

# Project On Government Oversight

## **Easy Money: Top Five Recommendations for Increasing Revenue and Cutting Costs**

February 27, 2009

As Congress and the Obama administration prepare to spend billions, if not trillions, of taxpayer dollars to bail out U.S. financial institutions and to stimulate the economy, the Project On Government Oversight (POGO) would like to highlight its top five recommendations for quickly increasing revenue and cutting costs.

<b>Recommendations</b>	<b>Estimated Revenue/Savings</b>
1. Congress and the Department of Defense need to make fundamental weapons acquisition reforms and redefine the military's 21 <sup>st</sup> -century priorities in order to reduce wasteful defense spending.	\$39 billion
2. Federal agencies and Congress should work together to ensure that government auditors and Inspectors General have sufficient funding, staffing, and resources to expose wasteful and abusive spending. In addition, agencies should make every effort to implement the recommendations made by these oversight bodies, or at least provide a satisfactory explanation for not doing so. Experience has shown that increased funding for auditors and investigators ultimately results in greater savings for taxpayers.	\$31.5 billion
3. The Department of Energy should downblend its excess highly enriched uranium and sell it as fuel for nuclear reactors.	\$21.6 billion
4. Congress and the Department of Energy should substantially reduce the number of deployed nuclear warheads, which would save money not only on the refurbishment of unneeded warheads but also on associated delivery systems. In addition, Congress should consider eliminating funding for wasteful and unnecessary nuclear weapons facilities and plutonium pits.	\$11.2 billion
5. The Department of the Interior should phase out its Royalty-In-Kind program and return to a market-priced Royalty-In-Value program.	Unknown
<b>TOTAL</b>	<b>\$103.3 billion</b>

In his recent address to the joint session of Congress, President Obama announced that he has “begun to go line by line through the federal budget in order to eliminate wasteful and ineffective programs.”<sup>1</sup> The President has released his FY 2010 budget proposal,<sup>2</sup> but POGO would like to provide additional recommendations that are not captured in the President’s budget to assist the President and Congress in their effort to eliminate wasteful and ineffective programs. These recommendations would result in an increase of over \$100 billion in revenue and savings for the federal government, nearly all of which can be accomplished over the next four or five years.

### **1. Congress and the Department of Defense need to make fundamental weapons acquisition reforms and redefine the military’s 21<sup>st</sup>-century priorities in order to reduce wasteful defense spending.**

A recent Government Accountability Office (GAO) report found that the Department of Defense’s (DoD) FY 2007 weapons portfolio was \$300 billion over initial estimates.<sup>3</sup> POGO has issued many recommendations over the years for protecting taxpayers from out-of-control defense spending.<sup>4</sup> Given today’s security and budgetary challenges, the time has come for Congress and DoD to implement long-needed weapons acquisition reforms and eliminate costly and outdated weapons programs.

In recent months, a number of government and private research organizations have issued sensible recommendations for reducing wasteful defense spending without jeopardizing national security interests. For instance, a January 2009 paper by the Congressional Budget Office (CBO) considered the long-term implications of current U.S. defense plans, and proposed several alternatives that could save taxpayers money in the long run.<sup>5</sup>

One such alternative is the CBO’s “evolutionary” approach, in which DoD would “forgo or scale back acquisition of the new, advanced capabilities that the agency associates with military transformation and instead pursue evolutionary upgrades to its current capabilities.” Even in the next four years, this approach could lead to substantial savings on several weapons programs and

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<sup>1</sup> Remarks of President Barack Obama. “Address to Joint Session of Congress.” Tuesday, February 24th, 2009. [http://www.whitehouse.gov/the\\_press\\_office/Remarks-of-President-Barack-Obama-Address-to-Joint-Session-of-Congress](http://www.whitehouse.gov/the_press_office/Remarks-of-President-Barack-Obama-Address-to-Joint-Session-of-Congress) (Downloaded February 26, 2009)

<sup>2</sup> Office of Management and Budget. *A New Era of Responsibility: Renewing America’s Promise*. February 26, 2009. [http://www.whitehouse.gov/omb/assets/fy2010\\_new\\_era/A\\_New\\_Era\\_of\\_Responsibility2.pdf](http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf) (Downloaded February 26, 2009)

<sup>3</sup> Government Accountability Office. Testimony Before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs. *Defense Acquisitions: Fundamental Changes Are Needed to Improve Weapon Program Outcomes* (GAO-08-1159T). September 25, 2008. p. 4. <http://www.gao.gov/new.items/d081159t.pdf> (Downloaded December 11, 2008)

<sup>4</sup> Project On Government Oversight. National Security Investigations. <http://www.pogo.org/investigations/national-security>

<sup>5</sup> Congressional Budget Office. *Long-Term Implications of the Fiscal Year 2009 Future Years Defense Program*. January 2009. <http://www.cbo.gov/ftpdocs/99xx/doc9953/01-06-DefensePlans.pdf> (Downloaded February 24, 2009)

would provide even greater savings in the outyears, while still providing the capabilities needed by our warfighters. For instance:

- The Army could upgrade its existing tanks and fighting vehicles with the enhanced capabilities being developed as part of the Future Combat Systems (FCS) program, but cancel the FCS program. **Estimated savings: \$3.3 billion**
- DoD could test, support, and upgrade ground-based missile defense programs at two sites, but defer plans to deploy a third site in Europe. DoD could also defer deployment of future missile defense systems, such as the airborne laser and the Space Tracking and Surveillance System satellites. **Estimated savings: \$4.6 billion**

Additional recommendations worthy of consideration are offered by the Center for American Progress, including:

- End production of the F-22 Raptor at 183 planes. **Estimated savings: \$12 billion**<sup>6</sup>
- Continue development of the F-35 Lightning II Joint Strike Fighter, but do not start full-scale production until flight tests have been completed. To make up for the scheduled gap in fighter aircraft, DoD should buy F-16 Block 60 fighters and F/A-18E/F Super Hornets. **Estimated savings: \$1.8 billion**<sup>7</sup>
- Cancel the MV-22 Osprey while continuing production of the CV-22. **Estimated savings: \$1.8 billion**<sup>8</sup>

In addition, President Obama has indicated a willingness to make cuts to the VH-71 Presidential Helicopter Replacement Program (Marine One), which he called an example of military procurement “gone amok.”<sup>9</sup> DoD confirmed last year that the acquisition cost of the program has increased from \$6.5 to \$11.2 billion.<sup>10</sup> If DoD were to cancel Increment II of the program, it would **save taxpayers around \$7.5 billion**.<sup>11</sup>

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<sup>6</sup> Center for American Progress. *Building a Military for the 21<sup>st</sup> Century: New Realities, New Priorities*. December 2008. p. 43. [http://www.americanprogress.org/issues/2008/12/pdf/military\\_priorities.pdf](http://www.americanprogress.org/issues/2008/12/pdf/military_priorities.pdf) (Downloaded February 10, 2009)

<sup>7</sup> Center for American Progress. p. 45.

<sup>8</sup> Center for American Progress. p. 47.

<sup>9</sup> R. Jeffrey Smith. “Marine One Upgrade Now Looks Less Likely.” *Washington Post*. February 24, 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/02/23/AR2009022302574.html> (Downloaded February 26, 2009)

<sup>10</sup> Peter Baker. “Cost Nearly Doubles for Marine One Fleet.” *Washington Post*. March 17, 2008. <http://www.washingtonpost.com/wp-dyn/content/article/2008/03/16/AR2008031602936.html> (Downloaded February 26, 2009)

<sup>11</sup> Geoff Fein. “White House Wants VH-71 Increment 2, But Redesign Will Lead to Cost Increase.” *Defense Daily*. March 17, 2008. [http://findarticles.com/p/articles/mi\\_6712/is\\_51\\_237/ai\\_n29424442](http://findarticles.com/p/articles/mi_6712/is_51_237/ai_n29424442) (Downloaded February 26, 2009)

Finally, DoD should stop paying contractors award and incentive fees regardless of acquisition outcomes, which has **cost taxpayers \$8 billion** according to the GAO.<sup>12</sup>

*Estimated Savings: \$39 billion*

**2. Federal agencies and Congress should work together to ensure that government auditors and Inspectors General have sufficient funding, staffing, and resources to expose wasteful and abusive spending. In addition, agencies should make every effort to implement the recommendations made by these oversight bodies, or at least provide a satisfactory explanation for not doing so. Experience has shown that increased funding for auditors and investigators ultimately results in greater savings for taxpayers.**

Auditors and IGs are on the front lines of rooting out wasteful spending in federal agencies. It is essential that these offices have the funding, staffing, and resources they need to do their job. Unfortunately, many oversight and IG offices are overworked and understaffed. For instance, a 2008 DoD IG report found that while Pentagon spending has soared in recent years to cover the costs of the global war on terrorism and the wars in Iraq and Afghanistan, staffing at the IG office has remained “nearly constant.” As a result, in FY 2007 nearly half of the \$316 billion spent on weapons acquisition did not receive sufficient audit coverage.<sup>13</sup> Congress needs to provide auditors and IG offices with sufficient resources so that they can be truly effective “junkyard” watchdogs. Although some IGs are receiving extra funding as part of the stimulus bill, it is also important to increase their funding in the long term.

A 2002 POGO report found that at the Defense Criminal Investigative Service (part of the DoD IG’s office), every dollar spent resulted in \$14 in anticipated recoveries.<sup>14</sup> A more recent report by the General Services Administration IG found that “for every dollar invested in preaward contract reviews, at least \$10 in lower prices or more favorable terms and conditions are attained for the benefit of the government and the taxpayer.”<sup>15</sup>

In addition, in FY 2008, federal contracting officers did not uphold the Defense Contract Audit Agency’s (DCAA) findings on **\$6.5 billion** in questioned, disallowed, or unsupported contract

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<sup>12</sup> Government Accountability Office. *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes* (GAO-06-66). December 2005. <http://www.gao.gov/new.items/d06666.pdf> (Downloaded December 11, 2008)

<sup>13</sup> Department of Defense Office of the Inspector General. *Department of Defense Inspector General Growth Plan for Increasing Audit and Investigative Capabilities, Fiscal Years 2008-2015*. March 31, 2008. <http://pogoarchives.org/m/go/ig/DoD-ig-growth-plan-20080331.pdf> (Downloaded December 11, 2008)

<sup>14</sup> Project On Government Oversight. *Pick Pocketing the Taxpayer: The Insidious Effects of Acquisition Reform*. March 11, 2002. <http://www.pogo.org/pogo-files/reports/contract-oversight/pickpocketing-the-taxpayer/co-rcv-20020311.html>

<sup>15</sup> General Services Administration Office of Inspector General. *Semiannual Report to the Congress: October 1, 2007 – March 31, 2008*. p. 2. [http://oig.gsa.gov/semireports/OIG\\_SAR1007-0308.pdf](http://oig.gsa.gov/semireports/OIG_SAR1007-0308.pdf) (Downloaded December 11, 2008)

costs. This represented over one-third of all costs found to be unsupported by DCAA.<sup>16</sup> Furthermore, a recent report by the majority staff of the House Oversight and Government Reform Committee found that federal agencies **could potentially save taxpayers over \$25 billion** by implementing over 13,000 recommendations that have been made by IGs since 2001.<sup>17</sup>

If implemented, the combined recommendations by IGs and the DCAA would potentially result in \$31.5 billion in savings. If agencies decide not to implement these recommendations, they should at least be required to provide a compelling reason for not doing so.

*Estimated Savings: \$31.5 billion*

### **3. The Department of Energy should downblend its excess highly enriched uranium and sell it as fuel for nuclear reactors.**

Internal security tests and analyses have shown that the Department of Energy (DOE) cannot adequately protect America's voluminous stockpiles of weapons grade nuclear material.<sup>18</sup> In addition to posing a significant homeland security vulnerability, this dangerous material is very expensive to store and secure. DOE should accelerate the downblending of its several hundred tons of excess highly enriched uranium (HEU) and sell it as low-enriched uranium (LEU) fuels for nuclear reactors. Harvard University's Matthew Bunn has estimated that each ton of LEU that is downblended from HEU would be worth \$72 million.<sup>19</sup> Therefore, downblending 300 metric tons of HEU<sup>20</sup> and selling it as reactor fuel would result in **gross revenue of \$21.6 billion**.

*Estimated Revenue: \$21.6 billion*

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<sup>16</sup> Defense Contract Audit Agency. *Response to Danielle Brian, Executive Director, Project On Government Oversight*. January 27, 2009. <http://pogoarchives.org/m/go/dcaa-response-20090127.pdf> (Downloaded February 10, 2009)

<sup>17</sup> U.S. House of Representatives, Committee on Oversight and Government Reform, Majority Staff. *Inspectors General: Implementing Thousands of Open Recommendations Could Save Taxpayers Almost \$26 Billion*. January 2009. <http://oversight.house.gov/documents/20090112173007.pdf> (Downloaded January 14, 2009)

<sup>18</sup> Project On Government Oversight. *U.S. Nuclear Weapons Complex: Livermore Homes and Plutonium Make Bad Neighbors*. March 17, 2008. <http://www.pogo.org/pogo-files/reports/nuclear-security-safety/livermore/nss-livermore-20080317.html>

<sup>19</sup> Matthew Bunn. *Expanded and Accelerated HEU Downblending: Designing Options to Serve the Interests of All Parties*. Presented at the Institute for Nuclear Materials Management's 49<sup>th</sup> Annual Meeting, July 13-17, 2008. [http://www.nti.org/c\\_press/Bunn%20INMM%20July%202008%20logo.pdf](http://www.nti.org/c_press/Bunn%20INMM%20July%202008%20logo.pdf) (Downloaded December 11, 2008)

<sup>20</sup> This would include a combination of the HEU that has already been declared as excess as well as the HEU that is being created through the ongoing dismantlement of nuclear weapons.

**4. Congress and the Department of Energy should substantially reduce the number of deployed nuclear warheads, which would save money not only on the refurbishment of unneeded warheads but also on associated delivery systems. In addition, Congress should consider eliminating funding for wasteful and unnecessary nuclear weapons facilities and plutonium pits.**

Congress could easily save money by reducing the existing nuclear weapons stockpile. A recent report by the Carnegie Endowment for International Peace found that the U.S. spent approximately \$29.1 billion in FY 2008 to operate and maintain the nation's nuclear arsenal and nuclear weapons production complex. Although the exact number has not been disclosed, experts estimate that the U.S. military stockpile contains approximately 5,204 nuclear warheads, with an additional 4,400 warheads awaiting dismantlement.<sup>21</sup> In a 2008 op-ed piece in the *Wall Street Journal*, George Shultz, William Perry, Henry Kissinger, and Sam Nunn proposed that U.S. nuclear forces could be vastly reduced without jeopardizing national security.<sup>22</sup> Reducing the number of deployed warheads would also save money on associated delivery systems such as the B-52, the Minuteman III, and the D5 Trident missile and submarines.

An upcoming report by the Nuclear Weapons Complex Consolidation Policy Network estimates that the U.S. could save \$2.5 to 3 billion by reducing the stockpile of nuclear weapons to 1,000 by 2015, and dramatically shrinking the nuclear weapons complex and limiting weapons activities.<sup>23</sup>

Still more money could be saved by halting construction on the Chemistry and Metallurgy Research Replacement – Nuclear Facility (CMRR-NF) at Los Alamos National Laboratory (LANL), since existing LANL buildings such as the Plutonium Facility (PF-4) could be refurbished and expanded for the same purpose, but at much less cost.

Another expenditure that can be eliminated is the proposed construction of the Uranium Processing Facility (UPF) at Y-12 National Security Complex in Tennessee. DOE has provided no clear rationale for this facility. In fact, the construction of a new building gives it an out from downblending the hundreds of metric tons of excess HEU that DOE is currently storing at great risk and cost.<sup>24</sup>

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<sup>21</sup> Stephen I. Schwartz and Deepti Choubey. Carnegie Endowment for International Peace. *Nuclear Security Spending: Assessing Costs, Examining Priorities*. January 2009. [http://carnegieendowment.org/files/nuclear\\_security\\_spending\\_complete\\_high.pdf](http://carnegieendowment.org/files/nuclear_security_spending_complete_high.pdf) (Downloaded January 14, 2009)

<sup>22</sup> George P. Shultz, William J. Perry, Henry A. Kissinger, and Sam Nunn. "Toward a Nuclear-Free World." *Wall Street Journal*. January 15, 2008. [http://online.wsj.com/public/article\\_print/SB120036422673589947.html](http://online.wsj.com/public/article_print/SB120036422673589947.html) (Downloaded February 26, 2009)

<sup>23</sup> Nuclear Weapons Complex Consolidation (NWCC) Policy Network. *A New Strategic Posture for the United States and a Nuclear Weapons Complex to Support It*. Report to be released April 8, 2009.

<sup>24</sup> Project On Government Oversight. *POGO makes comments on the final Supplemental Programmatic Environmental Impact Statement for the National Nuclear Security Administration's (NNSA) Records of Decision on Complex Transformation*. November 21, 2008. <http://www.pogo.org/pogo-files/letters/nuclear-security-safety/nss-nwc-20081121.html>

CMRR-NF is currently estimated to cost \$2.6 billion, more than four times the initial estimate,<sup>25</sup> and the current design cost for UPF is \$3.5 billion.<sup>26</sup> The cost of both projects is likely to be even higher given DOE's past performance on major construction costs. For instance, the cost estimate for the Highly Enriched Uranium Materials Facility (HEUMF) at Y-12 has ballooned from \$97 million to \$500 million.<sup>27</sup>

Congress should also eliminate funding for new plutonium pits, a core component of nuclear weapons. The House Energy and Water Appropriations Subcommittee recently concluded that the additional production of plutonium pits "serves obsolete Cold War concepts rather than current or future needs."<sup>28</sup> In addition, a review by JASON, the government's senior independent scientific advisory group, found that thousands of pits in the U.S. stockpile will be viable for at least 100 more years, obviating the need for new ones.<sup>29</sup> NNSA's current plan to produce 20 pits at \$130 million per pit would cost taxpayers \$2.6 billion. Eliminating funding for additional pits would also negate the need for pit production facilities such as the CMRR-NF.

To summarize: the government could **save \$2.5 billion** by reducing the nuclear weapons stockpile, **\$2.6 billion** by canceling the proposed construction of the CMRR-NF, **\$3.5 billion** by canceling the proposed construction of the UPF, and **\$2.6 billion** by eliminating funding for nuclear pit production.

*Estimated Savings: \$11.2 billion*

## **5. The Department of the Interior should phase out its Royalty-In-Kind program and return to a market-priced Royalty-In-Value program.**

Oil and gas royalties collected from drilling on federal lands and waters are one of the largest sources of federal revenue other than taxes. Despite its important mission of collecting these royalties, the Department of the Interior's (DOI) Minerals Management Service (MMS) has become best known for its mismanagement and corruption.<sup>30</sup> In recent years, MMS has

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<sup>25</sup> Senate Committee on Armed Services. *National Defense Authorization Act for Fiscal Year 2009*. May 12, 2008. p. 511. [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110\\_cong\\_reports&docid=f:sr335.110.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_reports&docid=f:sr335.110.pdf) (Downloaded December 11, 2008)

<sup>26</sup> Institute for Defense Analyses. *Economic Analysis of National Nuclear Security Administration (NNSA) Modernization Alternatives*. November 2007. p. 56. <http://stinet.dtic.mil/cgi-bin/GetTRDoc?AD=A479445&Location=U2&doc=GetTRDoc.pdf> (Downloaded December 11, 2008)

<sup>27</sup> Project On Government Oversight. *U.S. Nuclear Weapons Complex: Y-12 and Oak Ridge National Laboratory at High Risk*. October 16, 2006. <http://www.pogo.org/pogo-files/reports/nuclear-security-safety/Y-12/nss-y12-20061016.html>; and Frank Munger. "Lots of changes occurring at Y-12; Cost of biggest project has increased about \$150 million." *Knoxville News Sentinel*, September 18, 2006.

<sup>28</sup> John Fleck and Michael Coleman. "LANL Funds May Be Sliced; House Committee Wants Nuke Production Halted." *Albuquerque Journal*. June 25, 2008.

<sup>29</sup> JASON. *Pit Lifetime*. November 20, 2006. <http://www.ipfmlibrary.org/jas06.pdf> (Downloaded January 14, 2009)

<sup>30</sup> Department of the Interior Office of Inspector General. *Investigative Report: Gregory W. Smith*. August 7, 2008. [http://www.doioig.gov/upload/Smith%20REDACTED%20FINAL\\_080708%20Final%20with%20transmittal%209\\_10%20date.pdf](http://www.doioig.gov/upload/Smith%20REDACTED%20FINAL_080708%20Final%20with%20transmittal%209_10%20date.pdf) (Downloaded February 26, 2009);



increasingly accepted royalty payments in the form of product rather than cash. But despite MMS's embrace of the Royalty-In-Kind (RIK) program, the GAO has repeatedly found that MMS cannot accurately verify the program's costs and benefits. In fact, the information that is available strongly suggests that RIK exists primarily to benefit the oil and gas industry.

While the opaqueness of the RIK program makes it difficult to estimate its costs and benefits, the GAO has found, for instance, that in FY 2006, 64 percent of oil collected in kind was sold for less than MMS would have received for the oil in value. The GAO also found that MMS has not been upfront about the uncertainties surrounding the supposed benefits of taking royalties in kind. A 1 percent error in the estimate of what the agency would have received in cash payments can lead to a difference of millions of dollars in comparing the benefits of taking royalties in kind versus in value.<sup>31</sup>

***Estimated Revenue: Unknown***

*The Project On Government Oversight (POGO) is an independent nonprofit that investigates corruption and other misconduct in order to achieve a more effective, accountable, open, and honest federal government. Throughout its 27-year history, POGO has consistently issued recommendations aimed at improving the government's collection of revenue and eliminating wasteful spending programs.*

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Department of the Interior Office of Inspector General. *Investigative Report: MMS Oil Marketing Group – Lakewood*. August 19, 2008. p. 8. [http://www.doioig.gov/upload/RIK%20REDACTED%20FINAL4\\_082008%20with%20transmittal%209\\_10%20date.pdf](http://www.doioig.gov/upload/RIK%20REDACTED%20FINAL4_082008%20with%20transmittal%209_10%20date.pdf) (Downloaded February 26, 2009); and Department of the Interior Office of Inspector General. *Investigative Report: Federal Business Solutions Contracts*. September 4, 2008. [http://www.doioig.gov/upload/FBS%20REDACTED%20with%20Transmittal%209\\_10%20date.pdf](http://www.doioig.gov/upload/FBS%20REDACTED%20with%20Transmittal%209_10%20date.pdf) (Downloaded February 26, 2009)

<sup>31</sup> Government Accountability Office. *Oil and Gas Royalties: MMS's Oversight of Its Royalty-in-Kind Program Can Be Improved through Additional Use of Production Verification Data and Enhanced Reporting of Financial Benefits and Costs* (GAO-08-942R). September 26, 2008. pp. 8-9. <http://www.gao.gov/new.items/d08942r.pdf> (Downloaded December 11, 2008)