January 2003

Major Management Challenges and Program Risks

A Governmentwide Perspective

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This Series

This report is part of a special GAO series, first issued in 1999 and updated in 2001, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks.* The 2003 Performance and Accountability Series contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. This report provides a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. The companion 2003 *High-Risk Series: An Update* identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A list of all of the reports in this series is included at the end of this report.

PERFORMANCE AND ACCOUNTABILITY SERIES

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Highlights

Highlights of GAO-03-95, a report to Congress included as part of GAO's Performance and Accountability Series

A Governmentwide Perspective

Why GAO Did This Report

In its 2001 Governmentwide Perspective, GAO identified operational challenges, such as the continuing need to implement management reforms, and discussed the need to address human capital and other strategic challenges, particularly the longer-term budget outlook. The information GAO presents in this report is intended to help sustain congressional attention in addressing the challenges government faces in doing business in the 21st century. This report is part of a special series of reports on governmentwide and agency-specific issues.

What Remains to Be Done

To prepare for the future, the role of the federal government and how it does business must be transformed. The federal government must reexamine existing entitlement programs, other spending policies, and tax preferences, in order to help address its long-term fiscal challenges and create additional budgetary flexibility to meet current and emerging needs. Agencies must continue to build their fundamental management capabilities, resolve high-risk areas, and address their major management challenges in order to effectively address the nation's most pressing priorities and take advantage of emerging opportunities. For example, various parties should work together to continue to enact needed human capital reforms.

www.gao.gov/cgi-bin/getrpt?GAO-03-95.

To view the full report, click on the link above. For more information, contact Victor S. Rezendes at (202) 512-6806 or rezendesv@gao.gov.

What GAO Found

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. Several major trends, including diffuse security threats and national preparedness, globalization, a shift to knowledge-based economies, and advances in science and technology, drive the need for federal agencies to transform their cultures and operations. Any examination of what the federal government can accomplish also must consider long-range fiscal and demographic pressures that affect the long-term outlook. The retirement of the baby boom generation and rising health care costs threaten to overwhelm our nation's finances. A fundamental reassessment of government programs and activities can help address our long-range fiscal challenges and weed out programs that are outdated or ineffective and update needed programs so that they are better aligned, well targeted, and efficient.

Some agencies have begun transformation efforts to fundamentally change their cultures to become more results-oriented, customer-focused, and collaborative in nature. For example, the U.S. Postal Service in its long-term outlook and transformation, which continue to be high risk, faces challenges in managing its finances, human capital, and infrastructure. In addition, the Internal Revenue Service has a multifaceted effort to transform its operations under way and the Department of Defense is in the process of transforming and improving its business operations.

Establishing the Department of Homeland Security (DHS) also provides a unique challenge and opportunity to transform government. GAO has designated implementing and transforming DHS as high risk for three reasons. First, the implementation and transformation of DHS is an enormous undertaking that will take time to achieve in an effective and efficient manner. Second, components being merged into DHS already face a wide array of existing challenges. Finally, failure to effectively carry out its mission would expose the nation to potentially very serious consequences.

Successful transformation efforts build upon the principals of effective management, including strategic planning; organizational alignment; human capital strategies; performance-based management and budgeting focused on results; and sound financial, information technology, acquisition, change, and knowledge management practices. The President's Management Agenda has focused agencies' efforts on achieving key management and performance improvements, and our work shows that agencies have made progress, although more needs to be done. There is no more important management reform than for agencies to transform their cultures to respond to the transition that is taking place in the role of government in the 21st century. Building on lessons learned, major programs and operations need urgent attention and transformation to ensure that the government functions in the most economical, efficient, and effective manner possible.

United States General Accounting Office

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**United States General Accounting Office
Washington, D.C. 20548**

January 2003

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

This report addresses the challenges and opportunities the federal government faces to enhance its performance, ensure greater accountability, and better position the nation for the future. It describes the major trends, including demographic, health care, and other pressures that affect our nation's long-term fiscal outlook. These trends continue to drive the need for a major transformation in government, and some agencies have related efforts under way. This report also discusses the continuing need to build fundamental management capacity across government in order to resolve high-risk areas and effectively address major management challenges.

This analysis should help the new Congress and the administration carry out their responsibilities and improve government for the benefit of the American people. For additional information about this report, please contact Victor S. Rezendes, Managing Director, Strategic Issues, at (202) 512-6806 or at rezendesv@gao.gov.

David M. Walker
Comptroller General
of the United States

A Governmentwide Perspective

As the pace of change accelerates in every aspect of American life, government is faced with a range of new and complex challenges. The events of September 11, 2001, have started in motion a series of dramatic changes in the federal government and in working relationships between various levels of government and the private sector throughout the nation and the world. As the new Department of Homeland Security begins to take shape, there is a recognized urgency to fix known problems and prepare to effectively address potential and emerging threats.

Several major trends—such as the increasing interconnectedness of global markets and economies as well as the long-term fiscal trends facing the federal government—will also frame the nature and scope of decisions expected to confront government policymakers and managers in the future. Within this context, government leaders must be accountable for making needed changes to position the federal government to take advantage of emerging opportunities and meet future challenges.

Focusing on accountable, results-oriented management can help the federal government operate effectively within a broad network that includes other governmental organizations, nongovernmental organizations, and the private sector. Using this results-oriented framework, the federal government also needs to engage in a comprehensive review, reassessment, reprioritization, and as appropriate, reengineering of what the government does, how it does business, and in some instances, who does the government's business.

Some federal agencies already have transformation efforts under way. Lessons that are learned as these and other agencies gain experience can inform and contribute to future transformation efforts. The President's Management Agenda (PMA) is also helping to focus attention on the steps needed to address key challenges and produce a more results-oriented and accountable government.

By addressing known problems and building fundamental management capacity, the federal government can improve its performance and deliver economical, efficient, and effective programs and services that the American people need in a cost-effective and fiscally sustainable manner.

Evolving Trends Are Shaping the United States and Its Place in the World

Any examination of the federal government—both how it is organized and how it functions—must be done in the context of the trends that shape American society and the United States' place in the world.

Major trends include

- the national and global response to terrorism and other threats to personal and national security;

- the increasing interdependence of enterprises, economies, civil society, and national governments, referred to as globalization;

- the shift to market-oriented, knowledge-based economies;

- an aging and more diverse U.S. population;

- advances in science and technology and the opportunities and challenges created by these changes;

- challenges and opportunities to maintain and improve the quality of life for the nation, communities, families, and individuals; and

- the increasingly diverse nature of governance structures and tools.

The changes in national and world conditions that have occurred in the last 2 years have increased concerns regarding the national and global response to terrorism and other threats to personal and national security. Although the nature of security threats changed with the end of the cold war, the reality of these threats was brought painfully home by the attacks of September 11, 2001. These events heightened public recognition of the seriousness of these challenges, enhanced the focus on and priority given to national preparedness and homeland security issues, and led to increased resources being dedicated to addressing these challenges. Since time, attention, and resources are not unlimited, these changes in national and world conditions alter the context within which all governmental roles, initiatives, programs, and priorities are evaluated. The nation must embark upon strategies that are affordable and sustainable and that integrate the capabilities of all levels of government, as well as the private sector, community groups, and individuals.

Diffuse and changing security threats are not the only forces affecting the United States and its government. In part, these changing threats stem from another major trend: rapid advances in technology and the increased

movement of goods and people across borders. Globalization—growing worldwide interdependence—affects economic and financial structures as well as the ability of any individual nation to impose standards or regulations. The government increasingly must be aware of international dimensions when weighing policy options and taking action, and policy discussions are likely to be multilateral rather than bilateral in nature.

Not only are nations and their economies more interdependent, but also the very nature of these economies has been changing. The shift to market-oriented, knowledge-based economies is occurring throughout much of the world. This shift affects productivity—and so economic growth—and can raise questions about income distribution, investment in human capital, and the measurement of economic performance. It also has pivotal implications for immigration, trade, and retirement policies.

Both globalization and the changing nature of domestic and global economies are tied in part to advances in technology. Technological advances present significant opportunities, but they also present new challenges for society and government. Dramatic increases in computer interconnectivity, especially in the use of the Internet, continue to revolutionize the way our government, our nation, and much of the world communicate and conduct business. However, this widespread connectivity also poses significant risks to our computer systems and, more important, to the critical operations and infrastructure they support.

While information technology stands out as one major technological force of the era, developments in biotechnology also are leading to changes in society. For example, improved understanding of diseases has led to new therapies and treatments, and genetically modified crops have the potential to dramatically improve people's health and nutrition. In addition to the vast opportunities science and technology present to improve the performance of the economy, government, and the relationship of the government to its citizens, the impact on quality of life issues can also be significant. However, quality of life issues—such as access to health care, affordable housing, and education—also continue to present challenges to governments at all levels.

In most federal mission areas—such as homeland security, affordable housing and higher education assistance—national goals are increasingly achieved through the participation of many organizations. State and local governments, nonprofit institutions, private corporations, and even international institutions and governing bodies, all play vital roles in

formulating and implementing federal initiatives. Promoting effective partnerships with third parties in the formulation and design of complex national initiatives will prove increasingly vital to achieving key outcomes, such as protecting the nation from the threat of terrorism.
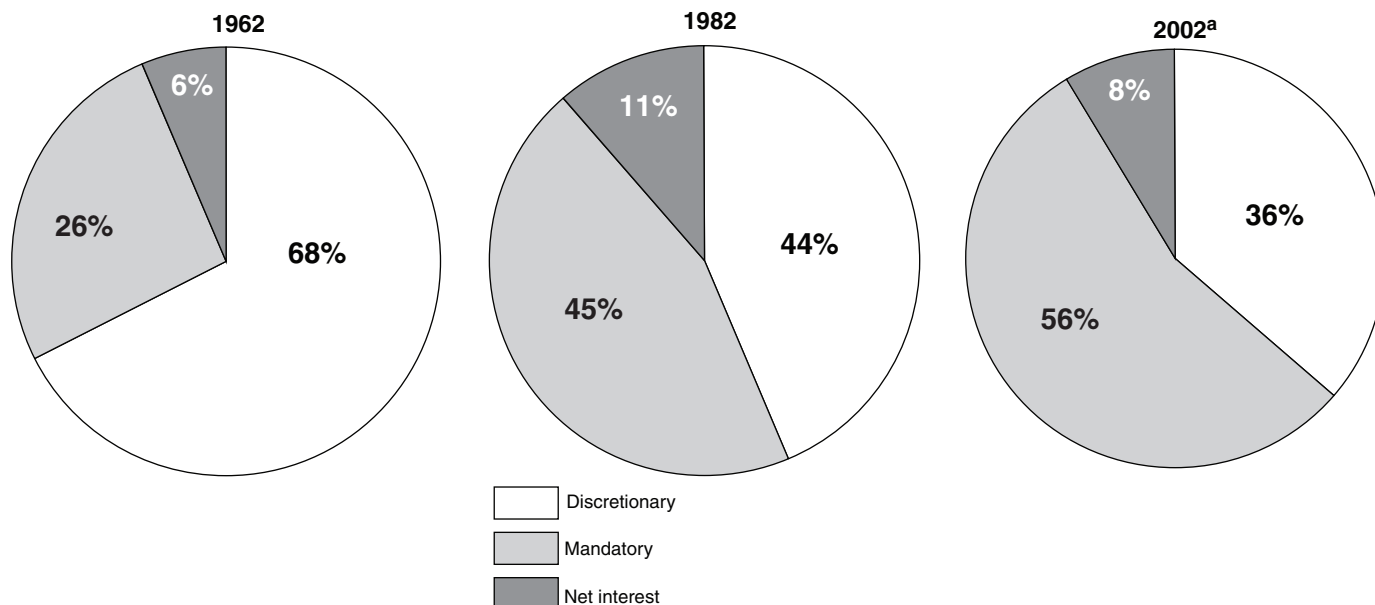
Long-term Fiscal and Demographic Trends Are Crucial in Framing Debate about the Role of the Federal Government in the Future

As the nation and government policymakers grapple with the challenges presented by these evolving trends, they do so in the context of an overwhelming fact: the fiscal pressures created by the retirement of the baby boom generation and rising health care costs threaten to overwhelm the nation's fiscal future. In 2008—only 5 years from now—the first wave of baby boomers become eligible to claim Social Security. Between now and 2030, the share of the population aged 65 or older is projected to grow from 12 percent to about 20 percent. In addition, labor force growth in 2025 is expected to be less than a third of what it is today. Absent a growth in productivity, this decline in labor force growth will lead to slower growth in the economy—and in federal revenues.

Long-range simulations can be helpful in understanding the context within which the government will operate; these simulations may be especially useful because the long-term outlook is heavily driven by demographics. Our long-range budget simulations make it clear that the status quo is not sustainable. The future fiscal gap is too great for any realistic expectation that the country can grow its way out of the problem. Failure to reexamine the retirement and health care programs driving the long-term outlook will put the nation on an unsustainable fiscal course, absent major changes in tax and/or spending policies. In addition, failure to reprioritize other claims on the budget will make it increasingly difficult to finance the rest of the government, let alone respond to compelling new priorities and needs.

As figure 1 shows, overall budgetary flexibility has been shrinking for some time. In the last 2 decades, mandatory spending[1]—excluding net interest— as a share of the budget has jumped by nearly 10 percentage points to consume more than half of the federal budget.

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[1]Mandatory spending is spending that is determined by laws other than appropriations acts. It includes such programs as Social Security, Medicare, Medicaid, farm price supports, and some veterans' benefits. Discretionary spending refers to spending determined through the appropriations process. It includes national defense, homeland security, the judicial system, federal education assistance, national parks, the National Institutes of Health, transportation programs, and various other operations of government.

Figure 1:   Federal Spending for Mandatory and Discretionary Programs, Fiscal Years 1962, 1982, and 2002

1962

6%

26%

68%

1982

11%

45%

44%

2002[a]

8%

36%

56%

☐ Discretionary

▢ Mandatory

▨ Net interest

Source: Office of Management and Budget.
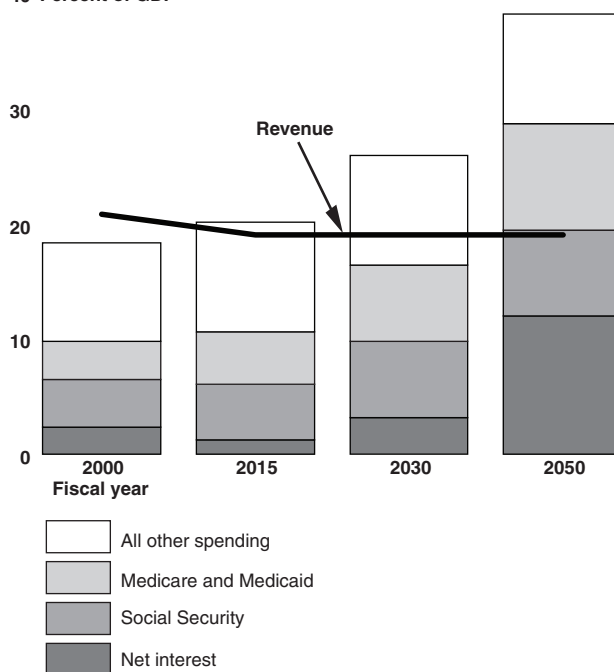
[a]Office of Management and Budget's July 2002 current services estimate.

We prepare long-term budget simulations that seek to illustrate the likely fiscal consequences of the coming demographic tidal wave and rising health care costs. Our latest long-term budget simulations reinforce the need for change in the major cost drivers—Social Security and health care programs. As shown in figure 2, by mid-century, absent reform of these entitlement programs, projected federal revenues may be adequate to pay little beyond interest on the debt and Social Security benefits. Further, the shift from surplus to deficit means that the nation will move into the future in a weaker fiscal position than was previously the case. [2]

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[2]These simulations assume that tax reductions enacted in 2001 do not sunset and discretionary spending grows with the economy. They also assume payment of currently scheduled Social Security benefits even after the Social Security Trust Fund is exhausted in 2041.

Figure 2:   Composition of Spending as a Share of Gross Domestic Product (GDP), Assuming Discretionary Spending Grows with GDP, the Tax Cuts Do Not Sunset, and Payments of Currently Scheduled Social Security Benefits Continue

Source: GAO.

Although the need for structural change in Social Security is widely recognized, this change would not be sufficient to overcome the long-term fiscal challenges confronting the nation. For example, the long-term fiscal imbalance would not come close to being eliminated even if Social Security benefits were to be limited to currently projected trust fund revenues, because Medicare and Medicaid—spending for which is driven by both demographics and rising health care costs—present an even greater problem. Absent a change in design, these two health programs together are projected to nearly triple as a share of GDP over the next half-century.

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. Waiting to build economic resources and reform future claims entails significant risks. To begin with, we lose an important window during which today's relatively large workforce could increase saving and enhance

productivity, two elements critical to growing the future economy. We also lose the opportunity to reduce the burden of interest payments, thereby leaving the relatively smaller workforce of the future a legacy of higher debt as well as entitlement spending for the elderly. Furthermore, we risk losing the opportunity to phase in changes gradually so that all can make the adjustments needed in private and public plans to accommodate this historic shift. Unfortunately, the long-range challenge has become more difficult, and the window of opportunity to address the entitlement challenge is narrowing. As the baby boom generation retires and the number of those entitled to these retirement benefits grows, the difficulties of reform will be compounded. Accordingly, it remains more important than ever to deal with these issues over the next several years.

Concerns regarding the long-term picture are increasing, as the crunch is getting closer. We have work under way regarding how to describe the range and measurement of fiscal exposures—from explicit liabilities such as environmental costs to the more implicit exposures presented by life-cycle costs of capital acquisition or disaster assistance.

Making government adapt to meet the challenges of the future is broader than revisiting entitlement programs. A fundamental review of what the federal government does, how it does it, and in some cases, who does the government's business will be required. It will also require a review of a range of federal spending, regulatory, and tax policies.

A Fundamental Review Is Needed to Ensure Relevant and Sustainable Government Programs
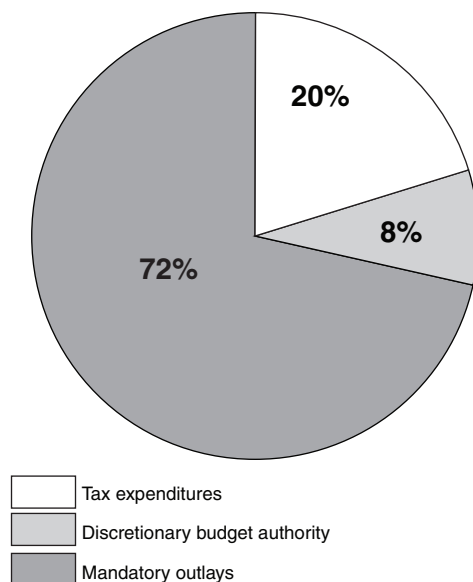
If government is to be able to deal with these trends, it cannot accept as "givens" all of its existing major programs, policies, and operations. Rather, the relevance or "fit" of particular federal programs, policies, or activities to today's world and the future must be reexamined. This reassessment, while a challenge in itself, can help create the fiscal flexibility needed to address emerging needs by weeding out programs that are outdated or ineffective and updating needed programs so that they are better aligned, well targeted, and efficient. Such a reassessment must include both mandatory and discretionary spending and tax preferences. In addition, examining interrelationships with other governmental and nongovernmental programs can help determine the appropriate role for the federal government.

It is always easier to subject proposals for new activities or programs to greater scrutiny than existing ones undergo. Treating existing activities as "givens" and forcing new proposals to compete only with each other,

however, move the nation further from, rather than nearer to, budgetary surplus. In looking forward, it is important to reflect on how much things have changed. We must strive to maintain a government that is effective and relevant to a changing society—a government that is as free as possible of outmoded commitments and operations that can inappropriately encumber the future. In addition, policymakers need to consider the difference between "wants," "needs," and overall "affordability" and long-term "sustainability" when setting priorities and allocating resources.

Finally, any reassessment of federal missions and strategies should include an examination of the entire set of tools that the federal government can use to address national objectives. The tools for implementing federal programs include direct spending, loans and loan guarantees, tax expenditures, and regulations. For example, as shown in figure 3, in fiscal year 2000, the federal health care and Medicare budget functions included $37 billion in discretionary budget authority, $319 billion in entitlement outlays, $5 million in loan guarantees, and $91 billion in tax expenditures.

Figure 3: Relative Reliance on Policy Tools in the Health Care Budget Functions, Fiscal Year 2000

Tax expenditures

Discretionary budget authority

Mandatory outlays

Source: Office of Management and Budget.

Note: Loan guarantees account for about $5 million, or about 0.001 percent, of the approximately $447 billion in total federal health care resources.

In most federal mission areas—from low-income housing to food safety to higher education assistance—national goals are achieved through the use of a variety of tools and, increasingly, through the participation of many organizations that are beyond the direct control of the federal government. This environment provides unprecedented opportunities to change the way federal agencies are structured to do business internally and across boundaries with state and local governments, nongovernmental organizations, private businesses, and individual citizens.

This transformation is made more challenging at a time when many states and localities are facing the tightest fiscal conditions they have seen in a decade, with fiscal pressures stemming from slowing revenue growth and unanticipated expenditures. The recent economic downturn and stock market declines have caused state revenues to slide, while other developments, such as health care price increases and unexpected homeland security threats, have greatly increased spending demands. There is evidence that the fiscal and policy issues that each level of government in our system faces are increasingly intertwined. The expansion of federal policy objectives has been accompanied by a growing reliance on state and local governments. State and local governments have been confronted with the challenge of addressing their own needs while at the same time assuming stewardship for a growing number of national needs. Together, such trends are forcing policymakers to make difficult fiscal and policy choices, and these decisions will become more painful over time.

Agencies Have Transformation Efforts Under Way To Meet 21st Century Challenges

Together these trends—including security and preparedness, globalization, a shift to knowledge-based economies, advances in science and technology, and an aging population, along with the long-range fiscal challenges facing the government—drive the need for agencies to transform their cultures and operations. In response to these trends, some agencies have already begun these transformations.

As part of its transformation efforts, the federal government needs to create a culture that moves from

- process to results,

- stovepipes to matrixes,

- hierarchical to flatter and more horizontal structures,

- an inward focus to an external (citizen, customer, and stakeholder) focus,

- micro-management to employee empowerment,

- reactive behavior to proactive approaches,

- avoiding new technologies to embracing and leveraging them,

- hoarding knowledge to sharing knowledge,

- avoiding risk to managing risk, and

- protecting "turf" to forming partnerships.

There is a compelling need to elevate, integrate, and institutionalize responsibility for transformational efforts within federal agencies to help ensure success.[3] This can help provide the continuing, focused attention needed to complete multiyear transformation change efforts. How this is accomplished must be determined within the context of the specific facts and circumstances surrounding that agency and its own challenges and opportunities. All such efforts, however, build upon the existing mechanisms for ensuring accountability. Congressional oversight continues to play a key role in fostering continuous improvement. Public reporting mechanisms, such as the annual performance plans and performance reports required by the Government Performance and Results Act of 1993 (GPRA), and audited financial statements prepared under the 1990 Chief Financial Officers (CFO) Act and the 1994 Government Management Reform Act, also provide useful information and help keep transformation efforts on track and accountable for achieving progress and results.

One clear example of the challenges involved in governmental transformation efforts can be seen in examining efforts related to the transformation of the U.S. Postal Service, an area that we designated as high risk in April 2001. Additionally, both the Internal Revenue Service (IRS) and the Department of Defense (DOD) face a range of long-term

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[3]U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges,* GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

challenges and have actions under way to address the fundamental need to transform how they do business now and in the future. Also, establishing the new Department of Homeland Security presents a wide range of transformation issues. Other agencies have also begun major transformation efforts, including the National Aeronautics and Space Administration (NASA), the Federal Aviation Administration (FAA), and the Federal Bureau of Investigation (FBI).

The Postal Service's Transformation Continues to Be High Risk

The rapid changes in technology, particularly in the use of E-mail and the Internet, security concerns, and increased competition, have all played a part in framing the significant challenges facing the Postal Service. In the nearly 2 years since we designated the Service's transformation efforts and long-term outlook as a high-risk area, it has experienced financial difficulties and struggled to fulfill its mission of providing high-quality universal service while remaining self-supporting. These financial difficulties are not just a cyclical phenomenon—mail volumes have stagnated or declined in an increasingly competitive environment. The Service has developed a transformation plan, which it can use to make progress on specific actions under its existing authority. The Service's ability to control costs and improve productivity is key to improving its financial situation. Historically, it has had difficulty achieving productivity improvements and cost savings in two of its most costly areas—its workforce and its expansive physical infrastructure.[4]

One of the key challenges of the Service's transformation will be realigning its infrastructure and workforce to support its business model for the 21st century. The issue of excess and underutilized property, part of the governmentwide high-risk area of federal real property, needs to be part of the Service's efforts to control costs and achieve its long-term transformation.[5] Also, facility consolidations and closures may be needed to align the Service's operating network more closely with its changing business model.

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[4]U.S. General Accounting Office, *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO-03-118 (Washington, D.C.: January 2003); and *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

[5]U.S. General Accounting Office, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: January 2003).

Progress is also needed in aligning the Service's workforce planning and performance systems to its changing business model. Continued communication and cooperation between labor and management on difficult human capital issues will be critical in achieving transformation goals. The Service also needs to work with the Congress, the President's Commission on the United States Postal Service, and other stakeholders to address a range of unresolved transformation issues. The time has come for comprehensive and fundamental reform with the key continuing to be the need to find common ground in building a viable postal system for the 21st century.

IRS Has Transformation Efforts Under Way

IRS's modernization encompasses changes to virtually every aspect of IRS, from its organizational structure and business processes to its technology and ways of measuring and managing the performance of the agency and its approximately 100,000 employees. Through modernization, the Congress expects IRS to provide top-quality service and, in doing so, to efficiently collect revenues for the Treasury.

IRS has made important progress, but its transformation continues to be a work in process, and its modernization is a massive and multifaceted effort that will take at least a decade to complete. The IRS Restructuring and Reform Act of 1998 established the Congress's expectation that IRS modernize to better meet taxpayer needs. Implemented together, improvements in five areas—business processes, organizational structure, performance measurement, managerial accountability, and new technology or business systems—are intended to improve taxpayer service and compliance. Each initiative is a major undertaking, and in combination they are particularly ambitious and complex. While IRS has made progress in all five areas, we have identified a number of challenges that must be met if IRS is to successfully transform itself into an agency that provides top quality service and efficiently collects revenue:

- *Improving service to taxpayers:* The progress that IRS has made to date in modernizing itself has laid a foundation for improvement but has not yet provided the quality of service that taxpayers, the Congress, and IRS management agree is needed. A theme in our recent reports on taxpayer service is the need for improved management. Specifically, we recommended explicit goal setting, improved performance measures, and more program evaluations. Similarly, we have noted the importance of human capital management to improve service to taxpayers. For

example, we have pointed out that IRS's new performance management system could be a powerful tool to help IRS achieve its mission.

- *Collection of unpaid taxes:* Collecting taxes due the government has always been a challenge for IRS, but in recent years the challenge has grown. We have highlighted large and pervasive declines in IRS's compliance and collections programs. To reverse these trends, IRS is in various stages of planning and implementing management improvements, including reengineering compliance and collections practices, collecting better data about noncompliance, and investing in modern financial and information systems. Because of the potential revenue losses and the threat to voluntary compliance, this is a high-risk area.

- *Earned income credit noncompliance*: The design of the earned income credit may contribute to the significant compliance problems that have been associated with the credit. As we have reported, unlike other income transfer programs that have staff to review documents and other evidence before judging applicants to be qualified to receive assistance, the earned income credit was designed to be administered through the tax system and relies more directly on the self-reported qualifications of individuals. The Commissioner of Internal Revenue and the Secretary of the Treasury have convened a joint task force to develop recommendations to better administer the credit and make it easier for taxpayers to comply with the rules. However, until IRS has designed and implemented effective controls to deal with noncompliance and the erroneous refunds in the billions of dollars that result, this will remain a high-risk area.

- *Establishing measures comparable over time and collecting sufficient performance data*: A sound organizational performance and human capital management system is essential for assessing how well IRS meets its goals and for making program improvements. IRS has made progress in revamping its performance management system by using its strategic planning, budgeting, and performance management process to reconcile competing priorities and initiatives within the realities of available resources. However, our work has shown that IRS could do a better job of designing and implementing performance measures and program evaluation practices that support its ongoing business operations, modernization efforts, and budget requests.

- *Addressing financial management weaknesses to develop reliable cost-based performance information*: Financial management weaknesses— a high-risk area since 1995—limits IRS's ability to develop reliable, cost-based performance information and to ensure that resources were spent in accordance with laws, regulations, and management policy. IRS has made significant progress in addressing its financial management weaknesses, including addressing controls over budgetary activity and its accountability over property and equipment. However, resolving many of IRS's most serious problems will require a sustained, long-term commitment of resources; continued involvement of senior management; and sustained progress in systems modernization.

- *Managing the business systems modernization program:* IRS's multibillion-dollar business systems modernization program is critical to the success of the agency's efforts to transform its manual, paper-intensive business operations and fulfill its obligations under the IRS Restructuring and Reform Act. IRS has made important progress in establishing long overdue modernization of its management capabilities, and in acquiring the foundational system infrastructure and the system applications that will permit the agency to operate more effectively and efficiently; but significant challenges and risks remain. We continue to designate IRS's business systems modernization as a high-risk area for two interrelated reasons. First, the scope and complexity of the program is growing. Second, IRS's modernization management capacity is still maturing. We have continued to emphasize the importance of establishing sound management controls to guide IRS's business systems modernization projects. Although IRS has made important progress in a number of areas, we remain concerned that its systems modernization projects may encounter additional cost, schedule, and performance problems.[6]

- *Implementing effective computer security*: IRS relies extensively on computer information systems to perform basic functions such as processing tax returns and payments, maintaining sensitive taxpayer information, and generating refunds. Although IRS has made important progress improving computer security controls, much remains to be done to resolve the significant security weaknesses that continue to exist within IRS's computing environment and to be able to promptly address new security threats and risks as they emerge. Such weaknesses

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[6]GAO-03-119.

can impair the agency's ability to perform vital functions, and can increase the risk of unauthorized disclosure, modification, or destruction of taxpayer information. Until IRS corrects known weaknesses and fully implements its agencywide computer security program, IRS systems and sensitive taxpayer information will remain at risk.

DOD Is in the Process of Transforming and Improving Its Business Operations

DOD's transformation will require cultural change and business process reengineering that will take years to accomplish, and a commitment from both the executive and legislative branches of government. Even before the events of September 11, increased globalization, changing security threats, and rapid technological advances were prompting fundamental changes in the environment in which DOD operates. DOD's transformation involves a strategic imperative needed to meet the security challenges of the new century. DOD has emphasized force transformation as necessary to effectively anticipate, counter, and eliminate the emergence of unconventional threats overseas and at home. At the same time, DOD has embarked on a series of efforts to improve its core business processes.

Many of DOD's business processes are mired in old, inefficient procedures and legacy systems, some of which go back to the 1950s and 1960s. As the security environment has shifted from a Cold War structure to one of many and varied threats, DOD has not kept pace with the changing capabilities and productivity of the modern business environment. In view of the events of September 11 and the federal government's short- and long-term budget challenges, it is more important than ever that DOD effectively transform its business processes to ensure it gets the most from every dollar spent. These trends place a premium on increasing strategic planning; enhancing results orientation; and ensuring effective accountability, transparency, and the use of integrated approaches.[7]

Significant management problems, however, continue to hamper the economy, efficiency, effectiveness, and accountability of DOD's business processes, placing mission capabilities at risk by misspending funds that could be directed to higher priorities, such as modernization and readiness. Organizations throughout DOD need to continue reengineering their business processes and striving for greater operational efficiency.

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[7]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003).

Addressing DOD's performance and accountability challenges and high-risk areas is crucial in ensuring that inefficiencies no longer make the cost of carrying out missions unnecessarily high and, more importantly, increase the risk associated with those missions. DOD's transformation demands integrated solutions to these areas.

- DOD has emphasized transforming its support infrastructure, but infrastructure management continues to be a high-risk area. DOD and others have been concerned over the amount of funding devoted to its support infrastructure and the impact this has on its ability to devote more funding to weapon system modernization and other critical needs.

- Problems with the department's financial management operations date back decades, and DOD's financial management remains high risk. Previous attempts at reform have largely proven to be unsuccessful despite good intentions and significant efforts. Overhauling the department's financial management operations represents a challenge that goes far beyond financial accounting to the very fiber of DOD's range of business operations and management culture. The department has underscored its commitment to reform, but it must be able to effectively account for the funding it receives and carry out its stewardship responsibilities for the vast amount of equipment and inventories used in support of military operations.

- To transform its business operations, DOD is spending billions of dollars to modernize its information technology systems. Since we first designated DOD's systems modernization as a high-risk area in 1995, DOD has had limited success in modernizing its information technology environment because it has yet to fully implement our recommendations aimed at addressing its underlying modernization management weaknesses, including lack of an integrated set of enterprise architectures, effective investment management practices, and effective acquisition processes. DOD has taken some steps to implement our recommendations addressing the weaknesses we identified. For example, DOD has begun to develop a departmentwide enterprise architecture for its financial and related operations, including ensuring alignment of this architecture with others in DOD.

- DOD's investment in weapons is growing rapidly as DOD pushes to transform itself to meet a new range of threats, but DOD continues to experience significant problems, including cost increases, schedule

delays, and performance shortfalls in developing and acquiring weapons systems.

- As the government's largest purchaser, DOD and its senior leadership is committed to improving and streamlining its acquisition practices as it adjusts to a changing acquisition environment. Contract management remains a high-risk area, including the need to improve acquisition of services and ensure the appropriate use of contracting techniques and approaches by overcoming long-standing contract payment issues, managing health care contracts, and improving the acquisition workforce.

- DOD's inventory management practices represent one of the most serious weaknesses in DOD's logistics operations, and the long-term solution to this high-risk area necessitates that DOD reengineer its entire logistics operations to include the development of a long-range strategic vision and a coordinated approach to logistics management.

DOD's transformation initiative will only succeed with the right incentives, transparency, and accountability mechanisms. While DOD recognizes the need for internal transformation and budget reform, its goals are challenging, and its strategic plan currently is not set up to allow DOD to implement and measure progress toward achieving its performance goals in an integrated fashion. In addition to building on a foundation of sound strategic planning, sustained committed leadership is needed to maintain continuity. One way to ensure sustained and committed leadership would be to create a full time position, such as a chief management officer position, that would provide the sustained attention essential for addressing key stewardship responsibilities, such as strategic planning, performance management, and financial management, in an integrated manner while helping to facilitate the transformation processes within DOD. Equally important is the Congress's responsibility to provide the necessary review and visible leadership to demonstrate its commitment to reform and oversight.

Establishing the Department of Homeland Security Provides a Unique Opportunity to Transform Government

We have designated the implementation and transformation of the Department of Homeland Security (DHS) as high risk for three reasons.[8] First, the implementation and transformation is an enormous undertaking that will take time to achieve in an effective and efficient manner. Second, components being merged into DHS already face a wide array of existing challenges. Finally, failure to effectively carry out its mission would expose the nation to potentially very serious consequences.

DHS, with an anticipated budget of almost $40 billion and an estimated 170,000 employees, will be the third largest agency in the federal government. DHS will combine 22 agencies specializing in various disciplines, including law enforcement, border security, biological research, disaster mitigation, and computer security. Further, DHS will take on some non-homeland-security activities, such as the Coast Guard's marine safety responsibilities and the Federal Emergency Management Agency's natural disaster response functions. The new department is being formed with responsibility for a wide array of existing major management challenges and program risks. For instance, one DHS directorate's responsibility includes the protection of critical information systems—an area that we have designated high risk. Further, the components merging into the new department, including the Immigration and Naturalization Service (INS) and the Transportation Security Administration (TSA), face a range of fundamental management capacity issues, such as strategic human capital risks, critical information technology challenges, and financial management vulnerabilities. The new components also confront an array of challenges and risks to program operations, such as the challenges TSA faced in meeting baggage screening deadlines and the difficulties INS has had in tracking aliens due to unreliable address information.

Only through the effective integration and collaboration of these diverse entities will the nation achieve the synergy that can help provide better security against terrorism. The magnitude of these responsibilities, combined with the challenge and complexity of the transformation, underscores the perseverance and dedication that will be required of all DHS's leaders, employees, and stakeholders to achieve success. The new department must grapple not only with operational issues that will require

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[8]U.S. General Accounting Office, *Major Management Challenges and Program Risks: The Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003); and GAO-03-119.

immediate attention to better secure our borders or to enhance information sharing, but also create a well run, sustainable department for the long term.

Mergers of this magnitude carry significant risks, including lost productivity and inefficiencies. In September 2002, we convened a forum to identify and discuss useful practices and lessons learned from major private and public sector mergers, acquisitions, and transformations.[9] The participants included a cross section of leaders in the public and private sectors who have had experience managing large-scale mergers and acquisitions, as well as leading academics and others who have studied these efforts. While there is no one right way to manage a successful transformation, the following key practices can serve as a guide to DHS and other agencies as they seek to transform and meld disparate cultures in response to governance challenges:

- Ensure that top leadership drives the transformational change.

- Establish a coherent mission and integrated strategic goals to guide the transformation.

- Focus on a key set of principles and priorities at the outset of the transformation.

- Set implementation goals and a timeline to build momentum and show progress from day one.

- Dedicate an implementation team to manage the transformation process.

- Use the performance management system to define responsibility and ensure accountability for change.

- Establish a communication strategy to create shared expectations and report on related progress.

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[9]U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

- Involve employees to obtain their ideas and gain ownership for the transformation.

- Build a world-class organization.

Generally, successful transformations of large organizations, even those undertaking less strenuous reorganizations and with less pressure for immediate results, can take from 5 to 7 years to achieve in a sustainable manner. Moreover, critical aspects of DHS's success will depend on well-functioning relationships with third parties that will take time to establish and maintain, including those with other federal agencies with homeland security responsibilities, such as the State Department, the FBI and Central Intelligence Agency, DOD, and the Department of Health and Human Services, as well as with state and local governments, and the private sector. Creating and sustaining a structure that can leverage partners and stakeholders will be necessary to effectively implement the national homeland security strategy.

Building an effective department will require consistent and sustained leadership from top management to ensure the needed transformation of disparate agencies, programs, and missions into an integrated organization. To achieve success, the end result should not simply be a collection of components in a new department, but the transformation of the various programs and missions into a high performance, focused organization. DHS will need to build a successful transformation that instills the organization with important management principles; rapidly implements a phased-in transition plan; leverages the new department and other agencies in executing the national homeland security strategy; and builds collaborative partnerships with federal, state, local, and private sector organizations. Actions that must be taken to ensure the success of DHS over the long term include:

- a comprehensive transformation,

- strong partnerships,

- management capacity, and

- performance milestones and an oversight structure.

Accountability is a critical factor in ensuring the success of the new department. The oversight entities of the executive branch, including OMB

and the Office of Homeland Security, will have a vital role to play in ensuring expected performance and accountability. Likewise, cognizant congressional committees, with their long term and broad institutional roles, will also play a role in overseeing the transformation of the federal government as it meets the demands of its homeland security mission. The DHS legislation instructs both Houses of the Congress to review their committee structures in light of the reorganization of homeland security responsibilities within the executive branch, and the Congress has begun to explore ways to facilitate conducting its responsibilities in a more consolidated and integrated manner. During this period of transformation, the Congress may need to periodically reassess its structure to maximize the effectiveness of its DHS oversight.

The November 2002 enactment of legislation creating DHS represents a historic moment of almost unprecedented action by the federal government to fundamentally transform how the nation will protect itself from terrorism. Rarely in the country's past has such a large and complex reorganization of government occurred or been developed with such a singular and urgent purpose. DHS's national security mission is of such importance that its failure could have serious consequences on our intergovernmental system, our citizens' health and safety, and our economy. The government now has the chance to transform itself by developing a strong and effective cabinet department that will, among other things, protect U.S. borders, improve intelligence and information-sharing activities, and prevent and respond to potential terrorist acts.

Other Agencies Have Begun Transformation Efforts

NASA, FAA, and FBI are examples of other executive branch agencies that have recognized that they must change with the times in considering what they do and how they do it. NASA is facing difficulties—particularly in maintaining a skilled workforce, controlling costs, and providing effective oversight for important projects—that have been debilitating to important space missions.[10] Recognizing the need for change at NASA, the Administrator has articulated a new vision to eliminate stovepipes; become more integrated and results oriented; and reduce risks while working more economically, efficiently, and effectively. FAA is another agency where key trends have heightened the need for transformation to implement new ways of ensuring transportation security and improving safety, mobility, and economic growth. FAA faces an impending wave of air traffic controller retirements, and has had difficulties in implementing new processes and technologies. It faces long-standing problems in financial management and air traffic control modernization efforts, and although FAA has made important progress in addressing these problems, more remains to be done.[11] At the FBI, any changes must be part of, and consistent with, broader governmentwide transformations that are under way.[12] This is especially true because the FBI, although it will not be moving to DHS, must work closely with DHS's components as the new department is put into place. Every American also has a stake in ensuring the success of the FBI's efforts to defend the public from terrorist and criminal actions.

- Although NASA is in the very early stages of its transformation, it has taken positive steps to address its management problems, such as undertaking new initiatives to reshape and strengthen its workforce. The challenge ahead for NASA will be to maintain the momentum to transform, to effectively use existing and new authorities to strategically manage its people, and to quickly implement the tools needed to strengthen management and oversight. In undertaking its transformation efforts, NASA must tackle the root causes of problems

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[10]U.S. General Accounting Office, *Major Management Challenges and Program Risks: National Aeronautics and Space Administration*, GAO-03-114 (Washington, D.C.: January 2003).

[11]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Transportation*, GAO-03-108 (Washington, D.C.: January 2003).

[12]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Justice*, GAO-03-105 (Washington, D.C.: January 2003).

impeding the agency's performance and accountability. This will require instituting a results-oriented culture that fosters knowledge-sharing and empowers NASA's workforce to accomplish programmatic goals while making sure that the agency adheres to rigorous and effective management controls to prevent cost overruns and scheduling problems, transforming the financial management organization so that it better supports NASA's core mission, and sustaining commitment to change.

- Faced with growing air traffic and aging equipment, FAA initiated an ambitious effort to modernize its air traffic control system in 1981. However, many of the modernization projects have experienced cost overruns, schedule delays, and performance shortfalls. Our work has identified the root causes of the modernization program's problems. FAA has made important progress in addressing these root causes, but more must be done to institutionalize mature software acquisition processes, enforce the enterprise architecture, and implement effective investment management processes. With FAA expecting to spend about $16 billion through 2007 on new air traffic control systems, actions to address these root causes are critical. In addition, FAA expects to convert to its property system and general accounting system modules by the end of 2003. Subsequently, FAA's financial statement audits will provide a comprehensive test of the ability of these systems to function in the complex FAA environment. FAA continues to make substantial progress in developing its cost accounting information capabilities. Cost accounting data are critical to support decisions about resource needs and to adequately control major projects, such as the multibillion-dollar air traffic control modernization program.

- The key elements of the FBI's ongoing reorganization include shifting some resources from long-standing areas of focus, such as drugs, to counterterrorism and intelligence; building analytic capability; and recruiting to address selected skill gaps.[13] The FBI has begun its transformation by reorganizing its operations to strengthen its management structure and enhance accountability. The next phase is for the FBI to build a national terrorism response capability that is larger as well as more mobile, agile, and flexible.

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[13]GAO-03-105.

Effective Management Is Required to Create and Sustain High-Performing Organizations

Leading public and private organizations here in the United States and abroad have found that for organizations to successfully transform themselves, they must often fundamentally change their culture so that they are more results-oriented, customer-focused, and collaborative in nature. Top leadership involvement and clear lines of accountability for making management improvements are critical to overcoming natural resistance to change, marshaling the resources needed to improve management, and building and maintaining commitment to new ways of doing business. Strategic human capital management must be the centerpiece of any serious change-management initiative or effort to transform the cultures of government agencies. In addition, successful transformations build on an integrated approach, with careful attention to fundamental public sector management practices and principles, such as strong financial, information technology, and acquisition management.

The experiences of successful major change management initiatives in large private and public sector organizations suggest that it can often take at least 5 to 7 years before such initiatives are fully implemented and the related cultures are transformed in a sustainable manner. A combination of practices, including top leadership support, a long-term strategic perspective, and a dedicated implementation team, can help provide the continuing, focused attention needed to complete multiyear transformation and change efforts.

The fiscal year 2002 President's Management Agenda (PMA) points out important challenges for the federal government and is intended to focus agencies' efforts on making progress in achieving management and performance improvements.[14] The 2002 PMA focuses on 14 areas of improvement where it believes the greatest opportunities to improve performance exist. There are clear linkages between the five governmentwide initiatives and the nine program-specific initiatives identified by the administration and the high-risk areas and major management challenges covered in this 2003 and our 2001 Performance and Accountability High-Risk Series.[15] For example, in 2001 we designated

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[14]*The President's Management Agenda.* Executive Office of the President, Office of Management and Budget. Fiscal Year 2002.

[15]U.S. General Accounting Office, *Performance and Accountability Series*, GAO-01-241 through 262 (Washington, D.C.: January 2001), and *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: January 2001).

strategic human capital management as a governmentwide high-risk area that presents a pervasive challenge throughout the federal government, and this is also one of the President's governmentwide initiatives. The other crosscutting presidential initiatives include competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

The 2002 President's Management Agenda's Governmentwide Reforms

Strategic Management of Human Capital: Flatten the federal hierarchy, reduce the time to make decisions, and increase the number of employees that provide services to citizens. The reform also will pursue targeted civil service reforms, such as performance-based compensation and management flexibilities to recruit, retain, and reward a high-quality workforce.

Competitive Sourcing: Bring the power of competition to improve efficiency and encourage innovation throughout the federal government. The initiative requires agencies to compete commercial type functions between public and private sectors.

Improved Financial Performance: The first step will be to reduce the $20.7 billion in estimated annual erroneous payments made by the federal government. In the long run, this reform will improve the timeliness, use, and accuracy of federal financial systems.

Expanded Electronic Government: Tap the power of the Internet to make the government more "Citizen-centered" and to make interacting with government easier, cheaper, quicker, and more comprehensible.

Budget and Performance Integration: Fully integrate performance measures in the federal budget process so that resource allocation is tied to specific outcomes. Replace the tired focus on budgeted dollars with a fresh emphasis on real results.

The items on the PMA are also consistent in key aspects with the federal government's statutory framework of financial management, information technology, and results-oriented management reforms enacted during the 1990s. In crafting that framework, the Congress sought to provide a basis for improving the federal government's effectiveness, financial condition, and operating performance.

Central to effectively addressing the federal government's management problems and providing a solid base for successful transformation efforts is recognition that these fundamental management practices and principles cannot be addressed in an isolated or piecemeal fashion separate from the other major management challenges and high risks facing federal agencies.

Rather, these efforts are mutually reinforcing and must be addressed in an integrated way to ensure that they drive a broader transformation of the cultures of federal agencies.

Strategic Human Capital Management Is Key to Transforming Government

Strategic human capital management should be the centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies.[16] The PMA has identified the strategic management of human capital as one of its initiatives, citing the fact that we had designated strategic human capital management as a governmentwide high-risk area in 2001. The Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) released standards for success in this area, reflecting language that was developed in collaboration with us. The Homeland Security Act of 2002 provided DHS with significant flexibility to design a modern human capital system and also included significant provisions related to governmentwide human capital management. This act includes the creation of Chief Human Capital Officers (CHCO) and a CHCO Council, expanded voluntary early retirement and buy-out authority, authorization for the use of categorical ranking in the hiring of applicants instead of the "rule of three," a requirement to discuss human capital approaches in GPRA plans and reports, and other provisions. These efforts and others have raised expectations for agency performance in this area.

Serious human capital shortfalls, however, continue to erode the ability of many agencies, and threaten the ability of others, to economically, efficiently, and effectively perform their missions. Plainly, the major problem is not federal employees. Rather, it is the lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure its accountability. People are an agency's most important organizational asset. An organization's people define its character, affect its capacity to perform, and represent the knowledge base of the organization.

The first step in meeting the government's human capital challenges is for agency leaders to identify and make use of all the appropriate administrative authorities available to them to manage their people both effectively and equitably. Much of the authority agency leaders need to

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[16]U.S. General Accounting Office, *High Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003).

manage human capital strategically is already available under current laws and regulations, as recognized by the PMA. The second step is for policymakers to continue to pursue incremental legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need, particularly in critical occupations. The third step is for all interested parties to work together to identify the kinds of comprehensive legislative reforms in the human capital area that should be enacted over time. These reforms should place greater emphasis on knowledge, skills, and performance in connection with federal employment, promotion, and compensation decisions.

Agencies can improve their performance by the way that they treat and manage their people, building commitment and accountability through involving and empowering employees. All members of an organization must understand the rationale for making organizational and cultural changes, because everyone has a stake in helping to shape and implement initiatives as part of agencies' efforts to meet current and future challenges. Effective changes can only be made and sustained through the cooperation of leaders, union representatives, and employees throughout an organization.

As OMB, OPM, and the agencies learn to evaluate themselves against the standards for success in implementing strategic human capital management approaches, OMB and OPM will need to ensure that the standards are consistently and appropriately applied while they assess agencies' progress in managing their human capital. Importantly, OMB's support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls.

Effective Performance Management Focuses on Results

Results-oriented organizations focus on strategic planning that includes involvement of stakeholders; assessment of internal and external environments; and an alignment of activities, core processes, and resources to support mission-related outcomes. A well-defined mission and clear, well-understood strategic goals are essential in helping agencies make intelligent trade-offs among short- and long-term priorities and ensure that program and resource commitments are sustainable.

The mission, goals, and core values of an organization must become the focus for transformation—defining the culture and serving as a nexus for employees to unite and rally around. As the new Department of Homeland Security takes shape, for example, it will be important to focus on

articulating a clear overarching mission and core values that will draw employees together and provide a clear focus in support of the new agency's objectives. In successful transformation efforts, developing, communicating, and constantly reinforcing the mission, goals, and core values give employees a sense of what the organization intends to accomplish, as well as how they fit in with the new organization and what they can do to help it succeed.

In many cases, transformation efforts will entail organizational realignment to better achieve results and clarify accountability. Attention to organizational alignment is needed to help shape an efficient and effective federal government for the 21st century by pursuing 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. For example, as competitive sourcing, e-government, financial management, and other initiatives lead to changes in how agencies do business, agencies may need to change how they are organized.

As agencies transform themselves, they will need to achieve a better balance among results, client/customer expectations, and employee issues. Performance management systems serve as the basis for setting expectations for employees' roles in the transformation process. An effective performance management system can foster institutional, unit, and individual performance and accountability. In addition, providing information on individual and organizational performance can help agencies determine progress made, demonstrate results achieved, and plan how to meet future challenges.

Performance-Based Budgeting Supported by Credible Performance Information Can Contribute to Better Decisions and Enhance Debate

The budget process provides an opportunity to review programs and activities each year. Building on the statutory framework that the Congress enacted over the last decade, performance budgeting requires results-oriented performance information generated by federal agencies in response to GPRA, and cost accounting data generated in response to provisions of the CFO Act. Sustained leadership attention, however, is needed to build on this foundation. Developing credible information on outcomes achieved through federal programs remains a work in progress as agencies struggle, for example, to define their contributions to results, which in many cases are influenced only partially by federal funds.

If budget decisions are to be based in part on performance data, there is a compelling need to ensure that trade-offs are informed by reliable information on outcomes and costs. Performance-based budgeting can help shift the focus of debate from inputs to outcomes and results, enhancing the government's ability to gauge performance and assess competing claims for scarce resources.[17] The determination of priorities is a matter of weighing competing values and interests that may be informed by performance information but also reflects such factors as equity, unmet needs, and the appropriate role of the federal government in addressing these needs. While performance information is only one factor to be considered in the debate about the appropriate role for the federal government and the need for various programs and policies, it can shift the focus to what really matters—such as lives saved. Credible performance information can facilitate a fundamental reassessment of what the government does and how it does business by focusing on the outcomes achieved with budgetary resources.

In this context, performance questions do not have a single budgetary answer. Performance problems may well prompt budget cuts or program eliminations, but they may also inspire enhanced investments and reforms in program design and management if the program is deemed to be of sufficiently high priority to the nation. Conversely, even a program that is found to be exceeding its performance expectations can be a candidate for budgetary cuts if it is a lower priority than other competing claims in the process.

Homeland security is a good example of both the need for public education about government performance goals and the challenges presented by changing priorities. In the face of terrorist attacks, for example, eliminating all risk is not an attainable goal. Rather, proposals to reduce risk must be evaluated on numerous dimensions—their dollar cost and their impact on other goals and values. Decisions on the level of resources and how to allocate them, as well as how to balance security against other societal goals and values, are necessary. However, absent available public information in an understandable form, such decisions may not be accepted. There will always be disagreements on these issues, but public education and reliable performance information can help move the debate on important policy questions to a more informed plane.

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[17]U.S. General Accounting Office, *Performance Budgeting: Opportunities and Challenges*, GAO-02-1106T (Washington, D.C.: Sept. 19, 2002).

The PMA recognized that improvements in the management of human capital, competitive sourcing, financial performance, and expanding electronic government matter little if they are not linked to resource allocation decisions. The administration has set forth an ambitious agenda for performance budgeting, calling for agencies to develop cost accounting systems and proposing to better align the federal budget structure with their performance goals. Such efforts to implement a consistent and transparent framework for performance budgeting and financial information are key steps needed to provide a greater focus on performance as envisioned in GPRA, but the federal government has a long way to go before it can meet these goals. In the long run, for example, sustaining a credible performance-based focus in budgeting will require significant improvements in evaluation capacities and information on program costs and outcomes across federal agencies as well as the third parties that implement federal programs. OMB's Program Assessment Rating Tool (PART) will take performance budgeting in a new direction by completing performance assessments on a sample of programs that will be considered in making budget decisions for the fiscal year 2004 budget to be presented in February 2003.

The President's governmentwide performance plan, required under GPRA, could become a valuable tool to help the Congress and the executive branch address critical federal performance and management issues by building on the knowledge about the range of programs and tools. including baseline and trend information, that are directed toward achieving similar results. The governmentwide plan could build on the Administration's PART initiative by comparing the performance results across similar programs addressing common outcomes. Efforts to date have not provided the Congress and others with an integrated perspective on the extent to which programs and tools contribute to national goals, such as improved health and safety.

Improving Financial Management

The federal government has a stewardship obligation to prevent fraud, waste, and abuse; to use tax dollars appropriately; and to ensure financial accountability to the President, the Congress, and the American people. Timely, accurate, and useful financial information is essential for making operating decisions day-to-day; managing the government's operations more efficiently, effectively, and economically; meeting the goals of federal financial management reform legislation (such as the CFO Act); supporting results-oriented management approaches; and ensuring accountability on an ongoing basis.

In identifying improved financial performance as one of its five governmentwide initiatives, the PMA stated that a clean financial audit is a basic prescription for any well-managed organization, and recognized that "most federal agencies that obtain clean audits only do so after making extraordinary, labor-intensive assaults on financial records." Further, the PMA stated that without sound internal controls and accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

In the area of financial performance, we have continued to point out that the federal government is a long way from successfully implementing the statutory reforms the Congress enacted during the 1990s. Widespread financial management system weaknesses, poor recordkeeping and documentation, weak internal controls, and the lack of information have prevented the government from having the cost information needed to effectively and efficiently manage operations or accurately report a large portion of its assets, liabilities, and costs.

The President's initiative focused on reducing erroneous benefit and assistance payments. Our work has shown, for example, that the Centers for Medicare & Medicaid Services (CMS) has made improvements in assessing the level of improper payments, collecting overpayments from providers, and building the foundation for modernizing its information technology. Nevertheless, much work remains to be done, given the magnitude of its challenge to safeguard program payments. This includes more effectively overseeing Medicare's claims administration contractors, managing the agency's information technology initiatives, and strengthening financial management processes across multiple contractors and agency units. In light of these challenges and the program's size and fiscal significance, Medicare remains on our list of high-risk programs.

In addition, our concerns about the difficulties CMS faces in managing Medicaid—a program of enormous size, growth, and diversity—have grown, and we have designated this as a new high-risk area. Medicaid, which pays for both acute health care and long-term care services for about 44 million low-income Americans, has been subject to exploitation. Key problems we have identified in recent years include schemes by some states to improperly leverage federal funds, state waiver programs that inappropriately increase the federal government's financial liability, and insufficient federal and state oversight to ensure that payments made to health care providers are accurate and appropriate. CMS and the Congress

have taken several significant actions to curb states' financing schemes, but waiver program approvals remain questionable and states' claims scrutiny activities are uneven.

One of the challenges faced by HHS in the Medicare and Medicaid programs is common to many agencies—the difficulties in ensuring that underlying financial management processes, procedures, and information are in place for effective program management. Agencies need to take steps to continuously improve internal controls and underlying financial and management information systems to ensure that managers and other decision makers have reliable, timely, and useful financial information to ensure accountability; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources. In October 2002, we reported that meeting the requirements of the Federal Financial Management Improvement Act presents long-standing, significant challenges that will only be met through time, investment, and sustained emphasis on correcting deficiencies in federal financial management systems.[18] The widespread systems problems facing the federal government need sustained management commitment at the highest levels of government to ensure that these needed modernizations come to fruition.

In August 2001, the Principals of the Joint Financial Management Improvement Program (JFMIP)—the Secretary of the Treasury, the Director of OMB, the Director of the OPM, and the Comptroller General of the United States—began a series of periodic meetings that have resulted in unprecedented substantive deliberations and agreements focused on key financial management reform issues such as better defining measures for financial management success. These measures include being able to routinely provide timely, accurate, and useful financial information and having no material internal control weaknesses or material noncompliance with laws and regulations and Federal Managers Financial Integrity Act requirements, which are essential to meeting the expectations of the CFO Act and the PMA. In addition, the JFMIP Principals have agreed to significantly accelerate financial statement reporting so that the government's financial statements are more timely and to discourage costly efforts designed to obtain unqualified opinions on financial statements without addressing underlying systems challenges. For fiscal year 2004,

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[18]U.S. General Accounting Office, *Financial Management: FFMIA Implementation Necessary to Achieve Accountability*, GAO-03-31 (Washington, D.C.: Oct. 1, 2002).

audited agency financial statements are to be issued no later than November 15, with the U.S. government's audited consolidated financial statements becoming due by December 15.

Across government, there are a range of financial management improvement initiatives under way that, if effectively implemented, will improve the quality of the government's financial management and reporting. Federal agencies have started to make progress in their efforts to modernize their financial management systems and improve financial management performance as called for in the PMA. Our April 2002 testimony on the U.S. government's consolidated financial statements for fiscal years 2001 and 2000 found that the largest impediment to an unqualified opinion continues to be DOD's serious financial management problems, which we have designated as high risk since 1995.[19] DOD faces financial management problems that are pervasive, complex, long-standing, and deeply rooted in virtually all business operations throughout the department.[20] Overhauling financial management represents a challenge that goes far beyond financial accounting to the very fiber of the department's business operations and management culture. In September 2001, the Secretary of Defense announced a DOD-wide initiative intended to transform the full range of the department's business processes, including decades-old financial systems.

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[19]U.S. General Accounting Office, *U.S. Government Financial Statements: FY 2001 Results Highlight the Continuing Need to Accelerate Federal Financial Management Reform*, GAO-02-599T (Washington, D.C.: Apr. 9, 2002).

[20]GAO-03-98 and GAO-03-119.

Other important developments, including the financial collapse of major corporations like Enron and the associated serious lapses in ethical behavior have resulted in severe criticism of virtually all areas of the nation's financial reporting and auditing systems, which are fundamental to maintaining investor confidence in our capital markets. These developments raised a number of systemic issues for congressional consideration, focusing on four overarching areas—corporate governance, the independent audit of financial statements, oversight of the accounting profession, and accounting and financial reporting issues. To help inform this work, we convened two forums on corporate governance, transparency, and accountability to discuss and obtain a range of views on these issues. [21]

Also, with input from the Comptroller General's Advisory Council on Government Auditing Standards, we issued significant changes to the independence requirements in the *Government Auditing Standards* to provide that, in some circumstances, it is not appropriate for auditors to perform both audit and consulting services for the same client.[22] In this way, we have helped to enhance the public's respect for and confidence in the independence of auditors of government financial statements, programs, and operations.

Effectively Leveraging Information Technology Capabilities

Information technology (IT) is a key element of management reform efforts that can help dramatically reshape government to improve performance and reduce costs. Advances in the use of IT and the Internet are continuing to change the way that federal agencies communicate, use and disseminate information, deliver services, and conduct business. However, for federal agencies to realize IT's promise, significant challenges will need to be overcome.

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[21]U.S. General Accounting Office, *Highlights of GAO's Corporate Governance, Transparency and Accountability Forum*, GAO-02-494SP (Washington, D.C.: Mar. 5, 2002); and *GAO Forum on Governance and Accountability: Challenges to Restore Public Confidence in U.S. Corporate Governance and Accountability Systems*, GAO-03-419SP (Washington, D.C.: Jan. 24, 2003).

[22] U.S. General Accounting Office, *Government Auditing Standards: Amendment No. 3, Independence*, GAO-02-388G (Washington, D.C.: January 2002); and *Government Auditing Standards: Answers to Independence Standard Questions*, GAO-02-870G (Washington, D.C.: July 2002).

Pursuing Opportunities for Electronic Government

Electronic government (e-government) offers many opportunities to better serve the public, make government more efficient and effective, and reduce costs. Federal agencies have implemented a wide array of e-government applications, including using the Internet to collect and disseminate information and forms; buy and pay for goods and services; submit bids and proposals; and apply for licenses, grants, and benefits. Although substantial progress has been made, the government has not yet fully reached its potential in this area.[23] Recognizing the importance of e-government, the President has designated expanded e-government as one of the governmentwide priorities in the PMA.

To support this priority, OMB developed an implementation strategy for 24 strategic multiagency e-government initiatives. However, the documents used to select these initiatives generally did not include information addressing collaboration and customer focus. The related work and funding plans agencies submitted to OMB in May 2002 provided insufficient information for OMB to monitor the status of the 24 e-government initiatives. In order to help ensure the success of the President's objective of expanding e-government to improve the potential value of government to citizens, we recommended that the Director of OMB ensure that the managing partners for all 24 e-government initiatives (1) focus on customers by soliciting input from the public and conducting user needs assessments; (2) work with partner agencies to develop and document effective collaboration strategies; and (3) provide OMB with adequate information to monitor the cost, schedule, and performance of the 24 e-government initiatives.[24]

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[23]U.S. General Accounting Office, *Electronic Government: Proposal Addressing Critical Challenges*, GAO-02-1083T (Washington, D.C.: Sept. 18, 2002).

[24]U.S. General Accounting Office, *Electronic Government: Selection and Implementation of the Office of Management and Budget's 24 Initiatives*, GAO-03-229 (Washington, D.C.: Nov. 22, 2002).

Improving The Collection, Use, and Dissemination of Government Information

As agencies increasingly move to an operational environment in which electronic—rather than paper—records provide comprehensive documentation of their activities and business processes, a variety of issues have emerged. For example, in the records management arena, a 2001 National Archives and Records Administration (NARA) study found that although agencies were creating and maintaining records appropriately, the value of most electronic records had not been assessed nor their disposition determined, as required by statute. Further, records of historical value were not being identified and provided to NARA for preservation, and may be at risk of loss. Our review at four agencies confirmed the results of this study.[25]

The growth in electronic information—as well as the new security threats facing our nation—are also highlighting new privacy issues. For example, on-line privacy has emerged as one of the key—and most contentious—issues surrounding the continued evolution of the Internet. The government cannot realize the full potential of the Internet until people are confident that the government will protect their privacy when they visit its Web sites. We have made recommendations to strengthen governmentwide privacy guidance and oversight of agency practices that OMB has not yet implemented. For example, we recommended that the Director of OMB determine whether current oversight strategies are adequate to ensure agencies' adherence to Web site privacy policies and whether the policies will need further revision as Web practices continue to evolve.[26]

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[25]U.S. General Accounting Office, *Information Management: Challenges in Managing and Preserving Electronic Records*, GAO-02-586 (Washington, D.C.: June 17, 2002).

[26]U.S. General Accounting Office, *Internet Privacy: Agencies' Efforts to Implement OMB's Privacy Policy*, GAO/GGD-00-191 (Washington, D.C.: Sept. 5, 2000).

Another important issue involves the use of the Internet and other IT to facilitate public access to government information. In our open society, public access to information about the government and its operations is a strongly held value. In 2001 and 2002, we reported on agencies' progress in developing on-line access to materials required by the 1996 Electronic Freedom of Information Act.[27] Our latest study found that the Department of Justice had implemented our prior recommendation to issue guidance encouraging agencies to make all required materials available on-line and, as a result, agencies continue to make progress in this area. Justice recognizes the need for additional agency attention to this issue and is continuing to encourage agencies to improve on-line availability. Our recent work at the Government Printing Office and the National Technical Information Service—which also make government information available to the public—has raised questions about the adequacy of the current policies and structures in place to ensure public access to information.[28]

Strengthening Agency Information Security

Since September 1996, we have reported that poor information security is a high-risk area across the federal government with potentially devastating consequences.[29] Although agencies have taken steps to redesign and strengthen their information system security programs, our analyses of information security at major federal agencies have shown that federal systems were not being adequately protected from computer-based threats. Our most recent analyses of audit reports for 24 major departments and agencies identified significant information security weaknesses in each that put critical federal operations and assets at risk.[30]

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[27]U.S. General Accounting Office, *Information Management: Update on Implementation of the 1996 Electronic Freedom of Information Act Amendments*, GAO-02-493 (Washington, D.C.: Aug. 30, 2002); and *Information Management: Progress in Implementing the 1996 Electronic Freedom of Information Act Amendments*, GAO-01-378 (Washington, D.C.: Mar. 16, 2001).

[28]U.S. General Accounting Office, *Information Management: Electronic Dissemination of Government Publications*, GAO-01-428 (Washington, D.C.: Mar. 30, 2001); and *Information Management: Dissemination of Technical Reports*, GAO-01-490 (Washington, D.C.: May 18, 2001).

[29]U.S. General Accounting Office, *Information Security: Opportunities for Improved OMB Oversight of Agency Practices*, GAO/AIMD-96-110 (Washington, D.C.: Sept. 24, 1996).

[30]U.S. General Accounting Office, *Computer Security: Improvements Needed to Reduce Risk to Critical Federal Operations and Assets*, GAO-02-231T (Washington, D.C.: Nov. 9, 2001); and *Computer Security: Progress Made, but Critical Federal Operations and Assets Remain at Risk*, GAO-03-303T (Washington, D.C.: Nov. 19, 2002).

One of the most serious problems currently facing the government is cyber critical infrastructure protection, which is protecting the information systems that support the nation's critical infrastructures, such as national defense and power distribution. Since the September 11 attacks, warnings of the potential for terrorist cyber attacks against our critical infrastructures have increased. In addition, as greater amounts of money are transferred through computer systems, as more sensitive economic and commercial information is exchanged electronically, and as the nation's defense and intelligence communities increasingly rely on commercially available information technology, the likelihood increases that information attacks will threaten vital national interests. Among the critical infrastructure protection challenges the government faces are (1) developing a national critical infrastructure protection strategy, (2) improving analysis and warning capabilities, and (3) improving information sharing on threats and vulnerabilities. For each of these challenges, improvements have been made and continuing efforts are in progress, but much more is needed to address them. In particular, we have identified and made numerous recommendations over the last several years concerning critical infrastructure challenges that still need to be addressed. As a result of our concerns in this area, we have expanded our information security high-risk area to include cyber critical infrastructure protection.[31]

Constructing and Enforcing Sound Enterprise Architectures

Our experience with federal agencies has shown that attempts to modernize IT environments without blueprints—models simplifyin the complexities of how agencies operate today, how they want to operate in the future, and how they will get there—often result in unconstrained investment and systems that are duplicative and ineffective. Enterprise architectures offer such blueprints. Our February 2002 report on the federal government's use of enterprise architectures found that agencies' use of enterprise architectures was a work in progress, with much to be accomplished.[32] Nevertheless, opportunities exist to significantly improve this outlook by having OMB adopt a governmentwide, structured, and systematic approach to promoting enterprise architecture use, measuring

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[31]U.S. General Accounting Office, *High-Risk Series: Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures*, GAO-03-121 (Washington, D.C.: January 2003).

[32]U.S. General Accounting Office, *Information Technology: Enterprise Architecture Use across the Federal Government Can Be Improved*, GAO-02-6 (Washington, D.C.: Feb. 19, 2002).

agency progress, and identifying the need for governmentwide enterprise architecture management challenges. Accordingly, we made recommendations to OMB to address these areas.

Employing Effective IT System And Service Management Practices

Our work and other best practice research have shown that the application of rigorous practices to the acquisition or development of IT systems or the acquisition of IT services improves the likelihood of success. In other words, the quality of IT systems and services is governed largely by the quality of the processes involved in developing or acquiring each. For example, using models and methods that define and determine organizations' software-intensive systems process maturity that were developed by Carnegie Mellon University's Software Engineering Institute, which is recognized for its expertise in software processes, we evaluated several agencies' software development or acquisition processes. We found that agencies are not consistently employing rigorous or disciplined system management practices. We have made numerous recommendations to agencies to improve their management processes, and they have, or plan to, take actions to improve their processes.[33] With respect to IT services acquisition, we identified leading commercial practices for outsourcing IT services, which government entities may be able to use to enhance their acquisition of IT services.[34]

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[33]For example, see, U.S. General Accounting Office, *Information Technology: Inconsistent Software Acquisition Processes at the Defense Logistics Agency Increase Project Risks*, GAO-02-9 (Washington D.C.: Jan. 10, 2002); *HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks*, GAO-01-962 (Washington D.C.: Sept. 14, 2001); and *Customs Service Modernization: Serious Management and Technical Weaknesses Must Be Corrected*, GAO/AIMD-99-41 (Washington D.C.: Feb. 26, 1999).

[34]U.S. General Accounting Office, *Information Technology: Leading Commercial Practices for Outsourcing of Services*, GAO-02-214 (Washington, D.C.: Nov. 30, 2001).

Ensuring Effective Agency IT Investment Practices

Investments in IT can have a dramatic impact on an organization's performance. If managed effectively, these investments can vastly improve government performance and accountability. [35] If not, however, they can result in wasteful spending and lost opportunities for improving delivery of services to the public. Using our Information Technology Investment Management maturity framework, our evaluations of selected agencies found that while some processes have been put in place to help them effectively manage their planned and ongoing IT investments, more work remains. [36]

IT Management Challenges Are Interdependent

IT management challenges are interdependent and also affect the government's performance of other management functions. For example, a critical aspect of implementing effective e-government solutions and developing and deploying major systems development projects is ensuring that robust information security is built into these endeavors early and is periodically revisited. Increasingly, the challenges that the government faces are multidimensional problems that cut across numerous programs, agencies, and governmental tools. As a result, strong and effective central management leadership for information resources and technology is needed in the federal government to address the wide range of IT challenges.

Both the Congress and the administration have taken recent action to address IT management challenges. For example, late last year the Congress passed and the President signed into law the E-Government Act of 2002, which seeks to address many of the government's IT management challenges, including e-government, information dissemination, privacy, and security. On the administration's part, in February 2002, OMB began an initiative to develop a federal government enterprise architecture, whose purpose is to identify opportunities to simplify processes and unify work across the agencies and within the lines of business of the government. Although the outcome of these initiatives cannot yet be predicted with

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[35]U.S. General Accounting Office, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, Exposure Draft, GAO/AIMD-10.1.23 (Washington, D.C.: May 2000).

[36]For example, see U.S. General Accounting Office, *United States Postal Service: Opportunities to Strengthen IT Investment Management Capabilities*, GAO-03-3 (Washington, D.C.: Oct. 15, 2002); *Information Technology: DLA Needs to Strengthen Its Investment Management Capability*, GAO-02-314 (Washington, D.C.: Mar. 15, 2002); and *Information Technology: INS Needs to Strengthen Its Investment Management Capability*, GAO-01-146 (Washington, D.C.: Dec. 29, 2000).

certainty, we strongly support their goal of enhancing the management of information technology in the federal government.

Acquisition and Contract Management

Effective acquisition management plays a key role in creating and sustaining high-performing organizations. However, the challenges the federal government faces in improving acquisition outcomes and reducing contract risk are significant. Over the past decade, acquisition workforce reductions, increased reliance on services provided by the private sector, changes to acquisition processes, and the introduction or expansion of alternative contracting approaches, have collectively altered the acquisition environment. Adjusting to these environmental changes, while striving to improve acquisition outcomes, has proved daunting for many agencies. For example, DOD and the Department of Energy, the two largest contracting agencies in the federal government, continue to experience cost increases, schedule delays, and performance shortfalls that expose the government to billions of dollars in financial risks.[37] Sustained executive leadership; the use of strategic, integrated, and enterprise-wide approaches; and attention to strong systems of control for acquisition and related business processes can promote more consistent, positive acquisition outcomes while maintaining integrity and accountability.

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[37]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Energy*, GAO-03-100 (Washington, D.C.: January 2003); and GAO-03-98.

Among the factors that agencies must consider as they determine how best to meet their missions is whether the public or private sector would be the most appropriate provider of the services the government needs. Aspects of the current process for making such decisions, however, have been criticized as being cumbersome, complicated, and slow. Against this backdrop, and in response to a requirement in the National Defense Authorization Act for Fiscal Year 2001, the Comptroller General of the United States convened a panel of experts to study the current process used by the government to make sourcing decisions. The Commercial Activities Panel conducted a yearlong study, and heard repeatedly about the importance of competition and its central role in fostering economy, efficiency, and continuous performance improvement. The panel strongly supported continued emphasis on competition, and concluded that whenever the government is considering converting work from one sector to another, public-private competitions should be the norm, consistent with the 10 principles adopted unanimously by the panel.[38]

One of the sourcing principles adopted by the panel was that the federal government's sourcing policy should avoid arbitrary numerical or full-time equivalent (FTE) goals. The principle is based on the concept that the success of government programs should be measured by the results achieved in terms of providing value to the taxpayer, not the size of the in-house or contractor workforce. The federal government needs to continue—and even augment—efforts to shift the focus of management, resource allocation, and decision making from inputs and processes to a greater focus on results and outcomes. In this regard, holding managers accountable for results based on a specific dollar allocation, rather than on FTE caps, would be a major step in the right direction.

As part of the PMA governmentwide initiative to achieve efficient and effective competition between public and private sources, the administration has committed to simplifying and improving the procedures for evaluating public and private sources, to better publicizing the activities subject to competition, and to ensuring senior level agency attention to the promotion of competition. As part of the administration's efforts to implement the recommendations of the Commercial Activities Panel, OMB has published proposed changes to Circular A-76 for public comment. This circular sets forth federal policy for determining whether federal

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[38]*Improving the Sourcing Decisions of the Government.* Final report of the Commercial Activities Panel (Washington, D. C.: April 2002).

employees or private contractors will perform commercial activities associated with conducting the government's business.

Summary Observations

In view of the overarching trends and the long-term fiscal challenges facing our nation, there is a need to consider the proper role of the federal government, how the government should do business in the future, and in some instances, who should do the government's business in the 21st century. Evaluating the role of government and the programs it delivers within the context of the major trends and long-term fiscal challenges it faces is key in determining how best to address the nation's most pressing priorities. It is increasingly important that federal programs use tools to manage effectively across boundaries and work in conjunction with the priorities and needs of American citizens; international, federal, state, and local governments; and the private and nonprofit sectors. This is an opportune time for the Congress to carefully consider how to make needed changes in the short term to help agencies effectively manage their resources and link resource decisions to results, as well as to work toward a comprehensive and fundamental reassessment of what the government does, how it does business, and who does the government's business.

There is no more important management reform than for agencies to transform their cultures to respond to the transition that is taking place in the role of government in the 21st century. Our high-risk program is increasingly focused on those major programs and operations that need urgent attention and broad-based transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible. As transformation efforts move forward, it will be important to build on the lessons learned by large private- and public-sector organizations. Some agencies have transformation efforts under way, and the enormous undertaking of establishing the new Department of Homeland Security provides a unique opportunity to develop a high-performing organization and a network of partners who can work effectively together in meeting the nation's homeland security missions.

Large and complex federal agencies must effectively use a mixture of critical resources—such as human capital, information technology, and financial systems—to fulfill their roles and achieve intended results. Successful transformations build on an integrated approach based upon fundamental management principles. Attention to strategic human capital management, integrating budget and performance information, improving financial management, leveraging information technology, and effectively

managing acquisition and contract management, are all key in achieving success. The PMA has also focused on these important challenges for the federal government. We have discussed the status of agencies' current efforts to improve their performance and provided suggestions about ways to continue to make progress.

The 2003 performance and accountability and high-risk series reports describe over 100 continuing and new major management challenges and high-risk areas facing federal agencies. These challenges and risks reflect the need for agencies to manage their resources wisely and enhance the services that they provide. Some of these challenges and risks reflect recent events, such as the need to better prepare for biological and chemical acts of terrorism, and others reflect long-range trends that are affecting the federal government as a whole, such as the need to use integrated transportation approaches to enhance our nation's mobility and economic growth.

Continued persistence and perseverance in addressing the high-risk areas and major management challenges that we have identified in this 2003 series will ultimately yield significant benefits. Although we recognize that effectively addressing some of these issues will require a long time, finding lasting solutions offers the potential to save billions of dollars, dramatically improve service to the American public, strengthen public trust in our national government, and ensure the ability of government to deliver on its promises.

Strong, visionary, and persistent leadership will be needed to address today's challenges and prepare our nation for the future. Both the executive branch and congressional leadership will play a vital role in achieving a broad transformation of the federal government. The Congress has historically acted as an institutional champion for initiatives, such as GPRA and the CFO Act, that are intended to improve the performance and accountability of the federal government. In addition, effective oversight can continue to help improve federal performance by examining the program structure agencies use to deliver products and services. As part of this oversight, the Congress can consider the associated policy and management implications of crosscutting programs, and help ensure that the best, most cost-effective mix of strategies is in place to meet agency and national goals.

Although efforts to transform agencies by improving their management and performance are under way, more remains to be done to ensure that the

government has the capacity to deliver on its promises and meet current and emerging needs. Decisive action and sustained attention will be necessary to transform the federal government, maximize its performance, and ensure accountability.

Performance and Accountability and High-Risk Series

Major Management Challenges and Program Risks: A Governmentwide Perspective. GAO-03-95.

Major Management Challenges and Program Risks: Department of Agriculture. GAO-03-96.

Major Management Challenges and Program Risks: Department of Commerce. GAO-03-97.

Major Management Challenges and Program Risks: Department of Defense. GAO-03-98.

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