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Major Management Challenges and Program Risks

A Governmentwide Perspective

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Contents

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The President of the Senate
The Speaker of the House of Representatives

This report addresses a range of governmentwide challenges and opportunities to enhance the performance and accountability of the federal government and position our country for the future. It is intended to help the new Congress and administration consider the actions needed to support the transition to a more results-oriented and accountable federal government. It should also stimulate dialogue about a number of long-term fiscal and policy challenges facing the nation.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In the 1999 series, GAO advised Congress that it planned to reassess the methodologies and criteria used to determine which federal government programs and functions should be highlighted and designated as "high risk." GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP), in November 2000. The criteria and methodology described in that document were used as the basis for designating certain programs and functions as high-risk in the series.

In addition to this governmentwide perspective on performance and accountability challenges, the 2001 *Performance and Accountability Series* contains separate reports on 21 agencies—covering each cabinet department, most major independent agencies, and the U.S. Postal Service. As a companion volume to this series, GAO is issuing an update on those major government operations and programs that its work identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement.

David M. Walker
Comptroller General
of the United States

Major Management Challenges and Program Risks: A Governmentwide Perspective

As our nation moves into the 21st century, the 107th Congress and the new administration face an array of challenges and opportunities to enhance the performance and accountability of the federal government and position our country for the future. Increased globalization, rapid technological advances, shifting demographics, changing security threats, and various quality of life considerations are prompting fundamental changes in the environment in which the government operates. These trends are placing a premium on increasing strategic planning, using integrated approaches, enhancing results-orientation, improving responsiveness, and ensuring accountability within the federal government.

At the same time, the current projected trend of budget surpluses presents both an opportunity and an obligation for the legislative and executive branches of government to look at a range of fundamental policy and fiscal issues in advance of the forthcoming demographic tidal wave associated with the retirement of the "baby boom" generation. This includes comprehensively reassessing what government does and how government does business in the 21st century. It also includes focusing on the longer term fiscal implications of current programs and policies and a range of existing and emerging major management challenges and program risks confronting the federal government.

We have many initiatives under way to help Congress and the executive branch meet the challenges to the well-being and financial security of the American people, address security threats facing our nation, and deal with the issues raised by global interdependence.[1] This special performance and accountability series is devoted to framing the actions needed to support the

[1] *GAO Strategic Plan 2000-2005, Serving the Congress and the Nation.*

transition to a more results-oriented and accountable federal government. It also is intended to stimulate dialogue on seizing the opportunity to reassess government programs and make decisions with an eye toward a number of long-term fiscal and policy challenges.

With regard to improving government performance and accountability, the main actions needed to shape an efficient and effective federal government for the 21st century are as follows:

- First, give high priority to fully implementing existing legislative reforms essential to modernizing performance management, financial accountability, and information technology practices.
- Second, address the urgent need to revamp the federal government's entire strategic approach to human capital (people) management before the erosion of government's capacity to perform more dramatically undermines agencies' abilities to efficiently and effectively serve the American people.
- Third, continue to attack government activities at particular risk of fraud, waste, abuse, and mismanagement in order to save billions of dollars, improve services and programs, and strengthen public confidence and trust in government.
- Fourth, confront critical challenges facing individual departments and agencies in carrying out their missions.
- Fifth, pursue organizational approaches that recognize the reality of evolving global, technological, workforce, and other dynamics and needs associated with a transition to a knowledge-based economy.

Beyond addressing this fundamental management foundation, however, lie certain added dimensions to the challenge of governing in the 21st century. Among these are:

- promoting a more sustainable longer term budget and economic outlook to help safeguard the ability of future generations to afford the commitments of today and make decisions regarding the role of the federal government in the future given our aging society; and
- taking advantage of the window of opportunity presented by the current improvement in the federal government's financial position not only to reassess fiscal policies, but also to (1) review options for improving the efficiency and effectiveness of individual federal programs, (2) thoroughly reassess what government does and how government does business, and (3) revisit targeting approaches that distribute assistance to beneficiaries by recognizing the differences between wants, needs, and affordability.

Finally, it is important to reach consensus on needed changes and forge executive/legislative partnerships to promote effective implementation of agreed upon goals—both on the policy front and with regard to certain management reforms that are central to strengthening the performance and accountability of our federal government. For example, progress achieved to date in improving financial and information management and a results-oriented focus has only been attained through the use of a solid legislative framework and concerted, sustained executive and congressional attention. In this regard, congressional oversight is essential to further progress. Now is the opportune time to review, revise, and reinvigorate the oversight process to help address today's challenges and prepare our country for tomorrow.

Build on Progress Already Made in Implementing a Management Framework

Over the last decade, Congress and the executive branch have worked hard to implement a statutory framework to improve the performance and accountability of the executive branch and to enhance executive branch and congressional decisionmaking.[2] This framework includes as its core elements

- results-oriented management legislation, especially the Government Performance and Results Act (GPRA), which is intended to shift the focus of government decisionmaking, management, and accountability from activities and processes to the results and outcomes achieved by federal programs;
- financial management reforms, including the Chief Financial Officers (CFO) Act and related legislation, that have established the foundation for the routine generation of timely, accurate, and useful financial and cost information crucial to informed decisionmaking, adequate stewardship over valuable public resources, and basic accountability;
- information technology (IT) reform legislation, including the Paperwork Reduction and Clinger-Cohen Acts, which attempts to ensure that agencies' information technology projects are implemented within reasonable cost and time frames and that costly investments contribute to tangible improvements in performance.

As a result of this framework, the last few years have seen substantial progress in establishing the basic infrastructure needed to create high-performing federal organizations. However, much work remains before this framework is effectively implemented across the government. Agencies are still in the early stages of

[2] *Managing for Results: The Statutory Framework for Performance-Based Management and Accountability* (GAO/GGD/AIMD-98-52, Jan. 28, 1998).

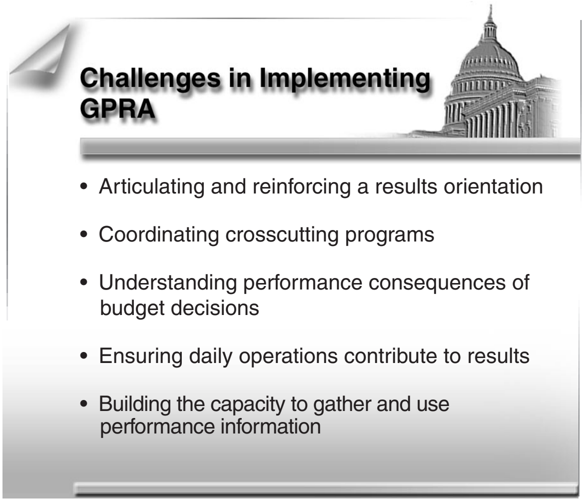
transforming their organizational cultures to improve decisionmaking and strengthen performance and accountability. This transformation is not an easy one. It will require investments of time and resources as well as sustained commitment and attention from key leaders within the executive and legislative branches of government. However, the return on these investments is potentially very great.

These reforms, with their focus on results-oriented and accountability-based management approaches, are helping to build a government that is better equipped to deliver economical, efficient, and effective programs and services to the American people. Strong and consistent messages of support from the new administration and continued active support by Congress are critical if the government is to build on the important progress that it has already made. Our thoughts on how to do this follow.

Results-Oriented Management

In the approximately 3 and a half years since federal agencies began implementing GPRA, new and valuable information on the plans, goals, and strategies of federal agencies has been provided. As Congress expected in crafting the legislation, each successive cycle of annual performance planning has seen improvements on prior years' efforts. Congressional and executive branch decisionmakers are using the information more and more. Additionally, the issuance of agencies' annual performance reports each March now represents a new and potentially more substantive stage in the implementation of GPRA— the opportunity to assess federal agencies' actual performance for a specific fiscal year and to consider what steps are needed to improve performance and reduce costs in the future.

Our assessments of GPRA have identified a set of continuing implementation challenges.[3]

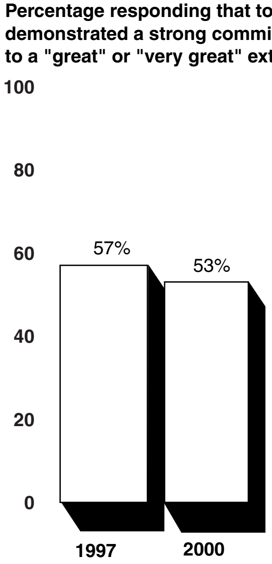


Addressing these challenges requires strong support and sustained commitment by top leadership. On the basis of the results of our 1997 and 2000 governmentwide surveys of federal managers, as shown in figure 1, only about one-half of the federal managers perceived, to a great or very great extent, that their agencies' top leadership demonstrated a strong commitment to achieving results.[4]

[3] See, for example, *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999) and *Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans* (GAO/GGD/AIMD-98-228, Sept. 8, 1998).

[4] For details on our surveys see *Managing for Results: Federal Managers Views Show Need for Ensuring Top Leadership Skills* (GAO-01-127, Oct. 20, 2000).

Figure 1: Federal Managers' Views on Agency Top Leadership's Demonstrated Commitment to Achieving Results



Note: The change between 1997 and 2000 is not statistically significant.

Source: GAO survey data.

To build leadership commitment and help ensure that managing for results becomes the standard way of doing business, some agencies are using performance agreements to define accountability for specific goals, monitor progress, and evaluate results. Congress has recognized the role that performance agreements can play in holding organizations and executives accountable for results. For example, in 1998, Congress chartered the Office of Student Financial Assistance as a performance-based organization, and required it to implement performance agreements. Our work has identified five common emerging benefits from the use of results-oriented performance agreements.[5]

Care must be taken to ensure that GPRA does not become an overly burdensome annual paperwork exercise. Performance agreements can be effective vehicles for ensuring that day-to-day activities are targeted squarely on achieving results and that the proper mix of program strategies and budget and human capital resources are in place to meet organizational goals.

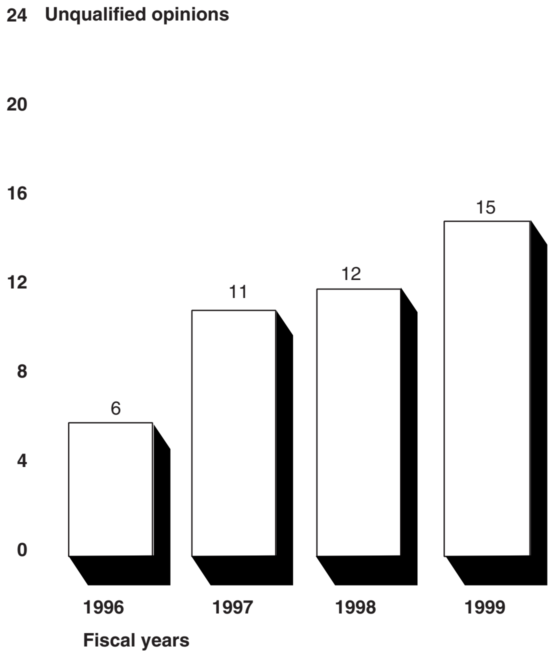
Financial Management

Agencies continue to make progress implementing the improvements called for by financial management reform legislation. These efforts will have to be sustained and built upon to attain the "end game" of having timely, accurate, and useful financial, program

[5] *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements* (GAO-01-115, Oct. 30, 2000).

costs, and other important management information in order to make decisions and monitor government performance every day. One important milestone toward this end game is for each agency to receive an unqualified or "clean" opinion on its annual financial statements. As shown in figure 2, steady progress is being made in the number of agencies that have been able to do so.

Figure 2: Number of the 24 CFO Agencies With Unqualified Opinions on Financial Statements



Source: Agencies' financial statements audit reports.

Attaining clean audit opinions is essential to providing an annual public scorecard. Producing auditable financial statements is also important in order to have sound financial information available for use by

Congress in overseeing agency programs, agency managers in maintaining accountability and managing operations, and the Department of the Treasury in preparing the legislatively required U.S. government financial statements.

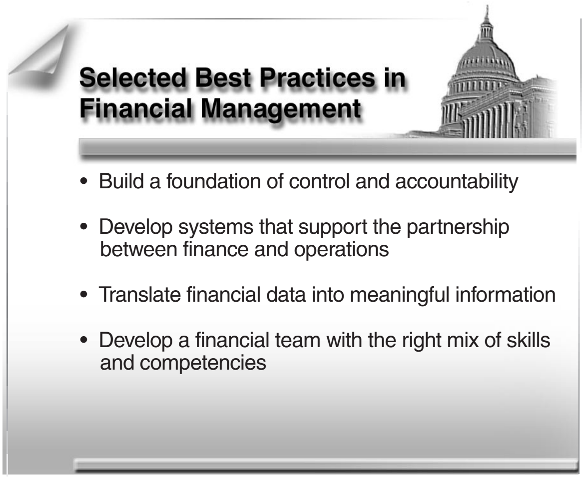
Although real progress has been made, several major departments are not yet able to produce auditable financial statements on a consistent basis. The most significant in this regard is the Department of Defense (DOD), which represents a large percentage of the government's assets, liabilities, and net costs. While DOD has made progress and is working hard to correct its financial management systems and internal control weaknesses, it is not yet able to comply with generally accepted accounting principles and pass the test of an independent financial audit. Our high-risk update details the substantial and long-standing financial management problems at those agencies with the most significant financial management problems—DOD, the Forest Service, the Federal Aviation Administration (FAA), and the Internal Revenue Service (IRS). Because of deficiencies discussed in our most recent audit of the U.S. government's financial statements, we have been unable to render an opinion on the reliability of those statements for each of the last 3 years.[6]

Further, many agencies have only been able to obtain unqualified audit opinions through heroic efforts, which include using extensive ad hoc procedures and making billions of dollars in adjustments to derive numbers as of a single point in time—the end of the fiscal year. These efforts are often completed months after the end of the fiscal year. The fundamental problem is that these agencies' financial systems cannot dependably and routinely produce annual financial statements and other

[6] *Financial Audit: 1999 Report of the United States Government* (GAO/AIMD-00-131, Mar. 31, 2000).

information needed to manage day-to-day operations. For fiscal year 1999, agency financial auditors have reported that 21 of 24 major agencies' financial systems do not comply substantially with federal accounting standards or financial systems and other requirements.

To help agencies effectively implement financial management reforms, in April 2000, we issued an executive guide that describes best practices in financial management in leading private sector and state government organizations.[7]



It will be especially important for the new administration to sustain and expand current improvement efforts. Successfully achieving financial management reform will involve modernizing systems, improving internal control and financial reporting, and strengthening financial management operations and

[7] *Executive Guide: Creating Value Through World-Class Financial Management* (GAO/AIMD-00-134, Apr. 2000).

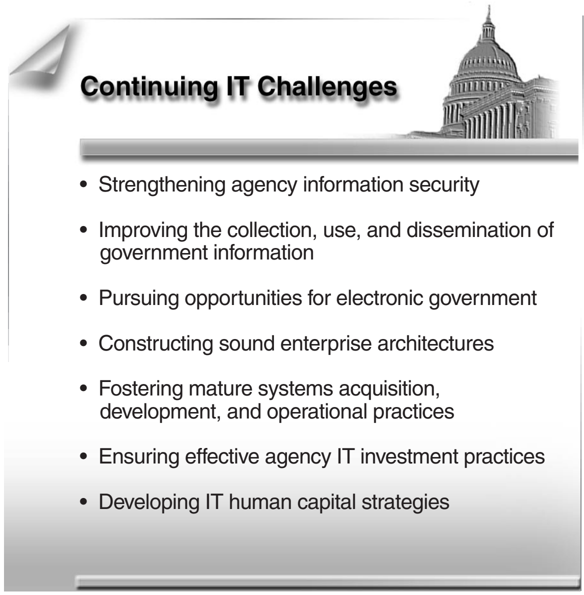
human capital policies and practices. With a concerted effort, the federal government can continue to progress toward meeting the end goal of having reliable, useful, and timely financial and other information available on a regular basis. Ultimately, providing data in meaningful, user-friendly reports is key to ensuring adequate accountability, managing for results, and helping decisionmakers make timely, well-informed judgments.

Information Technology Management

The rapid pace of technological change and innovation offers unprecedented opportunities for government to use IT to enhance service to citizens through improved performance and at reduced costs. To the extent that the billions of dollars in planned IT expenditures can be spent more wisely and the management of such technology improved, federal programs will be better prepared to meet mission goals and support national priorities.

A recent success that has yielded important lessons for IT management was the Year 2000 (Y2K) conversion challenge. In September 2000,[8] we reported that although the Year 2000 issue was finite, it led to the development of partnerships, initiatives, processes, methodologies, and experiences that can assist in resolving ongoing management challenges. It is critical that the momentum generated by the government's Year 2000 efforts not be lost and that the lessons learned be considered in addressing other pressing IT challenges.

[8] *Year 2000 Computing Challenge: Lessons Learned Can Be Applied to Other Management Challenges* (GAO/AIMD-00-290, Sept. 12, 2000).



To help address such challenges and improve IT management, Congress has enacted legislation to instill a results orientation in the acquisition and development of information systems. Federal agencies have also undertaken a variety of initiatives to enable citizens to conduct business with the government electronically, and therefore more quickly and easily.

Nevertheless, several large modernization efforts that are key to delivering critical services continue to be at risk. As detailed in our high-risk series update, these include projects under way to provide safe and efficient air travel, modernize tax processing and customer service operations, and support national defense.[9] Since these projects were designated high-risk in 1995, we

[9] *High-Risk Series: An Update* (GAO-01-263, January 2001).

have continued to monitor them and recommend ways to ensure that they are successful in improving service and reducing costs. FAA, IRS, and DOD are taking steps to implement modernization-management capabilities to address our recommendations, but these projects continue to face challenges that threaten their ultimate cost, schedules, and performance.

We further designated information security as a governmentwide high-risk area in 1997 because growing evidence indicated that controls over computerized federal operations were not effective and the related risks were escalating. As discussed in detail in our high-risk series update, while many actions have been taken, current activity is not keeping pace with the growing threat. Consequently, critical operations, assets, and sensitive information gathered from the public and other sources continue to be vulnerable to disruptions, data tampering, fraud, and inappropriate disclosure.

We and various agency inspectors general have made scores of recommendations to agencies regarding specific steps needed to make their security programs more effective. Most agencies have heeded these recommendations and taken at least some corrective actions. However, more needs to be done, especially in the area of security program management, which continues to be a widespread and fundamental weakness. Our May 1998 guide, *Information Security Management: Learning From Leading Organizations*,[10] provides a road map for managing risks through an ongoing cycle of activities coordinated by a central focal point; over the last 2 years, its concepts have become widely adopted throughout the federal government. The government information security reform provisions of the FY 2001 Defense Authorization Act require agencies

[10] *Information Security Management: Learning From Leading Organizations* (GAO/AIMD-98-68, May 1998).

to adopt these risk management practices along with annual management evaluations and independent audits of agency security programs. Effective implementation of these legislative reforms would significantly lessen agencies' vulnerability.

In order to improve IT performance governmentwide and effectively address the remaining challenges, sustained and focused central leadership is also essential. Accordingly, we continue to believe that a federal Chief Information Officer (CIO) is needed. Such a position could provide strong focus and attention to the full range of governmentwide information resources management and technology issues.[11]

Revamp Federal Strategic Human Capital Management

After a decade of government downsizing and curtailed investments in the federal government's human capital, it is becoming increasingly clear that today's federal human capital strategies are not appropriately constituted to meet the current and emerging needs of government and the nation's citizens. This is not surprising because the federal management reforms of the 1990s addressed most—but not all—of the essential elements of high performing organizations: financial management, information technology management, and results-oriented goal-setting and performance measurement. However, human capital reforms have yet to find the broad conceptual acceptance or political consensus needed for comprehensive reform to occur, and in this sense effective human capital management remains the missing link in the federal management framework.

[11] *Federal Chief Information Officer: Leadership Needed to Confront Serious Challenges and Emerging Issues* (GAO/T-AIMD-00-316, Sept. 12, 2000).

The lack of attention to strategic human capital management has created a governmentwide risk—one that is fundamental to the federal government's ability to effectively serve the American people now and in the future. Stated simply, human capital problems are pervasive and lead to programmatic problems and risks. As our performance and accountability series reports and High-Risk Series update make clear, human capital shortfalls are eroding the ability of many agencies—and threaten the ability of others—to economically, efficiently, and effectively perform their missions. Consequently, we have designated strategic human capital management a high-risk area that urgently needs greater attention to ensure maximum government performance and accountability for the benefit of the American public in the 21st century.

High-performing organizations in the private and public sectors have long understood the relationship between effective "people management" and organizational success. An organization's human capital is its most critical asset in managing for results. However, the federal government has often acted as if people were costs to be cut rather than assets to be valued.

Today's nonpostal civilian federal workforce is smaller than it was a decade ago. The federal workforce was reduced from approximately 2.3 million federal employees in fiscal year 1990 to fewer than 1.9 million by fiscal year 1999. At the same time, federal outlays grew from $1.5 trillion in fiscal year 1990 to $1.7 trillion in fiscal year 1999.[12] But what happened—or more importantly, did not happen—as this downsizing was being accomplished was just as significant as the downsizing itself. For example, initial rounds of the downsizing were set in motion without sufficient

[12] Outlays provided in constant 1999 dollars.

planning relating to the longer term effects on agencies' performance capacity. At the same time, the federal government reduced permanent new hires from 118,000 in fiscal year 1990 to about 74,000 in fiscal year 1999. A number of individual agencies drastically reduced or froze their hiring efforts for extended periods. This helped reduce the size of agencies' workforces, but it also reduced the influx of new people with new skills, new knowledge, new energy, and new ideas—the reservoir of future agency leaders and managers.

In confronting challenges such as these, it is critical for agencies to engage in effective recruiting and succession planning strategies. This includes attracting and retaining skilled and knowledgeable individuals whose performance meets or exceeds expectations, regardless of their age. All decisions with regard to recruiting and retention must be based on clearly defined, well documented, consistently applied, and transparent criteria that are nondiscriminatory and merit-based. As shown in this series' high-risk update, agencies' strategic human capital management challenges involve such key areas as strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures. Appendix I of this report provides examples of the federal government's pervasive human capital challenges, ranging from military recruitment shortfalls at DOD, staff and skills losses at NASA, to inadequate workforce planning at EPA.

The key step for agencies is to focus on human capital as a strategic asset. Agencies can begin by assessing how well their existing human capital approaches support their missions, goals, and other organizational needs. A useful assessment tool is our human capital framework, which identifies a number of human capital elements and underlying values that are common to high-performing organizations. This framework is shown in table 1 and also presented in *Human Capital: A Self-Assessment Checklist for Agency Leaders.*[13] We have used the framework to guide our recent inquiries into human capital issues across the federal government and at specific agencies, some of which are using the framework in their human capital planning efforts.

Table 1: GAO's Human Capital Framework

Strategic Planning	Establish the agency's mission, vision for the future, core values, goals and objectives, and strategies. • Shared vision • Human capital focus
Organizational Alignment	Integrate human capital strategies with the agency's core business practices. • Improving workforce planning • Integrating the human resources function
Leadership	Foster a committed leadership team and provide for reasonable continuity through succession planning. • Defining leadership • Building teamwork and communications • Ensuring continuity
Talent	Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment. • Recruiting and hiring • Training and professional development • Workforce deployment • Compensation • Employee-friendly workplace
Performance Culture	Empower and motivate employees while ensuring accountability and fairness in the workplace. • Performance management • Performance incentives • Continuous learning and improvement • Managers and supervisors • Job processes, tools, and mission support • Information technology • Inclusiveness • Employee and labor relations

[13] *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, September 2000).

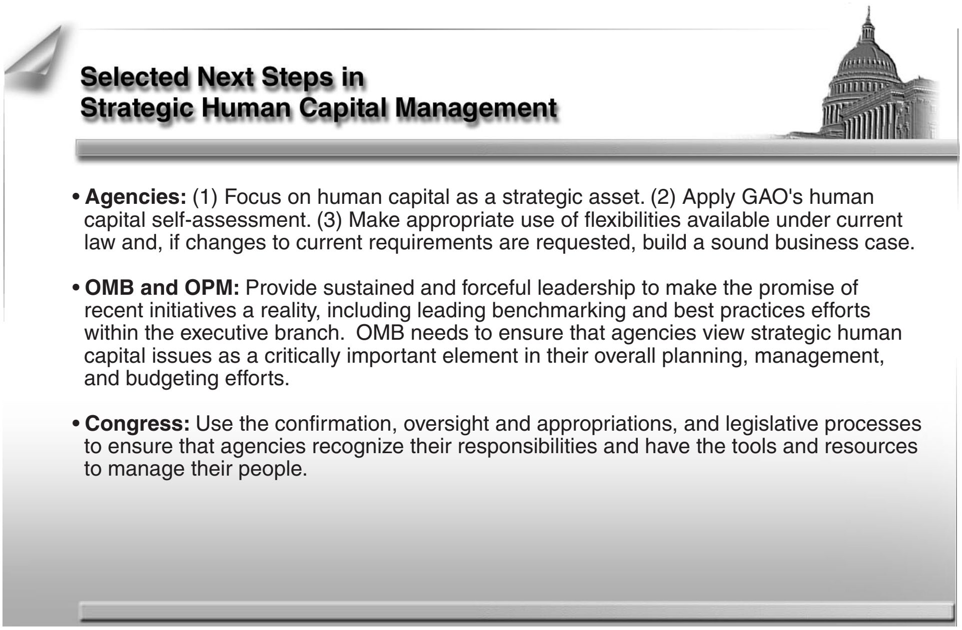
Although some improvements in the civil service will require legislative reforms, federal agencies must not wait to modernize their human capital policies and practices. Agencies can and must take the initiative to be more competitive in attracting new employees with critical skills; create the kinds of performance incentives and training programs that motivate and empower employees; and build labor-management relationships that are based on common interests and the public trust. To shape human capital strategies that support their specific needs and circumstances, agencies must give strategic human capital management the enhanced and sustained attention it deserves, modernize their existing human capital policies and practices, and identify the flexibilities available to them under current law.

The Office of Management and Budget (OMB), the Office of Personnel Management (OPM), and Congress have all taken recent steps to underscore the importance of this issue. For example, the President's fiscal year 2001 budget gave new prominence to human capital management by making "align Federal human resources to support agency goals" a Priority Management Objective. OMB's latest Circular No. A-11 guidance on preparing annual performance plans states that agencies' fiscal year 2002 annual performance plans should set goals in such areas as recruitment, retention, training, appraisals linked to program performance, workforce diversity, streamlining, and family-friendly programs. In addition, OPM has begun stressing to agencies the importance of integrating strategic human capital management with agency planning and has also been focusing more attention on developing tools to help agencies, such as new Senior Executive Service performance standards and a workforce planning model with associated Web-based research tools. In addition, OPM has helped achieve incremental legislative reforms to help attract and retain federal employees, such as compensation flexibility for selected specialist positions and employee benefit enhancements. While OMB's and OPM's actions are encouraging, the scope and magnitude of the federal government's human capital challenges will require additional action on a range of issues, as well as sustained and forceful leadership to fulfill the promise of these initiatives.

One of the most encouraging developments over the past 2 years has been the visibility given the human capital issue by the Senate Governmental Affairs Committee and the Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia. In addition, Congress recently passed legislation that enables federal agencies to provide some education-related debt relief in exchange for government service. This is a positive step; however, additional legislative actions will ultimately be needed to attract and retain a skilled, knowledgeable, diverse, and performance-oriented workforce in the future.

Ultimately, Congress may wish to consider comprehensive legislative reform in the human capital area to address the missing link in the performance management portfolio, giving agencies the tools and reasonable flexibilities they need to manage effectively while providing appropriate safeguards to prevent abuse. As part of this effort, Congress may also wish to consider the extent to which traditional "civil service" approaches—structures, oversight mechanisms, rules and regulations, and direction-setting—make sense for a government that is largely a knowledge-based enterprise that has adopted and is now implementing modern performance management principles.

Overall, the following steps summarize some key actions that can be taken.



Continue to Attack Activities at Risk of Waste, Fraud, Abuse, and Mismanagement

Since 1990, we have periodically reported on government operations that we have identified as “high-risk” because of their greater vulnerability to waste, fraud, abuse, and mismanagement. Also, these operations generally result in inefficient, ineffective, or uneconomical practices in programs that involve substantial government resources and provide critical services to the public.

Since our last high-risk update in January 1999 agencies have taken additional steps and Congress has addressed several areas we designated as being high risk. Additionally, we have continued to work constructively to assess progress and make recommendations necessary to resolve these risks. We also have looked across government to identify emerging high-risk areas that need attention.

In the high-risk update that is part of this current series, we discuss (1) five areas for which the high-risk designation is being removed, (2) one area—strategic human capital management across government—that is being added to our list, (3) three program areas for which the high-risk focus is being modified, and (4) the important progress being made to further resolve the remaining high-risk areas and challenges that are yet to be addressed in resolving them.

Overall, agencies are taking these problems seriously and making progress in trying to correct them. Congress also has acted to address several individual high-risk areas through hearings and legislation. Continued perseverance in addressing high-risk areas will ultimately yield significant benefits. Lasting solutions to high-risk problems offers the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.

Over time, as high-risk operations have been corrected and other risks have emerged, we have removed areas from the list and added new ones to keep Congress current on areas needing attention. Information on the total additions to, and removals from, our high-risk list over the past 11 years is shown in table 2.

Table 2: Overall Changes in GAO's High-Risk List, 1990 to 2001

Changes 1990–2001	Number of Areas
Original high-risk list in 1990	14
High-risk areas added since 1990	19
High-risk areas removed since 1990	11
Current high-risk list in 2001	22
Changes 1999–2001	
High-risk list in 1999	26
High-risk areas added in 2001[a]	1
High-risk areas removed in 2001[b]	5
Current high-risk list in 2001	22

[a]In 2001, the focus of a previously designated IRS-related high-risk area was expanded.

[b]In 2001, the focus of a previously designated HUD-related high-risk area was reduced, and another IRS-related area was narrowed.

Source: GAO analysis.

For our 2001 high-risk update, we have determined that five high-risk areas warrant removal from the list. They include the Year 2000 computing challenge and the 2000 Census, which were both dependent on time-related events that have elapsed. Also, legislative and agency actions, including those in response to our recommendations, were significant enough to remove the high-risk designations for the farm loan programs managed by the Department of Agriculture and for the Superfund program, which are programs we have monitored as high-risk for the past 11 years. Additionally, the National Weather Service (NWS) has acted to implement our recommendations to better manage its information technology modernization, which we designated high risk in 1995. NWS' modernization is critical to weather forecasting to enhance public safety.

Since our high-risk program began in 1990, we have removed the high-risk designations from 11 areas, which are listed in table 3. Six of these areas were among the 14 programs and operations we determined to be high-risk at the outset of our efforts to monitor such programs. These results demonstrate that the sustained attention and commitment by Congress and agencies to resolve serious, long-standing high-risk problems has paid off, as the root causes of the government's exposure for almost half of our original high-risk list have been successfully addressed.

Table 3: High-Risk Designations Removed

High-Risk Area	Year Added	Year Removed
Pension Benefit Guaranty Corporation	1990	1995
State Department Management of Overseas Real Property	1990	1995
Federal Transit Administration Grant Management	1990	1995
Bank Insurance Fund	1991	1995
Resolution Trust Corporation	1990	1995
Customs Service Financial Management[a]	1991	1999
The Year 2000 Computing Challenge	1997	2001
The 2000 Census	1997	2001
Superfund Program	1990	2001
Farm Loan Programs	1990	2001
National Weather Service Modernization	1995	2001

[a]Originally part of a broader high-risk area designated as Managing the Customs Service.

Source: GAO analysis.

In addition to adding human capital as a high-risk area, we are also continuing to monitor 21 other areas we previously designated as high risk. For three of these areas, the focus of our high-risk work has been modified. In the case of the Department of Housing and

Urban Development (HUD), we are reducing the number of HUD program areas deemed to be high risk due to progress made by the agency. Also, the focus of the previously designated IRS Tax Filing Fraud high-risk area is being narrowed to better define the scope of our concern, which is Earned Income Credit noncompliance. For another IRS program, previously designated IRS receivables, we are expanding our focus to now cover the collection of unpaid taxes. We are redefining this area because some key collection actions have declined since 1997, and IRS lacks a measure of voluntary compliance to help assess the impact of such declines on compliance.

The 22 areas that comprise our current high-risk list are identified in table 4. These areas cover a range of key government operations and functions including governmentwide information security; several major technology investments; basic financial accountability at large departments and agencies; and the management of major benefit, lending, procurement, and other important programs across government. These high-risk issues are detailed in our high-risk series update and are included in the accompanying reports on specific departments and agencies included in this performance and accountability series. These reports highlight the recommendations we have made to help improve these operations, the steps that agencies are taking to resolve high-risk problems, and additional actions that need to be taken.

Table 4: GAO's 2001 High-Risk List

2001 High-Risk Areas	Year Designated High Risk
Addressing Governmentwide High-Risk Areas	
Strategic Human Capital Management	2001
Information Security	1997
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Tax Systems Modernization	1995
DOD Systems Modernization	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
Reducing Inordinate Program Management Risks	
Medicare Program	1990
Supplemental Security Income	1997
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Infrastructure Management	1997
DOD Inventory Management	1990
HUD Single–Family Mortgage Insurance and Rental Housing Assistance Program Areas	1994
Student Financial Aid Programs	1990
Asset Forfeiture Programs	1990
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Source: GAO analysis.

Confront Critical Challenges Facing Individual Departments and Agencies in Carrying Out Their Missions

Many federal departments and agencies easily rival in size and complexity some of our nation's largest corporations, and strong leadership and sound management are central to the effective implementation of any public policy or program agenda. As listed in appendix II to this report, our performance and accountability and high-risk series identified the major management challenges and program risks confronting the individual departments and agencies. Addressing these challenges is central to agencies effectively, efficiently, and economically accomplishing their missions and achieving better results for the benefit of the American people.

The challenges and risks presented in this series are intended to assist the new Congress and administration in shaping their management and oversight agendas and establishing priorities. Our series is therefore organized by agency to better permit Members of Congress or executive branch officials to focus on the major management challenges and program risks relating to their particular interests. While many of the management challenges that agencies face are similar, each agency also has unique programs and issues as outlined in this series.

Pursue Organizational Approaches That Recognize Changing Dynamics

Virtually all of the results that the federal government strives to achieve require the concerted and coordinated efforts of two or more agencies. This shared responsibility is an outgrowth of several factors, including the piecemeal evolution of federal programs and service delivery efforts. Moreover, the evolving environment in which federal programs are designed and implemented is increasingly demanding integrated and multidisciplinary approaches that cut across traditional programmatic and functional boundaries. There are several key trends that form this environment and that will increasingly affect the well-being and security of the United States and its people.[14]

Key Trends

- **Globalization**--the increasing interdependence of enterprises, economies, and national governments and its consequences
- **New and Diffuse Security Threats**--a growing awareness of vulnerability, with a specific emphasis on new and diffuse threats to the security of the nation, the economy, and individuals
- **Known Demographic Trends**--a continuing, fundamental shift in the age and composition of the population and the impact of that shift on retirement, health care, and the economy
- **Quality of Life Concerns**--the expectations and realities of living conditions affecting the world, countries, communities, families, and individuals
- **Technology and the Knowledge-Based Economy**--the opportunities and threats posed by rapid changes in technology's capability
- **Focusing Performance and Accountability on Results**--the growing emphasis on responsible stewardship and accountability in the delivery of public services

For example, as the evolution to a knowledge-based economy continues, education, job training, immigration, and retirement programs must be closely coordinated, not only among federal agencies, but also between the federal and state and local levels of government. At the same time, the shift to a knowledge-based economy poses human capital challenges for the federal government in attracting and retaining a federal workforce that is sophisticated in using new

[14] *Executive Summary: GAO Strategic Plan 2000-2005.*

technologies, flexible, open to continuous learning, and focused on achieving results.

Our work has repeatedly shown that mission fragmentation and program overlap are widespread in the federal government and that crosscutting program efforts are not well coordinated.[15] There are over 40 program areas across the government, which are related to a dozen federal mission areas, where our work suggests that mission fragmentation and program overlap exist. Crosscutting program areas that are not effectively coordinated waste scarce funds, confuse and frustrate program customers, and undercut the overall effectiveness of the federal effort. The following examples are presented in more detail in the respective agency volumes of this series.

- International trade: Several federal agencies have responsibility for overseeing the implementation of over 400 trade agreements the nation has entered into since the mid 1980s, but we found that their ability to monitor and enforce trade agreements was limited.[16] Agencies lacked sufficient numbers of staff with the right expertise; did not always get needed analytical or other types of support from other agencies; and sometimes had difficulty obtaining balanced, comprehensive input from the private sector. As a result of these problems, U.S. businesses may not have been able to take full advantage of the benefits secured by trade agreements in accessing foreign markets, and the government may not have

[15] *Managing for Results: Barriers to Interagency Coordination* (GAO/GGD-00-106, Mar. 29, 2000), and *Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap* (GAO/AIMD-97-146, Aug. 29, 1997).

[16] *International Trade: Strategy Needed to Better Monitor and Enforce Trade Agreements* (GAO/NSIAD-00-76, Mar. 14, 2000).

been realizing the full benefits of increasing U.S. exports.[17]

- Food safety: The current food safety system is highly fragmented, with as many as 12 different federal agencies administering over 35 laws regarding food safety. Until this system is focused under a single agency that uses a risk-based inspection system, the U.S. food safety system will continue to suffer from inconsistent oversight, poor coordination, and inefficient allocation of resources. We have pointed out that the government could redirect its resources to areas with greater potential for increasing the safety of our food supply. For example, if Congress provided the Department of Agriculture more flexibility in conducting inspections, the Department could revise its current policy of inspecting each animal carcass, and thus additional resources could be available for more critical food safety needs.[18]
- Improving children's education: State and local program flexibility and limitations in the Department of Education's research and evaluation have made it difficult for it to gather information about outcomes in elementary and secondary education programs. Education must address these challenges to achieve the goal of assessing how well all children reach challenging academic standards through encouraging states to improve performance information and upgrading federal evaluations. We have recommended that Education conduct additional activities to facilitate the exchange of information among states and improve the quality, timeliness, and specificity of state assessment data, and also that Education implement additional

[17] *Major Management Challenges and Program Risks: Department of Commerce* (GAO-01-243, January 2001).

[18] *Major Management Challenges and Program Risks: Department of Agriculture* (GAO-01-242, January 2001).

measures to improve research on the effectiveness of educational services.[19]

- <u>Federal land management issues</u>: The missions of the four major federal land management agencies—the National Park Service, the Bureau of Land Management, the Fish and Wildlife Service, and the Forest Service—have become more similar over time. Moreover, issues that these agencies address, such as managing forested areas and controlling wildfires, transcend their administrative boundaries and require increased collaboration with each other and other entities, such as states and private landowners. For example, since 1995, federal land management agencies have sought to reduce the threat of catastrophic wildfires in forested areas by using prescribed burns to reduce the over accumulation of vegetation. However, management problems have hindered this effort, and the need for fuels reduction was reemphasized after huge wildfires in the western United States burned 6.9 million acres, or twice the 10-year average, in 2000. The Cerro Grande (Los Alamos) wildfire—which started as a prescribed burn, got out of control, and ultimately burned 48,000 acres, destroying many homes and causing about $1 billion in damages—highlights the management problems inherent in the prescribed burns program and raises concerns about the readiness of the federal land management agencies to support and administer prescribed burns.[20]

[19] *Major Management Challenges and Program Risks: Department of Education* (GAO-01-245, January 2001).

[20] *Major Management Challenges and Program Risks: The Department of the Interior* (GAO-01-249, January 2001), and *Major Management Challenges and Program Risks: Department of Agriculture* (GAO-01-242, January 2001).

More broadly, GPRA offers a structured and governmentwide means for rationalizing crosscutting efforts.[21] The strategic and annual planning processer under GPRA provide opportunities for agencies to work together to ensure that agency goals for crosscutting programs complement those of other agencies; program strategies are mutually reinforcing; and as appropriate, common performance measures are used.

Interagency councils are another approach that can help foster communication across the executive branch, build commitment to reform efforts, tap talents that exist within agencies, and focus attention on management issues. For example, the President's Management Council, which comprises the chief operating officers in each of the major agencies (generally the Deputy Secretary or equivalent), has served as a top-level forum for identifying and addressing crosscutting management issues. The Chief Financial Officers (CFO) Council has had a central role in sharing best practices and expertise among agencies to help improve financial management practices. Similarly, the Chief Information Officers (CIO) Council provides a forum for senior officials to work together toward achieving strategic information technology performance goals; improving work processes; integrating information technology architectures; and strengthening IT knowledge, skills, and capabilities.

We continue to work with the CFO and CIO councils and various other groups to implement management reforms that enhance government performance and accountability. While the councils serve important roles, they cannot, and should not, be expected to make up for an absence of OMB leadership. Therefore, it is vital that OMB assert strong leadership over the range of ongoing

[21] *Managing for Results: Barriers to Interagency Coordination* (GAO/GGD-00-106, Mar. 29, 2000).

reforms, as well as over areas that have not received nearly the attention they deserve, such as strategic human capital management.

Repositioning Government for the 21st Century

As the nation inaugurates the first new Congress and administration of the 21st century, the federal government has a unique window of opportunity to address many long-standing challenges to program performance and service delivery. The management reform agenda established during the 1990s is beginning to bear fruit by stimulating the systematic provision of new information on costs and performance of existing programs and operations. This management framework can be used by both Congress and the executive branch to enhance program services and reduce related risks. Building on this management foundation, they can now seize the opportunity provided by current and projected budget surpluses to more fundamentally reassess what government does and how government does business. This can help enhance the capacity of government to better respond to emerging needs, as well as help safeguard the capacity of future generations to afford the commitments of today and tomorrow in an aging society. In short, today's surpluses create a window of opportunity to position the government and the nation for the future.

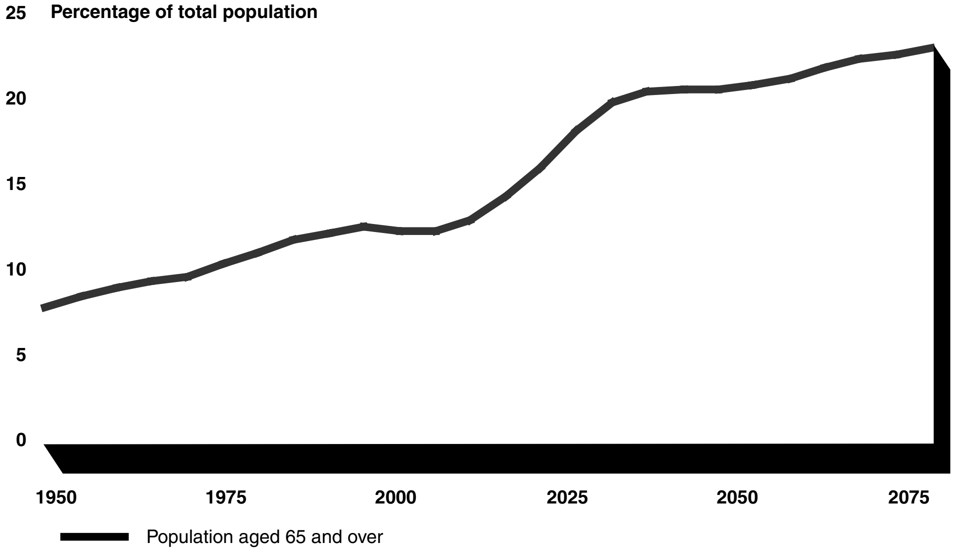
Long-Term Fiscal Challenges

The current and projected budget surpluses provide an opportunity to better position the government and the nation to address both current needs as well as the longer term budget and economy we will hand to succeeding generations. The combination of recent sustained economic growth and tough budget choices has slain the deficit dragon—at least for the near term. Both OMB and CBO project ever-growing surpluses throughout the next decade. These surpluses offer a welcome opportunity to meet some pent-up demands held in abeyance during the years of fighting deficits. At the same time, longer term fiscal pressures are likely to overwhelm surpluses as the nation struggles to finance the retirement of the baby boom generation. Consequently, these surpluses should prompt our policymakers to strike a balance between the opportunities to address today's unmet needs and their stewardship obligation to hand a strong economy and sustainable fiscal policies to future generations.

In considering how to allocate surpluses, choices involve a continuum of fiscal actions balancing today's unmet needs with tomorrow's fiscal challenges. Allocating surpluses among debt reduction, new spending, and tax cuts is an inherently political decision. How these decisions affect our future fiscal outlook is one of several factors that must be weighed in this process.

Absent further policy changes, projected growth in spending on the federal government's major health and retirement programs--Social Security, Medicare, and Medicaid–will dominate the long-run budget outlook. The expected surge in health and retirement spending stems from three dynamic and known factors. First, the large baby boom generation will begin to reach retirement age within the next decade or so and become eligible to receive Social Security and Medicare benefits. Second, people are likely to live longer than they did in the past and spend more time in retirement. Third, advances in medical technology will probably keep pushing up the cost of providing health care.

Figure 3: Aged Population as a Share of Total U.S. Population Continues to Grow



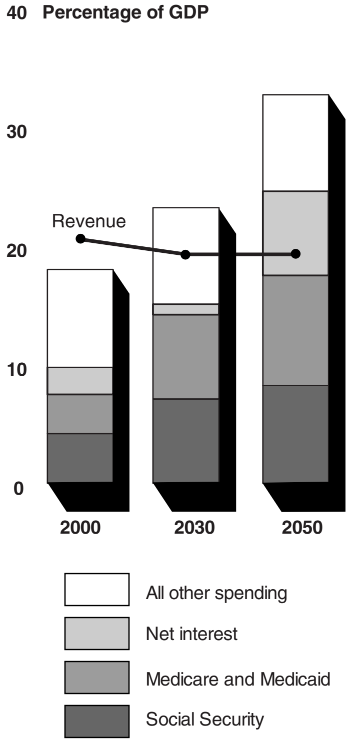
Note: Projections based on intermediate assumptions of *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.

Source: *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.

Our long-term simulations illustrate the consequences of these dynamics for the federal budget. To move into the future without making changes to federal retirement and health programs is to envision a very different role for the federal government. For example, assuming Congress and the President adhere to the often-stated goal of saving the entire Social Security surplus but spend the entire on-budget surplus through either tax cuts and/or spending increases, by 2030 our long-term model shows a world in which Social Security, Medicare, and Medicaid would require nearly three-quarters of total federal revenue. This is the case even assuming no future benefit enhancements such as, for example, adding a prescription drug benefit to Medicare.[22] Budgetary flexibility would be drastically constrained, and little room would be left for such programs as national defense, educating our nation's youth, modernizing the nation's physical infrastructure, and law enforcement. These simulations are a useful benchmark because they demonstrate the magnitude of the fiscal challenges associated with our aging society and the significance of the related challenges that government will be called upon to address.

[22]These simulation results use the Medicare Trustees' April 2000 projections of future program costs. The results do not reflect a higher long-term cost growth assumption recently recommended by an expert panel advising the Medicare Trustees. Use of this assumption would dramatically add to the program's projected long-term deficits and would yield simulation results showing even less flexibility in future federal budgets.

Figure 4: Composition of Spending as a Share of GDP Under the Save the Social Security Surpluses Simulation



Note: Revenue as a share of GDP declines from its 2000 level of 20.5 percent due to unspecified permanent policy actions that reduce revenue and increase spending to eliminate the non-Social Security surpluses.

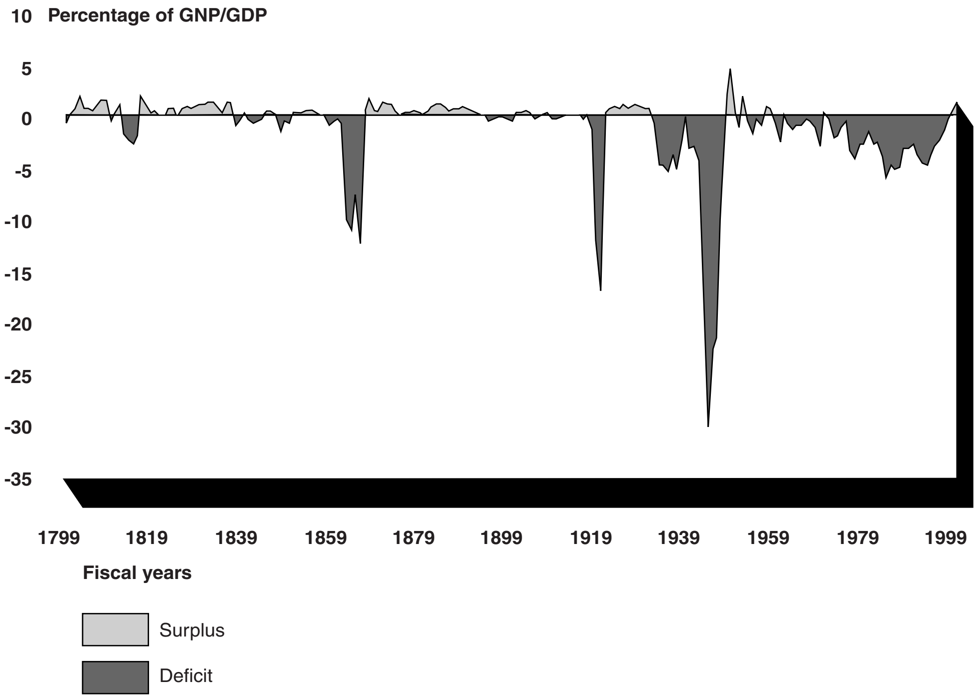
Source: GAO's July 2000 analysis.

Moreover, the federal government undertakes a wide range of other activities and responsibilities that may draw on future resources. Some of the costs may be uncertain and difficult to measure, but they nonetheless merit attention. In addition to the need to plan for demographic and technological trends affecting the nation's Social Security and health care programs, there are other looming fiscal pressures. These range from explicit liabilities such as environmental clean-up costs from federal installations to implicit expectations for future federal spending on emerging needs such as modernizing physical infrastructure. Expectations for improved access to higher education and health care for the uninsured are among the many challenges that will compete for a share of the fiscal pie in the future. These competing claims highlight the government's stewardship responsibility to provide future generations with sufficient budgetary flexibility and an economic base sufficient to finance current commitments as well as future needs.

Of course, a wide range of pent-up demands addressing today's economic and social needs are competing for a share of the current and projected surplus. Few people believe it is realistic to save 100 percent of the unified surplus for debt reduction and indeed there are many legitimate claims for federal actions on both the tax and the spending side of the federal budget, particularly for the non-Social Security portion. Since these different proposals in part reflect different priorities and different views about the role of government, the debate over them appropriately takes place in the political arena. While each individual proposal should be considered on its own merits, it is important to also consider the aggregate consequences of our overall fiscal policy choices for the long-term outlook.

From the longer term perspective, certain steps can be taken today to help future generations by alleviating the burdens of existing commitments and providing them with greater economic resources and budgetary flexibility to address their own priorities and needs. For instance, saving a portion of the surplus for debt reduction can enhance fiscal flexibility and economic growth. As figure 5 shows, traditionally in our fiscal history, periods of high deficits and debt buildup have been followed by periods of surplus and reduced debt—usually from a combination of fiscal restraint and economic growth.

Figure 5: Deficit/Surplus as a Share of GNP/GDP over History



Note: Data until 1940 are shown as a percentage of gross national product (GNP); data from 1940 to present are shown as a percentage of GDP.

Sources: *Budget of the U.S. Government, Fiscal Year 2001* and Department of Commerce

Reducing publicly held debt helps lift future fiscal burdens by freeing up budgetary resources encumbered for interest payments, which currently represent more than 12 cents of every federal dollar spent, and by enhancing the pool of economic resources available for private investment and long-term economic growth. This is particularly crucial in view of the known fiscal pressures that will begin bearing down on future budgets in about 10 years as the baby boomers start to retire. In fact, the emerging consensus to save the Social Security surpluses, if maintained over the years, would entirely eliminate the publicly held debt in about 15 years.

Our long-term budget simulations suggest, however, that debt reduction or elimination, while important, is not sufficient by itself to promote a sustainable fiscal future. Even if all public debt is eliminated, as would occur by saving the entire Social Security surpluses, federal budgets will nonetheless be increasingly consumed by the growth of Medicare, Medicaid, and Social Security spending, as shown in figure 4. Ultimately, deficits and debt would return as the nation struggles to finance these increasing costs of an aging society. Accordingly, modifying these programs through substantive reforms will be critical to recapturing the fiscal flexibility to finance a wide range of needs in a changing society for the longer term. Early action to change these programs would yield the highest fiscal dividends for the federal budget and would provide a longer period for prospective beneficiaries to make adjustments in their own planning. The longer we wait, the more painful and difficult the choices will become.

Moreover, many argue that some tax cuts and/or spending programs may also enhance longer term growth depending in part on how they are designed and financed. For instance, funding for well-chosen infrastructure, human capital, and research and development programs can improve productivity and longer term economic growth. Similarly, tax changes that increase incentives to work and save can enhance economic efficiency and future economic growth.

Notwithstanding the choices made in allocating the surplus among debt reduction, tax cuts, and spending increases, the structure and implementation of those choices can serve either to increase or decrease the risk to our long-term fiscal outlook. When we looked at how other countries responded to budget surpluses,[23] we discovered that both spending and tax proposals can be seen on a continuum by the degree of long-term fiscal risk they present to the budget outlook. For instance, in contrast to "one-time" actions, permanent changes to the budgetary baseline—on either the spending or revenue side of the budget—carry long-term implications. However, there are approaches to tax and spending changes that may mitigate the risk to the long term. These approaches might include "one-time" or temporary actions; automatic adjustments on the revenue and/or spending sides of the budget in response to actual fiscal results, as some states have done; and sunset provisions that offer the potential for reconsideration and updating of commitments.

Recognizing the many pent-up demands for new federal programs, it is also important to screen new commitments by applying stringent performance and cost benefit criteria. Proposed new programs and resources, accordingly, should be carefully scrutinized to permit decisionmakers to distinguish the infinite variety of "wants" from those investments that promise to effectively address more critical "needs." Unfortunately, recent experiences ranging from information technology projects to major weapon systems illustrate that the benefits achieved have often been disappointing. Poorly conceived projects based on incomplete or inaccurate information and projections have prompted huge cost overruns and limited performance gains. The following illustrates the kinds of

[23] *Budget Surpluses: Experiences of Other Nations and Implications for the United States* (GAO/AIMD-00-23, Nov. 2, 1999).

questions that should be addressed, as applicable, when considering any new program or project:

- Does the proposal promise to contribute to a key federal mission and is its need supported by reliable and systematic needs assessment and cost-benefit analysis?
- Is government intervention justified by some kind of market failure that has led to compelling economic or social shortfalls in services or performance?
- Does the proposal warrant a federal—as opposed to a state or local—government response, and would it prompt those governments to reduce their own program investments as a consequence?
- Is the proposal integrated with other related federal, state, local, or private initiatives to reduce the potential for duplication, overlap, and fragmentation?
- Is the proposal the most cost-effective way to achieve the objective when compared to other approaches?
- Are benefits targeted to those recipients or clients with the greatest need and the least likelihood of funding the program on their own?
- Are the proposal's time frames, cost projections, and promises realistic in light of past experience and the capacity of administrators and other agents to implement? Has a systematic risk assessment been performed to identify potential problems under different scenarios?

Surpluses challenge our nation to develop a new fiscal paradigm to prompt greater attention to the long-term implications of current program or policy choices. Government should strive to make information about the long-term fiscal exposures associated with today's policies more transparent in financial reporting and budget processes. We have suggested, for example, budgeting for the fully accrued costs for insurance and pensions in current budgets to reflect the future commitments made in current programs.[24] Other nations have recognized the value of adopting alternative fiscal targets such as debt-to-GDP ratios as a guide for decisionmaking in a world where budget balance alone no longer provides a sufficient fiscal compass. Ultimately, the federal government needs a decisionmaking framework that permits it to evaluate fiscal good fortune and choices against both today's needs and the longer term fiscal future we wish to hand on to future generations.

Fundamental Review of Federal Programs and Activities

In considering competing demands on the surplus, if careful scrutiny is given only to proposed new actions, policymakers will miss a golden opportunity to shape the government for the 21st century. Our newfound budget surpluses provide the opportunity to rise out of years of preoccupation with annual budget deficits to undertake a fundamental reexamination of the legacy of existing activities and processes.

Many federal programs—their goals, organizations, and processes—were designed years ago to respond to earlier challenges. As we enter a new century, we have been reminded of how much things change. For perspective, it is useful to recall that students who started college this fall were 11 when the Soviet Union broke apart and have no memory of the Cold War; their lifetimes have always known microcomputers and AIDS. Yet many of our programs were designed long before those students were born. It should not be threatening to any federal program or activity to question its relevance or "fit" in today's world and for the future.

[24] *Accrual Budgeting: Experiences of Other Nations and Implications for the United States* (GAO/AIMD-00-57, Feb. 18, 2000), and *Budget Issues: Budgeting for Federal Insurance Programs* (GAO/AIMD-97-16, Sept. 30, 1997).

The broad-based and rapid changes facing government today call for a fundamental review of existing programs and operations. Several important benefits can be expected from such a review. First, policymakers could create much-needed budget flexibility to address emerging needs by weeding out programs that have proven to be outdated and no longer relevant to our changing society. Second, those activities that remain relevant could be updated and modernized by improving their targeting and efficiency through such actions as redesigning allocation and cost sharing formulas, consolidating facilities and programs, and streamlining and reengineering operations and processes.

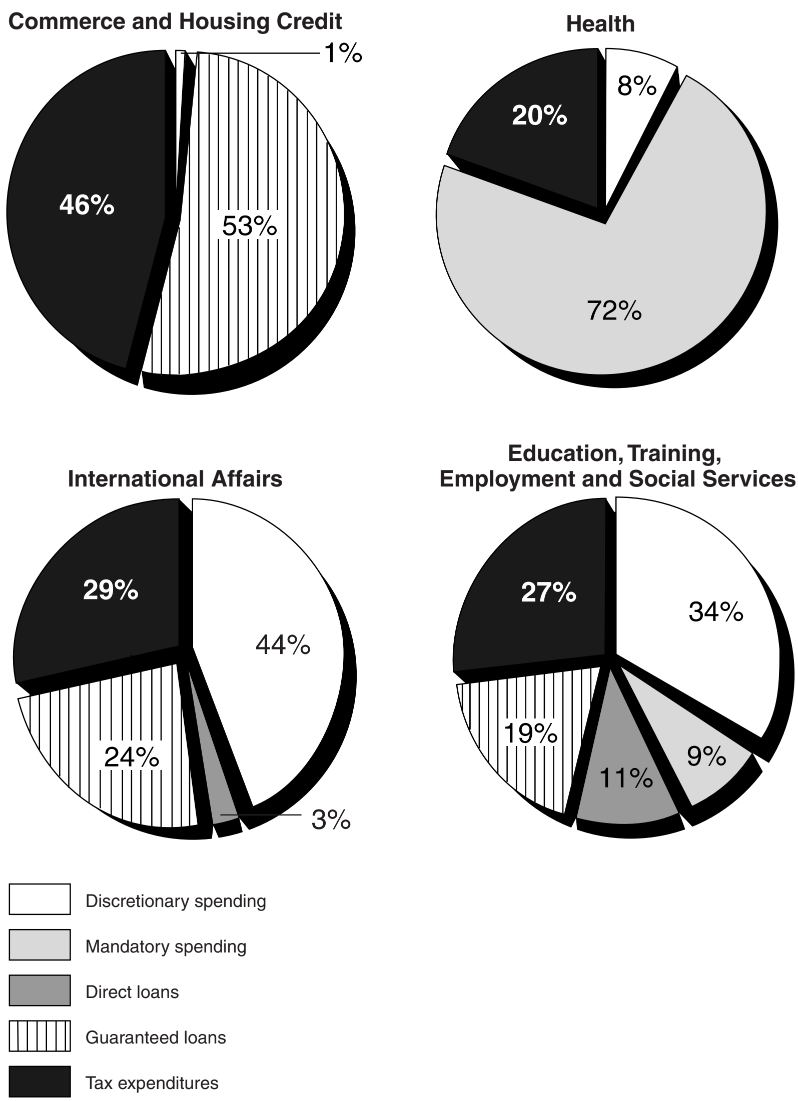
This fundamental reexamination entails broadening the focus for congressional and executive oversight to address a range of fundamental questions:

- Do the conditions that caused the program to be created still exist?
- Would we design the same program in the same way if we were designing it today?
- Are there other government programs or policies that are not coordinated with or are working at cross-purposes to this program?
- Is the program operating in the most economical, efficient, and effective manner?
- Is the program affordable and sustainable both now and over the longer term?
- Is the program targeted appropriately to the beneficiaries most in need of federal assistance?

As Congress and the executive branch undertake this reassessment, approaches must recognize that most key performance goals transcend the boundaries of any one program, agency, or even level of government. Many federal mission areas–from low-income housing assistance to food safety to counterterrorism–are addressed by a wide range of mandatory and discretionary spending programs, tax expenditures, and regulatory approaches that cut across many agencies and congressional committees, as illustrated by the pie charts in figure 6. For instance, as estimated for fiscal year 2000,[25] federal health care included about 8 percent, or $37 billion, in discretionary budget authority; 72 percent, or $323 billion, in entitlement outlays; less than one-tenth of a percent, or $100 million, in loan guarantees; and 20 percent, or $89 billion in tax expenditures. Frequently, these elements are viewed independently rather than as a part of an overall federal approach to health care. Yet the outcomes achieved by each of these tools are highly interdependent, and any debate on governmental performance should consider the full range of policy tools.

[25] As shown in the *Budget of the United States Government, Fiscal Year 2001.*

Figure 6: Relative Reliance on Policy Tools in Selected Federal Budget Functions



Note: Health includes both the health and Medicare budget functions.

Source: *Budget of the United States Government*, *Fiscal Year 2001*.

Moreover, the federal government has come to rely on a wide range of third parties–state and local governments, not-for-profit entities, and for-profit businesses–as the workhorses of the federal system. Coordination and collaboration, therefore, is essential, and the choice of and design of federal tools used to engage these entities–grants, loans, tax expenditures and regulations–play a large role in influencing the level of performance actually achieved. Over the years the federal government has sought to manage programs indirectly. At the same time, federal goals have become more ambitious and delivery networks more complex. As a result, the relationship between program goals and actual outcomes has become more complicated. GPRA can help agencies and Congress better sort out and measure the effects of federal policy tools on performance by focusing oversight on outcomes achieved through the actions of the many actors in the system and improving the quality of information on program results.

This is a challenging agenda that will call for a broader and more strategic focus for congressional and executive policymaking and oversight. Addressing these issues calls for hard choices and persistent attention. There are few examples of "low hanging fruit," as most programs and activities provide important benefits for their stakeholders. A systematic process that examines the claims of each activity with the help of new performance and cost information should help highlight the need for change and the opportunity for decisionmakers, stakeholders, and the broader public to achieve a more effective, responsive, and relevant government portfolio of programs and services for the future.

The reports on each agency in this performance and accountability series provide an inventory of serious performance issues that serve as one basis for such a reexamination. We also periodically provide Congress with budgetary options to address significant performance problems with existing programs and operations as identified in our ongoing audit and evaluation work.[26]

Improving Performance and Strengthening Accountability Through Strategic and Constructive Oversight

The beginning of a new Congress and administration makes this an especially opportune time for each to carefully consider how it will take additional advantage of and leverage the new information and perspectives coming from the management reforms now under way. Over the last decade, Congress has been an institutional champion for improving government performance and accountability by establishing in statute much of the basic federal management framework needed to create high performing organizations across the federal government. As noted earlier, the current missing link is the human capital dimension. More recently, Congress has expanded its oversight of agencies' major management challenges and program risks and has shown a real willingness to consider statutory changes to help agencies address their human capital and other management challenges.

The working partnership that Congress, the administration, federal agencies, and others formed to address the Year 2000 challenge, for example, suggests a successful model. In the case of Congress, sustained bipartisan and bicameral congressional leadership was demonstrated. Congress held agencies responsible for demonstrating progress and heightened public awareness of the problem by holding over 100 hearings. In particular, the Senate Special Committee on the Year 2000 Technology Problem and the House Year 2000 Task Force—co-chaired by the Subcommittee on

[26] *Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2001* (GAO/OCG-00-8, Mar. 31, 2000).

Government Management, Information and Technology of the Committee on Government Reform, and the Subcommittee on Technology of the Committee on Science—played major leadership roles. Congress also passed legislation to facilitate the nation's Year 2000 work.

Additionally, congressional and executive branch attention shown to GPRA, financial management reform, and information technology management underscores the common understanding that the effective implementation of the statutory framework, although important, is not an end in itself. Rather, the implementation of the framework is a means to an end—improved federal performance and accountability through enhanced congressional and executive branch decisionmaking. In short, performance improvements within an agency are not occurring just because the agency published its strategic plan or the results of its financial statements audit. Rather, performance improvements are occurring as congressional and executive branch decisionmakers use these and other documents—and the management systems and processes that generate them—to inform their decisions, stimulate their actions, and thereby improve government.

The progress that has been—and is being—made suggests that the wealth of information that is being produced under the legislative framework that Congress has enacted to improve government performance and accountability provides new opportunities to strengthen congressional oversight and decisionmaking. Drawing on GPRA strategic plans and performance plans and reports, financial audit results, our performance and accountability and high-risk series, annual federal budget reviews, major government reports, major open our recommendations, and the work of inspectors general, affords Congress a broad perspective on performance in areas such as:

- the most meaningful challenges faced in a specific agency or across government in broad functional or mission areas;
- cuts and investments that would contribute to a government more efficient, effective, and economical in meeting the wants and needs that Americans can afford; and
- the tools, such as regulations, legislation, tax incentives, loan guarantees, enforcement options, or direct spending, that appear to be the most effective in furthering a given government mission.

Congress should also consider the need for mechanisms that allow it to more systematically focus its oversight on problems with the most serious weaknesses and risks. For example, the President is required by GPRA to prepare and submit to Congress as part of the annual budget submission a governmentwide performance plan that provides a "single cohesive picture of the annual performance goals for the fiscal year." First submitted with the fiscal year 1999 budget, the governmentwide performance plan includes fiscal, management, and program performance expectations. It provides a means to present performance goals for the varied missions of government and to identify the relative contributions of a wide range of agencies, programs, and strategies to address those mission-based performance goals.[27]

At present, Congress has no direct mechanism to respond to and provide a congressional perspective upon the President's governmentwide performance plan. For example, Congress has no established mechanism to articulate performance goals for the broad, crosscutting missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted on the most

[27] *The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999* (GAO/AIMD/GGD-98-159, Sept. 8, 1998).

pressing crosscutting performance and management issues.

Congress may therefore wish to consider whether a more structured oversight mechanism is needed to permit a coordinated congressional perspective on governmentwide performance matters. One possible approach would involve modifying the current budget resolution. Already organized by budget function, similar to the program performance section of the President's governmentwide performance plan, the resolution could be adapted to permit Congress to respond to, and present a coordinated congressional perspective on, the President's governmentwide performance plan.

As this report has noted, the current fiscal climate and long-term trends create both an opportunity and an obligation to undertake a reexamination and serious debate about what government does, how government does business, and who benefits from these activities. In that regard, continued congressional and executive branch efforts to effectively implement and use the statutory management framework; develop and implement a strategic approach to human capital management appropriate for the federal government in the 21st Century; continue to attack high-risk problems; confront individual agencies' major management challenges; and pursue organizational approaches to respond to the new environment must be at the center of any serious effort to maximize the performance and ensure the accountability of the federal government for the benefit of the American people.

Appendix I: Examples of Agencies With Human Capital Challenges

Agency	Human Capital Challenges
Agriculture	Organizational culture problems, including resistance from affected USDA agencies and employees, have hampered departmentwide reorganization and modernization efforts. Further, the nation's food safety system, in which USDA plays a major role, continues to suffer from inconsistent oversight, poor coordination, and inefficient deployment of resources.
Bureau of Indian Affairs	Untrained and inexperienced staff hamper effective management of $3 billion in Indian trust funds.
Commerce	A lack of sufficient numbers of experienced staff with the right expertise limits the ability of Commerce and two other trade agencies to monitor and enforce trade agreements.
DOD	In the past 2 years, the military services have struggled to meet recruiting goals. Attrition among first-time enlistees has reached an all-time high. The services face shortages among junior officers, and problems in retaining intelligence analysts, computer programmers, and pilots. On the civilian side, skills and experience imbalances following downsizing are jeopardizing acquisitions and logistics capabilities.
Energy	Headquarters and field staff have lacked contract management skills to oversee large projects, such as the cleanup of radioactive and hazardous waste sites.
EPA	EPA has not yet implemented any systematic means of determining the right size, skills needs, or deployment of its workforce to carry out its mission and achieve its strategic goals and objectives, despite the demand for new skills due to technological changes and the shift in EPA's regional environmental responsibilities to the states, as well as growing retirement eligibilities in its workforce.
FAA	Air traffic control modernization is fraught with cost, schedule, and performance problems due in part to an organizational culture that impaired the acquisition process.
Health Care Financing Administration	Medicare's leadership problems include the lack of any official whose sole responsibility it is to run the program. Further, frequent leadership changes at HCFA have hampered long-term Medicare initiatives and the pursuit of a consistent management strategy. HCFA's workforce lacks skills needed to meet recent legislative requirements. The mismatch between HCFA's administrative capacity and its mandate could leave Medicare unprepared to handle future population growth and medical technology advances.
HUD	As HUD's reorganization moves into its final phases, workload imbalances pose programmatic challenges to several specialty centers and field offices. Single family mortgage insurance programs administered by HUD's Federal Housing Administration have been marked by a number of human capital challenges, including insufficient staff. Further, insufficient or inexperienced staff led to problems in quality assurance reviews for 203(k) home rehabilitation loans and oversight of appraisers and mortgage lenders.
Immigration and Naturalization Service	Lack of staff to perform intelligence functions and unclear guidance for retrieving and analyzing information hamper efforts to combat the growing problem of alien smuggling.
Interior and U.S. Forest Service	Difficulties replacing experienced fire personnel threaten firefighting capabilities during catastrophic events.

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Agency	Human Capital Challenges
IRS	IRS lacks reliable cost and operational information to measure the effectiveness of its tax collection and enforcement programs and to judge whether it is appropriately allocating its staff resources among competing management priorities.
NASA	Staff and skills losses following downsizing pose potentially serious problems for the safety and planned flight rate of the space shuttle.
National Park Service	Historically, the Park Service's decentralized priority-setting and accountability systems left it without the means to monitor progress toward achieving its goals or hold park managers accountable for the results of park operations. The park concessions program continues to face management problems, including inadequate qualifications and training of the agency's concession specialists and concessions contracting staff. Insufficient fire safety training has contributed to fire safety risks at visitor centers, hotels, and other national park buildings.
Nuclear Regulatory Commission	NRC's organizational culture is struggling with the agency's new "risk-informed" regulatory approach. Further, NRC's ability to maintain the skills needed to achieve its mission and fill the gaps created by growing retirement eligibilities could be threatened by the decline in university enrollments in nuclear engineering and other fields related to nuclear safety.
Pension Benefit Guaranty Corporation	Because the agency did not adequately link its contracting decisions to long-term strategic planning, it may not have the cost-effective mix of contractor and federal employees needed to meet future workload challenges. Further, PBGC employees who monitor contractors lack adequate guidance and policies essential to monitoring contractor performance.
SSA	Increasing demand for services, imminent retirement of a large part of its workforce, changing customer expectations, and mixed success in past technology investments will challenge SSA's ability to meet its service delivery demands, which include faster and more accurate benefit claims determinations and increased emphasis on returning the disabled to work.
State	Issues related to the quality of life at overseas posts, career development opportunities, and talent management are hampering recruitment and retention of Foreign Service Officers. Efforts to determine the right size and composition of overseas posts have begun; but State faces challenges in aligning its workforce with new economic, political, security, and technological requirements. Also, staffing shortfalls are hampering counternarcotics programs and efforts to combat visa fraud.
USAID	Staffing shortfalls in the procurement area have hampered the agency's ability to initiate and monitor contracts, thus delaying reconstruction assistance in the wake of natural disasters in Central America and the Caribbean.
Veterans Affairs	A national nursing shortage could adversely affect VA's efforts to improve patient safety in VA facilities and put veterans at risk. Further, VA's training and recruitment programs may not be adequate to ensure a sufficient workforce of competent claims processors, which would likely undermine efforts to reduce current problems of claims processing backlogs and errors.

Source: *Performance and Accountability Series* agency reports.

Appendix II: Major Management Challenges and Program Risks at 21 Federal Agencies

Agency	Challenges
Department of Agriculture	• USDA's farm loan programs remain vulnerable to loss, but high-risk areas have been addressed • Delivery of services to farmers has improved, but challenges remain • USDA needs to effectively and efficiently provide food assistance benefits to eligible individuals while maintaining program integrity • Fundamental changes are needed to minimize foodborne illnesses • USDA needs to strengthen Department-wide information security • USDA continues to lack financial accountability over billions of dollars in assets • The Forest Service must provide the Congress and the public with a clear understanding of what it accomplishes with appropriated funds • Problems persist in processing discrimination complaints
Department of Commerce	• Increase the access of U. S. businesses to international markets • Ensure that the United States is secure from the proliferation of dual-use commodities and chemical weapons • Ensure that weather forecasts and severe weather warnings are accurate and timely • Improve the economy in distressed areas • Address other challenges to building a high-performing organization
Department of Defense	• Developing strategic plans that lead to desired mission outcomes • Hiring, supporting, and retaining military and civilian personnel with the skills to meet mission needs • Establishing financial management operations that provide reliable information and foster accountability • Effectively managing information technology investments • Reforming acquisition processes while meeting military needs • Improving processes and controls to reduce contract risk • Creating an efficient and responsive support infrastructure • Providing logistics support that is economical and responsive

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Agency	Challenges
Department of Education	• Ensure access to postsecondary education while reducing the vulnerability of student aid programs to fraud, waste, error, and mismanagement • Encourage states to improve performance information and upgrade federal evaluations used to assess how well all children reach challenging academic standards • Promote coordination with other federal agencies and school districts to help build a solid foundation of learning for all children • Improve financial management to help build a high-performing agency
Department of Energy	• Address project management, planning, and other issues to maintain nuclear weapons capabilities • Sustain management attention to correct pervasive weaknesses in security controls • Improve priority-setting of nonproliferation programs and coordination among programs in the former Soviet Union • Improve management tools and integration of activities to clean up radioactive and hazardous wastes • Resolve problems in contract management that place it at high risk for fraud, waste, abuse, and mismanagement • Improve financial management
Department of Health and Human Services	• Provide current and future generations with a well-designed and well-administered Medicare program • Better safeguard the integrity of the Medicare program • Improve oversight of nursing homes so that residents receive quality care • Ensure the safety and efficacy of medical products • Enhance the economic independence and well-being of children and families
Department of Housing and Urban Development	• Continued improvements needed to reduce HUD's single-family insurance risk • Continued improvements needed to ensure HUD's rental housing assistance programs are used effectively and efficiently • Resolution needed for a range of information and financial management systems and human capital issues
Department of the Interior	• Improve management of national parks • Address persistent management problems in Indian trust programs • Improve management of ecosystem restoration efforts • Address challenges in managing an expanding land base

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Agency	Challenges
Department of Justice	• Improve the enforcement of immigration laws and provision of immigration and naturalization services • Better manage programs designed to support state and local efforts to reduce crime • Develop measurable performance targets to help the Drug Enforcement Agency determine its progress in reducing the availability of illegal drugs • Achieve excellence in financial management, including, but not limited to, a departmentwide unqualified opinion for fiscal year 2000 and beyond • Improve management and accountability over Justice's asset forfeiture program
Department of Labor	• Increasing the employment and earnings of America's workforce • Protecting the benefits of workers • Fostering safe and healthy workplaces
Department of State	• Improve the security and maintenance of U.S. facilities overseas • Help decrease the level of illegal drugs entering the United States • Address the threats illegal immigration continues to pose to Americans at home • Address additional challenges to building a high-performing organization
Department of Transportation	• Improve the safety and security of air, highway, and pipeline transportation • Enhance the management of aviation and Coast Guard acquisitions and obsolete ship disposal to maximize investment of public funds • Increase the accountability for financial management activities • Improve the oversight of highway and transit projects to provide maximum transportation services for the federal dollars invested • Strengthen the financial condition of Amtrak • Enhance competition and consumer protection in aviation and freight rail industries to ensure reasonable fares, rates, and service

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Agency	Challenges
Department of the Treasury	• Modernize the Internal Revenue Service to better help taxpayers meet their tax responsibilities and to increase overall compliance with tax laws • Improve the U.S. Customs Service's regulation of commercial trade while ensuring that it protects against the entry of illegal goods at U.S. borders • Achieve sound financial management through significant management attention and priority • Improve the Bureau of Alcohol, Tobacco and Firearms' performance measures to better determine its progress in reducing criminals' access to firearms • Improve the management of Treasury's asset forfeiture program
Department of Veterans Affairs	• Ensure timely and equitable access to quality VA health care • Maximize VA's ability to provide health care within available resources • Process veterans' disability claims promptly and accurately • Develop sound agencywide management strategies to build a high-performing organization
Agency for International Development	• Human capital management issues impact USAID strategic objectives • Better performance data could help USAID assess programs and allocate resources • Additional challenges to building a high-performing organization
Environmental Protection Agency	• Improve environmental and performance information management to set priorities and measure results • Place greater emphasis on developing a comprehensive human capital approach • Strengthen working relationships with the states
National Aeronautics and Space Administration	• Correcting weaknesses in contract management • Controlling International Space Station development and support costs • Effectively implementing the faster-better-cheaper approach to space exploration projects • Integrating a human capital approach into NASA's workforce management strategies
Nuclear Regulatory Commission	• Resolve numerous issues to implement a risk-informed regulatory approach for commercial nuclear power plants • Overcome inherent difficulties to apply a risk-informed approach to nuclear material licensees • Continue efforts to cope with significant human capital challenges, resolve financial management issues, and effectively develop and implement new information technology

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Agency	Challenges
Small Business Administration	• Continue to improve oversight of SBA's lending partners to correct oversight weaknesses • Focus the 8(a) program on helping firms obtain contracts to increase procurement opportunities • Streamline and automate disaster loan processing to improve timeliness • Strengthen human capital, information technology, budget, and financial management practices to help modernize SBA
Social Security Administration	• Play an active research, evaluation, and policy development role • Improve SSA's disability determination process and return people to work • Sustain management and oversight of long-standing, high-risk Supplemental Security Income (SSI) issues • Better position SSA for future service delivery challenges • Further strengthen controls to protect SSA information
U.S. Postal Service	• Remain self-supporting while providing affordable, high-quality universal service • Control costs and improve productivity • Address long-term human capital issues • Provide complete and reliable performance information • Address legal and regulatory issues

Source: *Performance and Accountability Series* agency reports.

Performance and Accountability Series

Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO-01-241)

Major Management Challenges and Program Risks: Department of Agriculture (GAO-01-242)

Major Management Challenges and Program Risks: Department of Commerce (GAO-01-243)

Major Management Challenges and Program Risks: Department of Defense (GAO-01-244)

Major Management Challenges and Program Risks: Department of Education (GAO-01-245)

Major Management Challenges and Program Risks: Department of Energy (GAO-01-246)

Major Management Challenges and Program Risks: Department of Health and Human Services (GAO-01-247)

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO-01-248)

Major Management Challenges and Program Risks: Department of the Interior (GAO-01-249)

Major Management Challenges and Program Risks: Department of Justice (GAO-01-250)

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Major Management Challenges and Program Risks: National Aeronautics and Space Administration (GAO-01-258)

Major Management Challenges and Program Risks: Nuclear Regulatory Commission (GAO-01-259)

Major Management Challenges and Program Risks: Small Business Administration (GAO-01-260)

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