Congress were able to spend more time

scrutinizing the manner in which existing federal funds are being spent, and less time fending off Democratic amendments that demand further increases in spending.

The oversight accomplishments of House committees in the 109th Congress are a starting point – a foundation upon which future oversight action can and should be taken. This report seeks to identify some of these accomplishments and bring attention to them. The hope is that doing so will lend fuel to the drive for further reform, and discourage future obstructionism on the road to renewed trust between the American people and their elected representatives.

- During the 109th Congress (2005-06), House committees have used congressional oversight authority to expose – and in many cases, prevent – billions of dollars in waste, fraud, and abuse that would otherwise have cheated American taxpayers.
- From a flawed federal law that saved the lives of 20 fish at a cost of \$77 million, to federal Head Start funds meant for children’s education being used to lease a Mercedes SUV for a local executive, waste and abuse in the federal bureaucracy is widespread.
- House Republican committee leaders have taken action to eliminate scores of wasteful, ineffective, or duplicative federal programs during the 109th Congress, and shined the spotlight of public scrutiny on many more in an effort to demand accountability in the use of taxpayer funds.
- House Republicans, led by members of the Appropriations Committee, in 2005 eliminated 53 wasteful federal programs and beat back House Democrat proposals that would have exceeded budgetary spending limits by nearly \$21 billion. House Democrats are already on pace to shatter that record in 2006, having unsuccessfully offered proposals that would spend at least \$26 billion more than budgeted.
- House Republicans, led by members of the Budget Committee, in 2006 successfully enacted a deficit reduction bill that curbed the growth of runaway spending on entitlement programs, saving taxpayers nearly \$40 billion over the next five years.

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## COMMITTEE CASE STUDY: Appropriations

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The House Committee on Appropriations, chaired by Rep. Jerry Lewis (R-CA), last year eliminated no fewer than 53 wasteful or unnecessary federal programs, saving taxpayers more than \$3.5 billion. As part of the same effort, Congress reduced non-security spending below the previous year's level for the first time since the Reagan Administration.

Some of the highlights of the programs terminated through the efforts of House Appropriations Committee Republicans, courtesy of the Committee:

- **Jobs in the Woods Program.** The Congress successfully terminated the Jobs in the Woods program for a savings of \$6 million. Jobs in the Woods was the name of a federal initiative to aid displaced timber workers affected by changes in the late '80s and early '90s in federal old-growth forest management spurred by the endangered northern spotted owls. Most communities affected by the forest management changes have transitioned to other livelihoods.
- **National Youth Sports.** The House terminated the federal contribution to the National Youth Sports Program (NYSP) for a savings of \$18 million. The National Youth Sports Program is affiliated with the National Collegiate Athletic Association (NCAA) and provides grants to colleges and universities to host sport camps and other activities for high school students. While the program attempts to address some laudable objectives, the costs of administering these activities could easily be absorbed by the NCAA. Licensing agreements and television contracts generate hundreds of millions of dollars in revenue for NCAA members. Last year, the Rose Bowl alone generated \$30 million in revenues for the participating conferences.
- **U.S. Capitol Police Mounted Unit.** This year, the Congress successfully terminated the U.S. Capitol Police Mounted Unit. While police officials claimed the five horse unit was very popular with tourists and provided good public relations for the department, the security value was questionable. The \$200,000 expenditure was particularly absurd given that the horses were transported more than 60 miles each day round trip to patrol the 95-acre Capitol campus. In addition, the National Park Service operates a comprehensive mounted unit which has been in operation for several decades and whose jurisdiction is literally across the street from the Capitol. To put it in perspective, the savings from eliminating this program could purchase 1,000 sets of body armor for soldiers fighting terrorism overseas.

A specific breakdown of the 53 unnecessary federal programs terminated through the leadership of the House Committee on Appropriations in 2006:

- The FY 2006 Agriculture Appropriations bill terminated four federal programs for a combined taxpayer savings of \$258 million. Specifically, those terminations included Regional, State, and Local Grants (\$75 million), the Higher Education Agrosecurity Program (\$5 million), the National Disaster Emergency Loan Subsidy (\$3 million), and Rural Telephone Bank Loan Authorizations (\$175 million).
- The FY 2006 Energy and Water Appropriations bill terminated three federal programs for a combined taxpayer savings of \$76 million, according to the House Appropriations Committee. Those specific program terminations included the Nuclear Energy Plant Optimization program (\$2 million), and the Robust Nuclear Earth Penetrator (\$4 million).
- The FY 2006 Interior Appropriations bill terminated two programs for a taxpayer savings of \$17 million. Those terminations included the aforementioned Jobs in the Woods program (\$6 million), and the National Park Service Statutory Aid program (\$11 million).
- The FY 2006 Legislative Branch Appropriations bill terminated the aforementioned Capitol Hill Police Mounted Unit, for a savings of \$200,000.
- The FY 2006 Science-State-Justice Appropriations bill terminated eight federal programs for a combined savings to taxpayers of \$143 million. Those programs included COPS Hiring Grants (\$10 million), the Radiation Exposure Compensation Discretionary program (\$27 million), the COPS Safe School Initiative (\$4 million), the COPS Police Integrity Grants program (\$7 million), the Police Corps program (\$15 million), and other programs.
- The FY 2006 Transportation-Treasury-HUD Appropriations bill terminated five programs for a combined total of \$63 million in savings for taxpayers. Those programs included the Empowerment Zones/Enterprise Communities program (\$10 million), the Prisoner Re-entry program (\$25 million), High Speed Rail (\$19 million), Community Outreach Partnership Centers (\$6 million), and the Work Study Program (\$3 million).

The FY 2006 Labor-HHS Appropriations bill terminated 29 programs, saving a combined total of \$3 billion for taxpayers. The full list of Labor-HHS programs terminated:

- HRSA-State planning grants (\$11 million)
- HRSA-Trauma Care (\$3 million)
- HRSA-Rural EMS (\$1 million)
- HRSA-Health Community Access (\$83 million)
- HRSA- Health Administration (\$1 million)
- HRSA-Health Education Training Centers (\$4 million)
- HRSA-Geriatric education (\$32 million)
- HRSA-Burdick rural training (\$6 million)
- HRSA-Health professional workforce analysis (\$1 million)
- Health Admin. (\$1.1 million)
- National Youth Sports (\$18 million)
- Community Food and Nutrition (\$7 million)
- Early Learning Fund (\$36 million)
- I.T. Security Innovation Fund (\$14.7 million)
- CDC- Youth Media Campaign (VERB) (\$58.8 million)
- Community Technology Centers (\$5 million)
- Literacy Program for Prisoners (\$5 million)
- Occupational and Employment Information (\$9.3 million)
- Tech-Prep Demonstration (\$4.9 million)
- Interest Subsidy Grants (\$1.5 million)
- Enhanced Pell Grants for State scholars (\$33 million)
- Loans for Short Term Training (\$11 million)
- Volunteers in Homeland Security (\$5 million)
- High School Intervention (\$1.24 billion)
- High School Assessments (\$125 million)
- Community College Access (\$125 million)
- Health Care Fraud and Abuse Control (\$80 million)
- Maternity Group Homes (\$10 million)
- Special Education-Vocational Rehabilitation Transition Initiative (\$5 million)

**AS HOUSE REPUBLICANS FOUGHT WASTE, HOUSE DEMOCRATS  
PUSHED FOR EVEN MORE SPENDING**

As House Republicans worked successfully in 2005 for the elimination of more than four dozen wasteful federal programs, House Democrats focused their own efforts on the opposite goal, seeking tens of billions of dollars in increased federal spending that would only have come at the expense of taxpayers and the future generations whom Democrats would have asked to pick up the tab.



In a year-end report on the FY 2006 budget process, Appropriations Committee Republicans determined House Democrats attempted to bust the FY 2006 discretionary budget by almost \$21 billion. House Republican Appropriations Committee members repeatedly defeated Democrat amendments that sought to add this new spending. Here are the Democratic amendments defeated by House Republicans in 2005, courtesy of the House Appropriations Committee majority staff:

- Jackson amendment to increase foreign aid by \$393 million defeated on May 25, 2005.
- Obey amendment to increase homeland security funding by \$100 million defeated May 10, 2005.
- Obey amendment to increase funding for social programs by \$11.8 billion defeated June 16, 2005.
- Obey amendment to increase funding for veteran's programs by \$2.6 billion defeated May 18, 2005.
- Sabo amendment to increase homeland security funding by \$1.7 billion defeated September 29, 2005.
- Obey amendment to increase LIHEAP funding by \$2 billion defeated November 14, 2005.
- Obey amendment to increase LIHEAP funding by \$2 billion defeated December 12, 2005.

As of this writing in June 2006, House Democrats are on pace in 2006 to obliterate their 2005 record. So far this year, House Appropriations Committee Democrats have requested \$26.1 billion in new spending above and beyond the levels outlined in the FY 2007 appropriations bills authored by Chairman Lewis and other Committee members.

No discussion of the need for spending restraint would be complete without addressing the out-of-control growth of entitlement spending (“mandatory spending”) programs. And during the 109th Congress, the House Budget Committee, chaired by Rep. Jim Nussle (R-IA), performed a tremendous service for American taxpayers by restoring a practice known as budget reconciliation, a key tool in combating the dangerous growth of federal entitlement spending programs. One might think of it as the ultimate oversight project: monitoring and slowing the growth of massive federal programs on autopilot.

The FY 2006 Budget Resolution adopted in April 2005 included the first bicameral effort in nearly a decade to protect taxpayers by preventing unnecessary growth in federal entitlement spending programs. The need for such reforms were compounded several months later with the devastation brought to the Gulf Coast by Hurricanes Katrina and Rita at the end of the summer.

“The worst natural disaster in the Nation’s history – and the substantial Federal resources needed to help its victims. . .brought the fiscal challenge into a sharper and more immediate focus,” Committee Republicans later noted.

The culmination of these events was the Deficit Reduction Act, a budget reconciliation package championed by Chairman Nussle and signed into law by President George W. Bush in February 2006.

The Republican Congress and President Bush began 2005 with a renewed determination to exercise greater control over federal spending. Some initial steps had been taken the previous year to curb discretionary, or non-mandatory, spending. But Chairman Nussle and other Republican leaders recognized no attempt at renewed fiscal discipline in the federal budget would be legitimate without confronting the difficult issue of entitlement or mandatory spending -- federal programs whose spending growth is essentially on autopilot unless Congress specifically enacts changes to create savings.

As Committee Republicans later explained:

*“Congress had begun restraining annually appropriated (‘discretionary’) spending by holding non-security appropriations for fiscal year 2005 to 1.4 percent above the prior-year levels. (The fiscal year ended on 30 September 2005.) As a follow-up, the fiscal year 2006 budget called for actually reducing these accounts. But the task of controlling overall spending could not be*

*complete without addressing the largest part of the budget: Federal entitlements, which are not subject to annual appropriations."*

Why is restraining the unnecessary growth of entitlement spending programs such a critical issue for taxpayers? As Committee Republicans put it:

*"Just 10 years ago, this spending (excluding interest) represented about 49 percent of the budget; today it is 54 percent; in just 10 years, it will exceed 62 percent. . . . Further, overall entitlement spending is growing at a rate of nearly 6 percent per year. This relentless upward trend typically outpaces both the economy's growth and the long-term average increase in Federal revenue. Hence the problem: this spending growth cannot be sustained without continuous cuts in other programs, ever-increasing taxes, or more debt financing. Moreover, demographic and economic factors will worsen the problem in the future. Mounting medical costs, the forthcoming retirement of the baby-boom generation, and a permanent shift in the U.S. population -- one that reduces the number of workers for each retiree even after the baby boomers are gone -- will place unanswerable demands on government entitlement programs. They will crowd out other priorities and strain not only the Federal budget, but the Nation's economy as a whole."*

Determined to take action on this looming problem on behalf of taxpayers, the Republican-led House in April 2005 adopted a budget calling for \$34.7 billion worth of savings in mandatory spending programs over five years. The budget blueprint specified that the savings would be attained through the process known as budget reconciliation, defined by the Committee as "an expedited, filibuster-proof procedure intended principally for controlling entitlement growth."

House Republicans acknowledged that the \$34.7 billion was only a small slice of the more than \$1 trillion in annual Federal entitlement spending, with the Budget Committee noting it would slow the growth of entitlements "by less than one-tenth of 1 percentage point." Nonetheless, Committee Republicans noted, the changes would make a difference if enacted, for a number of reasons:

- "First, the effects of entitlement program changes tend to accumulate and build over time. The budget resolution conference report called for \$1.5 billion of reconciled savings in fiscal year 2006; but that figure swelled to about \$35 billion over the five-year period. This 'wedge effect' tends to continue beyond the budget window.
- "Second, regardless of how large or small any particular reconciliation bill might be, controlling entitlements is always an incremental process. Since 1974, Congress has passed 19 reconciliation bills, 16 of which were

enacted. Yet entitlement spending remains a problem. Long-term control of these programs is likely to require frequent reconciliation measures.

- “Third, in the process of restraining spending growth, these actions also tend to drive much-needed reform of entitlement programs -- some of which have not been revised or updated in decades.”

House Republican Committee leaders swung into action during the spring and summer months of 2005 in an effort to meet the reconciliation targets assigned to them through the Budget Resolution. But the Katrina disaster in the late summer of 2005 made enactment of a budget reconciliation package even more critical. As Committee Republicans later explained:

*“The demands on entitlements, though well known, develop and worsen gradually, and hence often fail to command the regular attention required to control them. Katrina changed that: It reinforced the urgency of spending control.”*

House Republicans responded to Katrina not by scrapping plans for reconciliation, as Democratic leaders sought, but by accelerating those plans and setting a new, higher target for net savings.

“In response [to Katrina], the House raised the ante for reconciliation: Committees were asked to increase their savings targets, relative to the budget resolution, and to begin offsetting the tens of billions of dollars that have been, or will be, spent for hurricane recovery. The new House reconciliation goal was \$50 billion in net mandatory savings. . . Again, this will achieve a small reduction in the growth of mandatory spending. But it gains importance for the following reasons: It starts the reform of government entitlements to make them, among other things, less costly in the long run; and it recognizes that hurricane recovery is important enough to warrant diverting resources to it that otherwise would have been spent elsewhere. It has become an exercise in the fundamental budgetary process of choosing priorities.”

In February 2006, President Bush signed the Deficit Reduction Act, with a final savings level of nearly \$40 billion in entitlement savings over five years for American taxpayers. The measure was enacted with no help from congressional Democrat leaders, who not only fought the reconciliation process at every turn, but also offered an array of proposals seeking increased spending that would have forced Washington to dig even deeper into the pockets of current and future American citizens.

“[The] reconciliation process began as a modest effort to begin restraining entitlement growth. In the aftermath of hurricane Katrina, it took on the added

role of realigning government priorities to account for the necessary recovery in the Gulf region," Committee Republicans said in February 2006.

On May 18, 2006, the Budget Committee marked another victory with House approval of the Budget Resolution for FY 2007 -- a spending blueprint that once again contained reconciliation instructions. The achievement was important because, among other things, it symbolized that the House has officially "gotten back in the habit" of doing regular entitlement reform.

The FY 2007 Budget "continues our efforts to control spending -- both in appropriations and entitlement programs -- by restraining non-security discretionary spending, and by building on our progress to reform and find savings in mandatory programs," Committee Republicans said.

A summary of the spending control provisions in the House-passed FY 2007 Budget Resolution, courtesy of the House Budget Committee:

- Holds non-security discretionary spending to a near freeze for a second consecutive year -- following the 1.3 percent growth in FY 2004, and a marked improvement from the previous five-year average of about 6.3 percent. Overall discretionary spending has increased by an average of seven percent each year during the past decade -- more than twice the rate of inflation.
- Provides large discretionary funding increases for non-security priorities such as veterans, education, and the National Institutes of Health (NIH).
- Includes \$6.8 billion in further mandatory (entitlement) savings over five years (beyond the Deficit Reduction Act) through common-sense reforms that will reduce fraud and overpayments, eliminate corporate subsidies, strengthen retirement security, and restore market forces.

The actions of Budget Committee Republicans during the 109th Congress have marked a critical step for Congress on the path back to fiscal responsibility. As Committee Republicans noted after House passage of the FY 2007 Budget Resolution, "mandatory, or 'auto-pilot,' spending currently consumes more than half of total federal government spending. In just a decade, it will consume nearly 64 percent. Mandatory spending is growing far faster than our economy, far faster than inflation, and far beyond our means to sustain it." The achievements of 2005 and 2006 represent a small but important victory for American taxpayers in the battle against big government and unnecessary federal spending.

In the 109th Congress, the House Committee on Education & the Workforce, chaired by Rep. Howard P. “Buck” McKeon (R-CA), has taken the lead in uncovering and halting waste, fraud, and abuse in federal education and labor programs.

### **IMPROVING FINANCIAL MANAGEMENT IN HEAD START**

The House Committee on Education & the Workforce, led by Education Reform Subcommittee Chairman Mike Castle (R-DE), worked with the Government Accountability Office (GAO) to expose chronic financial control problems in the federal Head Start early childhood program during 2004 and 2005. These problems appear to have permitted hundreds of millions of dollars in taxpayer funds to be squandered or misused, contradicting claims by lobbyists for the National Head Start Association that waste in the \$6.8 billion Head Start program is minimal. House scrutiny resulted in House passage of legislation (the *School Readiness Act*, H.R. 2123) to tighten Head Start financial controls and protect taxpayers and children against financial abuse. The measure requires all Head Start grantees to publish an annual report detailing for taxpayers and parents how money was spent, the sources from which funds were received, and how the agency has performed in terms of meeting the requirements of the law. An independent financial audit is also required annually.

In 2005, the Committee compiled a detailed summary of media reports involving the misuse of federal funds by Head Start grantees that preceded passage of the reform legislation. The Committee’s report, “Taking Money from Children: Financial Abuse and Mismanagement in the Federal Head Start Early Childhood Program,” is available online on the Committee’s website.

Excerpts from the 2005 report provide examples of the type of chronic waste and abuse in Head Start that sparked the Committee’s crackdown:

- “The executive in charge of the Kansas City Head Start operation was revealed by the *Kansas City Star* to have been earning a salary in excess of \$300,000 annually and driving a luxury sport-utility vehicle leased, in part, with federal Head Start funds meant for disadvantaged children. The agency, KCMC Child Development Corp., ‘came under fire last year for paying [the executive] a \$300,000-plus annual salary and bonus and providing him with a Mercedes SUV.’ (Smith, DeAnn and Margolies, Dan; “Head Start provider says it must bow out,” *Kansas City Star*, December 13, 2004) The executive ‘resigned effective April 1 after questions were raised about his salary, which totaled more than \$814,000 in fiscal years 2000, 2001 and 2002. The agency repaid the federal government almost

\$450,000 in questioned salary costs' for the executive, the Star reported (Smith, DeAnn; "Head Start spending detailed," *Kansas City Star*, May 13, 2004). The executive, Dwayne Crompton, testified on behalf of the Head Start lobbying community against President Bush's Head Start reform efforts at a 2003 congressional hearing." (emphasis added)

- "The Berkeley-Dorchester Economic Development Corp., which operates approximately 20 Head Start centers in the Charleston [SC] area, 'has come under close federal scrutiny in the past year, including an FBI investigation and federal grand jury review. The nonprofit agency has been accused of accepting more funding than its enrollment allows and paying for building renovations that were never completed. Two audits, one by the U.S. Department of Health and Human Services and the other by a private accounting firm, concluded last year that the EDC may have mismanaged as much as \$10.5 million in taxpayer money over the past five years. (Hardin, Jason; 'Area Head Start operator suspended by feds,' *Charleston Post and Courier*, November 11, 2004) 'Independent auditors. . .concluded that, since 1998, Berkeley-Dorchester EDC has received \$7.4 million more in grant money than its enrollment allowed. They also identified more than \$3 million in other irregularities, including building renovations that were paid for but never completed.' (Reeves, Steve; 'FBI to investigate Lowcountry agency,' *Charleston Post and Courier*, October 25, 2003)" (emphasis added)
- "On August 28, 2003, the U.S. Justice Department announced that the former executive director of the Tom Green Community Action Council, Inc., operator of approximately 15 Head Start centers in western Texas, had pled guilty to falsifying vouchers and using federal funds intended for Head Start children to instead operate a Mexican food restaurant known as Henry's Diner in San Angelo, TX. DOJ indicated the program's executive director, J.D. Cortez, had embezzled more than \$805,000 over two years by operating several schemes that involved the diversion of federal Head Start funds. (U.S. Department of Justice press release, August 28, 2003) In 2004, the DOJ received guilty pleas from two associates of Mr. Cortez, who collectively admitted to helping him steal or embezzle more than \$111,000 in federal funds. One associate 'admitted that she was instructed by Cortez to falsely inflate her invoices for research on grants and submit false invoices for the research and for supplies that she never bought.' Another asserted that Cortez instructed him to 'submit fraudulent vouchers. . .falsely showing that between April 1, 2001 and November 1, 2002, approximately \$60,000 worth of equipment, supplies and services had been provided to various Head Start facilities when in fact, the equipment, supplies and services had been supplied to Cortez' restaurant, Henry's Diner.' (Press release, U.S.

Department of Justice's U.S. Attorney's Office, Northern District of Texas, June 23, 2004)" (emphasis added)

### **INVESTIGATING POTENTIAL MISMANAGEMENT IN FEDERAL ANTI-POVERTY PROGRAMS**

Troubled by their discovery of serious financial mismanagement problems in the Head Start system, Education & the Workforce Committee leaders in 2005 launched an examination of the Community Services Block Grant (CSBG) program, a multi-billion dollar federal anti-poverty program with a management structure similar to that of Head Start, in which case local community action agencies are frequently trusted with the distribution of millions of dollars in federal funds with little to no meaningful oversight by authorities. Education Reform Subcommittee Chairman Mike Castle (R-DE) and subcommittee Vice-Chairman Tom Osborne (R-NE) and others in 2005 asked the independent Government Accountability Office (GAO) to review the financial oversight structure of the program on behalf of taxpayers and the needy citizens the CSBG program is intended to serve.

"The federal government invests billions annually in programs that serve the neediest members of our communities, and we are deeply troubled by the potential for abuse of federal dollars intended for disadvantaged children and families," said then-Education & the Workforce Committee Chairman John Boehner (R-OH). "We're asking the GAO to identify what structures are in place to prevent the types of financial abuse and mismanagement that could harm quality programs serving needy Americans, as well as what weaknesses exist that could prevent effective oversight. Sound oversight of the CSBG program is needed to protect needy Americans, taxpayers, and law-abiding local agencies."

### **ELIMINATING AND PREVENTING WASTE IN HIGHER EDUCATION PROGRAMS**

The Higher Education Act reauthorization bill written by Committee Republicans and passed on the House floor in March 2006, entitled the *College Access & Opportunity Act* (H.R. 609), repeals nine current federal higher education programs that are duplicative and/or unnecessary or have expired and are no longer needed. H.R. 609, as passed by the House, repeals the following unfunded programs or studies:

- Academic Achievement Grants (replaced with the Pell Grants Plus initiative)
- Learning Anytime Anywhere Partnerships
- Study of Market Mechanisms in Student Loan Programs



- Study of Feasibility of Alternative Financial Instruments for Determining Lender Yields
- Student Related Debt Study
- Incarcerated Youth program
- Community Scholarship Mobilization program
- Science, Engineering & Tech in East Asia program
- Web Based Education Commission
- Urban Community Service program

Education & the Workforce Committee Republicans also contributed reforms to the Deficit Reduction Act (signed into law by President Bush in 2006) that permanently eliminated excess federal subsidies to student lenders by closing a Clinton-era loophole in federal law, saving taxpayers billions of dollars annually. The subsidies were initially shut off through enactment of the Taxpayer-Teacher Protection Act, passed by the Republican Congress and signed into law by President Bush in late 2004. In 2005, the Committee included language in the Deficit Reduction Act that closed the loophole for good, permanently shutting off the excess subsidies.

In order to ensure that the billions of taxpayer dollars invested annually in federal student aid programs are reaching those truly eligible for the aid, Rep. Sam Johnson (R-TX) and Committee Republicans successfully contributed language to the Deficit Reduction Act creating an IRS data match system for the disbursement of student aid. This system will verify financial aid information to make certain student financial aid is reaching those who actually qualify for the aid, to prevent federal funds from being wasted or misused.

Committee Republicans also protected taxpayers and students by blocking a proposed expansion of the Clinton-era federal Direct Loan student loan program and exposing exaggerated claims about the Direct Loan program's benefits for taxpayers. The federal Direct Loan program, created under President Bill Clinton during the early 1990s, competes against the private sector to provide loans to college students, under the premise that the federal government can more efficiently provide loans to students than the private sector can.

Committee leaders called attention to a study by the independent auditing firm PricewaterhouseCoopers (PwC) on behalf of private student aid providers that concluded the federally-controlled Direct Loan program costs taxpayers significantly more than federal budget estimates appear to show. In late 2005, the Committee also highlighted aspects of a Government Accountability Office (GAO) report that reaffirmed that federal budget rules make it virtually impossible to accurately assess the cost of the student loan programs.

The evidence highlighted by the Committee helped to halt a proposed expansion of the Direct Loan program in which taxpayers would have been asked to begin paying colleges extra money in hopes of encouraging them to participate in the Direct Loan program. Proponents of the Direct Loan program had proposed the taxpayer-funded expansion in response to the fact that more than 500 institutions have exited the Direct Loan program in favor of private sector lending since the Direct Loan program was created.

Lastly, with Congress facing pressure during 2005 and 2006 to create new federal programs to promote math and science education, Committee Republicans stepped up to the plate on behalf of taxpayers by noting that more than 200 federal math and science programs already exist and could be deployed in support of the same goal. Through the Deficit Reduction Act, Committee Republicans successfully established a panel to identify, evaluate, and recommend ways to integrate existing math and science programs to support the goal of boosting American competitiveness, saving taxpayers from being asked to fund yet another duplicative federal program. A report submitted by this Academic Competitiveness Council will allow Congress to determine how to better coordinate these programs across the federal government, ensuring funds are being spent effectively and the programs themselves are operating efficiently.

The House Committee on Energy & Commerce, chaired by Rep. Joe Barton (R-TX), has devoted considerable effort during the 109th Congress to exposing and eliminating waste, fraud, and abuse in federal programs ranging from the huge Medicaid program to the "E-rate" initiative in American schools. Major reforms to protect taxpayers and improve accountability in the Medicaid program were included by the Committee in the Deficit Reduction Act, signed into law by President Bush in early 2006.

### **ROOTING OUT WASTEFUL SPENDING IN MEDICAID**

The Energy & Commerce Committee requested a Government Accountability Office (GAO) review of the Medicaid program, a review that ultimately revealed that the taxpayer-funded Medicaid program regularly overpays for medicines. "Artificially inflated prices for drugs are one of the factors driving the program toward bankruptcy," the Committee noted in calling attention to GAO's findings.

Among the findings brought to light by GAO and the Committee:

*"Outpatient medicines are driving up the cost of Medicaid, growing from \$4.6 billion (or nearly seven percent of total medical care expenditures) in fiscal year 1990 to \$33.8 billion in fiscal year 2003 (or 13 percent of total expenditures)."*

*"Each state's payments exceeded market-based prices for nearly all brand-name drugs. On average, state payments for brand-name drugs exceeded the average manufacturers price by 12 percent, on average; exceeded the 'Best Price' by 36 percent on average; and exceeded the Federal Supply Schedule price by 73 percent, on average."*

As the Committee noted during the 109th Congress, the federal government "routinely overpays for prescription drugs for beneficiaries." In a news release, the Committee noted the Medicare program "could pay \$5,336 for a prescription that only cost the pharmacist \$88 to obtain." The Committee also noted that the U.S. Department of Health & Human Services' independent Office of the Inspector General reported in 2002 that Medicaid reimbursements "exceeded pharmacists' true costs by \$1.5 billion."

The Energy & Commerce Committee contributed important legislative language to the Deficit Reduction Act, signed into law by President Bush in early 2006, that "sets realistic reimbursement rates for medicines, but also would protect pharmacists from being underpaid." Specifically, the deficit reduction law

establishes more realistic reimbursement rates for medicines that correspond to the average manufacturer's price (AMP).

"Starting in 2007, the federal government will not pay more than 250 percent of the AMP of the lowest-cost version of a generic drug," the Committee noted. "For the first time the AMP will be publicly available, which [the Congressional Budget Office] estimates will save taxpayers hundreds of millions of dollars in overpayments, and could also help private health plans negotiate better drug prices."

The Committee also contributed reforms to the Deficit Reduction Act that protect taxpayers by encouraging greater personal responsibility in the use of Medicaid benefits. Committee Republicans exposed the need for such protections early in the 109th Congress. The Medicaid system "lacks any meaningful co-payment for services, no matter the cost," Committee Republicans noted. "[As a result,] health care costs predictably take a back seat in today's 'free' system." The Committee cited the example of a Georgia hospital at which nearly 30 percent of emergency room patients in 2004 sought care under Medicaid for "common maladies like ear infections and the flu" -- translating into a staggering \$5.6 million in taxpayer funds squandered in a single hospital emergency room in one year.

To reduce unnecessary costs for taxpayers by encouraging personal responsibility in the use of Medicaid benefits, Energy & Commerce Committee Republicans contributed reforms to the Deficit Reduction Act that allow states to enforce a co-payment of up to 20 percent "for a prescription drug or service (but to never exceed five percent of a family's annual income)." The reforms also permit that sum to be adjusted for inflation. Committee Republicans also successfully enacted a demonstration project that allows the nation's governors "to offer Health Opportunity Accounts modeled after the Health Savings Accounts that are rapidly-growing in the private health care market."

Thanks to Committee Republicans, the Deficit Reduction Act signed by President Bush also included important provisions barring millionaires from receiving Medicaid benefits. "[Increasingly,] middle and upper-income seniors are transferring or hiding assets to appear impoverished and, thus, entitled to Medicaid coverage for long-term care services," Committee Republicans noted during the 109th Congress. "Congress should ensure Medicaid dollars support only the truly needy and encourage long-term care insurance and other options for those who can pay."

To address this problem, Chairman Barton and other Committee Members approved Medicaid reforms that lengthen the so-called "look-back" period for Medicaid benefits from three to five years to improve accountability. The new

law also “bans anyone with more than \$750,000 in home equity from Medicaid eligibility altogether.”

The Deficit Reduction Act also includes reforms requiring states receiving Medicaid funds “to use basic identification documents to better enforce current law and prevent illegal aliens from getting Medicaid coverage.”

### **COMMITTEE EXPOSES MILLIONS WASTED THROUGH FEDERAL E-RATE INITIATIVE**

The Energy & Commerce Committee’s Oversight and Investigations Subcommittee conducted a two-year investigation into the E-rate program that exposed a broken system fraught with waste, fraud, and abuse. The investigation, which identified more than \$100 million in wasteful or fraudulent spending, culminated in the release of a final report that placed significant new pressure on the Federal Communications Commission (FCC) and E-rate participants to be more accountable to taxpayers.

“The government mismanagement of the E-rate program seems to know few bounds,” said Chairman Barton. “Unscrupulous vendors also fleeced the program while underserved communities and telephone customers [paid] the price.”

As the Energy & Commerce Committee explains:

*“The Telecommunications Act of 1996 expanded the Universal Service Fund to assist schools and libraries in acquiring telecommunications and Internet services - an initiative that became known as the ‘education rate’ program, funded through fees on telephone customers and capped at \$2.25 billion annually. To administer the effort, the Federal Communications Commission established the private, not-for-profit Universal Service Administrative Company (USAC).”*

During the 109th Congress, the investigation by the Oversight and Investigations Subcommittee brought to light “a well-intentioned program that nonetheless is extremely vulnerable to waste, fraud, and abuse, is poorly managed by the FCC, and completely lacks tangible measures of either effectiveness or impact.”

Among the findings detailed in the Oversight and Investigations Subcommittee report:

- "The FCC's three key oversight mechanisms for the E-rate program - rulemaking procedures, beneficiary audits, and reviews of USAC decisions (i.e., appeals decisions) - are not sufficient to manage the program.
- "Some school districts have acquired goods and services through the E-rate program without using a formal bidding process, contrary to both the program's rules and local regulations.
- "There is no real protection from 'gold-plating' or procuring technology goods and services far beyond reasonable school district needs and resources.
- "Weak competition requirements and inadequate oversight allowed a group of vendors to completely manipulate the competitive process for E-rate program goods and services, without USAC detecting the fraud.
- "Recently established guidelines for debarment of vendors and applicants set standards of program abuse too high, requiring first a civil judgment or criminal conviction against the participant before a suspension may occur and debarment can be considered.

"The E-rate program's ambiguous rules and procedures, and extensive delay in the distribution of funding, create significant confusion among applicants and vendors, contributing to program waste."

On March 8, 2006, by an overwhelming vote, the House approved the *Financial Services Regulatory Relief Act*, legislation introduced by Rep. Jeb Hensarling (R-TX) that would eliminate wasteful regulation and paperwork that hampers financial institutions, consumers, and the American economy. The legislation, which was approved by the Financial Services Committee unanimously in November 2005, is the result of extensive work by Committee Members to review current federal financial laws and eliminate wasteful and harmful rules and red tape.

The Committee's effort traces its roots back to 2001, when Financial Services Committee Chairman Michael Oxley (R-OH) requested that federal and state financial regulators recommend legislative items that would provide regulatory relief for insured depository institutions. The purpose, Committee Republicans said, was to "alter or eliminate statutory provisions in order to lessen the regulatory burden and improve productivity, so depository institutions can better serve their customers and communities." It was also intended to create "a counterbalance to the significant compliance responsibilities placed on depository institutions by the USA PATRIOT Act as well as other government efforts to counter terrorist financing."

The Financial Services Committee's effort to eliminate wasteful red tape and regulation reached a high point in March 2006 with House approval of the *Financial Services Regulatory Relief Act*. The bill corrects a long list of unnecessary and wasteful regulatory hurdles identified by Representative Hensarling and other Committee Members in current law. The bill, among other changes:

- Eliminates unnecessary and costly reporting requirements on banks regarding lending to bank officials.
- Streamlines bank merger application regulatory requirements.
- Eases restrictions on voluntary mergers between healthy credit unions.
- Provides federal financial regulatory agencies the discretion to adjust the examination cycle for insured depository institutions to use agency resources in the most efficient manner.
- Modernizes agency recordkeeping requirements to allow use of optically imaged or computer scanned images.

- Addresses concerns of financial institutions about unnecessary and overly burdensome regulatory requirements in the fight against financial crimes, including money laundering and the financing of terror. The bill seeks to make a number of changes, some statutory and others directing swift regulatory changes, that should reduce the burdens without eliminating information valuable to law enforcement.

“Excessive regulation not only hampers competition, it limits choices for consumers, stifles innovation, and restricts opportunities for financial institutions to serve their communities,” Hensarling said.

“While many of the regulations imposed on the industry are necessary to protect consumers, combat terrorist financing, or serve other worthy public policy objectives, others are clearly outdated or needlessly burdensome,” Oxley said. “While no one is suggesting that these regulations are not well-intentioned, the sheer volume of mandates emanating from Washington makes it incumbent upon those of us in Congress to find ways to ease regulatory burden where we can so that the financial services industry can focus more of their finite resources on serving customers rather than contending with bureaucratic red tape.”



The House Committee on Homeland Security, chaired by Rep. Peter King (R-NY), has done a lot during its brief existence to identify and end waste, fraud, and abuse within its jurisdiction.

A summary of the Committee's efforts during the 109th Congress:

- **Investigation of contracts to Shirlington Limousine and Transportation, Inc.** In late April 2006, news reports indicated that the Department of Homeland Security (DHS) had awarded two contracts for shuttle bus and limousine services – collectively valued at \$25 million – to Shirlington Limousine and Transportation, Inc. – a company with a history of poor business practices and an owner with multiple felony convictions. The Committee on Homeland Security examined related security issues at a May 18, 2006, hearing with senior DHS officials, including the Department's Director of Security. The Committee is currently conducting an examination of these HUBZone set-aside contracts, including the company's preferential status as a HUBZone business, and the Department's procurement procedures and background check process for contractors. The Committee is scheduled to hold a hearing on this contract on June 15, 2006.
- **Hurricane Katrina "Lessons Learned" legislation to strengthen preparedness and response to terrorist attacks, natural disasters, and catastrophic events.** On May 17, 2006, the Homeland Security Committee unanimously reported H.R. 5351, the *National Emergency Management Reform Act of 2006*, to the House. H.R. 5351 includes provisions to strengthen catastrophic planning; emergency response, communications, and logistics; and medical preparedness and response. In addition, H.R. 5351 includes anti-fraud, waste, and abuse provisions such as a requirement that Federal benefits and assistance programs have proper internal management controls and that databases must have proper internal controls in place before they may be used to determine eligibility for federal assistance.
- **Comprehensive review of federal assistance funding after the terrorist attacks of September 11, 2001.** The Committee on Homeland Security is currently conducting the first comprehensive review of \$20 billion in Federal funding provided to New York to aid in the response to and recovery from the terrorist attacks of September 11, 2001. Some of the lessons learned through this review have been incorporated in H.R. 5351, the *National Emergency Management Reform*

*Act of 2006.* These provisions would: provide employees, contractors, and volunteers with anti-fraud training to help them recognize fraud; establish stronger reporting requirements regarding the use of federal aid funds; and establish a Deputy Inspector General for Response and Recovery to coordinate the federal government's response to terrorist attacks, natural disasters, or other catastrophic events.

- **Requiring grants based on risk.** On May 12, 2005, the House passed the *Faster and Smarter Funding for First Responders Act* (H.R. 1544). This legislation takes an important step toward achieving a predominately risk-based allocation method for DHS funding by eschewing political formulas based on population and distributing grants to states based on risk assessments. To make homeland security grants “smarter,” the legislation requires the use of intelligence information as the basis for first-responder grant distribution – thereby replacing the pre-existing and potentially wasteful grant regime with a more responsive threat-based paradigm that gives the Secretary a clear mandate to prioritize risk and ensure that there are clear and measurable Federal preparedness goals. The Committee currently is questioning the effectiveness of the Department's risk-based decision making, given the recent 40 percent cut in counter-terrorism funds to New York City. The Committee plans to hold hearings on this issue.
- **Ensuring cost-effective training for new Border Patrol Agents.** The Committee on Homeland Security has examined Customs and Border Protection's (CBP) efforts to recruit, train, and deploy 2,000 new Border Patrol agents per year, as authorized by the *Intelligence Reform and Terrorism Prevention Act of 2004* (P.L. 108-458), and the costs to do so. Through its ongoing review, the Committee has learned that: 1) it costs almost \$188,000 to recruit, train, and deploy *one* new agent; and 2) CBP has not yet deployed even 1,000 new agents per year. In order to help the Border Patrol meet the President's call for 6,000 new agents in two years and to ensure that this training is cost-effective, the Committee has included several provisions in its Committee print, the Department of Homeland Security Management and Operations Improvement Act of 2006, to address this issue. This legislation includes a provision to require the Secretary of Homeland Security to certify why costs above \$150,000 per new agent are necessary, as well as a provision to allow retired Border Patrol Agents to serve as trainers, which will allow CBP to deploy more agents to the field, while lowering the costs of training for new agents.
- **Improving fiscal responsibility in border security technology programs.** The Committee on Homeland Security has held three

hearings regarding mismanagement of DHS' border technology contracts. Through the first two hearings, the Committee has reviewed audit findings by the General Services Administration (GSA) Office of Inspector General, as well as a report by the DHS Inspector General, which detailed cost overruns, contractors failing to meet deadlines, camera poles that were never installed, and ground sensors that were not linked to cameras. Given Homeland Security Secretary Michael Chertoff's November 2005 announcement regarding the launch of the Secure Border Initiative (SBI) – a multi-year initiative which will supplement and eventually replace the surveillance capabilities provided by previous border technology programs – the Committee's third hearing focused on how the Department will ensure that the mistakes of the past are not repeated in SBI. The Committee has announced plans to hold a fourth hearing after the prime contract for SBI is awarded in September 2006. Additionally, a provision to strengthen the financial accountability of SBI was included in the House-passed H.R. 4437, the *Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005*. Section 109 of this legislation mandates all SBI contracts whose value is \$20 million or over must be reviewed by the DHS Inspector General.

- **Ensuring proper management of DHS financial systems to reduce wasteful spending.** The Committee on Homeland Security, along with the Government Reform Committee, held a hearing on March 29, 2006, to review the recent changes to the Department of Homeland Security's eMerge2 program to consolidate financial systems within the Department. After less than a year's work under the initial contract to implement eMerge2 by building a new, consolidated financial system for the entire Department and the expenditure of approximately \$18 million, the contract was canceled and the Department altered its vision for the program. Rather than one Department-wide system, the DHS Chief Financial Officer abruptly changed course to expand well functioning systems within the Department and link them with systems deemed to be poorly performing. The Committee is reviewing the new focus of the eMerge2 program within DHS and continues to monitor the program's implementation.
- **Examining widespread hurricane assistance fraud.** The Committee on Homeland Security will hold a hearing on June 14, 2006 regarding widespread fraud in the expedited assistance program due to a lack of internal controls following hurricanes Katrina and Rita. The Government Accountability Office (GAO) will testify about its ongoing work and will present its recommendations to DHS to prevent such fraud in future disasters.

- **Investigation of the DHS purchase card program.** The Committee on Homeland Security plans to hold a hearing to examine the findings of fraud, waste, and abuse in the purchase card program at DHS. This hearing will also discuss GAO recommendations to minimize fraud in the DHS purchase card program.
- **Examining the security clearance process at the Department of Homeland Security.** On May 18, 2006, the Committee on Homeland Security held a hearing to examine how DHS screens its employees and contractors prior to employment. Among other topics addressed at this hearing was the April 4, 2006, arrest of Brian Doyle, a Deputy Press Secretary at DHS on charges of soliciting a minor, along with an examination of a transportation services contract that the Department awarded to Shirlington Limousine and Transportation, Inc., without a background check on the company's owner who has multiple felony convictions and a poor business record. In examining these two cases, the hearing included a review of the background check process with senior officials from DHS, as well as the Office of Personnel Management, which conducts 90 percent of all background checks for the Federal Government. The Committee plans to strengthen DHS security procedures in an upcoming authorization bill.
- **Promoting risk-based budgeting.** In April 2005, the Committee on Homeland Security held a hearing regarding the need for DHS to adopt a comprehensive risk-based approach to homeland security operations and Departmental management philosophy. Throughout 2005, media reports highlighted numerous examples of wasteful spending on projects seemingly unrelated to homeland security. For instance, the government of the District of Columbia was criticized for using Federal homeland security grant funds to pay for Dale Carnegie courses for waste removal employees, while other examples include the use of grant funds to purchase air conditioned garbage trucks. In June 2005, the Committee held a hearing on how mission-based budgeting could help DHS target its limited resources where they are most needed and reduce bureaucratic waste. The Committee continues to monitor this issue closely.
- **Strengthening oversight of the Science and Technology Directorate.** The Subcommittee on Prevention of Nuclear and Biological Attack approved legislation to address insufficient information regarding the DHS Science and Technology Directorate's activities. This legislation will improve oversight of the Directorate by requiring submission of an annual report to the relevant Congressional Committees that includes information regarding the Directorate's programs, activities, and

portfolios, as well as how each of these functions fits into the Directorate's organizational structure and mission.

- **Accelerating the procurement of chemical, biological, radiological, and nuclear medical countermeasures within Project Bioshield.** The Subcommittee on Prevention of Nuclear and Biological Attack marked up H.R. 5028 to accelerate and prioritize the completion of Material Threat Assessments (MTAs) and Material Threat Determinations (MTDs) by DHS under Project Bioshield so that the federal government can more quickly procure the chemical, biological, radiological, and nuclear (CBRN) medical countermeasures required for the nation's defense. The legislation 1) directs DHS to use risk assessments to prioritize the MTAs and MTDs; 2) sets a deadline for the completion of MTAs and MTDs for certain CBRN agents; and 3) authorizes additional resources to allow for the more rapid completion of MTAs and MTDs. This legislation will better enable the purchase of broad-spectrum countermeasures that address multiple threats and hence, more effectively utilize the federal government's limited resources for CBRN defense.
- **Reducing bureaucratic overlap between U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE).** The Committee on Homeland Security has received numerous complaints from agents in the field about poor communication and wasteful duplication between CBP – which is responsible for border security – and ICE – which is responsible for interior immigration and customs enforcement. The Committee held a series of hearings to examine organizational barriers preventing cooperation and information sharing between CBP and ICE. Through a series of three hearings, the Committee examined a review of CBP and ICE by the Department of Homeland Security Inspector General which recommended the merger of the two agencies, as well as steps the Department is taking to address the problems raised by the Inspector General and others. To address the concerns raised regarding the lack of interagency coordination, the Committee included provisions in the final version of H.R. 4437, the *Border Protection, Antiterrorism, and Illegal Immigration Control Act of 2005*, which the House passed on December 16, 2005. For instance, the Secretary of Homeland Security is required to: establish a Secure Borders Program Office; establish a method for improving information sharing between CBP and ICE; establish a task force to enhance coordination within border enforcement activities; enhance coordination of investigations and examine how border security related resources are allocated throughout DHS; and establish methods to determine the overall effectiveness of coordinated border enforcement efforts.

- **Improving Departmental organization to reduce bureaucratic waste and improve security.** On July 13, 2005, the Secretary of Homeland Security Michael Chertoff submitted the results of his Second Stage Review to Congress, which included policy and proposed organizational changes. Upon its release, the Committee on Homeland Security held a hearing with the Secretary to review his proposal. Discussed at this hearing and in several subsequent hearings, Committee Members questioned the Secretary and other senior Department officials regarding such changes as: (1) the creation of a policy office at the Department-wide level; (2) the separation of the intelligence and information sharing responsibilities of the Information Analysis and Infrastructure Protection directorate; (3) the formation of an operations coordination office; and (4) the consolidation of the Department's preparedness functions. On March 15, 2006, the Subcommittee on Management, Integration, and Oversight approved a Committee Print to strengthen the lines of authority of the chief operating officers over their counterparts in component agencies. The Committee plans to make other structural changes in an upcoming authorization bill.

## COMMITTEE CASE STUDY: International Relations

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The House International Relations Committee of the Republican-led 109th Congress has consistently placed efforts to combat waste, fraud, and abuse at the forefront of its agenda. The Committee, chaired by Rep. Henry Hyde (R-IL), has addressed multiple issues of corruption, poor management and ineffectiveness within the United Nations (UN), specifically the Oil-for-Food Program scandal and reports of sexual abuse and misconduct by UN peacekeeping forces in eastern Congo, in an attempt to forge a system with oversight and integrity for the world body. (The United States is the UN's largest donor.) Other major topics of oversight have included Iraq reconstruction efforts and the efficacy of the Millennium Challenge Corporation. These and other initiatives highlight the Committee's commitment to the judicious spending of taxpayer dollars and the elimination of fraud and abuse in both national and international bureaucracy.

### **EXPOSING CORRUPTION AND MISMANAGEMENT WITHIN THE UNITED NATIONS**

Declaring that "United Nations member states must act decisively to reform the world body's outdated management, audit and investigatory practices or face a growing marginalization of the UN's work," Chairman Hyde and members of the International Relations Committee in December 2005 released a comprehensive report on the "ill-fated and corrupt" UN Oil-for-Food Program (OFFP). The Committee report "details how lax, and sometimes nonexistent, UN oversight of the OFFP allowed Saddam Hussein's regime to corrupt the program using various bribery and kickback schemes."

As the Committee explained:

*"The earliest iteration of what would become the Oil-for-Food Program dates from 1991. The UN designed the program to feed and care for Iraqis suffering as a result of Saddam Hussein's continued noncompliance with provisions of the cease-fire that ended the Gulf War the previous year. Humanitarian goods supplied to Iraq were paid for with proceeds from the controlled sale of its oil. Under UN auspices, the oil was to be sold, the proceeds would be deposited with Banque National de Paris-Paribas (BNP), and then humanitarian goods would be supplied to Iraq. Once the arrival of the goods was authenticated, the goods could be paid for."*

"Evidence obtained in the course of our inquiry paints a depressing picture of management blunders, bribery and outright graft that fatally undermined the

Oil-for-Food Program,” said Chairman Hyde in December 2005. “As a founder of the UN and its largest donor, the U.S. has a vested interest in seeing the institution thrive and live up to its founding principles.”

“Sadly, all of the management and oversight weaknesses that contributed to an environment of impunity and lawlessness at the highest ranks of the UN continue to this day,” Hyde continued.

“Critics of reform within the UN and member states which contribute little or nothing in budget support are now engaged in rearguard actions to protect the status quo. By doing so, they imperil the UN’s long-term viability,” Hyde added.

The Committee’s December 2005 report, entitled “The Oil-for-Food Program: The Systematic Failure of the United Nations,” found that senior UN management:

- Failed to ensure the ethical and proper conduct of themselves and their subordinates within the UN Secretariat and keep the UN Security Council informed of allegations of kickbacks in the Oil-for-Food Program (OFFP).
- Failed to cooperate with internal and external investigative and oversight bodies.
- Failed to adhere to the UN’s own staff rules and regulations governing conduct of officials of the UN.

The Committee report also found that:

- The UN Office of Internal Oversight Services (OIOS), because of political interference from the UN Senior Management, was prevented from providing an adequate degree of oversight of the Oil-for-Food Program and other issues.
- OIOS officials allege that there was resistance to investigations of the OFFP from the Office of the Secretary-General and the General Assembly.
- OIOS investigators were denied resources and forced to borrow from other departments; plans were curbed for some audits and simply dropped for others (one investigator explained that whole functions of the program, such as diversions of goods, were not examined due to a lack of funding and resources).



- The Joint Inspection Unit of the UN failed to undertake a single audit report during the entire duration of the OFFP.
- The External Board of Auditors of the UN failed to undertake adequate audits of the Secretariat, funds, programs, or independent agencies of the UN system associated with the OFFP.
- There was no independent oversight authority within the UN capable of withstanding political interference from senior UN officials.

The release of the Committee's report on the UN Oil-for-Food Program was the culmination of an extensive series of hearings and investigatory actions by the panel.

On April 29, 2005, Robert Parton, a former senior investigative counsel with the Independent Inquiry Committee on the United Nations Oil-for-Food Programme, was subpoenaed for documents by Chairman Hyde in the context of the Committee's year-long investigation into the Oil-for-Food Program. The Committee had previously conducted seven oversight hearings since April of 2004 and issued several subpoenas to various UN contractors associated with the Oil-for-Food Program.

The chief bank of the Oil-for-Food program was the American division of BNP/Paribas, a Paris-based banking conglomerate. In testimony given in November 2005 during an International Relations Committee hearing chaired by Representative Hyde, the bank acknowledged that, contrary to its contract with the United Nations, it made so-called third party payments to companies not on the approved list of vendors tasked with supplying humanitarian goods to the Iraqi people during the years of international sanctions.

In its December 2005 report, the Committee found BNP/Paribas made at least 400 unauthorized payments to unapproved third parties involved in the humanitarian side of the Oil-for-Food Program. The Committee recommended that an independent body examine the bank's role and the role of its European branches and subsidiaries in the OFFP.

### **ADDRESSING CORRUPTION AND MISMANAGEMENT WITHIN THE UNITED NATIONS**

Chairman Hyde formally introduced the *United Nations Reform Act of 2005* during the 109th Congress.

"No observer, be they passionate supporter or dismissive critic, can pretend that the current structure and operations of the UN represent an

acceptable standard," said Hyde. "Even the UN itself has acknowledged the need for reform and, to its credit, has put forward a number of useful proposals for consideration. But it cannot be expected to shoulder this burden alone. And none who care about the UN would want it to."

Highlights of the *United Nations Reform Act* include:

- A renewed focus on the UN budget by streamlining and prioritizing programs.
- A great focus on oversight and accountability, peacekeeping and human rights.

The Hyde bill uses various methods of leverage to enact reforms, including:

- Withholding of 50 percent of U.S. assessed dues if certifications are not made in the key areas.
- Mandating cuts in specific programs.
- Redirecting funds to priority areas.
- Withholding U.S. support for expanded and new peacekeeping missions until certifications are made that reforms have been enacted.

### **EXAMINING ACCOUNTABILITY & INTEGRITY IN UNITED NATIONS PEACEKEEPING ACTIONS**

In May 2004, allegations of sexual misconduct and exploitation by United Nations personnel deployed in eastern Congo became public. A January 2005 report prepared by the UN Office of Internal Oversight Services (OIOS) described the allegations of abuse of women and girls as "serious and ongoing." Investigators for OIOS reported that many Congolese girls aged 11 to 14 years were being sexually exploited "as a means of getting food and sometimes small sums of money," and that "equally disturbing ... was the lack of a protection and deterrence program, even now."

Similar allegations were leveled in 2002 against UN peacekeepers operating in Guinea, Liberia and Sierra Leone. A report on sexual exploitation and abuse by UN peacekeeping personnel, prepared by Prince Zeid Ra'ad al-Hussein of Jordan, contained several recommendations and was endorsed by a UN Special Committee in April. During the 109th Congress, a hearing by the Committee on International Relations examined broader issues of proposed

reforms in UN peacekeeping and focused on strategies the U.S. Government can adopt to encourage enactment of reforms at the UN, including creation of a Peacemaking Commission and Peace Support Office in the Secretariat.

## **AN EXAMINATION OF THE MILLENIUM CHALLENGE CORPORATION'S EFFECTIVENESS**

The Millennium Challenge Corporation (MCC) manages the Millennium Challenge Account (MCA), the multibillion dollar U.S. foreign aid initiative announced by President Bush in March 2002. The concept for the MCA is rooted in the premise that economic development succeeds best where it is linked to free market economic and democratic principles and policies, and where governments are committed to implementing reform measures to achieve such goals. On April 18, 2005, Madagascar became the first of eight countries thus far to enter into an aid agreement, known as a Compact, with the MCC.

A Harvard economists' study released in May 2006 concludes that MCC's selection criteria are, in fact, accelerating policy reform. To encourage non-qualifying countries to improve in weak areas, the United States is also helping governments that are committed to reform to strengthen performance so they are able to be more competitive for MCA funding in future years. Currently, the MCA has approximately \$1.6 billion in unspent funds. There was concern last year that the MCC is moving at too slow a pace and not granting enough funding to effectively aid the development of these nations. That seems to have improved under the CEO, John Danilovich, who was sworn in last November. The Committee examined these concerns in 2005, and continues to monitor MCC's progress on the staffing, project design, and compact implementation fronts.

The House Committee on the Judiciary, under the chairmanship of Congressman F. James Sensenbrenner, Jr. (R-WI), has been a leader in the Congress for ensuring government accountability to the American People. Under House rules, the Committee has the duty to oversee, among other things, civil liberties, immigration policy and non-border enforcement, patents and trademarks, protection of trade, subversive activities affecting the internal security of the United States, and criminal law enforcement. The Committee has been dedicated to ensuring that effective legislation and policy, as well as the adequate enforcement of current laws in these areas, protects the very core of everyday American life. This report includes a look at just two examples of the oversight work the Committee has conducted during the 109th Congress on behalf of American taxpayers.

### **EXPOSING AND STOPPING IMMIGRATION BENEFITS FRAUD**

The Judiciary Committee, led by Chairman Sensenbrenner, has played a pivotal role in the effort to enact legislation to strengthen America's borders and ensure the nation's immigration laws and polices are fully enforced. The Committee has played an important role in exposing problems in the nation's immigration and border security system -- problems that raise issues not just for taxpayers, but for national security. The Committee's work on the issue of immigration benefits fraud provides a good example of the panel's diligent efforts in this area.

On March 10, 2006, Judiciary Immigration, Border Security, and Claims Subcommittee Chairman John N. Hostettler (R-IN) announced the release of a Government Accountability Office (GAO) report that determined immigration benefits fraud is "a serious problem with potential national security risks."

"Each year about 5,200 immigration benefit applicants are identified as potential national security risks, because their personal information matches information contained in U.S. Customs and Border Protection's Interagency Border Inspection System, a database of immigration law violators and people of national security interest. According to federal prosecutors, immigration benefit fraud may involve other criminal activity, such as income tax evasion, money laundering, production of fraudulent documents, and conspiracy. Organized crime groups have used sophisticated immigration fraud schemes, such as creating shell companies, to bring in aliens ostensibly as employees of these companies. A number of individuals linked to a hostile foreign power's intelligence service were found to have been employed as temporary alien workers on military research."

The GAO report noted, according to Judiciary Committee Republicans, that the federal government “does not currently have a clear and comprehensive strategy for imposing sanctions or evaluating their effectiveness and is not actively enforcing the administrative penalties provided for by federal law.” Congress, led by Chairman Sensenbrenner and other members of the House Judiciary Committee, has enacted legislation creating penalties for immigration fraud “that would potentially generate millions of dollars for more enforcement of the immigration laws,” Committee Republicans noted, saying the Executive Branch has not yet come close to fully utilizing these new tools.

Committee Republicans called attention to GAO’s revelations of inadequate fraud prevention methods within the federal immigration services bureaucracy.

“Crooked lawyers are getting rich from immigration fraud, as the report gives the example of a prominent immigration attorney in the Washington D.C. area who submitted as many as 2,700 fraudulent employment based immigration applications and made as much as \$21.6 million for his efforts,” Committee Republicans wrote.

The GAO report also highlighted a case in which an attorney allegedly “charged aliens between \$8,000 and \$30,000 to fraudulently obtain employment-based visas to work in more than 200 businesses that included pizza parlors, auto parts stores, and medical clinics.”

“The report gave examples of recent marriage fraud cases,” Committee Republicans noted. “Forty-four individuals were indicted in November 2005 for their alleged role in an elaborate scheme to obtain fraudulent immigrant visas for hundreds of Chinese and Vietnamese nationals. . .which may have been ongoing for 10 years. In another investigation involving 2,800 fraudulent marriage and fiancé applications, a U.S. citizen submitted multiple applications with 11 different spouses.”

The extent of the immigration fraud problem is unknown, but appears to be rampant, Committee Republicans noted: “GAO cited a Department of Labor Inspector General audit of labor certification applications filed with the Department: ‘of the approximate 214,000 applications filed from January 1, 2001, through April 30, 2001, and not subsequently cancelled or withdrawn, 54 percent (about 130,000) contained false-possibly fraudulent-information.’”

“GAO’s report details how immigration benefit fraud is accomplished by submitting fraudulent documents, can be facilitated by white collar and other criminals, and has the potential to result in large profits. Fraudulent documents

submitted included, but were not limited to, marriage and birth certificates, financial statements, business plans, organizational charts, fictitious employee resumes and college transcripts," Committee Republicans noted.

GAO's analysis of immigration data compiled by federal authorities between July 2004 and December 2004 revealed:

*"[A]liens from 23 different countries were believed to have sought a variety of immigration benefits fraudulently. For example, individuals apparently sought to enter the United States through fraud by falsely claiming they were: (1) legitimately married to or a fiancé of a U.S. citizen; (2) a religious worker; (3) a performer in an entertainment group; (4) a person with extraordinary abilities, such as an artist, race car driver, or award winning photographer; (5) an executive with a foreign company; (6) a child or other relative of a citizen or permanent resident; or (7) a domestic employee of an alien legally in the United States, such as a diplomat or business executive. . . [I]n one case State Department consular officers suspected illegal aliens were entering the United States under the guise of membership in a band. According to another bulletin, two individuals were suspected of smuggling children into the United States. In this case, the alleged parents submitted a non-immigrant visa application for their 'daughter,' and provided a fraudulent birth certificate and passport for her. The 'parents' eventually admitted to taking children to the United States as their own to reunite them with their illegally working family members."*

The immigration fraud issue is not just an issue of taxpayer waste, Committee Republicans noted:

*"Individuals who pose a threat to national security and public safety enter the United States by fraudulently obtaining immigration benefits. GAO cited a study which found that of the 94 terrorists known to have operated in the United States between the early 1990s and 2004, including the September 11th hijackers, 59 or two-thirds committed immigration fraud."*

The federal government has taken some steps to tighten detection and prevention of immigration fraud but needs to do more, Committee Republicans said. "USCIS has established the Office of Fraud Detection and National Security as its focal point for dealing with immigration benefit fraud, outlined a strategy for detecting immigration benefit fraud, and is undertaking a series of risk assessments to identify the extent and nature of fraud for certain immigration benefits; however, USCIS has not yet implemented internal control standards recommended by GAO and fraud control best practices," Committee Republicans noted.

Led by the Judiciary Committee, the House not only exposed serious problems with immigration fraud in 2005, but also took legislative action to give law enforcement agencies better tools to crack down on such abuse. On May 11, 2005, for example, President Bush signed legislation that included border security legislation originally authored by Chairman Sensenbrenner – the *REAL ID Act* (H.R. 418) – that was originally passed by the House in February 2005.

“This legislation is aimed at preventing another 9/11-type attack by disrupting terrorist travel and bolstering our border security. Giving drivers’ licenses that can be used as identification to anyone, regardless of whether they are here legally or whether we know who they really are, is an open invitation for terrorists and criminals to exploit,” Chairman Sensenbrenner said. “The REAL ID will. . . weed out fraudulent asylum applications made by people lying through their teeth. By ferreting out asylum fraud, the conference report strengthens our asylum system so those legitimately fleeing persecution are welcomed here.”

The *REAL ID Act* gives federal authorities new tools for stopping immigration fraud by:

- **Requiring strong security standards for the issuance of drivers’ licenses.** Under the new law, Committee Republicans note, “[all] states must require proof of lawful presence in the U.S. if their drivers’ licenses are to be accepted as a form of identification to a federal official. The new law “clarifies that getting aboard a commercial airplane or entering a federal building or a nuclear power plant are among the official federal purposes.” It also specifies that a “[t]emporary driver’s license issued to a foreign visitor by a state must expire when the visitor’s visa expires, with a maximum term of one year.” The law does NOT create a national ID card or national database, but does “compel the states to improve the data security of information that states already hold about their citizens, and requires the states to improve the physical security of the buildings where data is stored.”
- **Enacting asylum reform.** The new law “[t]ightens the asylum system abused by terrorists by allowing immigration judges to determine witness credibility in asylum cases. In assessing witness credibility, requires the trier of fact ‘[c]onsider[] . . . the totality of the circumstances, and all relevant factors.’ With respect to statements, the trier of fact is to ‘[c]onsider[] the circumstances under which the statements were made.’ Provides that corroborating evidence is not required if the applicant does not have the evidence and cannot reasonably obtain it.”
- **Closing the Three-Mile Hole in the fortified U.S./Mexico Border Fence Near San Diego.** The new law “[provides] the Secretary of

Homeland Security the ability to waive laws necessary to complete border fences and roads to improve national security. It “[a]llows for Federal judicial review of Secretary’s actions, but only for constitutional claims such as takings of private property.”

After years of listening to the specific concerns of the American people, the intelligence community and law enforcement, and conducting careful oversight, Chairman Sensenbrenner introduced H.R. 4437, described by Committee Republicans as “legislation that reflects that we are a country of immigrants and of laws.” The border security bill, which was approved by the House in December 2005, makes it mandatory for employers to verify a potential employee’s eligibility to work. Committee Republicans subsequently noted a report released by the National Federation of Independent Business (NFIB) on April 4, 2006, indicating “70 percent of small business owners believe illegal immigration is a serious problem and that the primary reason is its waste of taxpayer dollars.”

### **EXPOSING PROBLEMS WITH UNMATCHED EARNINGS REPORTS BASED ON MISSING OR INVALID SOCIAL SECURITY NUMBERS**

An inquiry requested by Rep. E. Clay Shaw, Jr. (R-FL), former Chairman of the House Ways & Means Subcommittee on Social Security, and Judiciary Committee Chairman Sensenbrenner led to a government report in 2005 that exposed significant problems in the government’s current system of identifying workers and reporting wages.

Acting in response to a request by Reps. Shaw and Sensenbrenner, the independent Government Accountability Office (GAO) “found that because employers have few requirements to accurately identify their workers and file complete and correct wage earnings reports, millions of earnings records are submitted by employers to the Social Security Administration (SSA) each year with inaccurate information, including missing Social Security numbers (SSNs) and use of the same SSN for multiple workers,” Committee Republicans noted.

“Accurate identification of workers and their wages by employers helps ensure the right amount of Social Security benefits are paid and it helps prevent Social Security number misuse. The problem is the current reporting and enforcement requirements aren’t doing the job,” said Rep. Jim McCrery (R-LA), current Chairman of the House Ways & Means Subcommittee on Social Security.

“The GAO report documents that this is a growing problem, and the recommendations squarely address the mutual deficiencies of the IRS, the SSA, and the Department of Homeland Security,” Chairman Sensenbrenner said. “Work site enforcement to stop employers from hiring illegal aliens functionally



stopped in 1993, and has not been restarted since then. Addressing the call for new guest worker legislation becomes much more difficult when we currently have dysfunctional employer enforcement mechanisms.”

The GAO found that “certain types of employers were most frequently associated with incorrect earnings reports,” Committee Republicans noted. “For example, five industry categories accounted for 43 percent of these unmatched earnings, including: eating and drinking establishments, construction and special trades, and agricultural production – crops. Also, 24,000 employers (.5 percent of all employers) had submitted about 17 percent of the total number of reports in the Earnings Suspense File (ESF) in each of the 16 years reviewed by the GAO.”

The House Committee on Resources, chaired by Rep. Richard Pombo (R-CA), has exposed some of the most blatant examples of government waste, fraud, and abuse uncovered during the 109th Congress. Among the outrages identified during the Committee's oversight hearings during this Congress: a situation in which flawed federal laws forced the expenditure of approximately \$77 million in an effort to save the lives of some endangered fish. About 20 fish were saved -- at a cost of approximately \$3.8 million per fish. Details on this and other outrages exposed by the Resources Committee during the 109th Congress are provided below.

### **THE CLINTON ADMINISTRATION'S \$8 BILLION OIL COMPANY GIVEAWAY**

Through its oversight activities, the Resources Committee has raised concerns that a legislative policy designed to encourage investment in American energy resources in the deep waters of the Gulf of Mexico was not properly executed by the U.S. Department of the Interior under Secretary Bruce Babbitt in 1998 and 1999. Consequently, oil companies may have been given as much as \$8 billion in royalty-free oil and natural gas by mistake.

In February 2006, in response to questions posed by Chairman Pombo to the Department of the Interior's Minerals Management Service (MMS), the Committee learned that leases issued in 1998 and 1999 for energy production in the deep waters of the Gulf of Mexico did not include "price thresholds," as intended by Congress when it passed the Deep Water Royalty Relief Act of 1995. Leases issued for 1996, 1997 and 2000 included the price thresholds, which means that when oil and natural gas prices reach a certain level, companies are required to pay the royalties due.

Because the failure of the Clinton Administration to include these terms in the leases consistent with congressional intent is a matter of contract sanctity, the Committee on Resources has been attempting to resolve the matter in a way that does not breach a contract obligation with the government, the likely result of which would be a judgment for an equal amount against the government enforced by the courts.

### **TAXPAYERS SAVE \$1 MILLION ANNUALLY UNDER FISH HATCHERY REFORMS**

On June 15, 2006, the Resources Subcommittee on Fisheries and Oceans will hold a hearing on three bills regarding the National Fish Hatchery System.

The first two bills transfer three national fish hatcheries to the commonwealths of Pennsylvania and Virginia. States have been leasing these facilities for many years, providing fish for their state recreational programs. In these cases, however, it is cheaper and more efficient for states to operate hatcheries, saving the federal government approximately \$1 million per hatchery each year.

The final bill encourages the development of a volunteer program at the remaining 69 national fish hatcheries. These volunteers will perform a number of valuable tasks and will help to reduce the maintenance backlog. This will save thousands of dollars in U.S. taxpayer money, Committee Republicans note.

### **THE \$3.85 MILLION FISH**

On May 4, 2005, the Subcommittee on Water and Power held a hearing entitled "Stabilizing Rural Electricity Service Through Common Sense Applications of the Endangered Species Act." This hearing, chaired by Rep. George Radanovich (R-CA), uncovered that in the summer of 2004, the Bonneville Power Administration had to spill water over its dams for endangered salmon. The power generation lost was valued at \$77 million, while only 20 adult salmon were saved, translating to \$3.85 million per recovered fish.

Subcommittee Chairman Radanovich discussed this outrage in the context of larger problems with the Endangered Species Act (ESA) in his opening statement during the hearing:

"The federal government has spent billions of taxpayer dollars, reduced water deliveries to communities, made electricity more expensive and lined the pockets of many lawyers, yet the Act has a 1% rate of success at best. In the world I grew up in, a 1% rate does not meet the definition of success – most people would be fired from their jobs if they happened to be this 'successful.'

"The ESA has a tremendous impact on the electricity backbone of the Nation, particularly out West. In siting new transmission lines, in re-licensing hydroelectric projects, and in generating power, the ESA impacts almost every facet of how consumers receive electricity. Almost a quarter of the Bonneville Power Administration's costs are related to ESA fish costs. That's not surprising, given that the agency was forced to spend \$3.8 million per fish in last summer's spill program mandated for endangered salmon. The percent of the Western Area Power Administration's ESA costs hovers in the double digits as well. Since these costs are passed directly to customers, it's safe to say that when many in the West turn their light switches on, the ESA meter is literally running."

On April 5, 2006, the Subcommittee on Water and Power also held a hearing entitled "The Bureau of Reclamation's 21st Century Challenges," which

was an Administration-initiated National Research Council review of the Bureau of Reclamation's management practices and discussed how they can control wasteful spending. The Subcommittee receives quarterly updates on the Bureau of Reclamation's two-year implementation plan highlighting what they are doing to implement their new management plan, become more cost effective, possibly eliminate jobs and reduce wasteful overhead spending.

The House Committee on Science, chaired by Rep. Sherwood Boehlert (R-NY), has put the heat on the National Oceanic and Atmospheric Administration (NOAA) for its management of the National Polar-orbiting Operational Environmental Satellite System (NPOESS), the agency's new weather satellite system, which is billions of dollars over budget and several years behind schedule.

In May 2006, the Committee held a hearing at which the U.S. Department of Commerce's independent Inspector General released a scathing report criticizing NOAA's management of the NPOESS program.

"A new weather satellite system planned for civilian and military use is behind schedule and billions of dollars over budget because of technical problems and poor management, according to testimony Thursday before the House Science Committee," the *New York Times* reported on May 12, 2006 (Leary, Warren E.; "Satellite Program is Over Budget and In Trouble.") "Johnnie E. Frazier, the inspector general for the Commerce Department, said managers from agencies involved in the program had failed to respond to problems as they arose and to challenge overly optimistic progress reports from the project director.

"In addition, Mr. Frazier said, the program suffered from a flawed contract incentive program that awarded millions in bonus money to the prime contractor, Northrop Grumman Space Technology, even as the satellite system fell months behind schedule and costs grew by \$3 billion or more. 'Despite these problems, the contractor has received \$123 million in incentive payments, 84 percent of the amount available under the contract,' Mr. Frazier testified."

Chairman Boehlert and Science Standards Subcommittee Chairman Vernon J. Ehlers (R-MI) noted in a statement that some progress has been made recently by NOAA officials as congressional scrutiny of the NPOESS program's problems has increased.

"Since last August, Admiral Lautenbacher and General Kelly have taken many significant steps to bolster the NPOESS program. They installed new day-to-day program managers who, from all reports, are riding herd on the program. Admiral Lautenbacher and General Kelly also made some changes in the NPOESS management structure, commissioned independent reviews, enabled NOAA to participate more fully in contracting questions" and took other steps to increase accountability in the NPOESS program, Boehlert and Ehlers said.

On June 8th, the Science Committee held another hearing on NPOESS to review a new plan for the satellite system that is designed to prevent further cost overruns and schedule delays, beyond the latest projections.

Chairman Boehlert stated that the restructured plan seems “plausible” but made clear that the Committee needs further information to fully evaluate it: “We need more information to move from ‘plausible’ to ‘credible’ to ‘persuasive.’ And the burden of proof is on the agencies. We need to be convinced that these cost and schedule estimates are more reliable than all of those we have received in the past, and that they include adequate reserves and schedule margins.”

Boehlert added, “For an agency whose previous cost estimates have been off by more than 66 percent to tell us ‘trust us’ is preposterous, and we will not stand for it. We will make sure we get what we need to oversee this program.”

NOAA and its partner agencies – the Air Force and NASA – have agreed to work with Congress to ensure lawmakers have the information they need to evaluate the revised program and they have pledged to manage the program much more closely than they have in the past.

Boehlert and Ehlers made clear that the Committee will continue to keep close tabs on the NPOESS program.

“We need to be sure that NOAA’s leadership is fully committed to making every change necessary to ensure programmatic success,” Boehlert and Ehlers said. “The Science Committee will continue to oversee this program closely.”

During the 109th Congress, the House Committee on Small Business, chaired by Rep. Don Manzullo (R-IL), has blown the whistle on instances of waste, fraud and abuse in the federal bureaucracy that are cheating taxpayers and small business operators alike.

As they prepared for reauthorization of federal small business programs earlier in the current Congress, Chairman Manzullo and members of the Committee identified several well-intentioned but unnecessary Small Business Administration (SBA) programs within the vast federal bureaucracy that are ripe for elimination, particularly at a time when the American public is calling for action by legislators to eliminate the large annual budget deficits being run by the federal government. Chairman Manzullo and Committee Members also called attention to problems brought to light by the SBA's internal watchdog, the Office of the Inspector General.

Legislative language to stamp out all of these problems on behalf of taxpayers and small business owners is included in the *Small Business Reauthorization Act of 2006* (H.R. 5352), which was introduced by Chairman Manzullo on May 11, 2006, and is expected to be considered on the House floor this summer.

Among the wasteful, outdated, or duplicative programs targeted for elimination in the legislation introduced by Chairman Manzullo:

- **Tree planting program** – The Committee determined that the SBA has made grants to, or contracted with states with the purpose of enabling, small businesses to plant trees on land owned by state and local governments. This unnecessary program was previously authorized at a \$30 million level through FY 1997.
- **Central European Enterprise Development Commission** – This now-obsolete commission, authorized at \$13 million over a five-year period from FY 1991 through FY 1995, was designed to replicate Small Business Development Centers (SBDCs) in Czechoslovakia, Poland, and Hungary to provide management and technical assistance to small businesses in those countries. Unfunded for nearly a decade, the bill would eliminate it.
- **Duplicative business loans program** – About 25 years ago, the SBA got out of the direct loan business. Instead, the SBA now guarantees a certain percentage of a business loan that private banks make when a

borrower cannot find credit elsewhere. Among those eligible to receive loans through this system are disabled individuals, who can receive loans through the SBA's regular 7(a) or 504 loan programs. But inexplicably, one last vestige of the SBA's direct business loan program remains, to provide loans to disabled individuals – despite the fact that such Americans now receive loans through the newer system. The old program, which issued \$22.4 million in loans during its heyday in 1985, hasn't issued a loan in a decade (its last one was issued in 1995, during the first Clinton Administration, Committee Republicans revealed).

The legislation crafted by Chairman Manzullo also targets sources of fraud and abuse identified by the SBA's independent Office of the Inspector General.

- The bill cracks down on misrepresentations being made to the SBA by individuals falsely seeking to obtain SBA money (for example: applicants falsely claiming they own small businesses) by updating SBA fees that have not been updated in 20 years, creating a much more effective deterrent to those who seek to abuse the system at taxpayer expense.
- The bill requires SBA loan agents and loan packagers to provide personal identifying information to prevent fraudulent schemes that squander tax dollars.
- The bill includes provisions aimed at preventing the misuse of the SBA name, initials, seal, and logo by individuals not affiliated with the SBA.



## COMMITTEE CASE STUDY: Transportation & Infrastructure

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The House Committee on Transportation & Infrastructure has devoted considerable energy during the 109th Congress uncovering significant inefficiencies within the Amtrak management system. In 1970 Amtrak (the National Railroad Passenger Corporation) was created by the federal government to take control of passenger rail service from the private sector.

Committee Chairman Don Young (R-AK) asked an informal group of Committee members (the Amtrak Working Group/AWG) to review reports and hearing records concerning Amtrak and determine which ongoing problems at Amtrak that the Committee could best address. The AWG interviewed numerous parties and reviewed information developed by the Government Accountability Office (GAO), department Inspectors General, and the Federal Railroad Administration.

In March 2006, the AWG issued a report concluding that roughly a quarter of Amtrak's nearly \$1 billion annual budget could be saved without affecting the railroad's service. Although the minority members of the AWG chose to express their opinions in a separately issued document, it was clear that there are key issues which must be addressed. The majority report described today's Amtrak as "a private corporation which is heavily subsidized by the federal government, but which has not used the resources it has received efficiently."

Rep. Richard Baker (R-LA), the chairman of the AWG, said upon issuing the report:

*"This report is not about attacking Amtrak but about taking steps to halt the unacceptable financial bleeding it has experienced for far too long. If we believe the goal should be Amtrak's financial success, we won't get there without first making sure it's financial books are in order. In the post-Sarbanes-Oxley era of corporate accountability, Amtrak's finances should be at least if not more transparent to its stakeholders, the American taxpayer. At the very least, legislation should be passed that holds Amtrak to the same financial reporting standards as private corporations, with required regular financial statements that are certified as accurate by the Amtrak CEO and its Board of Directors and filed with an agency that can enforce statutory disclosure requirements."*

Chairman Young echoed Baker's comments.

*"While Amtrak has been active in recent years to address issues raised by the GAO and the Amtrak IG, these reforms have tended to come when and where oversight has been initiated by the Congress rather than*

*independently by Amtrak. What is needed is system-wide change. Increased federal subsidies over the years indicate that funding alone will not solve the problems facing intercity passenger rail service."*

The AWG report pointed out that Amtrak has taken some steps in recent years to address its management issues, but concluded those steps have not yet reached the standard needed to ensure taxpayers are receiving an appropriate return on their annual investment in this public benefit corporation.

"It is no longer credible to claim that Amtrak's woes are simply tied to lack of financial support," the AWG continued. "It is apparent that Amtrak for years has been used to essentially pass through money without serious attention to how that money is actually being spent."

The AWG found problems with both corporate management as well as passenger services. "For too long passengers on Amtrak trains have contended with inadequate heating and cooling, unclean restrooms, and inoperable amenities," the report indicated.

The GAO report, on which much of the AWG work was based, revealed that Amtrak lacked both internal organization as well as transparency. GAO found "systemic" problems, including:

- "Amtrak lacks a comprehensive strategic plan to ensure cost-effective results.
- "Amtrak's financial reporting and financial management is weak, limited, and often unreliable.
- "Amtrak's annual losses are projected to increase 40 percent from \$1 billion to \$1.4 billion over the next few years.
- "Amtrak's procurement and acquisition practices lack efficiency, cost effectiveness, and accountability.
- "Amtrak has inadequate oversight of or accountability for performance and results."

In June 2005, the Transportation & Infrastructure Subcommittee on Railroads, chaired by Rep. Steven LaTourette (R-OH), held a hearing concerning Amtrak's food and beverage operations. The independent Inspector General concluded:

“. . . Amtrak food and beverage operations in FY03 generated approximately \$78 million in revenue but had \$162 million in expenses - resulting in a loss of over \$83 million.”

The findings of the AWG report have set the table for future legislative action in Congress to ensure Amtrak is no longer permitted to receive large subsidies from taxpayers without dramatic improvements in results and accountability. The report established clear goals for improvement that the members of the Working Group believe Amtrak must meet as a condition of receiving future funding from Congress.

On Wednesday, November 2, 2005, by a vote of 408-0, the House passed legislation written by members of the House Committee on Veterans' Affairs, chaired by Rep. Steve Buyer (R-IN), that will clamp down on inefficiency and waste within the U.S. Department of Veterans Affairs. The legislation, known as the *Department of Veterans Affairs (VA) Information Technology Management Improvement Act* (H.R. 4061), is the culmination of years of oversight and scrutiny by the Committee.

Committee Republicans said H.R. 4061 was prompted by the discovery that the VA "has historically funded IT [Information Technology] efforts in the general administration accounts of the Veterans Health Administration, the Veterans Benefits Administration and the National Cemetery Administration, essentially spending billions of dollars on three separate IT infrastructures within the Department."

As Chairman Buyer said upon passage of the bill:

*"Since coming to Congress, I have witnessed VA's inability to adequately manage its IT funding and modernization efforts. Unfortunately, the Department has annually spent billions of dollars without accountability or measurable performance outcomes on IT modernization. America's veterans are still waiting for 'One VA'. The three separate IT infrastructures within the VA cannot efficiently and effectively share important information. For our veterans, this is a significant and unacceptable inconvenience." (emphasis added)*

H.R. 4061 seeks to fix the problems at the VA on behalf of taxpayers by streamlining the agency's IT operations into a much more efficient structure.

"After years of cost overruns, mismanagement and lack of accountability at the Department of Veterans Affairs, [H.R. 4061] will make the VA Chief Information Officer (CIO) accountable for the VA's entire IT infrastructure, with authority over its budget, as well as control over IT policies, procedures, personnel and assets," Committee Republicans noted.

"This legislation is needed to begin the long process to finally streamline VA IT to ensure that America's veterans come first," Buyer said. "For too long, unfinished projects and billions of wasted dollars have hijacked the goals of a 'One VA' that will enable medical facilities all over the country to talk to each other, bringing efficiency and accountability to the Department."

Between 2000 and 2005, the Committee held six hearings on VA IT, focusing on problems encountered in different pilot projects, as well as obstacles

stifling action within the Department. The hearings revealed a bureaucracy fraught with management problems and the potential for significant waste. As Committee Republicans noted in November 2005:

*“Gartner Consulting, VA’s IT consultant, recently completed its review of VA IT infrastructure and reaffirmed many of GAO’s past criticisms of VA. Specifically, VA’s IT budgets lack accountability regarding how and when funds are spent. The GAO has testified since 1998 that VA has encountered numerous and consistent problems managing its IT programs. Gartner Consulting concluded that savings could exceed \$1.7 billion over the course of five years if the VA carries out the option to centralize the management of IT budgeting. This centralization is a key component of [H.R. 4061].”*

Committee Republicans noted the VA has spent about \$1 billion per year over the last decade to upgrade its IT infrastructure.

“The VA’s FY 2005 budget request for IT [was] \$1.6 billion. In 2004, the VA received \$1.4 billion for its IT program, and over the past decade has received close to a billion dollars each year for IT initiatives,” Committee Republicans reported. “While there have been improvements in VA’s IT modernization efforts, prominent failures stand out.”

Among those failures:

- “\$600 million plus for a decade of VETSNET – the automated compensation and pension claims processing system that still has not been implemented after 10 years of development.”
- \$342 million for CoreFLS, a failed financial management system.
- \$300 million for HR Links, a failed automated personnel system.
- \$485 million annually to maintain VISTA, the VA’s 25-year-old medical information system.

Committee Republicans said House passage of H.R. 4061 in November 2005 marked an important first step to creating a “seamless transition” for America’s veterans. It also marked an important step for American taxpayers in the fight against government waste.

The Committee on Ways & Means, chaired by Rep. Bill Thomas (R-CA), has played a key role in efforts by House Republicans to target waste, fraud, and abuse during the 109th Congress. From highlighting unemployment benefit overpayments and providing states tools to reduce them to exposing tax fraud by prisoners and professional preparers to helping to preserve the historic 1996 welfare reforms by highlighting their benefits for taxpayers, the Committee has been instrumental in the effort to scrutinize the current federal bureaucracy and hold it accountable to the people it is supposed to serve.

### **PREVENTING FRAUD & ABUSE IN UNEMPLOYMENT BENEFITS**

A May 4, 2006 Ways & Means Human Resources Subcommittee hearing on U.S. Department of Labor budget issues provided new data about the effect of recent legislation in helping to prevent fraud and abuse involving unemployment benefits.

For example: in 2004, Congress (through the "SUTA Dumping Prevention Act of 2004") authorized states to compare unemployment benefit rolls with the National Directory of New Hires, a national database collected since the 1996 welfare reform law.

The Department of Labor recently ran a pilot data match in three states, with potentially dramatic results for taxpayers. As the independent Government Accountability Office (GAO) testified at the May 4, 2006 hearing:

*"According to Labor, initial results of the pilot show that overpayment detections increased 114 percent in Texas, 41 percent in Utah, and 73 percent in Virginia. The Texas Workforce Commission also reported that using the national cross-match in combination with the existing statewide cross-match helped detect 50 percent more cases of potential fraud in one quarter than it would have detected otherwise."*

DOL also testified that states overpaid unemployment benefits by an estimated \$3.4 billion in 2004. Given the very large improvements in detections of overpayments witnessed in states in which this new data matching system has been tried, and the fact that most states will start conducting data matches within the next year, Ways & Means Committee leaders expect to see steep improvements in recovery of overpayments and, presumably, the accuracy of subsequent benefit payments nationwide, creating the potential for dramatic savings for American taxpayers.

## **EXPOSING TAX FRAUD BY PRISON INMATES**

The Ways & Means Committee's Subcommittee on Oversight, chaired by Rep. Jim Ramstad (R-MN), in 2005 put the light of public scrutiny on a little-known source of fraud and abuse: tax fraud by prison inmates, who claim more than \$65 million in fraudulent tax refunds each year.

"While the vast majority of Americans pay their taxes with honesty and integrity, a small minority is responsible for large amounts of refund fraud," the Committee noted in announcing a 2005 hearing on the topic. "[R]emarkably, prison inmates are contributing to the problem from behind bars."

"The IRS estimates that 7.5 to 15 percent of all refund tax fraud is being committed by prison inmates," the Committee noted. "Furthermore, it appears that this problem is growing rapidly. Prisoners nationwide have developed elaborate schemes to receive refunds by fraudulently reporting earnings or claiming false eligibility for tax credits. . . [and each] year, prisoners are devising new methods to defraud the tax system, at the expense of American taxpayers."

Rep. Ric Keller (R-FL) used the hearing to call attention to media reports from his home state of Florida that indicated tax fraud by prison inmates was widespread.

"In November of 2004, WESH News Channel 2, a local TV station in the Orlando, Florida area, reported disturbing information about how numerous Florida prisoners received tax refund checks even though they didn't work or pay income taxes," Keller said. "The WESH investigation showed that numerous prisoners, including murderers and rapists, were submitting bogus tax returns to the IRS, and being rewarded with generous tax refund checks."

"My constituents in Central Florida, who work hard and play by the rules, were understandably upset that their taxpayer dollars were being wasted on dishonest prisoners who don't work hard and don't play by the rules," Keller added.

Subcommittee Chairman Ramstad called attention to the procedures typically being used by prison inmates to commit tax fraud:

*"The fraud is growing as word spreads among inmates how easy this scam is and how unlikely it is that inmates will be caught or punished. Prisoners nationwide have developed elaborate schemes to get refunds by fraudulently reporting earnings or claiming false eligibility for tax credits. There are several basic steps in this kind of fraud. It typically starts with a prison inmate who has little to lose and is already serving a lengthy sentence. The inmate then acquires*

*access to tax forms. The prisoner subsequently makes up phony income and withholding and claims to be entitled to a large refund. Then the prisoner either mails the forms to the IRS or gets help from someone on the outside to put them in the mail."*

The hearing included live testimony from a prison inmate currently serving time in a South Carolina corrections facility who, according to Ramstad, had defrauded the U.S. government of several million dollars over the years by filing between 600 and 700 fraudulent returns and getting refunds 90 percent of the time. The inmate, identified only as John Doe, gave testimony to the Committee on how he committed his fraud, and the extent to which such fraudulent practices are taking place:

*"In 1991, I saw a television commercial made by the Internal Revenue Service promoting early filing of tax returns to avoid the spring tax rush. I decided to file ten returns using fellow inmates' information just to see what would happen. The tax forms were readily available at that institution through the library because they had a Prison Industries program where inmates worked for minimum wage. All ten refunds went through. The refunds ranged from \$4200 to \$5400 each. No effort was made to avoid detection. When nothing happened behind those returns, I started filing every year for whatever group of inmates I was friends with. The number increased each year. I was paid one thousand dollars for each return I filed. The remainder of the money belonged to the name of the person on the return. The first year, I bought new shoes, a color TV, a jam box and lots of drugs. In the last few years, especially since 2000, the checks were harder to get in. I started having the checks mailed to outside addresses. Eventually everyone went to the direct deposit system. The money would either be sent back in small amounts to the inmate account system, smuggled in through visits in cash, or used by family and friends on the outside to fund drug rings connected to the prison system. In most cases now, there is no money trail that can be followed from an inmate's account.*

*"Over the years, I filed six to seven hundred returns. The total dollar amount would be approximately 3.5 million dollars, face value. Of all the returns I filed, approximately 90% were successful. On some occasions that I'm aware of, some inmates who I filed for owed back taxes or child support."*

At the hearing, IRS officials agreed with legislators that prison tax fraud is unacceptable and growing at an alarming rate, and agreed to work with Committee Members to explore ways in which such fraud can be tracked and prevented in the future.



## **EXPOSING FRAUD BY TAX PREPARATION PROFESSIONALS**

The Ways & Means Subcommittee on Oversight also zeroed in on another source of tax fraud during the 109th Congress: fraud committed by dishonest tax preparers, a consequence of a federal tax code that is far too complex and cumbersome.

“Because of the complexity of our laws, taxpayers increasingly rely on a professional tax preparer,” said Chairman Ramstad in announcing a July 20, 2005 hearing on the topic. “Most tax preparers are honest, but there is a troubling and persistent occurrence of tax fraud by unscrupulous preparers who take advantage of taxpayers.”

“Due to the increasing complexity of our convoluted tax code, more and more Americans are turning to tax professionals for help in preparing their tax returns,” said Rep. John Linder (R-GA), a Committee member and leading advocate of tax reform. “Unfortunately, there are some tax professionals that choose to take advantage of individuals and the Federal government and file false returns - often leading to a loss of revenue for the Federal government and penalties for taxpayers.”

The Subcommittee’s hearing exposed multiple instances of fraud committed by disreputable “professionals” in the tax preparation industry. Among those instances, as described by the Committee:

- “A New Jersey tax preparer who prepared 13,000 returns in 2001 and 2002 was caught on tape advising an undercover agent to include phony expenses on his tax return in order to qualify for a tax refund.”
- “Thousands of low-income Somali immigrants in Minnesota were victimized by a group of tax preparers who created fictitious businesses and claimed improper fuel tax credits in order to qualify for refunds. In addition to prosecuting the preparers, the IRS has commenced scores of taxpayer audits and will eventually audit nearly all of the victims.”
- “In Long Beach, California, a tax preparer is being prosecuted for generating hundreds of false returns claiming improper EIC refunds for Cambodian immigrants. The preparer allegedly used the proceeds from his tax preparation service to fund an armed insurgency in Cambodia.”

The hearing highlighted the fact that as of 2005, the IRS had 343 active investigations of tax professionals underway, and had identified about \$79 million in suspect refunds during the previous year.

The IRS appeared to welcome the opportunity to call attention to the need for greater safeguards against fraud by tax preparers. Nancy J. Jardini, the chief of the IRS Criminal Investigation Division, used her testimony to document additional examples of major fraud uncovered by her agency in recent years. Among the examples Jardini cited in her testimony:

- In Detroit, MI, the operators of a Jackson Hewitt franchise “prepared over 50 false tax returns containing false and fictitious information, enlarging income tax refunds due to their clients by over \$115,000.” The false information, according to Jardini, “included claiming false charitable contributions and un-reimbursed employment related expenses. Some false returns claimed fictitious dependants and head of household status, along with creating fictitious Schedule C businesses, in order to generate an Earned Income Tax Credit. At sentencing, the total tax loss was calculated to be approximately \$229,000.”
- A Van Nuys, VA tax preparer in 2005 “admitted in his plea agreement that he prepared 234 false tax returns for the tax years 2000 through 2002, which claimed false and fraudulent Schedule A deductions.”
- A mother-and-daughter team of tax preparers from Stone Mountain, GA in 2005 were sentenced on charges of conspiracy to commit tax fraud involving nearly \$400,000 in fraudulent tax refunds. According to Jardini, the tax preparers pled guilty to “conspiring with one another to file false tax returns with the IRS in order to generate fraudulent tax refunds for their clients.” In exchange for money, Jardini said, the tax preparers “knowingly falsified their clients’ federal income tax returns in order to generate a fraudulent refund by, among other things, falsely inflating the taxpayers allowable expenses and deductions, and by falsely reporting the taxpayers filing status, eligibility for dependent exemptions, individual retirement account contributions, student loan deductions, child care credits and expenses, and eligibility for the Earned Income Tax Credit. The effect of these false entries was to negate the taxpayer’s taxable income, which, when combined with the withholdings, generated a false refund payment by the IRS.”
- In Dallas, TX, a local tax preparer in January 2005 was sentenced to 36 months imprisonment after admitting that she “prepared a tax return for an individual knowing that it was false and fraudulent in that it overstated the amount of the taxpayer’s income and withholding, and falsely represented that the taxpayer was entitled to claim an education credit,” Jardini reported. This and other fraudulent activities “resulted in a tax loss of \$90,095,” according to the IRS investigations chief. The individual “also admitted that at the time she committed this offense, she was in the

business of preparing and assisting in the preparation of tax returns and that this offense was a part of a pattern and scheme from which she derived a substantial portion of her income.”

- In Sacramento, CA, a tax preparer was sentenced to 37 months in prison following her admission that she “participated in a conspiracy to impair, impede and obstruct the IRS in the computation, assessment and collection of more than \$2 million in federal income tax liabilities.” Jardini said that in exchange for a fee, the tax preparer “advised and assisted her clients in transferring assets and income-generating entities into domestic and foreign trusts, which she created and marketed for the purpose of evading federal income taxes.” Furthermore, the individual “advised and assisted her clients in cycling their U.S. income through off-shore bank accounts she controlled and then returned the income to the clients.”

Ramstad used the hearing to make the case for greater congressional attention to preventing tax fraud, and to raise public awareness of the problem.

“It is incumbent on us to review what the IRS is doing to address this problem and consider our legislative options,” Ramstad said.

“Tax preparers are not licensed by the IRS, as we all know, and although the IRS administers a detailed set of rules that governs tax practice, known as Circular 230, hundreds of thousands of income tax preparers are not covered by these rules,” Ramstad said. “While states require a license for every profession, from raising dogs to giving haircuts, only California and Oregon require a license for tax preparers. The result; taxpayers are at risk.”

## **PRESERVING WELFARE REFORM AND ITS BENEFITS FOR AMERICAN TAXPAYERS**

On June 1, 2006, the Ways & Means Subcommittee on Human Resources issued a report revealing new information about the extent to which the historic 1996 welfare reform law enacted by the Republican Congress is protecting taxpayer interests by limiting waste, fraud, and abuse. The Ways & Means Committee, along with other House Committees, has played a key role in warding off Democratic efforts to weaken the 1996 law in the decade since it was originally enacted.

As Committee Republicans stated in announcing the June 2006 report:

*“It is widely known that the 1996 welfare reforms required, for the first time, many welfare recipients to work for their benefits. Less attention has been paid to equally important changes enacted in the 1996 welfare reform law (P.L.*

*104-193) and related legislation designed to end waste, fraud, and abuse in welfare programs, which have saved billions of dollars for taxpayers."*

Among the taxpayer savings generated by the welfare reform law that were identified by Committee Republicans:

- The new "prison bounty" system established by the 1996 welfare reform law, along with ongoing efforts, saves taxpayers up to \$500 million per year by preventing prisoners and fugitives from wrongly collecting welfare benefits. According to Committee Republicans, "Supplemental Security Income (SSI) benefits have been suspended for 136,000 fugitives and probation and parole violators, saving at least \$250 million and contributing to more than 40,000 arrests since 1996."
- Taxpayers may have saved more than \$5.8 billion between 1997 and 2002 as a result of provisions ending "disability" checks for drug addicts and alcoholics. The Committee estimates fraudulent benefits were terminated for nearly 125,000 individuals who claimed disability due to addiction during this time period.
- Barring non-citizens from collecting welfare benefits they pledged to avoid as a condition of entry.

In the decade since the 1996 law was enacted, the number of non-citizens receiving major welfare benefits such as food stamps, SSI, and cash welfare has declined significantly. The number receiving SSI benefits has fallen 14 percent; those receiving food stamps has fallen 61 percent; and those receiving cash welfare fell a whopping 82 percent.

"Many know that the 1996 welfare reforms have worked to promote work and earnings and reduce poverty," said Ways & Means Human Resources Subcommittee Chairman Wally Herger (R-CA). "But the untold story is that the 1996 reforms also protected taxpayers by ending numerous examples of waste, fraud and abuse involving welfare benefits. This report shows how literally billions of dollars have been saved by ending welfare benefits for prisoners, fugitives, and drug addicts who should never have collected them in the first place. And further savings resulted from reforms holding thousands of non-citizens arriving since 1996 to their pledges not to collect welfare benefits prior to becoming citizens."

The Committee's diligence in reporting these and other positive effects of the 1996 law have helped to keep the historic welfare reforms intact and preserve their significant benefits for American taxpayers.

## **COLLECTING DELINQUENT TAX REVENUE & SAFEGUARDING TAXPAYER RIGHTS**

In 2004, led by members of the House Committee on Ways & Means, Congress and President Bush enacted legislation giving the Internal Revenue Service (IRS) limited ability to hire private collection firms to collect unpaid tax revenue from delinquent taxpayers that would likely otherwise go uncollected. The new rules help to prevent fraud and promote fairness for American taxpayers who follow the rules and pay their share of taxes in an accurate and timely fashion. The new law was carefully written to safeguard taxpayer rights, specifying that the IRS can only hire private agencies to collect tax revenue that a given taxpayer does not dispute that he or she owes.

On April 14, 2005, the Ways & Means Committee conducted an IRS oversight hearing at which the new collection rules were examined. The hearing confirmed that the IRS has moved forward with plans to utilize private contractors to collect unpaid taxes.

"The legislation [passed by Congress in 2004] authorized the IRS to augment our collection efforts by allowing us to use [private collection agencies] to pursue what has been deemed as uncollectible tax liabilities; these agencies will not have enforcement authority and will only contact delinquent taxpayers to arrange voluntary, full-payment installment agreements," testified IRS Commissioner Mark Everson. "Quite frankly, this activity is geared for an inventory that the IRS currently cannot chase with existing resources."

The new law "will help reduce the significant and growing amount of tax liabilities deemed uncollectible," Everson said, adding it would also "help maintain taxpayer confidence in our tax system" and "allow the IRS to focus on more difficult cases and issues."

"Safeguarding taxpayer rights is paramount," Everson added. "The same IRS standards for customer service and protection of taxpayer rights will be strictly enforced. . .and [private collection agencies] will be prohibited from threatening or intimidating taxpayers or implying that enforcement action will be taken against them."