



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# A CALL FOR STEWARDSHIP:

Enhancing the Federal Government's Ability to Address  
Key Fiscal and Other 21<sup>st</sup> Century Challenges

GAO-08-93SP

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# LETTER FROM THE COMPTROLLER GENERAL

December 2007

America is a great nation, possibly the greatest in history. However, our nation faces a range of forces and key sustainability challenges that will require action by elected officials in order to keep America great for current and future generations of Americans.

I am writing to inform you that GAO has now developed a list of tools and process improvements to help Congress and the executive branch to facilitate difficult discussions and decisions about various challenges facing our great nation in the 21<sup>st</sup> century. These tools and processes laid out in this report respond to the demand for continuous improvement in the government's capacity to address 21<sup>st</sup> century challenges and deliver real and sustainable results.

Since the founding of the republic and the ratification of the Constitution, the U.S. government has evolved to reflect changing circumstances at home and abroad. At the end of George Washington's presidency in 1797, there were four cabinet-level departments—most run by small staffs of civil servants—and five cabinet-level officials, including the Attorney General. Today, there are nearly 30 major federal departments and agencies with cabinet-level officials in the executive branch, and the federal workforce, including military personnel, now totals in the millions. In 1797, U.S. government spending represented about 2 percent of the U.S. economy and now it represents over 20 percent.

A quick look at the federal budget reveals how much we have expanded beyond the Constitution's framers' original thoughts and our modest beginnings. In the coming decades, however, our ability to sustain even the constitutionally enumerated responsibilities of the federal government will come under increasing pressure.

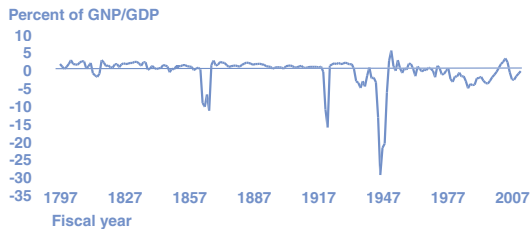
Ironically, the terminology used today in the budget process for programs fulfilling the express activities envisioned for the federal government is "discretionary spending," while programs like Social Security, Medicare, and Medicaid are called "mandatory spending." Budget experts now agree that growing entitlement costs for mandatory spending programs like Social Security, Medicare, and Medicaid will, absent fundamental reforms, put intense and increasing pressure on discretionary spending programs or tax levels or both.

Without meaningful action, by 2040 our government could only have the resources to do little more than mail out Social Security checks and pay interest on the massive and growing national debt. This is obviously an unacceptable scenario.

The cause of this growing fiscal imbalance is multifaceted, and it has been a long time in the making: with each new Congress and each new administration, lawmakers and administration

## At A Glance: Federal Fiscal Outcomes Yesterday

Surplus or Deficit as a Share of GDP (Fiscal Years 1797–2007)



Source: Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of gross domestic product (GDP).

officials, reacting to then-current conditions, have added to the responsibilities of the federal government. Clearly, there are certain functions that only the federal government, with its vast resources and its commitment to the greater good, is best positioned to perform. There are other functions that, although meritorious, may not be appropriate roles for the federal government.

However, once programs or agencies are created, the tendency is to fund them in perpetuity, even if they have achieved their original purpose, are no longer a priority, or are not generating real results. Existing commitments are rarely questioned. Instead, new programs and initiatives are typically added on top of old ones. This continual layering on the base of government explains, in part, why the federal government has become so expensive and, in some cases, so ineffective.

Much of our government now reflects conditions and priorities that date back to the 1940s through the 1970s. We are spending finite taxpayer dollars on activities that may be of questionable value and lower priority today. Furthermore, we do not know whether many of today's federal programs, policies, functions, and activities are generating real, desirable, and sustainable results.

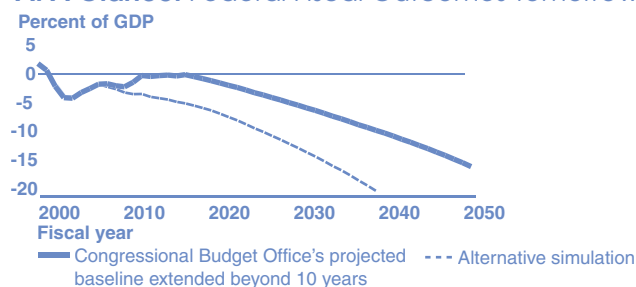
Our current long-range fiscal path is clearly imprudent and fiscally unsustainable. It is also alarming given the range of current and emerging problems that require attention: health care, energy dependency, environmental protection, and homeland security, to name a few. These long-term challenges have profound implications for our future economic growth, standard of living, and national security. Unless these issues are effectively addressed, they will surely begin to manage us. What is needed is a more strategic, long-term, comprehensive, and integrated approach to help capitalize on related opportunities and manage related risks within current and expected resource levels.

Significant resources will be needed to address many of these areas, and difficult choices and trade-offs are unavoidable. The math, however, is clear and compelling: every dollar we spend on a "want" or outdated or ineffective program or policy is a dollar that is unavailable to meet real needs and to capitalize on new opportunities. By freeing up resources, our government will have more flexibility to meet the needs of this and future generations of Americans.

To this end, a top-to-bottom review of federal programs and policies is essential. Congress, the President, and the American people need to decide which federal activities remain priorities, which should be overhauled, and which have simply outlived their usefulness.



## At A Glance: Federal Fiscal Outcomes Tomorrow



Source: GAO's September 2007 analysis.

Note: For more information on simulations see [www.gao.gov/special.pubs/longterm](http://www.gao.gov/special.pubs/longterm).

Much as the framers of the Constitution did, we need to ask some basic questions regarding what we expect from our government. As part of this process, policymakers may need to reconsider some long-held assumptions about what government does; how it does business; who should do that business and how those activities should be financed, whether through consumption taxes, income taxes, payroll taxes, or user fees. This reexamination should extend governmentwide and should be done on a continuing basis; goals and desired outcomes evolve over time, and government must stay attuned to those changes.

GAO clearly does not have all the answers, but we have been doing our best to bring increased attention to these and other important issues. In our role serving the Congress, we have issued a number of products designed to help decision makers identify opportunities for next steps. We published an unprecedented report called *21st Century Challenges: Reexamining the Base of the Federal Government* (GAO-05-325SP) that asks more than 200 probing questions about mandatory and discretionary spending, federal regulations, tax policy, and agency operations. The report is available on our Web site at [www.gao.gov](http://www.gao.gov), and we can provide copies to interested congressional offices.

In addition, I sent a letter in November 2006 to Congress suggesting 36 areas for closer oversight (GAO-07-235R). We also recently updated GAO's list of government areas at high risk of waste, fraud, abuse, and mismanagement (GAO-07-310).

In February 2007, I transmitted to Congress a new publication entitled *Fiscal Stewardship: A Critical Challenge Facing Our Nation* (GAO-07-362SP) designed to provide, in a relatively brief and understandable form, selected budget and financial information regarding our nation's current financial condition, long-term fiscal outlook, and possible ways forward. In April 2007, we updated GAO's strategic plan, which describes our goals and strategies for serving Congress for fiscal years 2007 through 2012. We also issued separately a part of it that contains detailed descriptions of the key themes and strategic forces framing our strategic plan and their implications for governance in the 21st century (GAO-07-467SP).

This document, as the next piece of that body of reports, lays out a set of analytical tools to help policymakers transform government to better meet the demands of the 21st century. At GAO, we strongly believe that consistent use of these items will help policymakers (1) reach consensus on the outcomes Americans most want their government to achieve, (2) increase transparency and accountability, (3) better prioritize competing demands, (4) make more-informed decisions, and (5) modernize federal operations and management.

Our hope is that this information will stimulate discussion and debate about the need to transform government and set it on a more prudent and sustainable path. Fortunately, the problem is beginning to receive some much-needed attention. Members of Congress have started asking some pointed questions about where government stands and where it is headed. In addition, the President has recently noted the need not just to balance the budget but to tackle further much-needed and long-overdue entitlement reform.

Some of the tools outlined in this document, such as GAO's high-risk list and the budget and appropriations process, may be familiar to you. Others, such as the need for a system of key national indicators, a governmentwide strategic plan, a strategic management plan for the executive branch, and a new type of chief operating officer (COO) or chief management officer (CMO) for selected federal agencies are probably less well known. Importantly, many of these tools are already being used successfully at the state and local levels and by some foreign governments.

Our nation has faced many challenges in the past and has always risen to meet them. It is a mistake to underestimate the commitment of the American people to their country, children, and grandchildren; to underestimate their willingness and ability to hear the truth and support the decisions necessary to deal with these and other key challenges. Success will be easier to achieve with the active involvement of both parties in both houses of Congress and of the President. We believe that the tools and approaches summarized above can help Congress and the administration in framing and making the difficult decisions we face.

This document draws on GAO reports, testimony, and other products and several speeches and presentations I have made on government transformation. These and other related GAO publications are listed at the end of this report.

The time for action is now. GAO stands ready to assist Congress in this important endeavor. If you have questions, please contact GAO's Public Affairs office at (202) 512-4800.



David M. Walker  
Comptroller General  
of the United States



## DIRECTION SETTING AND PERFORMANCE MEASUREMENT

*To get where the nation wants to go, the government and the public need to have a clearer vision of what it is trying to achieve as well as where it is—desired outcomes must be clearer, and there must be more high-quality information and public engagement describing the nation's position and progress in achieving those outcomes.*





# DIRECTION SETTING AND PERFORMANCE MEASUREMENT



## 1 Key National Indicators

The development of a system of key national outcome-based indicators will help the nation to set objectives, measure progress toward achieving selected national outcomes, assess conditions and trends, and communicate more effectively on complex issues. Key national indicators (KNI) can also help to inform strategic planning, enhance performance and accountability reporting, and provide for more effective appropriations, authorization, and oversight activities. They can also help to formalize a much-needed and long-overdue reexamination, reprioritization, and reengineering of the base of government while enhancing public engagement and understanding.

Other countries including Australia, Canada, and the United Kingdom have KNI systems, and some exist at the supranational level, such as the European Union's European Structural Indicators system. Although the United States has national-level indicators in various topical areas, it lacks a comprehensive and credible KNI system.

KNI systems pull together essential information on a range of economic, environmental, safety/security, social, and cultural issues. The value of indicators is well-known; the gross domestic product (GDP), unemployment rate, infant mortality rate, and air quality index are

all examples of commonly used indicators today. However, it is only when such individual measures are combined into a larger system of indicators that one can begin to see the big picture and understand the nation's true position and progress. Keeping citizens informed is a foundation of democratic governance, so a KNI system that provides accessible, high-quality information will help individuals, institutions, and the nation as a whole make better-informed choices on complex crosscutting issues and help build public confidence in government.

KNIs could also be used to help clarify problems and opportunities on a broad array of critical issues, identify gaps in what we know, and help Congress set priorities and track progress toward achieving results. The solid facts and results-based information disseminated by such a system can help Congress and other policymakers develop well-framed questions, do appropriate analyses, and arrive at sound solutions. Monitoring national performance is also essential to progress and accountability, because it would provide basic knowledge about whether federal policies, programs, and activities are making a real difference. Given the increasingly globalized economy and society, comparing U.S. performance with that of other countries can provide insights and enhance the nation's ability to identify successful approaches others have used to improve performance.

One way Congress can help the KNI initiative become a reality is through establishing a public-private partnership. A public-private organization appears to offer the best possibility of customizing a design to interact formally with significant public and private actors in a variety of disciplines and sectors, combining the best features of federal support while allowing it to solicit a wider variety of public and private expertise as well as retain voluntary staff. Congress would have flexibility in chartering a public-private organization and delegating various responsibilities to it for the purpose of developing a KNI system.

## **2** Governmentwide Strategic Plan and Annual Performance Plan

Addressing 21<sup>st</sup> century challenges will require foresight while also clearly defining the outcomes we want our government to achieve and the strategies and transformation our government will need to undertake to achieve those outcomes. A strategic plan for the federal government, supported by a portfolio of key national and outcome-based indicators, would provide a valuable tool for governmentwide reexamination of the base of existing programs, as well as proposals for new initiatives. A governmentwide strategic plan created by the President can also provide a cohesive perspective on the long-term goals of the federal government and a much-needed basis for fully integrating,

rather than merely coordinating, a wide array of federal activities. Successful strategic planning also requires the involvement of key stakeholders—particularly Congress—so it can serve as a mechanism for building consensus on what will be achieved and how. Finally, a strategic plan can provide a comprehensive framework for considering organizational changes, making resource decisions, and holding key players accountable for achieving real and sustainable results.

Most major outcomes of federal activities are the product of multiple programs and tools (such as direct spending, federal grants, government guarantees, or tax incentives) that, in turn, are often sponsored by many different federal agencies. Although these individual programs may address common or similar performance goals, they can result in a fragmented delivery network, which can result in duplication of efforts and may work at cross purposes. For example, federal food safety programs are carried out by 12 agencies with differing enforcement criteria and inspection practices. The plethora of federal programs reflects a fragmented policy-making process that is often divided among agencies and programs, with insufficient focus on how individual programs contribute to overarching, crosscutting goals and missions. As a result, the current capacity to periodically reexamine the alignment and relevance of policy portfolios in a changing society is limited.

Developing a comprehensive strategic plan for the federal government would be an important step in articulating the role, goals, and objectives of the federal government. Properly done, it would provide a forward-looking perspective as well as critical horizontal and vertical linkages. It can horizontally integrate and foster synergies among components of the federal government as well as help to clarify the role of the federal government vis-à-vis other sectors of our economy and society. It can vertically provide a framework of federal missions and goals within which individual federal agencies could align their own missions and goals that would cascade down to individual employees.

The Government Performance and Results Act of 1993 (GPRA) requires the President to include in his annual budget submission a federal government performance plan

for the upcoming fiscal year.<sup>1</sup> Congress intended that this plan provide a “single cohesive picture of the annual performance goals for the fiscal year.” The governmentwide performance plan is intended to help Congress and the executive branch address critical federal performance and management issues, including redundancy and other inefficiencies in how we do business. It can also provide a framework for any restructuring efforts. Unfortunately, the possibilities of this provision have not been fully realized. OMB has used the President’s Budget to present high-level information about agencies and certain program performance issues. However, the agency-by-agency focus of the budget does not provide the strategic, longer-range, and integrated perspective of government performance needed for fundamental reexamination to occur.

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<sup>1</sup>31 U.S.C. § 1105(a)(28).



## PRIORITIZATION AND DECISION MAKING

*Congress and the executive branch need to augment existing mechanisms and explore new ones that will facilitate integrated decision making and address known and growing longer-range and crosscutting challenges.*





## PRIORITIZATION AND DECISION MAKING

### 3 Meaningful Commission to Address Our Long-Term Fiscal Challenge

The need to address our nation's long-term fiscal challenge requires looking for a process that will permit real compromise and development of a serious "down payment" on narrowing the growing gap between expected federal revenues and expected federal spending. One approach would be creation of a capable, credible, and bipartisan commission involving both members of Congress and others—charged with both educating the public and developing a specific legislative proposal—whose suggestions would necessarily be given consideration and an up or down vote by Congress. Proposals along these lines have been introduced by Representatives Cooper and Wolf and Senators Conrad and Gregg.

If such a commission were to conduct public hearings around the country, it could educate the American people on the nature and size of the long-term fiscal imbalance and on the choices to be made, and provide a forum for citizens to discuss what they want from government and what they are willing to pay for.

The long-term outlook is driven primarily by rising health care costs and demographic trends. We have suggested that reasonable tasks for a commission developing a down

payment on the fiscal gap would be:

(1) develop a solution to the gap between Social Security's currently scheduled benefits and projected program revenues—a solution not preprogrammed to require later revisiting, (2) agree on "Round 1" of health care reform—changes that would start us on the path of tackling this large and growing challenge, and (3) come to some agreement about "Round 1" of tax reform and on the question of whether more federal revenues than the historical level of 18.3 percent of GDP will be necessary. Such a package would make a major down payment on the path to fiscal sustainability. It would have to be followed by processes to sustain and expand its work: to facilitate further work on health care and tax reform; to provide a system for monitoring, and where necessary adjusting, the path of mandatory spending; and a way to encourage reexamination of all major federal programs, policies, and activities. Congress may also want to consider reimposing a set of statutory budget controls and to examine the role that a credible and independent entity might play in publicly reporting major deviations or attempts to avoid or evade the law's provisions.

A well-designed commission can produce specific practical recommendations that Congress can then enact, such as the National Commission on Restructuring the Internal Revenue Service (IRS) did when Congress created it in 1995 to restore confidence in the U.S. government's ability

to collect revenues in a fair and courteous manner. In 1998, Congress passed the IRS Restructuring and Reform Act, which was influenced by the Commission's report, and reorganized the structure and management of IRS, revised the mission of IRS, and mandated numerous other detailed changes.<sup>2</sup>

A well-designed commission can also offer a vehicle to permit creation and adoption of a "shared sacrifice" package to get otherwise-agreed-upon action enacted. For example, beginning in 1988, Congress provided for the Base Realignment and Closure (BRAC) commission, with a specific mandate to recommend which military bases should be closed or have their functions relocated.<sup>3</sup> Moreover, Congress established a process whereby it voted "up or down" on the submitted list of bases to close without amendment. By turning to a capable, credible, and bipartisan commission that, beginning in 1991, relied on a transparent process of citizen engagement in its deliberations, individual members of Congress could commit to a process that engaged tough public choices, while preserving members' ability to disagree and even influence the process without undermining the process's ability to achieve the shared objective of closing unneeded military bases.

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<sup>2</sup>Pub. L. No. 105-206 (July 22, 1998).

<sup>3</sup>Pub. L. No. 100-526 (Oct. 24, 1988).

## 4 Integrated Solutions in Congress

The increasingly complex base of how the government does its business and who does it presents new challenges to Congress and decision making. Congress has responded to the evolving public demands on the federal government with a growing mix of tools and players as it creates government programs and policies. For example, tax expenditures are increasingly used to complement the more traditional spending in the delivery of government services. Another example is that the network of multiple players involved in achieving government objectives sprawls far beyond the list of federal agencies and their employees, with a variety of nongovernmental organizations and a swelling list of contractors also playing an increasing role in carrying out government activity domestically and abroad.

To oversee this evolving governance framework, Congress will increasingly need to rely on an integrated mix of tools and processes, including the following:

- budget, authorization, oversight, and appropriations processes;
- performance resolutions; and
- House Rule X.

Traditional congressional structures such as the budget, reauthorization, and appropriations processes can be used to establish, oversee, modify, or eliminate programs, policies, and other federal activities. Some of the more politically or technically interconnected or cross-jurisdictional challenges can be examined by the budget process's ability to set broad policy trade-offs across functional categories; oversight committees with their governmentwide jurisdiction and broad subpoena powers; select or special committees with jurisdiction over other crosscutting issues; and joint committees comprising members from the Senate and the House. Key to the effectiveness of these efforts will be Congress employing a constructive engagement approach with federal agencies that identifies problems while also acknowledging and highlighting examples of good governance, such as best practices, and encourages their dissemination to other agencies.

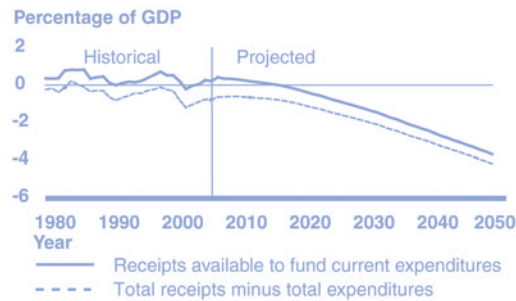
In addition to these formal committees, congressional leaders may want to turn to less-formal groups like member-only task forces and working groups. These more neutral, flexible, and adaptable approaches allow mobilizing relevant expertise from across different committees and subcommittees. Congressional committees and subcommittees can hold hearings to elevate issues or can turn to entities like GAO, other legislative support agencies, and inspectors general for support with

analyses, evaluations, investigations, and reviews of various programs, policies, and operations.

We have previously suggested that Congress consider developing a more systematic vehicle for communicating its top performance concerns that could then better inform and guide its authorization, appropriations, and oversight processes. Congress could develop a congressional performance resolution identifying key oversight and performance goals that Congress wishes to set for its own committees and for the government as a whole. Such a resolution could be developed from currently used congressional budget resolutions, which are already organized by budget function. This may involve collecting the input of authorizing and appropriations committees on priority performance issues for programs under their jurisdiction and working with crosscutting committees such as the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the House Committee on Rules.

We have also previously suggested that building GPRA into the congressional oversight process could be useful and cited House Rule X as a possible means for helping make that happen. House Rule X requires standing committees of the House to provide oversight plans to the Committee on Oversight and Government

## At A Glance: State and Local Government Fiscal Outcomes



Source: GAO analysis.  
Note: GDP is gross domestic product.

Reform, which, in conjunction with House leadership, then publishes the plans along with recommendations for ensuring the most effective coordination of the plans. House Rule X also provides for standing committees to consider foresight through future research and forecasting, among other things, when considering laws and programs that should be continued, curtailed, or eliminated.

Congress and its leadership can also develop a list of key areas of congressional interest and emphasis. House and Senate committees could then be organized and directed to develop integrated oversight agendas that target those areas. Such a broad, structured oversight agenda could better coordinate a congressional perspective on crosscutting issues as they are addressed by the individual committees. It can also elevate those issues that might best be served by scheduling joint hearings or crosscutting studies, investigations, or other initiatives. Congress should also consider how best to organize itself to address our many challenges and opportunities in the 21<sup>st</sup> century, as it has periodically done since the 1920s.


### 5 Mechanisms for Partnerships across Federal Agencies, Levels of Government, and Sectors

Many national challenges, such as protecting the homeland, responding to emergencies like Hurricanes Katrina and

Rita, preparing for a possible influenza pandemic, and transforming federal oversight of food safety, cut across more than one federal agency, multiple levels of government, and the private sector. There is a growing understanding that the federal government is relying increasingly on networks and partnerships—often involving multiple federal agencies, state and local governments, domestic and international nongovernmental or quasi-governmental organizations, and for-profit and not-for-profit contractors and grantees—to achieve critical results and develop public policy. In fact, there was broad agreement among participants in a Comptroller General’s forum on high-performing organizations that the strategic use of partnerships is one of the key characteristics of a high-performing organization.

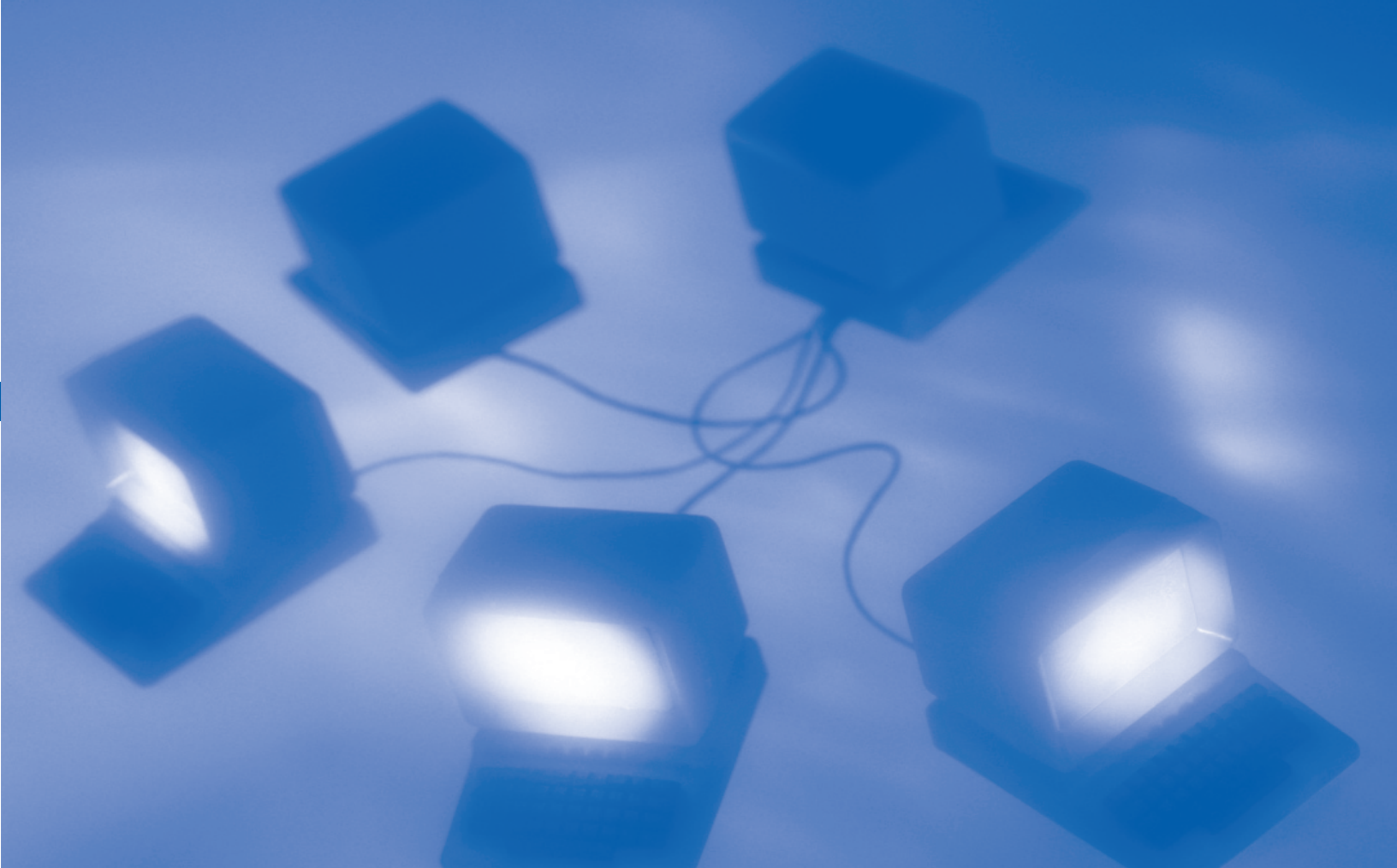
However, federal agencies and their partners face a range of barriers when they attempt to work collaboratively. There are several tools for forging successful partnerships across these networks. We have identified key practices that can help enhance and sustain federal agency collaboration, some of which can also be applied more broadly to collaboration in networks. These practices include having collaborating parties (1) establish mutually reinforcing or joint strategies; (2) identify and address needs by leveraging resources; (3) agree on roles and responsibilities; and (4) establish compatible policies, procedures, collaboration, and other means to operate across boundaries.





The federal government has adopted a range of national plans and strategies, recognizing that the federal government alone cannot effectively address wide-ranging and complex issues such as responding to disasters. Such plans are becoming an increasingly important tool for bringing together players dispersed over geography, types of organizations, and levels of government. For example, the

National Response Plan is intended to be an all-discipline, all-hazards plan establishing a single, comprehensive framework for managing domestic incidents where federal involvement is necessary. Other strategies that GAO has assessed include preparing the nation for a possible pandemic influenza, administration strategies relating to combating terrorism, rebuilding Iraq, and improving citizens' financial literacy.



## INFORMATION AND TRANSPARENCY

*If Congress and the executive branch are to partner in making decisions about the trade-offs between competing strategies to arrive at desired outcomes, there needs to be greater transparency, with a long-term focus and more outcome-oriented financial and program performance information flowing into the decision making processes.*



# INFORMATION AND TRANSPARENCY

## 6 Executive Branch Financial and Budget Reporting

The budget process can and should play a control role in helping to address our long-term fiscal challenge and the broader challenge of modernizing government for the 21<sup>st</sup> century. However, budget debates too often focus on the short-term deficit path. It is not the deficit today that presents the greatest danger to us—nor is balancing the budget over the next 5 years the critical goal. Rather, it is our nation’s long-term fiscal path and mounting unfunded obligations for various social insurance and other mandatory spending programs that endangers our future. GAO has suggested reinstating and strengthening budget controls and enforcement mechanisms, such as the following:

- Statutory controls that expired in 2002 should be reinstated, including both meaningful caps on discretionary spending and pay-as-you-go (PAYGO) on both the tax and spending sides of the ledger.<sup>4</sup> Congress should also look at rules to govern the use of “emergency supplementals.”

<sup>4</sup>Both the House and the Senate have reinstated PAYGO discipline in their respective rules for the 110<sup>th</sup> Congress. Statutory PAYGO has the advantages of enforcement and duration: it may be easier to waive a rule than ignore a law, and a law can carry a stronger penalty designed to encourage compliance.

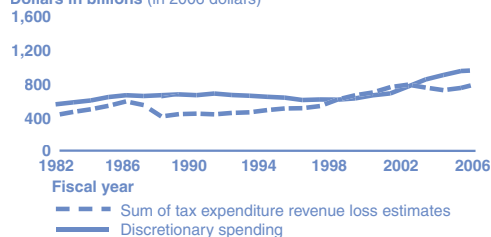
- Congress should look beyond the return to PAYGO and discretionary spending caps by designing “triggers” for mandatory programs, both on the spending and the tax sides of the ledger, that would prompt action if the spending path increases significantly. Mandatory spending cannot remain on autopilot and be permitted to grow without limitation. This concept should apply to direct spending and tax preferences, which represent another form of spending and also affect the nation’s financial and fiscal “bottom line.”

In addition, a greater understanding of and focus on the long-term implications of policy choices is needed. GAO has previously suggested a number of steps that could help. These include, but are not limited to, the following:

- The President’s budget proposal should cover 10 years. This is especially important given that some policies—both spending and tax—cost significantly more (or lose significantly more revenue) in their second 5 years than in their first. In addition, the budget should disclose the budgetary effect of major tax or spending proposals over the short, medium, and long term.

## At A Glance: Tax Expenditures Compared to Discretionary Spending

Dollars in billions (in 2006 dollars)



Source: GAO analysis of Office of Management and Budget budget reports on tax expenditures, fiscal years 1976–2008.

Note: Summing tax expenditure estimates does not take into account interactions between individual provisions.

- The executive branch should provide information on existing fiscal exposures—both spending programs and tax expenditures, that is, the long-term budget costs of individual programs, policies, and activities.
- Information on the long-term cost implications of any major tax or spending proposal should be provided before such proposals are voted on.
- The Department of the Treasury should publish a summary annual report presenting key information in a way more accessible to the press and lay reader, derived from the information in the audited Consolidated Financial Statements of the U.S. Government and the Comptroller General’s audit report on it.
- Every 4 years the Department of the Treasury should prepare and publish a fiscal sustainability report including information on, and an assessment of, the long-term fiscal sustainability of the federal government’s current spending and revenue path.
- The Comptroller General should annually report to the Congress GAO’s assessment of the financial condition and fiscal outlook of the U.S. government, drawing on such information as the Comptroller General deems appropriate.


## 7 Governmentwide Performance and Accountability Report

The full benefit of establishing long-term strategic and annual performance goals for the federal government would be difficult to realize without a concomitant requirement to report on the results achieved. As we have learned after more than a decade of experience with implementing GPRA in federal agencies, annual reporting is key to improving transparency and the accountability of federal agencies for achieving results.

Under GPRA and related financial management legislation, agencies are required to report annually on the performance of their programs along with their financial statement and audit information. This provides policymakers and the public with the information needed to assess and hold agencies accountable for what government is accomplishing with the money it spends.

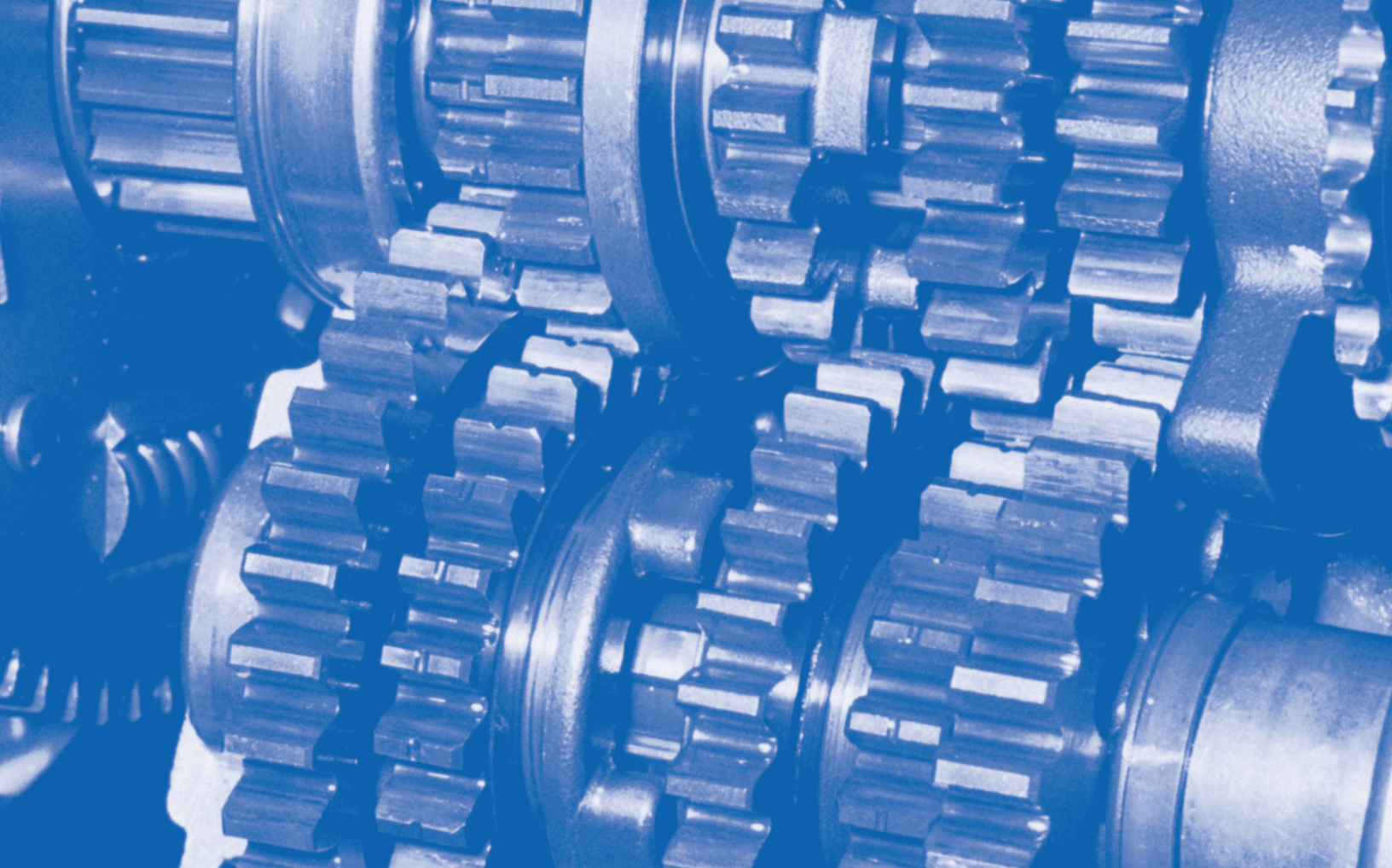
There is currently no requirement for a combined report on the performance and financial accountability of the federal government as a whole. Such a governmentwide performance and accountability report would increase transparency and accountability by providing Congress and the public key





financial information for the government as a whole. For example, the performance and accountability report could provide information on the federal government's progress in achieving the goals it set for preparing for catastrophic events, such

as a natural disaster or terrorist attack. Furthermore, it could highlight the most critical challenges to our fiscal well-being, such as the looming wave of mandatory spending that will result from the aging and retirement of the baby boom generation.



## IMPLEMENTATION AND EXECUTION

*The execution of the policies and programs that are decided upon will require an improved management capability to ensure their economy, efficiency, effectiveness, ethics, and equity.*



## IMPLEMENTATION AND EXECUTION

### **8** Strategic Management Plan for the Executive Branch

Achieving fundamental change in the federal government will require the executive branch to work with Congress and other key stakeholders in the development of long-term goals and strategies to overcome the significant management obstacles that stand in the way of progress. Through the President's Management Agenda and its related initiatives, including the Office of Management and Budget's Program Assessment Rating Tool (PART), the administration has taken steps in the right direction by calling attention to successes and needed improvements in federal management and performance. Properly done, these and future efforts could provide a strong basis to support the needed review, reassessment, and reprioritization process. A strategic management plan for the executive branch that includes key management and operational strategic goals for the next 3–5 years could provide the additionally needed long-term focus. The benefit of such a plan is that it can be targeted to cover a range of “good government” issues that are nonpartisan in nature and can provide an integrating mechanism within an administration as well as continuity of goals to future administrations.

The root causes of some persistent problems, including some of the areas

identified by GAO as high risk, stem from outmoded management frameworks or fragmented approaches that require more strategic, systemic, and integrated solutions than can be adequately provided by individual or interagency planning efforts. For example, resolving Department of Defense (DOD) supply chain management problems, which was first designated high risk in 1990, will require that DOD ensure that the logistics “road map” it is developing provides a comprehensive, integrated strategy for guiding supply chain management improvement efforts. In another example, while important progress has been made, strategic human capital management receives a high-risk area designation because federal agencies continue to lack a strategic approach to human capital management that aligns human capital efforts with agency mission and program goals.

### **9** Chief Operating Officers/Chief Management Officers in Key Selected Agencies

As agencies across the federal government embark on the large-scale organizational transformations needed to address 21<sup>st</sup> century challenges, there is a compelling need for leadership to provide the continuing, focused attention essential to completing these multiyear transformations. A chief operating officer (COO)/chief

management officer (CMO) position is one tool for building the necessary management structure that could be used to help to elevate, integrate, and institutionalize responsibility for key management functions and business transformation efforts. GAO has long advocated the need for a COO/CMO position at DOD and the Department of Homeland Security (DHS). Legislation has been introduced to create a CMO position at DOD, and recently the Undersecretary for Management position at DHS became the CMO, in an effort to advance management integration and business transformation in those departments.

A number of criteria can be used to determine the appropriate type of COO/CMO position in a federal agency, including the history of organizational performance, degree of organizational change needed, nature and complexity of mission, organizational size and structure, and current leadership talent and focus. A relatively stable or small organization could use the existing deputy or related position to carry out the integration and business transformation role. A larger organization might designate a senior-level executive who reports to the deputy, such as a principal under secretary for management, to integrate key management functions and lead business transformation efforts. A large and more complex organization undergoing a significant transformation to reform long-standing management problems might

create a second deputy position to bring strong focus to the integration and business transformation of the agency.

There are also a number of strategies that Congress should consider as it develops and reviews legislative proposals to create these positions. The specific roles and responsibilities of the COO/CMO position need to be clearly defined and effectively communicated throughout the organization. The COO/CMO needs to be given a high level of authority and clearly delineated reporting relationships. The COO/CMO needs to foster good executive-level working relationships for maximum effectiveness. Integration and transformation structures and processes need to be established, in addition to the COO/CMO position. Individual accountability and performance need to be promoted through specific job qualifications and effective performance management, such as with a clearly defined performance agreement. Continuity of leadership in the COO/CMO position should be maintained, such as through term or career appointments, in selected agencies as needed. In addition, Congress should make the broad qualifications of the COO/CMO include a proven track record as a business process change agent in large, complex, and diverse public and private organizations.

In addition to GAO's work, a number of other organizations have supported the need for the creation of COO/CMO positions in



federal agencies. In July 2006, McKinsey & Company recommended that a COO be established in many federal agencies as the means to help those agencies successfully achieve transformation.<sup>5</sup> In October 2006, a working group within the National Academy of Public Administration (NAPA) recommended creating COO positions in federal agencies to oversee the full range of management functions, including procurement, finance, information technology, and human capital.<sup>6</sup> Further, the Defense Business Board and the Institute for Defense Analyses, in separate studies, concluded that a chief management officer was needed in DOD to provide leadership over business transformation efforts.

## 10 Revisions to the Presidential (Political) Appointment Process

Another option for building the necessary leadership and management structure is to examine several aspects of the presidential (political) appointment process. Currently, there is no distinction in the process among the different types of responsibilities inherent in the appointed positions. Further, the positions generally do not require any particular set of

management qualifications, even though the appointees may be responsible for non-policy-related functions. In addition, some federal agencies, particularly those agencies with political appointees in positions with operational and management responsibilities, may benefit from term appointments.

For example, appointees could be categorized by the differences in their roles and responsibilities, such as by the following categories:

- those appointees that have responsibility for various policy issues;
- those appointees that have leadership responsibility for various operational and management matters; and
- those appointees that require an appropriate degree of technical competence or professional certification, as well as objectivity and independence (e.g., judges, the Comptroller General, inspectors general).

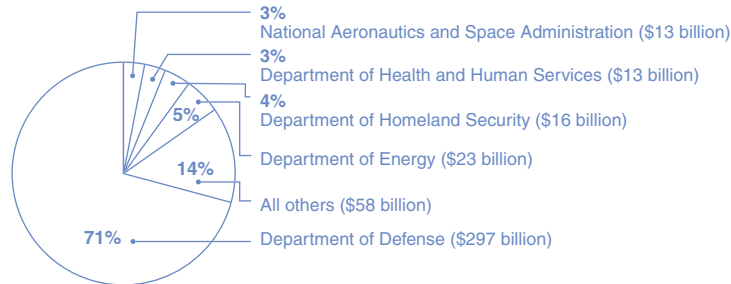
There has been a proliferation of political appointee positions in government. This needs to be reviewed and reconsidered. In addition, there is a need to reexamine the appointment process to assess which appointee positions should be presidentially appointed and Senate-confirmed (PAS) versus presidentially appointed (PA) with advance notification to the Congress.

<sup>5</sup>McKinsey & Company, *How Can American Government Meet its Productivity Challenge?* (July 2006).

<sup>6</sup>NAPA, *Moving from Scorecard to Strategic Partner: Improving Financial Management in the Federal Government* (October 2006).



## At A Glance: Federal Government Acquisitions



Total: \$419 billion in acquisitions obligations in fiscal year 2006

Source: GAO analysis of data from the Federal Procurement Data System.  
Note: Due to rounding, dollar values do not add up to the specified total value.

For example, those appointees that have policy leadership responsibility could be PAS, while many of those with operational and management responsibility could be PA, with a requirement for appropriate congressional notification in advance of appointment. In addition, appropriate qualifications for selected positions, including the possibility of establishing specific statutory qualifications criteria for certain categories of appointees, could be articulated. Finally, the use of term appointments and different compensation schemes for these appointees should be reviewed (i.e., for inspectors general and selected Executive Level II positions in federal agencies).

### 11 Enhanced Governmentwide Acquisition and Contracting Capability

The acquisition of products and services from contractors consumes about a quarter of the government's discretionary spending. In fiscal year 2006, federal agencies spent over \$415 billion on such contracts. The work of the government is increasingly being performed by contractors, including emergency and large-scale logistics operations such as hurricane response and recovery and the wars in Iraq and Afghanistan. Many agencies rely extensively on contractors to carry out their basic missions. At the same time, GAO's list of high-risk areas includes acquisition and

contract management issues that collectively expose hundreds of billions of taxpayer dollars to potential waste and misuse. To improve acquisition outcomes, agencies need a concentrated effort to address existing problems while facilitating a reexamination of the rules and regulations that govern the government-contractor relationship in an increasingly blended workforce.

Agencies are making greater use of a variety of relatively new acquisition tools, techniques, and approaches, including performance-based contracting, commercial item purchases, and interagency contracting. This new environment is promising, but it imposes additional demands on an acquisition workforce already struggling to deal with an increased workload with fewer government personnel. GAO has provided Congress with a list of 15 systemic acquisition challenges at DOD that need to be addressed, and GAO work at other federal agencies indicates that they often face similar challenges. For example, since many agencies have turned to contractor support to augment their capabilities, agencies need to ensure that contractors are playing appropriate roles and that the agencies have retained sufficient in-house workforce capacity to monitor contractor cost, quality, and performance. Agencies also need to ensure that their acquisitions are outcome-based, and that appropriate risk-sharing contracts are in place.

All agencies, particularly those with significant acquisition budgets, such as DOD, the National Aeronautics and Space Administration, and DHS, need to better align their requirements, budget, and acquisition processes to reconcile the differences between wants, needs, affordability, and sustainability, given current and future demands and resources.

## **12** Modernized Federal Government Human Capital Models

To respond to current and emerging demands, federal agencies must become more partnership-based, results-oriented, integrated, and externally focused. In that regard, strategic human capital management must be the centerpiece of any serious change-management and transformation effort. Yet, as amply shown by GAO's long-standing work on human capital issues, federal agencies do not consistently have the modern, effective, economical, and efficient human capital programs, policies, and procedures they need to respond to current and emerging governance challenges of the 21<sup>st</sup> century. Specifically, the federal government has not sufficiently transformed how it classifies, compensates, develops, and motivates its employees to achieve maximum results within available resources and existing authorities. A key challenge is determining how to update

the government's classification and compensation systems to be more market-based and performance-oriented.

Congress has provided selected entities with the authority to develop more performance-based human capital systems and federal agencies have taken steps to implement various existing human capital flexibilities. However, a modernized governmentwide framework and infrastructure for advancing human capital reform can serve as a valuable tool in order to avoid further fragmentation within the civil service, ensure management flexibility as appropriate, allow a reasonable degree of consistency, provide adequate safeguards, and maintain a level playing field among federal agencies competing for talent.

Before implementing any future human capital reforms, agencies should follow a phased approach that meets a "show me" test. That is, each agency should demonstrate it has met certain conditions, including that it has developed an institutional infrastructure that can support reform. This infrastructure should include, among other things, (1) a strategic human capital planning process linked to the agency's overall strategic plan; (2) capabilities to design and implement a new human capital system effectively; (3) a modern, effective, credible, and validated performance management system that provides clear linkage between institutional, unit, and individual performance-oriented

outcomes; and (4) adequate internal and external safeguards to ensure the fair, effective, credible, and nondiscriminatory implementation of the system.

As the government's human capital leader, the Office of Personnel Management has a key role in helping agencies build the needed infrastructure to successfully implement and sustain human capital reforms and will likely take on the role of independently certifying agency readiness to implement reforms.

### **13** GAO's High-Risk List

GAO provides updates to its list of government programs and operations that it identifies as "high risk" at the start of each new Congress to help in setting congressional oversight agendas. These reports, which have been produced since the early 1990s, have brought a much-needed focus to a targeted list of major challenges that are impeding effective government and costing the government billions of dollars each year. The reports help Congress and the executive branch carry out their responsibilities while improving the government's performance and enhancing its accountability. In fact, GAO's focus on high-risk problems contributed to Congress enacting a series of reforms across the government to address critical human capital challenges, strengthen financial management, improve information

technology practices, and instill a more effective, credible, and results-oriented government.

Congress needs to continue targeting waste in government spending, including mismanagement, inappropriate actions, or inadequate oversight that results in taxpayers in the aggregate not receiving reasonable value for money in connection with government-funded activities. Government waste is growing and far exceeds the cost of fraud and abuse. In addition, GAO's high-risk program has focused on those major programs and operations that are in urgent need of broad transformation and congressional as well as executive branch action to ensure that our national government functions in the most economical, efficient, and effective manner possible. To help improve these high-risk operations, GAO has made hundreds of recommendations.

The program has helped sustain attention from members of Congress who are responsible for oversight and from executive branch officials who are accountable for performance. Of the 47 areas that have appeared on our high-risk list since 1990, 18 have improved enough to be removed from the list and 2 have been consolidated with other areas. Further, GAO's work related to areas it has designated as high-risk has had a financial effect. In fiscal year 2006 alone, actions by both Congress and the executive branch in response to GAO's



recommendations resulted in approximately \$22 billion in financial benefits.

GAO's 2007 high-risk list covers 27 areas that need attention, 15 of which related directly or indirectly to DOD. Persistence and perseverance in addressing high-risk

areas will continue to yield significant benefits, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.



## NEXT STEPS





## NEXT STEPS

### Congress Has Tackled Politically and Technically Complex Issues Before

Throughout our history Congress has consistently shown the ability to respond to the nation's most technically complex and politically difficult challenges. GAO recently reviewed historical records of congressional activity in the past three decades and found that about half of the legislated reforms that various academic observers have labeled “significant” or “landmark” have been driven at least in part by reexamination of preexisting federal programs or policies.

The list below illustrates this capability of Congress to enact significant reform when

faced with the need to reexamine politically and technically complex issues.

When committed to enacting such significant legislation, Congress has deregulated the airline industry (1978), which paved the way for deregulating other sectors of the economy; overhauled the income tax code (1986); reorganized DOD (1986); and reformed the nation's insurance and benefit programs—specifically Social Security (1983), farm subsidies (1996), welfare (1996), and Medicare and Medicaid (1998). These changes involved making tough choices among competing claims on federal resources, and the willingness of the public and Congress to confront those trade-offs typifies the spirit of what is needed in the coming years.

## Illustrative Legislation Resulting from Reexamination of Federal Programs and Policies

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- Airline Deregulation Act of 1978** — Spurred by the President's regulatory reform drive in early 1977 and previous congressional hearings, Congress reexamined federal regulation of the airline passenger industry and determined that to increase competition and to lower fares, federal price and route controls should be phased out over a 7-year period. Industry and labor groups opposed the changes and the increased risk of industry instability. This act eventually ended most federal price regulation of the passenger airline industry. Pub. L. No. 95-504 (Oct. 24, 1978).
- Social Security Amendments of 1983** — Pending system insolvency prompted Congress to reexamine Social Security in 1981, which involved partisan debates over hard choices among benefits for the elderly, balancing the budget, and keeping the retirement fund solvent. Congress subsequently negotiated a compromise and enacted a \$165 billion bipartisan package of tax increases and benefit cuts to delay system insolvency. Pub. L. No. 98-21 (Apr. 20, 1983).
- Goldwater-Nichols Department of Defense Reorganization Act of 1986** — In 1986 Congress wrestled with the entrenched bureaucracy of DOD and reexamined the existing organization, confronting the cultural and institutional resistance to reorganize it. The reorganization dramatically shifted authority from the separate military services to the Joint Chiefs of Staff. Pub. L. No. 99-433 (Oct. 1, 1986).
- Tax Reform Act of 1986** — Congressional calls for reform since 1981 aimed at simplifying tax laws were echoed in the 1984 presidential State of the Union address, prompting Congress to reexamine the existing tax codes and make difficult choices balancing public interest, supporters of reform, opposition forces, and corporate concerns. With this act Congress enacted a sweeping overhaul of tax law, which, among other revisions, collapsed 14 tax brackets into 2; eliminated many breaks; cut rates sharply; and shifted burden from individual to corporate taxes. Pub. L. No. 99-514 (Oct. 22, 1986).
- Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform)** — After an at-times-contentious national debate, Congress replaced federal programs, some over 60 years old, of welfare grants directly to individuals and families with block grants to states. The act generally required welfare recipients to work within 2 years of receiving benefits and limited their benefits to a period of 5 years. Pub. L. No. 104-193 (Aug. 22, 1996).
- Federal Agricultural Improvement and Reform Act of 1996 (farm bill)** — The 1996 farm bill substantially changed U.S. agricultural policy that had been in place for almost 50 years by replacing the link between federal income support payments and farm prices with seven annual fixed but declining payments, intended to move U.S. agriculture toward a more "market-oriented" farm policy. Congress also changed the administrative reimbursement fee paid to insurance companies delivering crop insurance, resulting in billions of dollars of savings. (Partly in response to changes in the farm economy in the late 1990s, in 2002 Congress modified the approach legislated in the 1996 Act.) Pub. L. No. 104-127 (Apr. 4, 1996).
- Balanced Budget Act of 1997 (Medicare reform)** — Over the years, Congress has had to weigh issues critical to the sustainability and affordability of Medicare and Medicaid. In 1997, budget pressures prompted Congress to reexamine Medicare and Medicaid and reduce spending for both programs by approximately \$120 billion over several years and included more managed care alternatives as well as a pilot program for medical savings accounts. Pub. L. No. 105-33 (Aug. 5, 1997).
- No Child Left Behind Act of 2001** — Following two decades of debate over the federal role in public school policy, Congress cleared a landmark education bill that holds states accountable for the academic progress of all public school students as a condition of receiving federal funds. In addition, the act further expanded the federal role by establishing requirements for teachers to be "highly qualified," which includes demonstrating subject matter competency in each core academic subject they teach. Pub. L. No. 107-110 (Jan. 8, 2002).

GAO’s review of the congressional record of over 160 reforms and interviews with a mix of experts on congressional processes suggest several additional considerations as Congress moves forward with a reexamination agenda:

- reexamination will take time and require sustained effort,
- a “champion” for reform can galvanize support, and
- different challenges will require different approaches.

Policymakers and their staff should be prepared to start early and often in efforts to effect change. Many policy and program changes in the past three decades have as part of their history earlier attempts preceding them by as much as several decades, suggesting that some of the changes needed may require multiple attempts and may, literally, take a generation to result in significant reform. For example, the Goldwater-Nichols Department of Defense Reorganization Act of 1986,<sup>7</sup> which reorganized the Pentagon, implemented a recommendation to shift power from the separate military services to the Joint Chiefs of Staff—an organizational change recommended as early as 1958 by President Eisenhower and by numerous study groups since that time. Earlier attempts that do not

result immediately in enactment of reforms can and have contributed to “moving the issue forward,” thus making it easier for later attempts to succeed.

Of the many ways for Congress to effect change, leadership is central. Many significant reforms that Congress enacted in the past benefited from a “champion” or “champions”—publicly recognizable and credible advocates who actively supported and persistently promoted the necessary change. Whether a champion comes from within Congress or is the President, or both, a champion can galvanize support for change. Congress can also exercise leadership through outreach efforts to special interest groups and the general public, since public opinion can effectively move issues onto the national agenda.

The congressional approaches chosen should depend on the specific issue, and multiple approaches may be more effective in moving the issue forward. Indeed, while the vast majority of the reforms relied on Congress’s traditional processes, nearly half of them also benefited from multiple approaches. The level of public knowledge on an issue, the public’s readiness and familiarity with it, the presence of incentives to deal with it—such as budgetary constraints—the desires and need for consensus among stakeholders, and the extent to which alternative solutions have already been identified and discussed will all affect the choice of the next step by Congress.

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<sup>7</sup>Pub. L. No. 99-433 (Oct. 1, 1986).

There has long been discussion of the benefits of early action to put Social Security on a sustainable course and to reform Medicare as well as our overall health care system. Acting sooner rather than later can turn compound interest from an enemy to an ally. Acting sooner rather than later permits changes to be phased in more gradually and gives those affected time to adjust to the changes. Delay does not avoid action—rather it makes the steps that have to be taken later more dramatic and potentially harder.

Unfortunately, it is getting harder to talk about early action—the future is upon us. In 2008 the first baby boomers will be eligible for retirement under Social Security. The Congressional Budget Office projects the average annual growth rate of real GDP will decline from 2.9 percent in 2008 to 2.5 percent in 2017. This slowing of economic growth will occur while spending on Social Security, Medicare, and Medicaid continues to grow—accounting for 51 percent of all federal spending by 2017 compared to 40 percent in 2006. This trend in spending will accelerate beyond 2016 as health care costs continue to grow.

The specific policy choices made to address this fiscal challenge are the purview of elected officials. And the policy debate will reflect differing views of the role of government and differing priorities for our country. But the American people know that there is something wrong; that these

deficits and rapidly mounting debt levels are a problem. They can accept difficult decisions as long as they understand why such steps are necessary. They need to be given the facts about the fiscal outlook: what it is, what drives it, and what it will take to address it. People must understand that the status quo is not an option and that tough choices and real trade-offs will be required. They need to know that there is no easy solution, miracle cure, or magic bullet to address the long-term fiscal challenge.

#### The Long-Term Fiscal Problem Cannot Be Solved by

- a growing economy;
- wiping out fraud, waste, and abuse;
- ending the Iraq War or cutting defense;
- restraining discretionary spending;
- eliminating congressional earmarks; and
- letting 2001 and 2003 tax cuts expire.

With this understanding, the American people can engage with their elected leaders about what government should do and how it should do business. By doing so, we can keep America great and help to ensure that our future will be better than our past.



## RELATED GAO PRODUCTS



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- *Forum on Key National Indicators: Assessing the Nation's Position and Progress.* GAO-03-672SP. May 2003.

#### Governmentwide Strategic Plan and Annual Performance Plan

- *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results.* GAO-04-38. March 10, 2004.

### PRIORITIZATION AND DECISION MAKING

#### Integrated solutions in Congress

- *21st Century Challenges: Performance Budgeting Could Help Promote Necessary Reexamination.* GAO-05-709T. June 14, 2005.
- *Comptroller General's Forum: High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment.* GAO-04-343SP. February 13, 2004.
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#### Mechanisms for partnerships across federal agencies, levels of government, and sectors

- *Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy.* GAO-07-100. December 4, 2006.
- *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of the Nation's Preparedness, Response, and Recovery System.* GAO-06-618. September 6, 2006.



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### Chief management officers / chief operating officers in key selected agencies

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- *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership.* GAO-07-1072. September 5, 2007.
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## IMPLEMENTATION AND EXECUTION (CONT.)

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