CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 17, 1999

H.R. 1827
Government Waste Corrections Act of 1999

As ordered reported by the House Committee on Government Reform on November 10, 1999

SUMMARY

H.R. 1827 would require federal agencies to conduct specialized audits of accounts that purchase at least $500 million of goods and services from the private sector. By increasing the federal government's recovery of erroneous payments made to the private sector, CBO estimates that enacting H.R. 1827 would decrease direct spending by $100 million over the 2000-2004 period and by $90 million over the 2000-2009 period. Consequently, pay-as-you-go procedures would apply to the bill. Implementing the bill could yield similar savings in net spending for amounts made available in years after fiscal year 2000, but such savings would depend on the amounts appropriated for the relevant accounts. In addition, CBO estimates that the Office of Management and Budget (OMB) would spend less than $500,000 a year to oversee and report on the bill's implementation and that the General Accounting Office (GAO) would spend less than $500,000 in each of fiscal years 2001 through 2003 to report on the bill's effectiveness.

H.R. 1827 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on the budgets of state, local, or tribal governments.

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

H.R. 1827 would require federal agencies to conduct specialized audits of accounts that purchase at least $500 million of goods and services from the private sector. The audits, referred to as recovery auditing, are conducted using software that identifies such anomalies as pricing errors on invoices, duplicate payments, miscalculated freight charges, and any failure to provide applicable rebates, allowances, and discounts.

For certain accounts, H.R.1827 would allow agencies to retain and spend, without further appropriation action, one-half of any amounts collected from conducting recovery audits. Agencies could use the amounts they retain to improve management functions and to pay for the costs of performing the audits. The bill would require agencies to deposit the remaining amounts recovered in the Treasury as miscellaneous receipts.

As part of its role in overseeing the bill's implementation, OMB could exempt agencies or programs from the requirements of H.R. 1827. The bill would require both OMB and GAO to report to the Congress on the bill's implementation in each of fiscal years 2001 through 2003.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 1827 would increase offsetting receipts from the recovery of overpayments by about $180 million over fiscal years 2001 through 2005. That estimate represents recovery of overpayments made with funds appropriated during fiscal years 1998, 1999, and 2000. Because the bill would allow agencies to retain and spend one-half of such amounts without further appropriation, CBO estimates that the bill would also increase direct spending by a total of about $90 million over fiscal years 2002 through 2006. Implementing the bill could yield similar savings in net spending for amounts made available in years after fiscal year 2000, but such savings would depend on the amounts appropriated.

The estimated budgetary impact of H.R. 1827 is shown in the following table. The costs of this legislation fall within multiple budget functions.

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING[a]					
Recovery of Overpayments					
Estimated Budget Authority	0	b	-20	-100	-50
Estimated Outlays	0	b	-20	-100	-50
Spending by Agencies					
Estimated Budget Authority	0	b	10	50	25
Estimated Outlays	0	b	5	25	40
Total Changes					
Estimated Budget Authority	0	b	-10	-50	-25
Estimated Outlays	0	b	-15	-75	-10

a. Implementing the bill would also affect spending subject to appropriation.

b. Less than $500,000.

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted early in fiscal year 2000.

Direct Spending

Audits of Appropriated Accounts. Within 18 months of enactment, H.R. 1827 would require agencies to begin conducting recovery audits of payments made from certain accounts during fiscal years 1998 and 1999. CBO expects that audits of payments made during fiscal year 2000 would begin early in 2002. Based on an analysis of data from the *Federal Procurement Report, Fiscal Year 1998,* which is compiled by the General Services Administration, CBO estimates that recovery audits could apply to about $125 billion in annual payments that were made in each of fiscal years 1998 and 1999, net of those payments (including payments from revolving and working capital funds) that we expect will be audited under current law. However, CBO expects that OMB would exempt certain accounts from the bill's requirements, including accounts that involve the research, testing, and procurement of military weapons, finance federal law enforcement activities, and involve medical records. Thus, we estimate that the bill's requirement to audit payments would apply to about $60 billion in annual payments.

In the private sector, companies using the recovery audit process have identified and collected approximately $1 for every $1,000 in audited payments, or a rate of 0.1 percent. Recovery audits of some payments made by the Department of Defense (DoD) have identified a payment error rate of 0.4 percent; however, DoD's experience in recovering the identified overpayments is mixed. On average, CBO assumes the federal government would recover about 0.1 percent of the $60 billion audited, or $60 million a year. That rate takes into account the increased difficulty in collecting overpayments that are more than one year old and the likelihood that federal agencies will settle for less than full payment on some of these debts. We expect that agencies would not begin collecting overpayments from contractors until the end of fiscal year 2001.

Audits of Revolving and Working Capital Funds. H.R. 1827 also could affect spending from accounts that receive no annual appropriations, such as revolving and working capital funds. Some agencies, particularly the DoD, are currently auditing tens of billions of dollars of payments from such accounts already, and CBO expects that they will continue to expand their use of recovery auditing to recapture overpayments made from these accounts. Under the bill, none of the funds recovered by revolving and working capital funds would be deposited in the Treasury. Therefore, the legislation would have no net budgetary effect for such accounts.

Discretionary Spending

If recovery audits are used to collect overpayments made with funds appropriated after 2000, then implementing the bill could yield savings similar to the net recoveries estimated for audits of 1998, 1999, and 2000, but such savings would depend on the amounts appropriated for the relevant accounts. If appropriations were to continue at about the same level as in fiscal year 2000, the net savings would average about $30 million a year in 2003 and subsequent years.

In addition, CBO estimates that OMB would spend less than $500,000 a year to oversee and report on the bill's implementation and that GAO would spend less than $500,000 in each of fiscal years 2001 through 2003 to report on the bill's effectiveness.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	0	-15	-75	-10	7	3	0	0	0
Changes in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1827 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on the budgets of state, local, or tribal governments.

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