

LEGISLATIVE BRANCH APPROPRIATIONS FOR FISCAL YEAR 2006

TUESDAY, APRIL 19, 2005

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:27 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Wayne Allard (chairman) presiding.
Present: Senators Allard and Johnson.

LIBRARY OF CONGRESS

**STATEMENT OF JAMES H. BILLINGTON, Ph.D., THE LIBRARIAN OF
CONGRESS**

ACCOMPANIED BY:

**GENERAL DONALD L. SCOTT, DEPUTY LIBRARIAN OF CONGRESS
MARY BETH PETERS, REGISTER OF COPYRIGHTS
DANIEL P. MULHOLLAN, DIRECTOR, CONGRESSIONAL RESEARCH
SERVICE**

OPENING STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. The Legislative Subcommittee on Appropriations will come to order. We meet today to take testimony from the Librarian of Congress and the Comptroller General on the fiscal year 2006 budget request for the Library of Congress and the Government Accountability Office (GAO). We will also receive testimony for the record on the Open World Leadership Program.

I welcome our witnesses this morning. We will hear from Dr. James Billington, the Librarian, who is accompanied by General Donald Scott, the Deputy. We will hear from Dan Mulhollan, Director of the Congressional Research Service, Mary Beth Peters, Register of Copyrights, and many others.

The Library will be followed by Mr. David Walker, Comptroller General, who is accompanied by Gene Dodaro, GAO's Chief Operating Officer; Sallyann Harper, the Chief Administrative Officer; and Stan Czerwinski, the Controller.

The Library is requesting a budget of \$628 million, 7 percent above the fiscal year 2005 level. The amount requested would support 4,365 employees and would accommodate all anticipated pay and price level increases, as well as continue some ongoing projects, such as the copyright reengineering effort and the completion of the National Audiovisual Conservation Center.

While the areas for which the Library has requested additional resources are important, it will be very difficult for this sub-

committee to approve large increases since it is very unlikely the overall level of discretionary spending will even keep up with the rate of inflation.

Following the Library, we will hear from Mr. Walker on the Government Accountability Office's budget request, which totals \$493.5 million over the current year, an increase of 4 percent. GAO's request is one of the more conservative ones we have seen in the legislative branch this year and we appreciate the fact that you have attempted to restrain programmatic increases.

The budget would provide for 3,215 staff and would accommodate normal pay and inflation-related increases. GAO has been involved in a number of legislative branch assignments over the past few years, helping to oversee the Capitol Visitor Center construction project, making recommendations on management improvements within the Architect of the Capitol, and tracking Capitol Police administrative reforms to name a few. We appreciate these efforts and believe they are resulting in improvements to legislative branch operations.

One of my interests will be to continue and even accelerate efforts to hold legislative branch agencies to the highest standards of performance and accountability.

Finally, I would like to take this opportunity to recognize Stan Czerwinski, GAO's Controller. I was fortunate enough to work with Stan in his previous capacity as a managing director overseeing housing matters and I also found his insight helpful. I am looking forward to the opportunity of working with him once again as the legislative branch chairman. However, I understand that Stan will be going back to program work. While this is unfortunate for our work on this subcommittee, I look forward to regaining his expertise on program matters.

Stan, thank you for your outstanding service as Controller.

I would ask the witnesses to stick with the 5-minute rule. Go ahead and make your presentations so we will have plenty of time to get into questions and ask you questions that I may have or any member here of the subcommittee may have.

So we will start this morning with Dr. Billington with the Library of Congress.

OPENING STATEMENT OF THE LIBRARIAN

Dr. BILLINGTON. Thank you, Mr. Chairman. It is a pleasure and an honor to come before you today and first of all to thank the Congress for being for more than two centuries the greatest single patron of a library in the history in the world. The Library that Congress has created is the world's largest collection of human knowledge and the principal source of research support for the Congress itself.

You know that the Library receives books and other works submitted for copyright registration to the Copyright Office, thus preserving the immense ongoing record of American creativity. We also collect and preserve materials in 486 languages from abroad, thus adding to the wide scope of knowledge available to our citizens. The ways in which we perform these vital services are changing rapidly in response to digital technologies, which are also generating new kinds of resources. We collect films and recordings in

addition to books, journals, manuscripts, maps; we must now collect digital audiovisual resources, digital documents, electronic databases, and even web sites.

In 2004 our unique universal collection of 130 million items added 2.6 million new books and other artifacts and our richly stocked web site attracted more than 3.3 billion electronic hits. We are also leading a national program to archive materials that are unique, important, and dependable from the flood of digital material on the Internet, and we are moving our national service to the blind and physically handicapped into digital formats. We are now in fact in the advanced stages of converting almost all our processes from manual to digital and into electronic formats. At no other time has technology so directly affected how the Library performs its work.

Beyond mandatory pay raises and unavoidable price increases, our request includes additional funds for the National Audiovisual Conservation Center, for copyright reengineering, for storage modules at Fort Meade, and for direct service to the Congress, a one-time adjustment to the Congressional Research Service's budget to sustain its staff capacity, and an adjustment to the CRS acquisition base, and funds to make accessible law library materials that are important for the Congress.

NAVCC—CULPEPER

An unprecedentedly generous private donation from the Packard Humanities Institute is enabling us to create a facility that will provide state-of-the-art preservation at Culpeper, Virginia, for all of our massive and hitherto scattered audiovisual materials. We need 23 FTEs that will greatly increase production and meet the demands of this complex technical system.

COPYRIGHT REENGINEERING

We are in the last year of the 7-year plan that Congress approved for copyright reengineering. We need one-time funds to keep our technical team united for the completion of this project, support for the move to an offsite location, and funding in the AOC budget for reconstructing space in the James Madison Building.

FORT MEADE PROJECT

Congress has generously funded two modules at Fort Meade for storage of books and journals to address the long-delayed preservation needs of 26 million unique and often priceless special format materials. We request funds to begin building Modules 3 and 4.

These and other requests illustrate the ways in which the Library must continue to change if we are to maintain in the electronic age our vital historic role as the preeminent steward of the world's knowledge and of America's creative heritage.

PREPARED STATEMENT

We are deeply grateful for what Congress has already created and admirably sustained in this time of transition. The appropriations we request for fiscal year 2006 will enable us to continue providing you with comprehensive nonpartisan research and will pro-

vide future generations of your constituents with the wonderful learning resources that digital technology is making possible. You will be supporting more than just a great cultural repository. Appropriations for today's Library will be investments in tomorrow's minds.

[The statement follows:]

PREPARED STATEMENT OF JAMES H. BILLINGTON

I appreciate the opportunity to appear before you today to discuss the past accomplishments and future goals of the Library of Congress in the context of our fiscal year 2006 budget request. This Committee has always supported the Library's programs and I ask for your help again in securing the investments we need to keep the Library as useful to the Congress in the new millennium as we have been in the nineteenth and twentieth centuries.

For 205 years, the Congress of the United States has sustained the Library of Congress in its efforts to acquire, preserve, and make accessible the mint record of American creativity and the world's largest collection of human knowledge. We share this knowledge with the Congress, principally through the Congressional Research Service and the Law Library, and we protect the artistic and literary legacies of our citizens through our Copyright Office. We also serve your constituencies through our National Library for the Blind and Physically Handicapped, through our cataloging and other services to your local libraries and by offering rich educational content to your teachers and students through our acclaimed Internet site.

THE LIBRARY TODAY

The Library of Congress contains more than 130 million items in more than 470 languages and in virtually every media. Every workday the Library adds more than 10,000 new items to its collections and provides numerous specialized services. In fiscal year 2004, the Congressional Research Service performed exclusive public policy research and analysis for Congressional Members and Committees, covering more than 200 active legislative issues, preparing and updating nearly 1,000 reports and delivering nearly 900,000 responses to inquiries. Of particular note in fiscal year 2004, CRS experts responded with immediate support on matters that suddenly were on the Congressional agenda, including a comprehensive interdisciplinary response to the 9/11 Commission Report that involved 70 written products; legal analysis related to the Abu Ghraib prison controversy; and an assessment of implementation issues of the new Medicare prescription drug benefits. The Copyright Office administered the U.S. copyright laws and acquired copyrighted works for the collections of the Library while registering more than 661,000 copyright claims in the past year. The Books for the Blind and Physically Handicapped program circulated more than 23 million books and magazines free of charge, to the blind and disabled. The Library assisted the nation's local libraries by cataloging more than 300,000 books and serials, and providing the bibliographic records to libraries everywhere. Finally, the Library provided free internet access to more than 75 million records and recorded more than 3.3 billion hits on its website in fiscal year 2004.

ACCOMPLISHMENTS

Throughout fiscal year 2004 and into fiscal year 2005, the Library continued to reach important milestones. We moved forward with our massive film preservation facility in Culpeper, Virginia, slated to open in the Fall of 2006. Phase 1 of the project will be completed this year, allowing the initial transfer of the Motion Picture, Broadcasting, and Recorded Sound Division collections to Culpeper in August. Years of planning for off-site storage of other collections at Fort Meade, Maryland came to fruition when Module 1 opened in November 2002. This facility represented the start of the Library's program to use custom-built offsite facilities to relieve overcrowding on Capitol Hill, and to ensure an excellent preservation environment. During fiscal year 2004, 567,000 items were transferred to the facility, bringing the total number of items transferred to Module 1 to 1.2 million. This module is now completely full. Completion and commission of Module 2 is scheduled for Spring 2005.

Under the mandate of the Congress's 2000 National Digital Information Infrastructure and Preservation (NDIIPP) Act, we continue to build a strong nationwide network of partners. We awarded nearly \$14 million to eight partner institutions who agreed to provide matching funds and to help collect and preserve a diverse

range of important, at-risk digital material that could prove useful to current and future generations of researchers, scholars and lifelong learners. NDIIPP also partnered with the National Science Foundation to establish the first digital archiving grants program that will fund cutting-edge research to support the long-term management of digital information.

In fiscal year 2004, the Library added approximately 2.6 million new items to its collections through all sources of acquisitions, including purchase, exchange, gift, federal transfer, and copyright deposit. Through the Federal Library and Information Network (FEDLINK), which makes available an array of print serials, books, electronic publications and preservation services, the Library contracted with more than 100 major vendors to provide services to approximately 1,200 Federal offices participating in the program saving the offices an estimated \$8.9 million in cost avoidance benefits and more than \$11 million in vendor volume discounts.

The Copyright Office exceeded its 90-day target for processing of claims. The Office now processes claims on an average of 80 days; this is a 60 percent improvement since 2001. The Copyright Office also cut average recordation processing time in half, reaching 33 days at the end of 2004, an 85 percent improvement since 2001.

The Library organized and sponsored, with the funds raised from the private sector, the third National Book Festival with 85,000 attendees—the most ambitious National Book Festival to date. Through other fund raising activities this past year, the Library received a total of \$11 million, representing 828 gifts from 713 donors. The Library awarded the first John W. Kluge Prize for Lifetime Achievement in the Human Sciences in fiscal year 2004. The \$1 million prize—made possible by an endowment established by the Madison Council Chairman John W. Kluge—is given for lifetime achievement in the humanities and social sciences, areas of scholarship for which there are no Nobel Prizes. Finally, for the ninth consecutive year, the Library received an unqualified “clean” opinion on its fiscal year 2004 consolidated financial statements.

BUILDING A 21ST CENTURY LIBRARY

Shifting media formats, the greatly increased flood of important material available only in perishable digital form, and increasingly complex data rights issues—have combined to create immense new challenges for the Library. At no other time has the emergence of technology so directly affected how the Library acquires, catalogs, preserves, serves and secures its vast collections and holdings.

In order for the Library to continue fulfilling its historic mission, we must embrace the rapidly unfolding technology revolution, build and maintain an internal infrastructure and recruit, educate, and train a new staff of knowledge navigators able to sort out, prioritize, and help mediate to Congress and the Nation what is worth saving from the increasingly unfiltered information online.

LIBRARY'S FISCAL YEAR 2006 PLAN

In preparing the fiscal year 2006 budget, the Library considered the areas that will be most changed by the transition from a largely print-on-paper collections to a hybrid collection that incorporates great numbers of digital materials. As we shape the Library of the future, we recognize the need to concentrate on three areas: technology, acquisition, and preservation. Specifically:

Technology

Develop an infrastructure to support the digital library.

Build a stronger connection between the Library and the wider library community to create a national digital library to make widely useful material locally available through the Internet, even if not always physically housed at the Library of Congress.

Redefine the Library's leadership role in describing and organizing information—adjusting cataloging methods and setting standards for the digital environment.

Preservation

Preserve at-risk “born digital” materials and work in partnership with educational and corporate partners to keep such materials available for subsequent generations.

Acquisition

Reconceptualize our special collections development policies to include the creations of writers, artists, cartographers, photographers, and musicians that are available only online (or born digital).

FISCAL YEAR 2006 BUDGET REQUEST

Our fiscal year 2006 budget represents in many ways, a transition to closure on several multi-year projects that are essential for building a 21st century library.

The Library is requesting a total budget of \$628 million for fiscal year 2006. This includes \$591 million in net appropriations and \$37 million in authority to use receipts, a net increase of \$43 million or 7 percent above the fiscal year 2005 level. This total includes \$24.3 million for mandatory pay and price level increases needed to maintain current services and to prevent a reduction in staff, which would severely impact the Library's ability to manage its diverse and complex programs.

The requested funding will support 4,365 full-time equivalent (FTEs), a net increase of 74 FTEs above the fiscal year 2005 level of 4,291, but still 355 FTEs short of the fiscal year 1992 total—despite the fact that we are doing far more work now than in fiscal year 1992.

UNFUNDED MANDATES

A total of \$2.5 million and 3 FTEs is requested for two new and unfunded mandates: \$1.2 million for the Administration's Department of State Capital Security Cost Sharing program, and \$1.3 million and 3 FTEs for the new Copyright Royalty Judges Program.

Two years ago, the Department of State launched a 14-year program to finance the construction of approximately 150 embassy compounds. The Library was assessed \$2.4 million for fiscal year 2006 based on the number of staff we have in overseas acquisition field offices attached to an embassy. The Library has argued for a reduction in the assessment, based on the services provided to the Library by the Department of State in diplomatic facilities, but the matter has not been resolved. We hope the amount requested by the Department of State will be less, but until a decision is reached, the Library must request full funding. It is essential that we not risk losing our overseas offices, which collect vast amounts of important and otherwise unavailable material for many of the world's trouble spots.

The Copyright Royalty Distribution Reform Act of 2004 (Public Law 108-419), signed into law on November 30, 2004, created a new program in the Library to replace most of the current statutory responsibilities of the Copyright Arbitration Royalty Panels (CARP) program. The new Copyright Royalty Judges (CRJ) program will determine distributions of royalties that are disputed and will set or adjust royalty rates, terms and conditions, except satellite carriers' compulsory licenses. The Satellite Home Viewer Extension and Reauthorization Act, signed into law on December 8, 2004, extends satellite compulsory licenses and requires CARPs, rather than CRJs, to set new rates for satellite retransmission. The CARPs will be funded by participants in the proceedings and/or by royalties. Unlike CARP, the new Copyright Royalty Judges program will be funded by new permanent net appropriations and nominal filing fees. Funding supports the salaries and related expenses of the three royalty judges and three administrative staff required by law to support this program.

MAJOR PROJECTS

The Library is requesting \$7.284 million and 45 FTEs for projects that are either in the last year of development or on a time-sensitive schedule that must be maintained if the entire project is to be successful. The projects support preservation, electronic delivery of services, acquisitions and access functions. The first of these projects is the National Audio-Visual Conservation Center (NAVCC) in Culpeper, Virginia.

A gift of \$120 million from the Packard Humanities Institute (PHI) three years ago launched the National AudioVisual Conservation Center, an unparalleled conservation facility for the special formats that are uniquely held by the Library of Congress. The construction project at Culpeper, Virginia is proceeding well, and the collections from five disparate storage collections will be moved to Culpeper during the summer, 2005. The staff will be relocated to Culpeper in 2006.

During fiscal year 2006, the Library's ability to procure, deliver and install NAVCC furnishings, equipment and infrastructure must again be carefully managed in concert with PHI's schedule for finishing, testing and commissioning Phase 2 of the facility, slated for completion and move-in by April 2006. For this reason, no-year authority is again required to accommodate unforeseen fluctuations in the construction schedule. The Library is requesting a net decrease of \$3 million and an increase of 23 new FTEs in fiscal year 2006. This request follows the original five-year plan submitted for Culpeper. Funding supports several components for which timing and funding flexibility will be especially desirable, including the bulk

of the staff relocations, the completion of collections relocations (including nitrate film), and completing the design, procurement and integration of the complex digital preservation systems with the NAVCC's audio-visual laboratories. Of the total amount requested for fiscal year 2006, approximately \$11 million reflects one-time costs. After the staff and collections have been relocated, the Culpeper budget will only require funding for ongoing operations.

Fiscal year 2006 is the final year of the Copyright Office's reengineering initiative that requires new funding. The reengineering program is an extensive multi-year effort to redesign the Office's business processes, including the development of a new information technology infrastructure, new work flows, new job roles, and new facilities design. The new environment will support electronic delivery of copyright services, including electronic submissions of copyright registrations and receipt of digital deposits. During fiscal year 2006, the Copyright Office will relocate staff to a temporary off-site leased space, reconfigure its main facilities, and install new furniture and equipment. Final implementation is scheduled the first half of fiscal year 2007, after relocation of the staff to the reconfigured space in the Madison Building. A total of \$4 million in one-time funding is requested in the Copyright Office's budget to fund the temporary offsite relocation of the staff. Completion of the reengineering initiative is contingent upon the Architect of the Capitol's budget request of \$5.5 million to pay for construction costs to reconfigure existing Madison Building space. These requests will permit the Copyright Office to move forward on the facilities work so critical to the final implementation of the reengineering project.

The Library is requesting a total of \$2 million for the GENPAC program and \$1 million for CRS to recover lost purchasing power of critically needed research materials. This funding will support the purchase of serial subscriptions and/or electronic resources—ensuring that the CRS analysts and other Library staff have access to the highly specialized research materials and data needed to support the work of the Congress and other Library customers.

The boundaries of the world become ever smaller as information production increases across the globe. There are great opportunities to acquire new materials from parts of the world we had little knowledge of up until now. The Library collects little known and hard-to-find materials because it is in the national interest to have the resources that document other cultures and nations. We are interested in acquiring the emerging electronic publications from all parts of the world, including the Web sites for advocacy as well as education. In selecting the most important electronic resources, the Library places special emphasis on those databases and scholarly journals containing information to support the work of Congress in the development of public policy.

Preservation is a unique responsibility of the Library of Congress—a library that all other libraries expect to keep materials in perpetuity. The Library requests \$3.375 million and the retention of 22 NTE FTEs to continue the preservation efforts required to place 4.5 million items (most of them audio-visual materials or special collections) in proper storage containers and through proper transshipment to Fort Meade, Culpeper, or other off-site repositories.

Other projects are critical to the Library's acquisition and preservation programs. Specifically, funding of \$52 million is requested by the Architect of the Capitol (AOC) to support essential and long deferred projects specifically requested by the Library. This total includes \$41 million for construction of Book Modules 3 and 4 at Fort Meade. These modules are already designed and will provide critically needed collections processing and storage space and cold vaults for unique and growing special format collections. This program is critical to providing relief to collections storage and resulting safety problems in the Library's Capitol Hill buildings. Of the remaining \$11 million requested, \$5.5 million supports the Copyright Re-engineering construction project and \$5.5 million supports minor construction, design, and/or the operation and maintenance of the Library's Capitol Hill, Fort Meade, and Culpeper buildings.

MAJOR LIBRARY-WIDE PROJECTS

In addition to these major projects, the Library is requesting \$5.5 million and 7 FTEs for several Library-wide infrastructure projects that support all organizational entities within the Library and are key to performing the Library's mission efficiently and effectively. The first is in the all-important area of Information Technology (IT), where the Library is requesting a total of \$3.3 million and 5 FTEs, needed to keep pace with rapid technological changes. Included in this total is \$571,000 and 5 FTEs for the ITS Systems Engineering Group (SEG) to support a workload that has grown dramatically in recent years. The current staff of SEG op-

erates with single individuals shouldering responsibilities without backup. This situation presents a high-level risk and places the Library in a serious and highly vulnerable position. The Library must mitigate this risk and protect itself against the potential loss of knowledge and breakdown of services in the event of illness or other unforeseen circumstances. The total also includes \$1 million to support the increased costs associated with the IT service provider contract. Our IT staff is struggling with the vast increase in the Library's digital services and will have to either curtail services or decrease equipment purchases if funding is not provided. Finally, the total includes \$720,000 for contract support for the certification and accreditation of the Library's IT systems as required by the Federal Information Security Management Act of 2002 and \$1 million to implement the next phase of the Library's new financial management information system.

The Library is requesting a total of \$1.4 million and 2 FTEs to support space management of all the Library's buildings—the Madison Building alone is one of the largest in the Washington, DC area, with over 2 million square feet of space. With more shifts outside Capitol Hill to Fort Meade and Culpeper and resulting shifts on Capitol Hill as space utilization is redefined, the Library must have the ability to remap and maximize critical space needed for staff, collections and business operations and in a timely manner to ensure continuity of operations. The requested funding supports two additional in-house staff and the use of contracted staff support to supplement in-house resources with a full range of professional services, including project management, interior design, safety, engineering, construction administration and custodial support. Without the requested funding, valuable space will go unused or be used inefficiently, impacting the acquisition and preservation of the Library's collections, safety of its employees, and the operation of its programs.

For those working on Capitol Hill, the value of emergency preparedness cannot be overstated. The Library is requesting \$746,000 to implement its Continuity of Operations and Shelter-in-Place plans, and to purchase medical supplies in the event of a large scale emergency that may affect Library personnel and visitors. We continue to work with our Capitol Hill counterparts to coordinate emergency planning efforts.

SUSTAINING STAFF CAPACITY

Closely related to the mandatory and price level increases, the Library needs two critical payroll adjustments to maintain payroll purchasing power to sustain staff capacity. CRS is requesting a one-time permanent base adjustment of \$2.9 million to align its funding with the current staffing mix, level, and benefits costs to achieve a total capacity of 729 FTEs. This request will enable CRS to continue to fulfill effectively its mission by rebuilding and sustaining a level of research capacity that meets the changing needs of the Congress—needs which are increasingly more demanding and highly complex. CRS has proven to be a solid, long-term investment for the Congress with a high return on the investment through its shared pool of highly skilled experts who serve “around-the-clock” as the research arm of the Congress by assisting every Member and Committee of Congress in every phase of the legislative process.

Because of the fiscal year 2005 rescission, the Library reduced pay in all offices by a total of \$3 million. The Library is requesting restoration of the \$3 million in fiscal year 2006 to maintain its future payroll purchasing power needed to sustain staff capacity. Over time, the Library will be forced to reduce staff in all offices, in spite of growing workloads and new challenges and responsibilities if the payroll budget is not restored.

OTHER PROJECTS

The Library is requesting \$8 million and 52 FTEs for five other initiatives. Included in this amount is \$493,000 and 7 FTEs to support the new Chinese acquisition strategy in which Chinese scholars identify unique materials to add to the Library's collections. The total also includes \$445,000 to begin reclassifying one-third of the Law Library's legal collections from the obsolete “Law” shelving arrangements to the Library of Congress Class K international standard, to ensure retrievability of invaluable and unique legal materials.

Of the \$8 million total, \$1.6 million in one-time funding is requested to procure and implement a comprehensive, new, web-based classification and staffing system that will track all human resources functions. Replacement of the current system is needed to add new functionalities and to allow the integration with the Library's emerging Human Resources Information System. Also included in the total is \$1.5 million in no-year funding to continue the renovation and refurbishment work in the

Thomas Jefferson and John Adams buildings. Maximizing available space on Capitol Hill is a priority for the Library and the restoration projects will provide much needed space for staff and programs. Finally, the total includes \$4 million and 45 FTEs to continue addressing the police staffing shortfall of approximately 77 FTEs.

PROPOSED CHANGES TO LEGISLATIVE LANGUAGE

The Library has proposed language under the National Digital Information Infrastructure and Preservation Program (NDIIPP) Section, to set aside \$25 million of the \$75 million provided under the fiscal year 2001 appropriations act, and exempt the set-aside from the dollar-to-dollar match requirement. The set-aside is to provide competitive grant funding for state governmental entities, who meet NDIIPP preservation partnership network building and digital content preservation grant guidelines, to preserve significant, at-risk, and born digital state and local government information.

The Library has also proposed new appropriation language to address the new Copyright Royalty Judges program, authorized by the Copyright Royalty and Distribution Reform Act of 2004.

The fiscal year 2005 administrative provision that limits the Library's assessment for embassy construction (to an amount equal to or less than the unreimbursed value of the services provided to the Library on State Department diplomatic facilities) is also maintained in fiscal year 2006.

CONCLUSION

The Library must continue to sustain and perform its traditional core mission for the Congress, the Nation, and the world of acquiring, preserving and making accessible its knowledge. At the same time, we must develop new ways to perform this historic mission in light of the plethora of digital information that must be harvested and cataloged. The fiscal year 2006 budget request will enable the Library to complete crucial projects of modernization, while laying the foundation for our future.

I thank the Committee for its continued support of the Library's programs, projects, and people. Together, we can accomplish much today and more tomorrow.

PREAPRED STATEMENT OF JAMES H. BILLINGTON

OPEN WORLD LEADERSHIP CENTER

Chairman Allard, Senator Durbin, and Members of the Subcommittee: The United States Congress initiated the Open World Russian Leadership Program as a pilot exchange program at the Library of Congress in 1999 (Public Law 106-31). Congress in December 2000 established an independent Legislative Branch entity, the Open World Leadership Center, to conduct the Open World Program. The Center is governed by a Board of Trustees.

The Open World Program was crafted in 1999 to bring emerging federal and local Russian political and civic leaders to the United States to meet their American counterparts and gain firsthand knowledge of American civil society. Program participants experience American political and community life and see democracy in action, from the workings of the U.S. Congress to debates in local city councils.

A Government Accountability Office (GAO) report¹ on the Open World Program concluded that "Open World has exposed a large, broad, and diverse group of Russians to U.S. economic and political systems" and stated that many of the alumni interviewed for the report said they have "taken concrete actions to adapt what they learned from their U.S. visits to the Russian environment." GAO analysis indicates that Open World has achieved a remarkably high degree of proportional geographic representation, and that U.S. ambassadors and embassy officials consider Open World "a valuable tool to complement U.S. mission activities and outreach efforts" in Russia in part because of its unique place in the Legislative Branch.

Since July 1999, Open World has brought 8,900 current and future decision makers from all 89 regions of the Russian Federation to more than 1,300 communities in all 50 states. In 2003, as testament to the success of the Open World model, Congress expanded Open World to include cultural leaders in Russia and political leaders in the 11 remaining Freedom Support Act countries and the Baltic republics (Public Law 108-7). The Open World Leadership Center Board of Trustees in 2003

¹ General Accounting Office, *International Exchange Programs, Open World Achieves Broad Participation; Enhanced Planning and Accountability Could Strengthen Program*, GAO-04-436, Washington, D.C., March 2004.

approved pilot programs in Ukraine, Uzbekistan, and Lithuania and also approved a new cultural leaders program for Russia. From countries other than Russia, 370 young leaders have experienced the practice of American democracy and community life through Open World in the past two years. The Board has expressed concern that program expansion not jeopardize the strength of the Center's original and continuing commitment to the Russian Federation.

In December 2004, Public Law 108-447 expanded Open World program eligibility to any other country that is designated by the Board of Trustees, provided that the Board notify the House and Senate Appropriations Committees of such a designation at least 90 days before it is to take effect. Over the life of the program, Congress has signaled its intention for Open World to function flexibly and strategically for U.S. interests around the globe. With key Members of Congress on its board, Open World has supported parliamentary relationships led by the Speaker of the House and Senate Majority Leader and remains a flexible and important tool for public diplomacy within the Legislative Branch.

BOARD OF TRUSTEES

As Chairman of the Board of Trustees, I am honored to serve on the Board with several of your distinguished colleagues, as well as regional experts and private citizens. The Congressionally appointed members are Senate Majority Leader Bill Frist (TN), Senator Carl Levin (MI), and Representative Robert E. (Bud) Cramer (AL). Senator Ted Stevens (AK) is honorary chairman. Former Ambassador to Russia James F. Collins and Walter J. Scott, Jr., Chairman of Level 3 Communications, are the current citizen members. We are awaiting an appointment by the Speaker of the House to replace the seat held by retired House member Amo Houghton.

Since its inception in 1999 in the Legislative Branch, the Open World Program has gained from the active interest and direction of this Committee. In accordance with a recommendation made by our Board of Trustees last year, Congress has added the Chair of this Committee and the Chair of the Senate Subcommittee on Legislative Branch to the Board. Your membership on the Board will greatly enhance our ability to provide effective direction for the future of the Open World Leadership Center.

FISCAL YEAR 2006 BUDGET REQUEST

The Center's fiscal year 2006 request of \$14 million (Appendix A) will allow Open World to continue to operate the core Russian programs, including work with alumni and cultural leaders, and to continue funding for expansion programs in selected countries. The requested 4.5 percent increase above fiscal year 2005 funding represents unavoidable price increases and the weakened purchasing power of the dollar abroad.

PROGRAM OBJECTIVES

Open World was created by the Congress both to make a contribution to democratic developments in Russia and to combat negative and manipulated images of America fostered by long years of isolation from the West under Soviet power. Through Open World, emerging leaders in previously authoritarian countries experience short but intensive immersion in the reality of civil society and the rule of law in the United States. George F. Kennan summarized what an effective public-diplomacy effort like Open World is about when he suggested that our system is most persuasive not when we talk about it, but "when we show other people what can be done in a democracy, and nothing is more useful than that."

Open World was created to allow participation by non-English speakers, and, as a result, the program has successfully engaged a very broad sector of young political leadership in each participating country. Programs are matched carefully to participants' professional interests and responsibilities, and almost all include the following elements:

- Meeting U.S. government, business, and community leaders at the federal, regional and local levels;
- Understanding the separation of powers, checks and balances, freedom of the press, and the transparency and accountability of democratic government;
- Experiencing a free market economy;
- Learning how U.S. citizens organize voluntary and nongovernmental initiatives to address social and civic needs;
- Building a continuing relationship with the U.S. hosts;
- Sharing approaches to common challenges;
- Participating in American family and community activities.

STRATEGIC GOALS

As the Open World Program has matured from its six-month Russian pilot in 1999 to its current scale in four countries, the Board and staff have been guided by strategic goals that shape the annual budget submission and our year-round operations.

Goal I: Improving U.S.-Open World program-country relations and mutual understanding.

The Open World Program is located in the Legislative Branch, housed in and administratively supported by the Library of Congress, but its work abroad is shaped and implemented in cooperation with the embassies in each Open World country. All elements of the program—its focus, candidate nomination and selection, parliamentary delegations—are closely coordinated with the U.S. Embassy and such organizations as the Helsinki Commission.

Goal II: Provide the highest caliber program within the United States so that Open World participants return with a good understanding of America's democracy, market economy, and civil society.

Open World has improved the quality of its programs by continuous monitoring of programs, site visits, post-visit evaluations, and annual participant surveys. There is an annual review and evaluations of all program elements. The program has increasingly focused on a few key themes central to building democracy and the rule of law.

Goal III: To extend the catalytic effect of a 10-day U.S. stay by fostering continued, post-visit communication among Open World participants, with alumni of other USG-sponsored exchange programs, and with their American hosts and counterparts.

Open World's multilingual website maintains communication among participants, American hosts, and other interested parties. The visit to the United States is just the beginning of a Russian delegate's association with the Open World Program. Open World encourages continued contact with U.S. hosts and among participants themselves. In 2004, Russian alumni participated in more than 250 workshops, interregional conferences, meetings, and professional seminars. An alumni bulletin and web forums are available to all 8,900 Russian participants.

Many of Russia's larger cities now also boast Open World alumni associations and clubs organized by the alumni themselves—supporting special projects, such as support for orphanages or environmental efforts and career development seminars. Alumni-led activities in 2004 included a youth health fair in Tver and a seminar for Novgorod educators on how to encourage volunteerism among high school students.

STRATEGIC DECISIONS

Russian Federation

The Chairman of the Senate Foreign Relations Committee, Senator Richard G. Lugar, at a recent hearing on "Democracy in Retreat in Russia" said, "The states of the former Soviet Union present a special challenge to the advancement of democracy . . . The biggest concern in the region for democracy advocates is . . . Russia. Despite elections and the experience of post-Soviet personal freedoms . . . the fate of democracy in Russia is perhaps more ambiguous now than at any time since the collapse of the Communist system." Noting the decline in State Department funding for democracy programs, Senator Lugar commented: "With so much at stake in Russia, this is not the time to diminish our funding in this area."

Despite the authoritarian direction of much recent Russian policy, Russia remains a key ally for the United States in antiterrorism and nonproliferation efforts. Open World's 8,900 alumni in all 89 regions are a strategic asset in the continuing struggle to secure a constitutional democracy in Russia. Assessments of Russia's current political state by the International Republican Institute (IRI) point to the dichotomy of suppression of democratic voices at the national level, but "re-invigoration at the regional level." [Testimony of Stephen B. Nix, Director, Eurasia Programs, IRI; appearance before the Senate Foreign Relations Committee; February 17, 2005.] Open World's base of participation in Russia spans the entire country and is not concentrated in Moscow at the federal level.

Expansion Beyond Russia

Meanwhile, Open World offers a unique and effective tool for Congress to respond to new realities and opportunities around the globe. The Open World Board's decision in 2003 to invest in a Ukraine pilot has yielded a broad-based program in operation before the Orange Revolution that brought the first delegations to the United

States in the wake of the 2004 presidential elections. A pilot program in Lithuania focused on building regional government expertise and pointed the way toward important regional activity that Open World might undertake in Kaliningrad and Belarus. Similarly, Open World's prior experience in the largely Islamic regions of Russia helped shape a successful investment in Uzbekistan. Despite continuing and legitimate concerns about the repressive central government, Uzbekistan remains strategically important to the United States, and Open World delegates have returned to strengthen independent media and economic development and lead efforts to combat trafficking in the region.

With a Congressional authorization to operate in any country in the world, Open World represents an asset that deserves continued investment to allow its continued development as an important tool of American public diplomacy, particularly in regions of the world that are not the principal focus of State Department efforts.

WHAT THE INVESTMENT HAS YIELDED

Russia

Russia Civic and Cultural Program

The Open World Russia Program completed its fifth year in 2004. Open World's core exchange program—with the Russian Federation—brought 1,567 young leaders in calendar year 2004, with wide regional representation (87 of the 89 Russian regions), diverse hosting experiences throughout the United States (44 states), a high percentage of women delegates (58 percent), and multiethnic representation. The selected themes for 2004—economic and social development, environment, health, rule of law, women as leaders, and youth issues—focus on key areas essential to democracy-building. The focus on rule of law, especially in the context of current evaluations of Russia's commitment to an independent judiciary and a constitutional democracy, deserves special mention.

In 2004, Open World emphasized programs on the elections process and media coverage of the presidential and local elections process. Participants in all themes who traveled during the months leading up to the election came away with unique election-year experiences of watching the debates with their host families, seeing signs for presidential and local government candidates posted in front lawns, and observing volunteers of all ages as they supported their candidates at campaign headquarters.

Eight delegations received an insider's view into Election Day in the United States. Three Russian delegations consisting of government officials and aides visited Baltimore, Maryland; Moorhead, Minnesota; and Saratoga Springs, New York. The delegations observed the activities of polling stations in their host communities, visited voter advocacy organizations, and witnessed firsthand the reactions of individual citizens as they watched television coverage of the voting results. Five delegations of print and television media professionals visited Atlanta, Georgia; Louisville, Kentucky; Portland, Oregon; Reno, Nevada; and Rochester, New York. These groups visited local news outlets to discuss and watch election coverage, interviewed election workers and voters, and even wrote on-the-spot news articles to be published in Russia.

Additional examples of Open World's impact in Russia and elsewhere in our participants' own words are found in Appendix B.

Open World in Colorado

As I speak to you today, four women leaders from Russia—a businesswoman, a president of a regional NGO, an education administrator, and a legislative staff assistant—are visiting Longmont, Colorado to examine women's leadership roles. Highlights of the delegation's agenda include a meeting with an NGO director; a discussion with senior women bankers on banking relationships with women-owned businesses; talks with Colorado senators and representatives about elections, government and the role of women in politics; and a panel discussion with a district attorney and chief district judge. Their visit is being conducted by the Longmont Rotary Club, a five-time Open World host organization that has helped make it possible for Colorado to welcome 200 other Open World participants.

Rule of Law Program

Open World's specialized rule of law program is the largest U.S.-Russia judicial exchange. Working in close cooperation with federal judges associated with the International Judicial Relations Committee of the Administrative Office of the U.S. Courts, and with a network of state judges, Open World sponsors intensive, 10-day U.S. professional visits for Russian judges, judicial branch officials, prosecutors, defense attorneys, legal educators, and court staff. Since its inception in 2001, the pro-

gram has enabled prominent jurists from all over Russia to observe and participate in the U.S. judicial system and to form lasting working relationships with their American judicial hosts and counterparts.

Just last month, Justice Anthony M. Kennedy hosted a high-level Open World delegation at the U.S. Supreme Court for two days of intensive working sessions on U.S.-Russian judicial cooperation and the status of judicial reform in Russia. Our distinguished delegates were Russian Supreme Court Chief Justice Vyacheslav M. Lebedev, Justice Yuriy I. Sidorenko, who chairs Russia's Council of Judges, and a top regional judge. Chief Justice William H. Rehnquist and Justices John Paul Stevens, Sandra Day O'Connor, Antonin Scalia, Ruth Bader Ginsburg, David Hackett Souter, and Stephen G. Breyer all participated in the Russians' Supreme Court visit, as did U.S. District Judge Michael M. Mihm of Peoria, Illinois, and other prominent U.S. judges. Not only did the Russians discuss jury trials, judicial independence, and the rule of law with the highest judges in the land, they also saw the U.S. judicial system in action by observing oral argument at the Supreme Court and attending proceedings at the federal courthouse in Alexandria, Virginia.

As the Lebedev delegation visit illustrates, the Open World specialized rule of law program contributes to Russia's progress toward judicial reform by demonstrating the concepts and practices that underpin the United States' strong, independent judiciary. By observing and discussing the workings of the U.S. legal system with their American counterparts, participants have developed a better understanding of some of the new procedures that they are being required to adopt by Russia's judicial reform legislation, and they have demonstrated great enthusiasm for implementing many U.S. practices that are relevant to their own situations. Another important program outcome is the establishment and strengthening of a number of sister relationships between the courts of our U.S. host judges and those of their Open World participants. And American host judges have made return trips to Russia to participate in follow-up alumni work on the all-important issue of ethics.

In 2004, 258 participants (43 delegations) visited 30 communities in 25 states and the District of Columbia on the specialized rule of law program. A total of 31 federal and state judges hosted for Open World in 2004. An illustrative example of Open World's work in this important area:

Cultural Leaders Program

The late Academician Dmitri Sergeevich Likhachev was co-chairman of the original Russia-focused Open World Program in 1999. Likhachev was a lifelong advocate of the need for Russia to learn about and have contact with Western culture. The expansion of Open World to Russian cultural leaders is based on this principle.

In 2004, 44 young folklorists, writers, and jazz musicians participated in Open World exchanges designed to foster an understanding of American culture and how it is sustained. The goal is to forge better understanding between the United States and Russia by enabling Russian cultural leaders to experience American cultural and community life, and to share their talents with American artists and audiences. Performances and readings are an essential component of the visit.

The jazz musicians, creative writers, managers of folk arts institutions, and arts administrators who took part in the 2004 program were hosted by prominent arts organizations and educational institutions in five states. Each host community selected by Open World boasts rich cultural institutions and is the center of a flourishing arts scene.

The cultural leaders program has continued in 2005. Currently, the University of Mississippi is hosting four young Russian authors who specialize in poetry, fiction writing, literary criticism, and translation. The delegation participated in the twelfth annual Oxford Conference for the Book, and is taking part in translation workshops with students and faculty in the Ole Miss creative writing program and panel discussions on Russian and American culture. The National Endowment for the Arts provided financial support for this hosting.

Pilot Programs

Ukraine

Ukraine was selected for an Open World pilot program in 2003 because of its strategic position in Eurasia, its large and educated population, its mounting difficulties in democracy-building, and its important potential contribution to regional stability.

Elections formed a central focus for the Open World Program's 2004 Ukrainian exchange, which took place in August, when both the American and Ukrainian presidential campaigns were in full swing. The 50 Ukrainian participants came from 19 of the country's 27 regions and represented a wide range of political views. Two delegations of Ukrainian party activists, NGO election monitors, and campaign experts participated in the "electoral processes" theme, and three delegations of print and

broadcast journalists took part in the “independent media” theme, which included a concentration on political and election coverage. The five Ukrainian delegations that visited under the NGO development theme also had opportunities to learn about campaign practices and citizen engagement in politics in the United States.

In March, Open World held the first major post-Orange Revolution exchange in the United States, hosting 45 Ukrainian judges, journalists, elections experts, NGO leaders, and researchers. Their U.S. community visits, which had been rescheduled from December 2004 (when the presidential election was still unresolved by the courts), focused on the rule of law, elections, and the role of an independent media.

This exchange was very much a two-way learning process, as everyone the Ukrainians met with was interested to hear about the Orange Revolution and the current political climate. The Ukrainian delegates were here to strengthen ties to the United States and their own professional understanding of their role in a democracy. On arriving in Washington, delegates had frank and future-oriented discussions with Representative Marcy Kaptur of the Congressional Ukrainian Caucus, Supreme Court Justice David Souter, and two former U.S. ambassadors to Ukraine.

Ukraine Program in Ohio

The March exchange marked the debut of Open World’s rule of law theme for the Ukraine program, and our highest-ranking judicial delegation was hosted in Columbus, Ohio, by state Supreme Court Chief Justice Thomas J. Moyer and Judge Robert Cupp of the Ohio Third District Court of Appeals. The visit began with a Ukrainian bread-and-salt welcoming ceremony at the Ohio Judicial Center and concluded with a live television broadcast of a symposium on Ukrainian democracy with the Ukrainians and Chief Justice Moyer. In between, the delegation—which included a Ukrainian Supreme Court justice—observed court proceedings, including a jury trial; took part in roundtables with Ohio judges; and met with Governor Bob Taft. Rule of law delegations simultaneously visiting Georgia, Minnesota, New York, and Pennsylvania had similar experiences.

Lithuania

Lithuania was selected for an Open World pilot because of its prospects for building a successful market economy and democracy and because of Congressional interest in including a Baltic country. Lithuania’s independent parliament (Seimas) and historical ties with the United States made a legislative-based program very welcome.

Open World launched its Lithuania pilot program in 2004, bringing mayors, journalists, business and NGO leaders, environmental experts, and youth activists from nine of the country’s 10 administrative districts to the United States in February and September. Lithuanian Ambassador Vygaudas Usackas held receptions for both travel groups at his embassy during their Washington, D.C., orientations.

Open World’s newest program received high marks from the 100 Lithuanians who participated. Higher education, lobbying, business associations, health care, Social Security, and citizen participation in local government were rated among the most useful topics studied. In a representative comment, a delegate on a Fort Collins, Colorado, program on youth issues stated, “My best moments were when I realized that people in the United States work very hard in order to accomplish their goals, especially helping the youth. This motivates me to work harder in Lithuania.”

Chicago, Illinois, hosted several of our inaugural Lithuanian delegations in 2004, with significant participation by the large Lithuanian-American community there. Among the highlights of the Chicago visits were a Q-and-A session for Lithuanian journalists at the Chicago Tribune, a fundraising workshop for NGO leaders at the Donors Forum, and, for a Lithuanian business-development delegation, a nuts-and-bolts overview of how U.S. business incubators work at the Industrial Council of Nearwest Chicago.

Uzbekistan

Uzbekistan was chosen for an Open World pilot on the basis of its large population, its cultural and intellectual prominence among the new independent states of the former Soviet Union that are principally Islamic, and its strategic position in Central Asia. The Open World Board believed that furthering democracy and a market economy in Uzbekistan would promote stability in the entire region.

Open World hosted its second Uzbek exchange in October 2004. The 50-person group included senior representatives from Uzbekistan’s ministries of economics, finance, and public health; Central Bank officials; judges; prominent journalists; agricultural experts; women entrepreneurs; and health advocates. Delegates came from 10 of Uzbekistan’s 14 political subdivisions.

Open World has received numerous reports on how participants have used the knowledge they gained while in the United States. A business consultant running

for the Nukus City Council campaigned on themes inspired by her U.S. visit: creating favorable conditions for private business through legislation and defending the rights of female entrepreneurs. The head of the Agro-Industrial Stock Exchange in Tashkent reports that, as a result of his visit to the Kansas City Board of Trade, his exchange has now introduced electronic trading.

A doctor who practices in the populous Fergana Valley conducted a workshop on premature infant care for 45 of her colleagues to share the neonatal techniques she had seen at Tampa General Hospital. And a Tashkent newspaper reporter is publishing two long articles, "Two-Story America" and "The White Stele [Monument] of Washington," that describe in detail how his impressions of America and Americans changed for the better as a result of his Open World visit to Chattanooga, Tennessee, and Washington, D.C. He writes, "The one thing that really impressed me in the United States is the people. To tell the truth, having watched Hollywood films, I expected to see an undisciplined public where people did whatever they felt like. But already in Washington, I was sincerely surprised by the proper and polite Americans that I met. On the street, people were smiling . . . and no one looked at us with unfriendliness. At the end of my stay in the U.S. capital, I felt as though I were at home in Tashkent."

Future Directions

In 2004 the Senate requested that Open World study the feasibility of expansion to Pakistan and Afghanistan. The Open World model, with appropriate U.S. in-country support, has demonstrated its suitability in a variety of environments. The key question for the Open World Board, which includes the Chairman of this Subcommittee, as well as the Chairman of the House Appropriations Committee, is to decide the allocation of available resources among the countries in which Open World is authorized. Recent concerns have been raised by Members of Congress about Belarus, Moldova, and Georgia. Congressional interest in Russia, Ukraine, Uzbekistan and Lithuania have remained strong. Yet Open World's annual budget has been modest since its inception. In the current budget environment, significant expansion is unlikely; therefore, decisions will be influenced by available resources.

A regional approach, centered in Russia, the western NIS, and Central Asia, would allow Open World to respond flexibly to U.S. strategic interests but avoid the upfront investment devoted to setting up a new country-focused program. Open World might offer a cost-effective means of delivering current exchange programs in a number of countries. If Congress so approves, the Board could request that a new regionally aimed model be developed for fiscal year 2007. The fiscal year 2006 budget request is based on the current country-specific model. The staff evaluation of the feasibility of pilot programs in Afghanistan and Pakistan is included as Appendix C.

FISCAL YEAR 2006 BUDGET REQUEST

The Center's budget request for fiscal year 2006 reflects an increase of \$.612 million over fiscal year 2005, in order to continue the Center's proven mission of hosting young political and civic leaders from Russia and other countries of the region. The Board of Trustees believes that maintaining a robust Open World presence in Russia is necessary and important for future U.S.-Russia relations. Program capacity in fiscal year 2006 at the requested level remains far below the limitation of 3,000 set in the Center's authorizing legislation.

The budget request maintains hosting and other programmatic activities at a level of approximately 1,400 participants total (continuing a decrease in hosting levels begun in fiscal year 2003), based on airfare and other travel increases above the overall inflation rate, and projected higher foreign exchange rates. The Department of State Capital Security Cost Sharing charge for the Center's two Foreign National Staff is also included. Actual participant allocations for individual countries will be based on Board of Trustees recommendations and on consultations with the Committee.

Major categories of requested funding are:

- Personnel Compensation and Benefits (\$.883 mil/11 FTEs)
- Contracts (\$.435 mil)
 - Management of delegate nomination and vetting process
 - Visa and other document processing
 - Travel arrangements, including international and domestic air travel
 - Management and coordination with grantees on delegate host placement
 - Database maintenance and development
 - Information services
- Grants (\$4.354 mil) (U.S. host organizations)
 - Professional program development

- Food and (limited) lodging
- Cultural activities
- Local transportation
- Interpretation

The requested funding support is also needed for anticipated fiscal year 2006 pay increases. Overall administrative costs remain at a low 6 percent of the Center's annual expenditures.

OTHER PROGRAM CONTRIBUTIONS

Major financial support to the Open World Program is contributed by American citizens who host program participants in their homes and communities. Private American citizens freely provide cultural activities, community-wide activities, and housing for one week, which often reduces the program's per diem expenses—by a substantial amount when estimated over the life of the program. During 2004, Open World also received financial support from The Russell Family Foundation for support of environmentally focused programming and from TNK-BP for general support of Open World programming and alumni activity in Russia and Ukraine.

CONCLUSION

The fiscal year 2006 budget request will enable the Open World Leadership Center to continue to make major contributions to an understanding of democracy, civil society, and free enterprise in a region of vital importance to the Congress and the Nation.

I thank the Subcommittee for its continued support of the Open World Program.

APPENDIX A

OPEN WORLD LEADERSHIP CENTER BUDGET, FISCAL YEAR 2006

Description	Fiscal year 2006 estimated obligations
11.1 Personnel Compensation	\$702,000
12.1 Personnel Benefits	181,000
21.0 Travel	80,000
22.0 Transportation	3,000
23.0 Rent, Comm., Utilities	204,000
24.0 Printing	21,000
25.1 Other Services/Contracts	8,435,000
26.0 Supplies	4,000
31.0 Equipment	16,000
41.0 Grants	4,354,000
Total, fiscal year 2006 budget request	14,000,000

APPENDIX B

OPEN WORLD DELEGATE QUOTATIONS

Russia

“During my Open World visit to America I was struck by the well-functioning educational system, social programs, and the people themselves, full of life and purpose, wanting to help others. Our mayor Aleksandr Yermoshin and vice-mayor for legislative relations Yuriy Sukhoruchenkov have also had the opportunity to travel to the U.S. on Open World. I consider that all that we saw and experienced has definitely influenced our work in municipal development. Key to our social policy are current programs for children, improving their health (infant mortality has decreased between 2002 and 2004), finding placement for orphans, providing therapy to children in dysfunctional families and those with disabilities, creating employment and activities for youth, and working with gifted children.”

Yuriy Kostev
First Vice-Mayor of Aleksin, Tula Region
San Diego, CA

“While visiting the United States on the Open World Program I became aware of the genuinely constructive interaction that can exist between government bodies and the community. Upon my return home, I decided to take action. I told the peo-

ple of Voronezh how they can protect their right to adequate accommodations, and prevent unsuitable living conditions resulting from the inaction of local government. The 'Citizen Inspection' project was born, providing information (letters) from local authorities on budgetary information and deadlines for the refurbishment of houses and buildings in the community. I received many letters and telephone calls informing me about what really goes on in housing and communal services. This information led to the creation of the Citizen Inspection television program. A second project called 'My Rights' was also successful. This project provides information about property registration rights and opportunities. Our brochures describe the registration procedure, rates, and free services that the community can and must demand from the authorities."

Aleksandr Vladimirovich Sysoyev
Deputy, Voronezh City Duma
Milwaukee, WI

"A close working relationship exists between school and family in both Russia and the U.S. Parents and older classmates are actively recruited to work with children. Promoting a healthy lifestyle should begin with pre-schoolers."

Svetlana Safonova
Psychologist/Nakhodka City Department
of General Professional Education
Information and Curriculum
Development Center
Denver, CO

"I became enamored with American crisis centers in Chicago where all resources—counselors, medical help, lawyers, etc.—are available in one place, unlike in Russia (where a child has to relive the horror of domestic abuse several times at several different agencies)."

Sergey Vitalyevich Belashev
Head/Children's Department Rostov-on-
Don Psycho-Neurological Center
Chicago, IL

"It is clear that Americans rigorously defend their rights that are guaranteed by the Constitution. This also raised a sense of patriotism in us for our country and our Constitution. Order can be established through a set of laws in which all people are truly equal. This is one of the fundamental principles of civil society that we need to strive for. That is good enough reason to study the American example."

Alyuset Mezhmedinovich Azizkhanov
Freelance radio journalist and member of
the Russian Journalists Association
Durham, NC

"These organizations [U.S. NGOs] have just a few paid workers. The vast majority spends its own time and effort and work without pay. We asked: 'For what?' And they answered: 'I need this, my children need this, my country needs this.' For us, volunteer efforts are surprising, for them it is the norm. What also surprised us is the belief of ordinary Americans that much depends on them in their personal lives as in the life of the city, state, and nation."

Mariya Abramova
Public and International Relations
Specialist and Assistant to the Deputy
Governor of the Tomsk Region
Administration
Baltimore, MD

"America showed me our different attitudes in our relations between man and government and man and society. I learned from my host that she believes that her participation in the life of her country, community, and government matters and that the future of America depends on the actions of every American. This lesson allowed me to take a fresh look at my work for the past ten years. I first met the parents of Down's Syndrome children in the early 1990s. The government considered these children unteachable. Parents united to deal with the situation themselves. This resulted in a decorative arts workshop where some of the adults and teens with Downs Syndrome now work, in a group that prepares athletes for Special Olympics, and another group that works with severely mentally retarded children. So we discovered that those with Down Syndrome are teachable and employable and

that they should be taught and employed. I wanted to work with them, first as a volunteer and later as a professional art therapist. I now teach specialists how to teach the learning disabled. Never before was there such a demand for all my talents. Thank you, Fran Satina (OW host), I now know that I can change my country for the better.”

Marina Rodkevich
Moscow City Psychologist and Art
Director, “Same as You” organization
Akron, OH

“I was very impressed with the plans of Vicksburg, Tupelo, and Oxford, Mississippi. Although the population of Nizhniy Novgorod is more than one million people, much of the planning of these small towns could be applicable to Nizhniy Novgorod’s own development. Strategic community planning at the city level is a new trend in economic development in the Russian Federation. As a new trend, it seems likely that we can adapt American experiences with such planning and effectively apply these principles in the development of Russian cities.”

Galina Yuryevna Topnikova
Head/Social-Economic Development
Projection Section, Nizhniy Novgorod
City Administration, Economic
Development and Planning
Department
Oxford, MS

Ukraine

“I think it [his Open World visit] will expand all of my horizons, as well as everyone else’s. I also have ambitions at some time in the future to help draft legislation for my country. I think these experiences will help that as well.”

Judge Valentyn Paliy
Judge/Kyiv Commercial Court
Corvallis, OR

“We saw that Americans live in this democracy every day, but every day they create it. We realize more and more how difficult is the path ahead of us.”

Maryna Bohdanova
Deputy chief editor and columnist/Ria
weekly newspaper
Pittsburgh, PA

“The important thing about this program is that it will bring about change—change in the participants personally—and that it will serve as a stimulus for greater effort in Ukraine.”

Olena Morhun
Crises Prevention Program Coordinator/
Woman for Woman Center
Washington, DC

“I was impressed with the members of the group with which I worked over the past ten days because I realized their immense potential in Ukraine, thanks to the high level of their competence and experience. It is very important that we met in this group from Ukraine, and I expect that we will continue our work there together.”

Valentyna Kyrylova
Director/Osnovy Publishing House
Washington, DC

“Especially useful for me was to see democracy in action, exercising its influence on the government, and the role of society in the decision-making process of government.”

Lyudmyla Merlyan
Head/Gender Committee of the Civil
Parliament of Ukrainian Women
Washington, DC

Uzbekistan

“The one thing that really impressed me in the United States is the people. To tell the truth, having watched Hollywood films, I expected to see an undisciplined public where people did whatever they felt like. But already in Washington, I was sincerely surprised by the proper and polite Americans whom I met. On the street, people were smiling . . . and no one looked at us with unfriendliness. At the end of my stay in the U.S. capital, I felt as though I were at home in Tashkent.”

Viktor Krymzalov
Special Correspondent/Private Property
newspaper
Chattanooga, TN

“It wasn’t just a trip to America; it was a trip to the future, the future that I thought would never see in my lifetime or in my country. Owing to this opportunity, I now know what it is, and I will try to bring something from the future that I saw back home to Uzbekistan.”

Zhumanazar Melikulov
Deputy Editor-in-Chief/Fidokor
newspaper
Chattanooga, TN

“I have unforgettable impressions of the Open World Program. My understanding of America as a country and Americans has completely changed. Before my trip, I had a very vague insight of what it is. My comprehension now: it is a great country, which is as it is owing to its free, honest and direct people. I was impressed by a high motivation and energy of American entrepreneurs and especially by the fact the legislation and the system as a whole support them. The significant result of my trip was elaboration of a new system for exchange trade—Internet—trading. I’m proud to say that we’ve implemented it successfully and today there is no analogy of it in CIS countries. I’d like to take this opportunity to express my gratitude to the organizers of the Open World Program.”

Temur Valitov
Chair/Agro-Industrial Exchange
Kansas City, KS

Lithuania

“My best moments were when I realized that people in the United States work very hard in order to accomplish their goals, especially helping the youth. This motivates me to work harder in Lithuania.”

Youth Issues program participant
Fort Collins, CO

“Local grass-roots initiatives really left a big impression on me. I have both learned how to better communicate with city and village communities and realized the need to consult with them more regularly on policy issues.”

Virgilijus Skulskis
Head, Information and Analysis
Department/Institute of Agrarian
Economics
Middlebury, VT

“In Vermont, much of your success depends on the trust you’ve built through working relationships. This is something that we need to improve among ourselves.”

Linas Vainus
Project Manager/Atgaja Green Movement
Middlebury, VT

“While we did not even know each other as recently as last week, it now feels like we have known each other for a long time—like classmates, and I know that we will be friends for a long time to come.”

Algirdas Ronkus
District Administrator/Klaipeda District
Municipality
Omaha, NB

“I was surprised to find out that many NGOs in the United States work without any government support . . . Our NGOs should follow this example rather than expecting support from the government.”

Women’s Issues and NGOs program
participant
Portland, OR

“At the Shelburne town meeting we understood that this was a useful way for a small community to influence local government’s decision-making process . . . We were able to make new contacts and an idea for a project in Lithuania emerged.”

NGO development program participant
Burlington, VT

APPENDIX C

ASSESSMENT OF PROPOSED OPEN WORLD EXPANSION INTO AFGHANISTAN AND PAKISTAN

Background.—In December 2004, Public Law 108–447 expanded Open World program eligibility to any other country that is designated by the Open World Leadership Center Board of Trustees, provided that the Board notify the House and Senate Appropriations Committees of such a designation at least 90 days before it is to take effect. During Senate floor consideration of the Open World legislation, Open World Board Chairman James Billington and Open World staff were requested explore the possibility of expanding the program to Afghanistan and Pakistan, two countries crucial to U.S. interests. (Congressional Record, Sept. 21, 2004, S9425.)

Summary of Assessment Efforts to Date.—Open World staff met with Congressional Research Service experts on the region, the Library of Congress Field Director at the U.S. Embassy in Islamabad and his staff, and Open World grantees with hosting experience in both target countries. Open World contractors conducted logistical assessments and contacted key State Department, embassy and AID personnel.

Overall Comment.—Each country has different, overarching obstacles to applying the Open World model successfully. Afghanistan’s societal structure and civil society have very little in common with what is found in the United States. Pakistan’s population is so large and diverse that it is questionable how much impact a program involving only a few hundred delegates would have (details below).

Afghanistan

Political Situation.—Afghanistan is stabilizing after more than 22 years of warfare, and the successful presidential election appears to be accelerating political and economic reconstruction. The United States is committed to a secure and stable Afghanistan. Many observers are looking forward to the September 2005 parliamentary elections and the next major step toward stable governance.

Viability of Open World Candidates/Themes.—Afghanistan currently has very few identifiable civic leaders because there are few identifiable elements of civil society, but small U.S. exchange programs have been implemented. (For example, in 2004, Meridian International, an Open World grantee, hosted 30 Afghans in themes such as civil society, local government, democracy building, cultural heritage, and civic education.) These exchanges do not have homestays, but do include visits to American homes. Women travel in all-female groups. Delegates do not have English-language capability.

Embassy Support.—It would be very difficult for the U.S. Embassy to lend logistical support to an Open World program, both for security and workload reasons, but the embassy would need to handle the actual selection process and is willing to do so under the scenario given in the recommendation below.

Visas.—All candidates must be flown to Islamabad for their visa interview. A minimum of six weeks is required from the time of the interview until a final decision is made on issuance or nonissuance of the visa. In 2004 there was a high incidence of nonissuance to Afghan exchange candidates.

Costs.—The estimated cost is \$18,000–\$19,000 per person, almost 150 percent above the cost for a Russia civic program delegate.

Recommendation.—State Department officials have expressed support for an Open World pilot program for new Afghan parliamentarians that would bring them into direct contact with their American federal and state legislative counterparts. If Congress directs Open World to implement a pilot program, Open World staff would recommend hosting one pilot delegation of 8–10 parliamentarians and/or parliamentary staff following the September 2005 parliamentary elections.

Pakistan

Political Situation.—Hopes that the October 2002 national elections would reverse Pakistan's history of unstable governance and military interference in democratic institutions were eroded by the actions of the Musharraf government. The United States has continued to express concern over lack of progress on political rights and civil liberties, but Pakistan's stability and cooperation in the war against terrorism are of vital importance to the United States.

Viability of Open World Candidates/Themes.—Exchange programs in Pakistan are well established and growing. Several Open World grantees have extensive experience hosting Pakistani participants. Certain segments of urban Pakistani society are very well educated, know English, and are enthusiastic about interacting with Americans. We continue to assess whether this segment of society would benefit from Open World programs, which usually reach into the far regions of participating countries. Because of the current security situation in Pakistan, travel by State Department employees from the embassy and consulates is restricted. This limits their ability to identify qualified candidates for exchange programs outside Islamabad.

Visas.—The visa application process takes a minimum of six weeks and there is a high rate of rejection, especially for males. The Library of Congress Field Office will report to us in late March on their discussions with the consular section to identify more specifically the level of support for Open World available under current staffing and security conditions.

Costs.—\$12,000 per person (nearly twice the cost for most Open World Russia delegates)

Recommendation.—If Congress directs Open World to implement a pilot program, Open World staff would recommend hosting one or two delegations of 8–10 delegates each on Open World's Federalism or Women as Leaders themes.

PREPARED STATEMENT OF MARYBETH PETERS

Mr. Chairman and Members of the Committee: Thank you for the opportunity to present the Copyright Office's fiscal year 2006 budget request.

For fiscal year 2006, the Copyright Office is seeking the Committee's approval of one major request for the Office and support for two of the Architect of the Capitol's (AOC) requests on behalf of the Copyright Office. First, in the BASIC appropriation we are requesting a \$4.161 million increase in new net appropriation authority and a \$500,000 decrease in offsetting collections authority. Four million dollars of the requested funds will be used for offsite lease costs to temporarily relocate the Office while its existing space in the Madison Building is under construction. I am pleased to report that we have made great progress on our Reengineering Program and expect full implementation in the first half of fiscal year 2007. The remaining \$161,000 is a request for restoration of the fiscal year 2005 rescission. Additionally, in recognition of new legislation that terminated funding, we are requesting a \$1.872 million decrease in the CARP offsetting collections authority.

As part of AOC's budget, we request your support to provide \$5.5 million for reconstruction of existing Copyright Office space in the Madison Building to accommodate the reengineered processes and new organizational structure. Also, as part of the AOC's budget, we request \$800,000 to do a design study for construction of a Copyright Deposit Facility at Fort Meade. This facility will provide environmental conditions for copyright deposits that allow us to meet our legal requirements to retain, and be able to produce copies of, these works.

I will review these requests in more detail, but first will provide an overview of the Office's work.

REVIEW OF COPYRIGHT OFFICE WORK AND ACCOMPLISHMENTS

The Copyright Office's mission is to promote creativity by sustaining an effective national copyright system. We do this by administering the copyright law; providing policy and legal assistance to the Congress, the administration, and the judiciary; and by informing and educating the public about our nation's copyright system. The demands in these areas are growing and becoming more complex with the evolution and increased use of digital technology.

I will briefly highlight some of the Office's current and past work and our plans for fiscal year 2006.

Policy and Legal Work

We have continued to work closely with the Senate Committee on the Judiciary and its House counterpart. In July I testified on S. 2560, the Inducing Infringement

of Copyrights Act of 2004, which would have created a new cause of action for intentionally inducing copyright infringement. After the hearing the bill's sponsors, Senators Hatch, Leahy, Frist, Daschle, Graham of S.C. and Boxer asked me to meet with the interested parties to discuss alternatives, evaluate whether these parties could reach consensus on an approach to this legislation, and to provide them with the Office's recommendations. The parties failed to reach consensus, and late in September I submitted our recommended approach which accommodated the legitimate concerns of all parties, provided a basis of moving forward, while at the same time meeting the goals of the bill's cosponsors. Unfortunately, there was not sufficient time to move this bill forward in the remaining days of the 108th Congress.

The Office's general counsel testified on my behalf on the Satellite Home Viewer Extension Act of 2004, which was enacted as part of Public Law 108-447, and we assisted in reform of the Copyright Arbitration Royalty Panel System (the Copyright Royalty and Distribution Reform Act of 2004, enacted as Public Law 108-419).

I testified in the House, and we worked closely and extensively with staff, on the proposed Family Movie Act, which is now part of S. 167, the Family Entertainment and Copyright Act, passed by the Senate on February 1, 2005. H.R. 357, the House's companion bill, cleared the House Judiciary Committee on March 9, 2005. We have also worked extensively on issues concerning the existing compulsory license for the making and distribution of phonorecords of musical compositions, including digital phonorecord deliveries of music. Other issues included proposals to create criminal and civil penalties for camcording by individuals in theaters, providing statutory damages for "pre-release works," and creating a system of pre-registration for certain classes of "pre-release works," which are included in S.167 and H.R. 357, mentioned above.

On January 5, 2005 Senators Hatch and Leahy asked me to study the issue of "orphan works," copyrighted works whose owners are difficult or impossible to locate, and to report our findings and recommendations to them by the end of the year. We are in the process of seeking initial comments on the scope of the problem and possible solutions. The Office also intends to hold hearings during the year.

During fiscal year 2006, the Office will initiate and conduct most of the required work on its triennial rulemaking on exceptions from the section 1201 prohibition on circumvention of technological measures that control access to copyrighted works. The purpose is to determine whether there are any particular classes of works as to which users are, or are likely to be, adversely affected in their ability to make noninfringing uses due to the prohibition. (In 2003, the Librarian of Congress, upon the recommendation of the Register, exempted four narrow classes until October 27, 2006.) Comments proposing exemptions will be solicited, comments on the proposals will be sought, and hearings will hold.

The Office has been extremely active in a number of important copyright cases, many of which challenged the constitutionality of various provisions of the Copyright Act. In these cases the Office assisted the Department of Justice in defending the law. The Office also assisted the Department of Justice in the government's Supreme Court amicus brief of the United States in *MGM Studios v. Grokster, Ltd.*, on whether providers of "file sharing" network software can be held secondarily liable for copyright infringement when the vast majority of uses of the providers' network constitute copyright infringement. (Oral argument was heard on March 29, 2005.)

As always, the Office continued to provide ongoing advice to executive branch agencies on international matters, particularly, the United States Trade Representative, the Department of Commerce and the Department of State, and participated in numerous multilateral, regional and bilateral negotiations.

Registration including Renewals and Recordation

Registration of authors' and other copyright owners' claims to copyright, including claims in renewals, and recordation of documents, such as assignments, security interests, and mergers are important parts of the U.S. copyright system. The Office has significantly improved its delivery times for registration and recordation services since 2001.

During fiscal year 2004, the Copyright Office received 614,235 claims to copyright covering more than a million works and registered 661,469 claims received during fiscal year 2003 and 2004. Registration is now two and a half times speedier than in 2001, when the average time between receipt of a claim and the issuance of a registration certificate was 200 days. At the end of fiscal year 2004, the Office has shortened the average time to process a claim to 80 days.

The Copyright Office records documents relating to copyrighted works, mask works, and vessel hull designs and creates records of those documents. These documents frequently concern popular and economically significant works. The Office re-

corded 14,979 documents covering more than 470,000 titles of works in fiscal year 2004. At the end of the fiscal year, the average time to record a document was 33 days, more than six times faster than the average of 210 days in fiscal year 2001.

These achievements took place during a period of increased security concerns. In early February 2004, ricin-contaminated mail was delivered to a Senate Office. This incident stopped the Office's postal mail delivery for an entire month while enhanced screening processes were put in place. The disruption affected mail processing until early June, when the last of the delayed mail was delivered. The Office worked to restore normal processing levels, and the improvement in timeliness reflects efforts to overcome the disruption.

However, processing time for the creation and making available of online cataloging records increased in fiscal year 2004 because of the Office's focus on improving the efficiency of registration processing. The result was an increase in the Cataloging Division's work on hand. For the remainder of fiscal year 2005, the Office will concentrate on improving processing time for these records.

With respect to renewal registrations, the Office is facing the fact that the number of renewal registrations will decrease significantly in fiscal year 2007. Renewal registrations only apply to works that were copyrighted before January 1, 1978, the effective date of the current copyright law. Before 1978, if a work was published with the required notice of copyright or an unpublished work was registered with the Copyright Office, it received an initial term of copyright protection of 28 years, and a renewal term that initially was 28 years and today is 67 years. To receive the renewal term, a renewal registration had to be made in the last year of the initial term, i.e., the 28th year. The last year for 28th year renewals is the end of this year, December 31, 2005.

Additionally, the law was changed in 1992 to make renewal registration voluntary. There are certain benefits that are gained by renewing in the 28th year. However, if no renewal claim is registered in the 28th year of the term, renewal is automatically secured on the last day of that year. The 1992 law applies to works copyrighted between January 1, 1964 and December 31, 1977. However, even if renewal is automatically secured, i.e., no renewal application was submitted in the 28th year of the initial term of copyright, a renewal claim may be submitted after the 28th year and some benefits flow from such a registration. A number of such registrations are made each year.

When renewal registration was required, the Office registered approximately 52,000 claims. Since the enactment of the automatic renewal provision in 1992, the number of renewal claims decreased each year. Last year the Office received approximately 17,000 renewal claims. We believe that between 1,500 and 2,000 renewal claims were post 28th year renewals. Our records show that approximately 5,500 renewal claims were received in October, November and December, 2004. The renewals unit consists of a staff of five.

The Office currently receives approximately \$1 million a year for renewal services. We project that the Office will take in significantly less money in fiscal year 2006 for the 28th year renewals received in October, November, and December 2005 and for renewals submitted after the 28th year. During fiscal year 2006 we will assess the impact of this loss of revenue and the decreased workload. However, it is likely that in the fiscal year 2007 budget submission, the Office will request a permanent decrease in its offsetting collections authority and a reduction in FTEs.

Public Information and Education

The Copyright Office responded to 381,845 requests for direct reference services and electronically published thirty issues of its electronic newsletter NewsNet a source that alerts subscribers to Congressional hearings, new and proposed regulations, deadlines for comments, new publications, other copyright-related subjects, and news about the Copyright Office to 5,297 subscribers.

The Office website continued to play a key role in disseminating information to the copyright community and the general public. The Office logged 20 million hits by the public in fiscal year 2004, representing a 25 percent increase over the previous year. The Spanish language pages on its website received approximately 130,000 hits during the fiscal year.

The website received an updated look to coincide with the January 1, 2004, introduction of the new office seal, logo, and wordmark. The website displayed the new symbols along with new colors derived from those used in the Office's printed materials. The pages' appearance was also standardized, streamlined, and designed for faster loading. The Department of Health and Human Services selected the Copyright Office website as an example of a government site that meets user expectations with regard to navigation, content, and organization.

The Copyright Office, with the Library's Office of Strategic Initiatives, initiated the Copyright Records Project to determine the feasibility of digitizing millions of Copyright Office paper records covering 1790–1977. In 2004, the project team researched and documented the various types of paper records, developed a strategy, and issued a Request for Information seeking expressions of interest. In early fiscal year 2005 three potential vendors conducted a test of their capabilities to digitize and index sample records and we expect a report on the results by the end of April 2005.

Licensing Activities

The Copyright Office administers the copyright law's statutory licenses and obligations. The Licensing Division collects and distributes royalty fees from cable operators for retransmitting television and radio broadcasts, from satellite carriers for retransmitting "superstation" and network signals, and from importers and manufacturers of digital audio recording products for later distribution to copyright owners. In fiscal year 2004, the Office collected \$212.9 million in royalty funds and distributed \$154.1 million to copyright owners.

With the passage of the Copyright Royalty and Distribution Reform Act of 2004 (Public Law 108–419), a new program was established in the Library of Congress, the Copyright Royalty (CRJ) program, which assumed most of the functions of the Copyright Arbitration Royalty Panels (CARPs). The interim Chief Copyright Royalty Judge is submitting a separate statement to request funding for the new CRJ Program.

FISCAL YEAR 2006 BUDGET REQUEST

Reengineering Program

The Copyright Office's seven-year Reengineering Program initiative is to redesign delivery of its public services. This program is customer driven to prepare our Office for the future growth in electronic submissions. The Office had planned for the reengineering implementation to be fully funded and completed in fiscal year 2006, to include moving staff offsite so that its space in the Madison Building can be renovated in one phase. However, due to infrastructure and offsite lease requirements, the program cannot be completed until the first half of fiscal year 2007.

The relocation of the Copyright Office staff and the Madison Building construction need to be done concurrently. Because of the complexity and integrated nature of the various steps in the registration and recordation processes, they must be located in one place. The Library of Congress does not have sufficient swing space to accommodate such a large group of staff and operations; therefore, there is no choice but to relocate most staff to leased offsite space.

The \$4 million request for new one time funding is to cover most of the fiscal year 2006 expenses associated with moving staff offsite, specifically lease and utilities, furniture rental, security guards, and voice and data line leases. With the committee's support for the new fiscal year 2006 funding, the Office will relocate staff to leased offsite space, reconfigure its main facilities, install new equipment and staff workstations, and bring the new IT systems infrastructure online. In late 2006, staff will move back from the leased offsite location to a new organizational structure to begin reengineered operations. This represents the fourth and last net appropriations increase to the Copyright Office BASIC appropriation base to complete the Reengineering Program. The project will be fully implemented in fiscal year 2007 with no new funding requested for fiscal year 2007. Rather, the Office plans to reduce its net appropriation base in fiscal year 2007 and return non-recurring Reengineering Program funds.

The reengineering initiative is contingent upon the AOC receiving its fiscal year 2006 request for \$5.5 million to undertake the construction of the current Copyright Office space in the Madison Building.

Sustaining Staff Capacity

Because of the fiscal year 2005 rescission, the Copyright Basic fund reduced pay by \$161,000. The Library is requesting the restoration of the \$161,000 in fiscal year 2006 to maintain payroll purchasing power needed to sustain staff capacity.

Copyright Deposit Facility at Fort Meade

The Copyright Office is required by law (title 17) to retain unpublished copyright deposits for the full-term of copyright, which is life of the author plus 70 years, and published deposits for the longest period considered practicable and desirable by the Register of Copyright. A retention period of 120 years has been established for the unpublished deposits and 20 years for the published deposits. A certified copy of a

copyright deposit may be used in legal proceedings as evidence of the scope of copyright in a work.

Currently, the Copyright Office archives more than 800,000 copyright deposits annually in a variety of media as part of the registration process which results in an annual storage increase of approximately 3,500 cubic feet of published deposits and records and 3,500 cubic feet of unpublished deposits. From fiscal year 2007 through 2020, the storage requirement is projected to expand to a total of approximately 245,000 cubic feet.

Copyright deposits are currently stored at two locations: leased space in Landover, Maryland, a GSA facility, and at a commercial records management facility in Sterling, Virginia, managed by Iron Mountain. Both facilities are subject to wide temperature variances and high humidity levels, and therefore fail to provide the appropriate environmental conditions necessary to ensure the longevity of the deposit materials. According to the Library of Congress Conservation Division, continued storage under present substandard environmental conditions will accelerate the aging of the deposit material and reduce the useful life span by 75 percent, placing these deposits at risk, especially after 25 years.

In 1994, the U.S. Army transferred a 100-acre site at Fort Meade, Maryland, to the Architect of the Capitol (AOC) for use by the legislative branch for the construction of storage modules. The master plan envisioned 13 buildings for the Library of Congress of which one was dedicated to the storage of copyright deposits. Both the design and construction documents were completed in August 2003. In recognition of the tight budgetary environment, the Copyright Office is recommending that the Fort Meade facility be redesigned for modular construction so that the facility can be built in phases in order to spread out the costs over multiple funding cycles. The AOC is requesting \$800,000 in fiscal year 2006 funds for this redesign effort with construction of the initial phase being deferred until fiscal year 2008. We ask your support for this request.

CARP offsetting collections authority

The Copyright Arbitration Royalty Panels (CARP) system funded by royalty fees and by participants is being replaced by the Copyright Royalty Judges (CRJ) Program, created by the Copyright Royalty and Distribution Reform Act of 2004, signed into law on November 30, 2004. However, there are still some proceedings that will or may operate under the old CARP system during fiscal year 2006. In accordance with the Satellite Home Viewer Extension and Reauthorization Act of 2004, signed into law on December 7, 2004, the satellite carrier statutory license rate setting procedures will be conducted by CARPs. Therefore, the cost of the arbitrators for the CARP proceedings will be paid for by the participants, and staff and other expenses will be funded from the royalty pools. The Office is requesting a \$1.872 million decrease in the CARP offsetting collections authority, leaving \$300,000 to fund the fiscal year 2006 program.

CONCLUSION

Mr. Chairman, I ask that you support the fiscal year 2006 Copyright Basic budget request for a one time \$4 million increase in net appropriations and a \$500,000 decrease in offsetting collections for the BASIC appropriation to implement the Reengineering Program, and a \$1.872 million decrease in offsetting collections authority in the CARP appropriation. Your support is also requested to approve the \$5.5 million in the AOC budget for reengineering costs to construct the redesigned facilities.

Our fiscal year 2006 request permits us to move forward on the facilities work critical to the final implementation of our Reengineering Program. We appreciate the past support you have given us for this project. We are now at the point that we cannot turn back, and, with your continued support, we look forward to bringing the Office into the electronic environment that is so prevalent today.

I thank the Committee for its past support of the Copyright Office requests and for your consideration of this request in this challenging time of transition and progress.

PREPARED STATEMENT OF BRUCE FORREST, INTERIM CHIEF COPYRIGHT ROYALTY JUDGE

Mr. Chairman and Members of the Committee: Thank you for the opportunity to present the Copyright Royalty Judge program fiscal year 2006 budget request.

The Copyright Royalty Judge (CRJ) system was created by the Copyright Royalty and Distribution Reform Act of 2004, Public Law 108-419, signed into law on No-

vember 30, 2004 ("Reform Act"). The Copyright Royalty Judges will assume the duties formerly carried out by the Copyright Arbitration Royalty Panels and the Librarian of Congress with respect to setting rates for the statutory copyright licenses (with the exception of certain rate-setting proceedings being conducted this year for the satellite television license under 17 U.S.C. § 119, which remain under the CARP system) and distributing royalties from the royalty pools maintained by the Copyright Office. The CRJ program will provide an important improvement over the CARP system because it lowers the cost to the participants, requires decision makers to have certain subject matter expertise, and makes use of institutional knowledge to render consistent decisions.

The Reform Act specifies that the new CRJ system, which will be part of the Library of Congress, will have three Copyright Royalty Judges (CRJs) and three staff employees. The three judges will be responsible for setting the rates and terms for the statutory licenses that allow for: (1) the retransmission of copyrighted broadcast programming by cable systems and satellite carriers; (2) the making and distribution of phonorecords; (3) the reproduction and performance of sound recordings by means of digital audio transmissions; and (4) the use of certain copyrighted works in connection with noncommercial broadcasting. In addition, the judges will conduct distribution proceedings for the cable and satellite royalty fees deposited with the Copyright Office and the fees collected for the making and distribution of digital audio recording devices and media. The CRJs will have authority, unlike the CARPs, to determine the status of a digital audio recording device or digital audio interface device under chapter 10 of the Copyright Act. The CRJ program also vests the judges with the continuing authority to correct any technical or clerical errors, or to modify any terms in response to unforeseen circumstances, and grants them authority to promulgate notice and recordkeeping requirements for use of certain licenses.

Congress took care to insure that the Copyright Royalty Judges would have adequate qualifications to perform these highly technical and difficult tasks. Under the Reform Act, each Copyright Royalty Judge must be an attorney with at least 7 years of legal experience, and the Chief CRJ must have at least 5 years of experience in adjudications, arbitrations, or court trials. Of the other two Judges, one must have a significant knowledge of copyright law and the other must have a significant knowledge of economics.

REVIEW OF COPYRIGHT OFFICE WORK AND ACCOMPLISHMENTS

In fiscal year 2005, you approved the Library's request to reprogram \$540,000 and three FTEs from the Copyright Arbitration Royalty Panels (CARP) to the Copyright Royalty Judge program, since the Library's fiscal year 2005 budget did not include funds to cover the costs of the new program. This allowed the Library to use existing offsetting collections authority funded by royalties to cover the personal and nonpersonal costs of the new CRJ program during the transition phase of the program, as provided for under the Act. As required by the Act, one interim CRJ has been sworn in to draft new regulations to govern the rate setting and distribution proceedings under the new statutory guidelines and to initiate immediately a rate setting proceeding to establish rates for the statutory licenses that allow for the public performance of sound recordings by means of digital transmissions, e.g., webcasting.

FISCAL YEAR 2006 BUDGET REQUEST

This fiscal year 2006 budget, which is the first budget request for Copyright Royalty Judge (CRJ) operations and proceedings under the Reform Act, requests new permanent funding (\$1.3 million) in appropriations with no-year authority. The level of funding is essentially ordained by the requirements of the Reform Act. The funding will support three full-time Copyright Royalty Judges and three staff positions, whose salary levels are specified in the Reform Act, and other non-personal expenses. The CRJs' primary task will be to set rates and terms for the various statutory licenses and to determine the distribution of royalty fees collected by the Copyright Office.

In summary, I ask that you support the fiscal year 2006 Copyright Royalty Judge Program budget request for new permanent \$1.3 million increase in total appropriations.

CONCLUSION

I thank the Committee for its consideration of this request.

Senator ALLARD. Thank you very much, Dr. Billington.

General Scott, do you have any additional comments for the committee?

General SCOTT. No, sir, I do not.

Senator ALLARD. Okay, thank you.

Now I will recognize Senator Johnson for his opening comments.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Well, thank you, Mr. Chairman. I will forego opening statements. I have a statement I can submit. I simply want to welcome Dr. Billington and Mr. Walker to the hearing today and thank them for their leadership. I look forward to working with you as well as ranking member Durbin as we wind our way through the appropriations process in a year that is going to be a difficult one for all of us.

Thank you, Mr. Chairman, and thank you again to our panel today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you, Mr. Chairman, for calling today's hearing to examine the budget requests for the Library of Congress and the Government Accountability Office. I want to first welcome you, Mr. Chairman, to the Appropriations Committee and as the chairman of the Legislative Branch Subcommittee. I look forward to working with you and Ranking Member Durbin as we work on the Legislative Branch appropriations bill this year.

I also want to welcome Dr. Billington and Mr. Walker to the hearing today. So much of what we do here in Congress is made easier and better because of the work done by the Library of Congress and Government Accountability Office. The Library, with such a unique array of collections, is truly a national treasure. I enjoyed visiting the Library to see the Lewis and Clark exhibit that was on display in the Jefferson Building. I had a particular interest since the Lewis and Clark expedition came through South Dakota and reportedly first saw the vast buffalo herds of the Great Plains from Spirit Mound near my hometown of Vermillion, South Dakota.

The Library's Congressional Research Service continues to be one of the best sources of information and analysis provided to members and our staffs on even the most obscure subjects. I want to publicly thank the dedicated staff at CRS for their timely and thorough responses to inquiries from our offices.

Mr. Walker, I also want to thank you and everyone at GAO for the professional work done under what can sometimes be extraordinary circumstances. Without GAO's investigative abilities, Congress would be hard pressed to fulfill its oversight role. My staff and I have relied upon GAO to look into matters ranging from country of origin meat labeling to No Child Left Behind Act implementation in rural states. Thank you for the work GAO does to assist us in Congress, especially GAO's ongoing assistance to this Subcommittee on the Capitol Visitor Center.

I look forward to your testimony and to working with both of you in the coming months as we move through the appropriations process. Obviously, we find ourselves in a very difficult budget situation, so funding will be tight across the board. However, the roles the Library of Congress and GAO play are vital to helping Congress meet its constitutional responsibilities.

Thank you again, Mr. Chairman.

FUNDING PRIORITIES AND CHALLENGES

Senator ALLARD. Thank you, Senator Johnson. Just for your information, we are going to use the 5-minute rule and we will rotate around a little. If we have to have several rounds of questioning, we will do that. My hope is that we will get out this morning about 11:45 or so, when we have scheduled votes on the floor.

Let me start with you, Dr. Billington. You talked a little bit about the budget priorities. The Library's budget request is an increase of \$45 million or 7 percent over the current year budget. In

the event we are unable to provide the full amount requested, please explain what your highest budget priorities will be?

Dr. BILLINGTON. Well, our budget request basically supports every aspect of our basic historic mission and enables us to continue, hopefully, our transition to the new digital world. That mission is, as I have indicated, acquiring, preserving, making accessible this enormous collection.

The business of acquisition and preservation cannot be deferred. Maintenance cannot be deferred for very long, and basic services I do not think should be curtailed, although that is ultimately for the Congress to determine. But to maintain our historic role in knowledge management, the traditional key to the investments we seek are to maintain our construction schedule, long delayed, for storage and preservation at Fort Meade and Culpeper, to regain some of our purchasing power for acquisitions, which has been seriously eroded over the last 10 years for acquisitions and for CRS research materials. Of course reengineering our business processes for outdated manual systems, particularly this last year of the copyright program, is important. And of course the whole question of revitalizing our human capital resources and infrastructure, particularly information technology, is of central importance.

NAVCC—CULPEPER

Senator ALLARD. Thank you, Dr. Billington.

I also want to just take a moment here and thank the Packard Foundation for their generous support of the National Audiovisual Conservation Center. Hopefully, later on in the year I would like to have an opportunity to go out there and take a look at that facility.

The Library's budget requests \$16 million and 47 FTEs, an increase of 23 new positions, for the National Audiovisual Conservation Center, which is scheduled to open next year. Why are these additional staff needed now and what will be the total annual operating cost for the NAVCC once it is fully operational?

Dr. BILLINGTON. Well, the increase is 23 FTEs. First of all, the Packard donation is a capital donation that is almost unprecedented.

Senator ALLARD. It is.

Dr. BILLINGTON. It is somewhere between \$120 and \$130 million. So the building is basically being built with private funds. The increase of FTEs, first of all, is consistent with the 5-year plan we submitted and was approved by the Congress 3 years ago. But the point is that we are not simply relocating people and materials to a new facility. We are creating a national conservation center, which we have never really had, with a new digital preservation system for audiovisual materials that will allow the Library to preserve the collection for at least 100 years, the same standard that we have for paper.

So this is a totally new achievement that will be made possible. The new technical system and the enhanced capacities of the conservation center require additional and more technically qualified staff. Even with the increase in staffing, total funding requested in the Federal budget for this year for the Culpeper center is \$3 million less than the funding was last year.

Our new restoration lab that we are setting up there will operate 24 hours a day and the new system will allow us to increase preservation productivity 10 times the current rate. So this is a fundamental revolutionary escalation of our capacity to exercise and realize the congressional mandate of 1976 to create a real national archive for the preservation of radio and television, as well as recorded sound, film, and other audiovisual materials.

So it is a major undertaking. I cannot give you today the exact projection figures for what the operating costs will be. I do not want to just guess at that. But a good deal of what we have been asking the last couple of years for the appropriation are one-time things to get us in there, to get us established. So I think we have to get over that bump. But that is a small bump compared to the mountain that the Packard Foundation is contributing.

Senator ALLARD. Well, we would appreciate that response. We will be looking forward to getting those figures and showing some more detail on that.

[The information follows:]

The Library's five-year request to Congress to acquire the new equipment and staff resources necessary to operate the NAVCC concludes in fiscal year 2008. Full initial operations, using existing base funds and new resources will start in fiscal year 2009, with ongoing annual operating costs beginning that year of \$22.5 million. This figure includes \$6 million for preservation digitization, \$3.5 million for storage, \$1.5 million for facilities management, and \$11.5 million for staff. It includes existing base funds and staff from the Motion Picture, Broadcasting and Recorded Sound Division. The operating capacities reflected in these costs were established based on our urgent need to preserve at-risk national heritage collections dating back nearly 120 years, as well as the need to begin ingesting significant new born-digital works. Fortunately, the proven technologies to achieve this have recently become available, and the Packard Humanities Institute gift of the state-of-the-art NAVCC facility will allow us to take advantage of these technologies for the first time.

Senator ALLARD. Senator Johnson.

Senator JOHNSON. I do not have any questions.

FORT MEADE STORAGE

Senator ALLARD. Senator Johnson indicates he does not have any more questions, so I will move on to Fort Meade storage modules. The Architect's budget includes \$40 million for additional storage modules at Fort Meade. I would like to have you explain the importance of these storage modules and what the future requirements the Library expects to have at the Fort Meade location. My understanding is that there will be a considerable number of modules that are being projected out over the years to bring into that Fort Meade location.

Dr. BILLINGTON. Well, let me just say briefly, and I can let General Scott speak mainly to this, but the purpose of the two modules, Modules 3 and 4, is to house 26 million special format collections, including maps, prints, photographs, microfilm, manuscripts, things of a special nature, almost all of which are one of a kind.

Senator ALLARD. Excuse me for interrupting you, Dr. Billington. Are they refrigerated or special humidity controlled?

Dr. BILLINGTON. Modules 1 and 2 are for book storage. The beauty of these new modules is that they are really not simply storage, they are—for instance, from Module 1, we have had a 100 percent retrieval rate on all things; it happens within 24 hours. So they are very efficient for storing and retrieving. But most important of all

the collections to be stored in Modules 3 and 4 are practically all one of a kind items of which there are no other copies. They will be in state-of-the-art preservation conditions, which is important, as with the Culpeper audiovisual collections. So the creation of these Modules is an investment simply prolonging the lifespan of priceless things, of which we are the custodian of so many, in this case 26 million items in the special format collections, which cannot be just stacked the way books are, but have to be handled in a special manner.

So that is it. But I will let General Scott speak further to the whole project, except to say that we submitted a detailed plan for the various modules quite some time ago with the Congress. So we are on schedule, even though we were 5 years behind getting construction started according to the original plans and are already 1 more year delayed beyond the 5 years for these important modules for these special collections.

Senator ALLARD. And you do not see any change on those plans that were submitted, any modifications or anything? The time line is the same; it is just the total time line has been moved back?

Dr. BILLINGTON. That is right, that is right.

Senator ALLARD. Okay. General?

General SCOTT. Yes, sir. You had asked about future storage needs for the Library. We do have a complete plan that envisions having 13 buildings out at Fort Meade that would carry us up through the year 2027. Module 1, which was completed in 2002, is completely filled. It was at capacity in about 2½ years with some 1.5 million items.

Module No. 2, which is slated to open very soon, has a capacity of 2 million items and similarly it too will house books. Our projection is that Module 2 will also be filled within 2 years once it opens.

The 13 modules that are either in design or construction will hold books and special format collections as well as other treasures from the Library. To date, funding has been provided for Modules 1 and 2. We are requesting funding for Modules 3 and 4.

We would be happy to submit for the record a table that highlights our future storage and capital requirements.

Senator ALLARD. I wonder if you would do that, General Scott. I think that would be helpful for the committee.

[The information follows:]

LIBRARY OF CONGRESS FUTURE FORT MEADE CAMPUS STORAGE (CAPITAL) REQUIREMENTS
[Dollars in millions]

Storage Requirement	Fiscal Year Plans			Projected Costs	Materials To Be Stored
	Design	Construction	Occupancy		
Fort Meade Module 2	Completed	Fiscal year 2005	Fiscal year 2005	NA	General collections (2M items)
Fort Meade Modules 3 & 4	Completed	Requested fiscal year 2006 ..	.....	\$40.7	Special format collections: maps, prints, photographs, manuscripts, microfilm (26M items)
Fort Meade Copyright Deposits ¹	Requested fiscal year 2006 (\$800,000)	Requested fiscal year 2008 ..	.....	\$45	\$800,000 re-design funding requested fiscal year 2006 will permit modular, phased construction. Will house Published and Un-Published Copyright Materials.
Fort Meade Logistics Warehouse	Completed	Requested fiscal year 2007 ..	.....	\$56	Preservation materials, Exhibit Cabinets, Office supplies, equipment, computers, business records, Library publications, and material staging
Fort Meade Modules 5	Completed	Requested fiscal year 2007 ..	.....	\$11	General collections (2M items)
Fort Meade Modules 6-13	Module .....	.....	Through 2026	² \$88	General collections. Eight additional modules planned through 2027.
Total .....	.....	.....	.....	\$240.4	Through Year 2027

¹ Note: As a result of the fiscal year 2005 construction request of \$59 million for the Copyright Deposit, the committee requested that the Library research other options. The options included an analysis of the second building at the Alternate Computer Facility in Massanes, VA. The re-designed facility will introduce a modular approach with a goal of reducing the cost to \$45 million.

²\$11 million each.

Dr. BILLINGTON. Excuse me, Mr. Chairman. I must just say that as far as Culpeper is concerned, the beauty of that facility is that it is very capacious and we will not need any supplementing of that for a very long period.

POLICE MERGER

Senator ALLARD. I want to talk a little bit about merging the Library police force with the Capitol Police Force. As I understand it, this effort was to try and streamline and unify the security for the Capitol complex. The Congress authorized in fiscal year 2004 any new Library police positions to be filled by the Capitol Police officers. Late last year the Library and Capitol Police entered into an memorandum of understanding (MOU) to enable 23 Capitol Police officers to be assigned to the Library.

How would you assess the effectiveness of this merger to this point, Dr. Billington?

Dr. BILLINGTON. I will let General Scott speak to that.

Senator ALLARD. That would be fine, General.

General SCOTT. As you indicated, the Congress did approve 23 police FTEs for the Library back in the 2004 budget. To set that in context, the Library had indicated in the 2004 budget that we would need at least 100 FTEs spread over a 3-year period. In 2004, we received an appropriation for 23 of those FTEs with the directive that the Capitol Police hire those officers for the Library.

To facilitate the hiring, the Library and Capitol Police entered into a memorandum of understanding. The MOU laid out the procedures through which we would receive the 23 officers who came on board in December 2004. The augmentation was seamless and it is working well.

However, the Library still needs to continue building toward the 100 FTEs and is therefore asking for 45 new police officers in fiscal year 2006. The MOU does not provide the Capitol Police the authority to hire those 45. Additionally, we think that the MOU does not resolve our long-range police staffing requirements as we will still need to have 32 more to round out the 100 that we requested in 2004.

Finally, the MOU does not address or protect the fundamental authority of the Librarian to protect the buildings, the staff, and the collections of the Library.

Dr. BILLINGTON. Could I just add that if the hiring of the 45 additional police officers, which we are requesting in this budget, continues to go through the U.S. Capitol Police, that what we are in fact seeing is a de facto police merger taking place without authorization from the appropriate congressional committees and without their knowledge of the full fundamental change that will be made in the Librarian's historic and statutory responsibilities.

Senator ALLARD. Now, you have requested 45 police officers. Did you consult with the Capitol Police on this request?

General SCOTT. Yes, sir, we did.

Senator ALLARD. You did?

General SCOTT. Right.

Senator ALLARD. And this is a number that they felt they needed to have? Here is the issue and the reason I structure it this way. My understanding is that right now there is no authorization for

more police officers as far as the Library is concerned, that has been passed over then. So I am a little perplexed why you make that request under this budget here and why we did not get the request through the Capitol Police budget. I wonder if you can respond to that.

General SCOTT. Yes, sir. We have been consulting with the Chief of the Capitol Police over the staffing issues, as well as other police issues. The 45 that we are asking for is based on the staffing model and the guide that the Capitol Police have. We are asking for officers that would augment our current force, and make us consistent in our entrance and exit posts with the staffing of the Capitol Police.

Senator ALLARD. I hope that we can have some uniformity. During my tour of the Capitol Visitor Center we had a good look at the tunnel and everything, which I am excited about, the direct access over to the Library. But not only do we increase access to the Library, but we also increase access back into the Capitol. I think if we have not given any thought to that, I think we have to think about that in the process, because we have a security issue coming back into the Capitol from the other side.

So it is something that I just made note of here and I want to check out a little further. I appreciate your response on this. I understand that Roll Call had an article on this. Apparently they talked to Library employees and I think it was an anecdotal type of story. But anyhow, they viewed the Library as a possible weak link on the Hill, as far as security.

Do you agree with that article? Do you think that is something to be concerned about?

General SCOTT. I cannot comment about the article, Senator. I had not read the article. But I can say this, that we are in complete agreement that security on Capitol Hill is our highest priority and we are determined to meet all the security requirements. We want to mirror the Capitol Police augmentation on our posts.

I would also add that the inspector, who is in charge of the Library's police and an employee of the Capitol Police, has made significant improvements in the liaison role that we now have with the Capitol Police.

Senator ALLARD. I tell you what. I do have a copy of that article that staff has just handed me. What I thought I would do is I will give you a copy of it, I will make it a part of the record, and then you can maybe respond to any issues that are raised in this article if you will.

General SCOTT. Yes, sir.

Senator ALLARD. I think it would be helpful.

General SCOTT. Okay.

[The information follows:]

The Library is not a weak link in the security of the Capitol complex, as depicted in the recent Roll Call article (April 5, 2005). We do agree that it is critical for the Library to maintain a level of security commensurate with the rest of Capitol Hill. The Library has been effectively addressing the protection of its employees, visitors, and assets for years, as well as contributing toward strengthening the security of the Capitol complex as a whole, with the goal of creating seamless security throughout the complex.

Since the mid-1990s, the Library has aggressively implemented major security improvements consistent with the many security improvements that have been put in place throughout the Capitol complex. Examples of the Library's improvements in-

clude major perimeter security enhancements, implementation of full building entry screening, expanded emergency communications capabilities, and establishment of a robust emergency preparedness program.

The Library Police are an integral component of the Library's steady progress toward strengthening Library security programs. Over the past several years, the Library Police have achieved major improvements in operations and personnel readiness. Although the Library Police force is comparatively small and does not have all the resources available to the Capitol Police, the Library Police work closely with the Capitol Police to maximize the level of support for daily operations and for emergency situations. There has been significant enhancement in the coordination efforts between the Library Police and the Capitol Police in those areas where the capabilities of the Library Police are limited because of resource considerations or to avoid costly duplication of effort. With the continued commitment and assistance of the Capitol Police, we see no discernable differences in response capabilities of either police force.

The Library Police recently underwent an audit by the Library's Inspector General. The audit did not identify any significant systemic weaknesses or program vulnerabilities that would place any employee, visitor, facility, or any part of the collections at risk. The goal of the Library Police is to achieve cooperative parity with the Capitol Police. The Library Police have been working diligently for some time to ensure that the Library receives the same level of protection as the remainder of the Capitol complex.

The unique security and enforcement requirements of the Library have developed a police culture having somewhat different responsibilities than most federal police agencies. The successful record of the Library Police in both detecting and deterring crimes against the facilities, personnel, or property of the Library demonstrates that the Library Police are fully capable of meeting their statutory requirements and, as demonstrated through the ongoing detail of Capitol Police officers, can work effectively with other agencies. There is no evidence that the Library Police constitute a weakness in meeting their law enforcement and security requirements, and the Library Police's aggressive implementation of the recommendations from the Inspector General's audit indicates their willingness to improve processes and procedures to enhance their capabilities and professionalism.

In summary, Library management has confidence in the Library Police that they will continue to provide the required level of security and law enforcement to meet their statutory responsibilities in the ever-improving security climate on Capitol Hill.

COPYRIGHT REENGINEERING

Senator ALLARD. The Library of Congress budget included \$4 million to complete the Copyright Office's reengineering initiative. It includes funds for the lease of temporary office space. Please explain how the copyright process will be improved through the reengineering effort, which I am pleased to see you doing, because if there is one criticism that I get it is the copyright procedure and how long it takes to get approval. My hope is that this will speed things up and it sounds like you are on that, and I want to compliment you on that.

General SCOTT. Thank you, sir. Marybeth Peters, who is the Director, the Register of Copyrights, has had a visionary insight in recognizing that commerce and the digital network environment now demands that we meet customer expectations by electronically making it possible to receive copies of digital works, web sites, databases, and various filings, such as applications for registrations, and to process them electronically.

Five years ago the Register of Copyrights announced a very well thought-out plan that would change the copyright processes to support our electronic environment. Fiscal year 2006 is the last year that new appropriated funds will be needed to complete this project.

Deferring the project beyond 2006 will not only result in the loss of \$19.7 million in past investments, but the Library will also lose the contract staff who built the new systems and the related expertise which is needed to complete this project. These resources, if we lost them, would not be available beyond 2006 due to other commitments.

The new system cannot be implemented without, of course, a reconfiguration of the Copyrights Office space since the current floor plans are not aligned with the flow of the new business processes. Without the 2006 funding, this project may never be implemented, that is why we are making this request.

Dr. BILLINGTON. Don's basic point is that the registration will be much quicker, which has been a constant concern and complaint, and in the long run it will be much more economical because it can be done electronically.

Senator ALLARD. Both of those are very worthy goals. I am just trying to think through the process. If you are an author, do you submit the book in written and electronic form? Your book then would go into storage and then you add the book to your electronic database?

I would like you to clarify that for the subcommittee.

General SCOTT. At this point I would really like to call upon Mary Beth because she is the expert in this, sir.

Senator ALLARD. If you feel uncomfortable talking about that, we will be glad to put something in the record.

Ms. PETERS. No, I am not in the least bit uncomfortable talking about it.

Dr. BILLINGTON. She has been dealing with this for 40 years.

Ms. PETERS. That is right.

Senator ALLARD. I notice I brought a smile to your face. You must enjoy it.

Ms. PETERS. The truth is I love it.

COPYRIGHT REGISTRATION PROCESS

If you have authors today and they choose to register as soon as they write their books, before they send the manuscript to a publisher—

Senator ALLARD. Then it gets a Library of Congress number, is that correct?

Ms. PETERS. Not if it is the submission of the author's manuscript and it is unpublished. If I write a book and I have not sent it to a publisher, I may want to get a registration before I send it out to publishers, I would send the copyright office a paper copy because today we are not equipped to take it in electronically.

Starting this fall, we will be experimenting with taking in all types of material electronically and processing them electronically.

Senator ALLARD. Would that not help your process if you expected the author to provide an electronic one when it goes to the publisher.

Ms. PETERS. Absolutely. When the publisher gets the author's manuscript, it is in electronic form. Then the publisher converts it to print form. The print copy is used to register the publisher's claim to copyright. The print copies usually go into the collections

of the Library of Congress, and could end up at storage Module 1 or 2 at Fort Meade.

Senator ALLARD. Depending on its perceived importance, is that right?

Ms. PETERS. Depending on the Library's acquisition policies.

Senator ALLARD. I see, okay.

Ms. PETERS. So, we hope that we are able to provide all of our services within 2 weeks. Reengineering will totally revolutionize the way that we do business.

Senator ALLARD. I was trying to visualize it. That is what I was visualizing, we are making it more efficient. We can also keep a hard copy in case something happens to the electronic one.

Ms. PETERS. Yes, a digital file will come in to the copyright office for registration. If the Library wants print copies of a literary work, the publisher will send two print copies for the use of the Library, but the copyright office will have a digital file of the work.

Senator ALLARD. Very good, thank you.

Ms. PETERS. Thank you.

OPEN WORLD LEADERSHIP

Senator ALLARD. I have just one question on the Open World program and then we will hear from the CRS.

Your statement indicates that Russia alone has nearly 9,000 Open World alumni, Dr. Billington, each of whom has visited a U.S. community for a 10-day stay under the program. I am curious as to what continuing communication is needed and desirable beyond the original introduction to America, which is a 10-day stay here with a host family as I understand the program.

Dr. BILLINGTON. Well, this has been an extraordinary program in a lot of ways. One of the ways is that it has created a lot of sister relationships. For instance, we have been emphasizing the rule of law. We have had 800 judges and prosecutors. Many of them have established sister court relationships. That is a very common thing. Or there are oftentimes return visits that are at the invitation of the Russian visitor.

The alumni of this program have set up an internal web site to communicate, giving a sense of identity and community among these people exchanging their own perceptions and ideas once they are there. They have had alumni meetings all over Russia. As you know, they have come from all 89 political districts of Russia, all 50 States of the Union. So there is a very substantial continuity. Recently, we had the first major Ukrainian visit for the Ukrainian program since the so-called Orange Revolution there and they established a lot of contacts that I am sure are going to be useful. One of the participants was then subsequently elected to higher office. This is a frequent phenomenon.

There are all kinds of linkages. There is an upcoming alumni event in the Russian Far East, but I would like to give you a full itemization of the program. I am just speaking off the cuff here. Overall, 44 percent of the participants have been women with an average age of about 37, which is something totally new in Russia. Not a single one of the Russian participants has stayed in this country. That is almost unheard of in relations between Russia and America. As you know, people often want to stay when they come

to America. The open world participants are tremendously impressed by the time they have because it is a total immersion. It is not a series of lectures or dialogues where people just give speeches to each other.

We just had a delegation of their version of the Supreme Court and the top jurists, and our Supreme Court met with them here for a couple of days and it was really quite exciting. I believe some of the U.S. Justices will be returning the visit. So this is really the opening up of contacts with a new generation of Russian leaders, which is very much the hope of that country if it is going to make it as a functioning democracy.

The one thing they all take back, the most important thing is the excitement over nongovernmental organizations, the extent to which many social services, many problems are dealt with at the community level.

This is the biggest exchange program of its kind since the Marshal Plan. It is something that has been done entirely within the legislative branch of Government and it is having an extraordinary effect, even though it is a short period of time. The participants stay in homes. They see the real America. They shadow people, and the cooperation is extraordinary—we have many more volunteers across the country to take these people in than we are able to accommodate. So it is a good sign that the American people everywhere in all communities are really interested in getting better informed about what is going on in Russia.

Senator ALLARD. There is follow-up, then, so that at some point in time we would like to be able to measure results. I hope that we have follow-up on the program. The only way I see us being able to measure results is to see what happens to these folks 5 years or 10 years down the road.

Dr. BILLINGTON. Absolutely. It is a long-term investment because these people have to work their way up through the system. We can give you a lot of information on this.

Senator ALLARD. Good.

Dr. BILLINGTON. But we do follow up and they do have a continuing existence both as alumni, on their web site, and in answering to the host organizations in America.

CONGRESSIONAL RESEARCH SERVICE

Senator ALLARD. Very good. Thank you.

Now on the Congressional Research Service (CRS) increase, there is an increase of \$9 million or 9 percent that is requested for CRS, for a total budget of \$105 million. The budget request would provide for 729 staff compared to the 700 staff you are now operating with. Now, why is that level not sufficient? I think Mr. Mulhollan is here to answer that question. Could you tell us why you think such an increase for CRS should be given preference over other legislative branch priorities? So you have got two questions there.

STATEMENT OF DANIEL P. MULHOLLAN

Mr. MULHOLLAN. This is a question of why is CRS a priority for the Congress. I would argue that it is the fact that we are a cost-effective extension of congressional staff. In other words, we are a shared pool of experts that helps each Member and every com-

mittee. The Congress draws upon CRS to get thorough analysis, that are context-based, and provide a framework for considering and comprehending the issues and potential consequences of legislative options. CRS supports equally the majority, the minority, and each chamber. CRS is a shared resource, so each committee and office does not have to acquire such expertise because you have it available. CRS expertise and products are targeted to your needs. CRS guarantees the confidentiality of all our work for you.

Given the need to sustain this shared pool of expertise, and recognizing the budget difficulty you face, half the request is for the mandatories and price level increases. The next \$3.6 million is to keep us whole at the level of 729 FTEs. CRS is at a tipping point. Three major factors contribute to this request.

One is that the level of expertise CRS must hire is greater than it has been in the past and costs more. Back in 1995 our average new hire was a GS-7 step 9. Today it is GS-13 step 9. You face more compelling, complex, and interrelated problems, such as terrorism and homeland security layered onto the massive domestic issues that the Nation faces. The nature of your work dictates that CRS hire individuals with high levels of formal education and specialized experience.

Second is staff participation in the newer retirement system. The committee has been very supportive of CRS in our succession planning. To that end, we have been very thoughtful in identifying what kind of expertise the Congress needs and who we need to hire. As we lose our older employees, who for many years have participated in the older Federal retirement system where the employer-paid portion of the benefit is 13.5 percent per employee. Virtually all those coming into CRS are under the newer Federal employee retirement system, FERS. Under FERS, the employer-paid benefit is 27 percent per employee, twice as much.

The third element is that in the past 10 years, with one exception, 1998, we faced a gap between what we have anticipated and asked for with regard to the mandatory pay adjustments and what was enacted. For example, in fiscal year 2004 the adjustment we anticipated was 3.7 percent. What the President signed into law was 4.42 percent. That caused a \$400,000 shortfall in our budget and that is four FTEs.

We are seeking a one-time catch-up to keep us whole on that staffing level.

[The statement follows:]

PREPARED STATEMENT OF DANIEL P. MULHOLLAN

Mr. Chairman and Members of the Committee: I appreciate the opportunity to appear before you today to present the fiscal year 2006 budget request for the Congressional Research Service (CRS). I also wish to express my gratitude to the Committee for its support of the Service's budget requests in years past, as I am well aware of the fiscal environment and the difficult funding decisions you face.

The Service's request for fiscal year 2006 represents not a workload increase but instead reflects our need to replenish the levels of staffing and resources required to enable us to meet our statutory mission of serving all Members of Congress with comprehensive, accurate, and timely research and analysis. As such, CRS' fiscal year 2006 budget request is composed of two parts: funding for our mandatory pay- and inflation-related costs and two increases necessary to sustain our staff and resource capacities.

These are challenging times for lawmakers. The environment within which the Congress works is fluid and dynamic, with multiple pressures vying every day for

your attention and for the resources each Member is charged to manage. The major policy issues facing Congress, such as the ongoing war efforts, Social Security reform, tax reform, immigration and border control, homeland security, and issues relating to terrorism, are more complex, are politically charged, and have global consequences. These and many other issues are complicated and multi-faceted. Congress is functioning under ever-increasing pressures and expectations to be conversant on all the issues and serve as an expert on virtually every topic as it deliberates these highly consequential issues.

CRS assists every Member and committee. Our assistance responds to your full range of legislative needs, from identifying and evaluating authoritative, reliable sources of research and information to offering and analyzing legislative and policy options that might best address complex, high-stakes public policy problems. All of our work is confidential and focuses solely, directly, and specifically on the needs of the congressional community.

Everyone at CRS takes seriously the trust that the Congress has in our work. I believe this trust is earned daily through the interactions CRS staff have with you and your staff. Each of us at CRS, no matter what role we play, strives to improve and excel in every aspect of the service that we provide.

FISCAL YEAR 2006 BUDGET REQUEST

Mr. Chairman, my fiscal year 2006 budget request presents to you only what CRS needs to achieve its statutory obligations. I am keenly aware of the budgetary pressures facing this Committee and the Congress. My responsibility as Director of CRS is to weigh these pressures against the basic needs of the Service and to offer you a fiscally responsible assessment of the condition of the Service.

The 2006 request would fully fund our mandatory and price-level increases, our first and highest priority, along with two baseline adjustments that would enable us to recuperate from shortfalls that are straining our ability to acquire staff and research tools. Specifically, CRS is requesting a total of \$105.289 million for fiscal year 2006, an increase of \$9.171 million over fiscal year 2005. The increase is comprised of \$5.097 million for mandatory and price-level increases and \$4.619 million for increases to recover lost purchasing power. The request also includes a \$544,000 reduction for the one-year funding provided last year to implement XML capacity.

STAFF CAPACITY

CRS' strength is its people: 88 percent of our budget is devoted to staffing. The remaining 12 percent of the CRS budget covers the non-personals expenses, the day-to-day business operations of the Service, including the monthly phone bills, hardware and software maintenance agreements, technology refreshment, and permanently contracted operations. These non-personals costs offer little financial flexibility for adding to staff capacity. Because our work is dependent on the skills and abilities of the people, I am continually reviewing the composition of CRS' staff so that we have the right mix of individuals with the right expertise to assist the Congress as it frames and considers major policy problems. CRS staff are ready to meet today's needs and, at the same time, are anticipating and preparing for the major policy issues on the horizon.

CRS is proposing a one-time budgetary adjustment of \$3.6 million to sustain its staffing level of 729 full-time equivalents (FTEs). Without this additional funding the Service would have to reduce permanently down to about 700 FTEs. There are three factors contributing to the need for \$3.6 million: CRS' need to sustain a higher level of staff expertise, the gap between the funding provided in the budget process and the federal pay raises enacted, and the impact of a workforce shifting from the old to the new federal retirement system.

The first factor evolves from the change in CRS' workforce composition. The variety and range of expertise of CRS staff must match the expertise needed by the Congress as it develops and undertakes its legislative agendas, both current and anticipated. We routinely conduct two Service-wide examinations: to identify the major policy areas Congress is likely to address and to assess and forecast the availability of CRS experts to assist the Congress in those issue areas. The results of these assessments guide my decision-making in our annual staffing plan and subsequent staffing selections. The nature of your legislative work requires a higher level of CRS expertise. As we recruit and interview prospective employees, we are finding that the work competencies we need are best met by those seeking positions in the higher general schedule pay ranges. This is confirmed by CRS statistics on new hires: in the period from fiscal year 1995 to the present, the grade level of the average CRS hire has increased from a GS-7, Step 9 to a GS-13, Step 9. The complex and often technical nature of the policy problems you face requires us to ensure that

we have the right expertise to correspond to the myriad sources having stakes in the policy outcomes of your work.

The second factor contributing to the need for this baseline increase is the cumulative shortfall in funding that has resulted from pay raises enacted at a higher rate than provided for in the Legislative Branch annual appropriations, albeit you have provided what we asked for. Since 1995, with the exception of 1998, the Service's budget has been increased for staff salary and benefits costs in an amount less than what was ultimately required by law to be paid to the employees. For example, in fiscal year 2004, the budget process anticipated an annual rate increase of 3.7 percent; however, the actual enacted pay raise was 4.2 percent, costing CRS about \$400,000 (or four FTEs) more to sustain the current staff. The cumulative impact over the past ten years contributes to the need for our current budget request for sustaining staff capacity.

It is costing the Service more to subsidize retirement benefits. As of right now, about 42 percent of the CRS workforce participates in the Civil Service Retirement System (CSRS). Based on fiscal year 2004 data, a CSRS participant is costing the agency about 13.5 percent in employer-paid fringe benefits. This compares to the 27 percent in employer-paid benefits for a Federal Employee Retirement System (FERS) employee. For the past few years, virtually all of the CRS retirements are staff participating in CSRS, while the majority of new hires are eligible to participate only in the more expensive FERS. As the proportion of the FERS workforce continues to grow, the fiscal impact has been, and will continue to be a dramatic rate of increase in agency costs.

The budget I am requesting will allow CRS to rebuild and replenish to its authorized ceiling of 729 FTEs, the staffing level needed to sustain current services. A single example will allow me to illustrate the level of service that I am committed to providing to the Congress and that the Congress has come to expect from this agency. When the congressional leadership last July identified the newly released 9/11 Commission report as its top priority, CRS acted. Within one week over 70 CRS analysts and information professionals came together to provide Members with thorough analyses of the report. Those analyses were context-based, providing a framework for considering and comprehending the report's contents in view of other relevant factors and their potential impact. Most importantly, we provided real-time, round-the-clock analysis. We were ready when your deliberations began and remained at your side as you considered the Commission's recommendations and as you took steps to enact the policy changes deemed most appropriate.

We were able to provide this kind of specialized and close support because our staff work collaboratively across disciplines, are experts in their fields, and are available on-demand to consult individually with Members and committees. Because of our proximity to the Congress, because of the close working relationship we enjoy with you and your staff, and because our experts prepare analyses that benefit the entire congressional audience, we were able to deliver the services Congress has mandated and come to expect. This is the kind of work the Congress has outlined for CRS in our organic statute. However, our ability to sustain this level of assistance, as you deliberate the wide range of policy problems facing the Nation, will be in jeopardy if our staffing capacity is reduced further.

CRS is a cost-effective extension of congressional staff. As a shared pool of experts, CRS has the ability both to address high-priority issues from a multi-disciplinary perspective and to provide a wide range of high-level, specialized expertise. Individual committees and Members could not retain such a valuable resource for their own offices, but CRS, as a centralized, shared pool, proves to be very cost-effective when meeting total congressional demand.

CRS RESEARCH MATERIALS

The third component of my request is a one-time, \$1 million baseline adjustment for research materials. There are a number of critical electronic materials continually requested by our subject-matter experts that CRS is currently unable to procure.

Annually, the Service carefully considers each subscription and database renewal to ensure that the available funding is used to acquire only the highest priority materials. Even with this close scrutiny and the elimination of lesser used items, CRS has barely been able to maintain a stable inventory of the resources most pertinent to our work, let alone add any newly requested resources. However, sound analysis depends on authoritative sources covering the full range of subject areas that the Congress may consider.

CRS' work requires materials that are timely and authoritative, particularly in emerging public policy issue areas, such as homeland security and global terrorism.

Your approval of our fiscal year 2006 request would enable us to buy resources such as *Oxford Analytica*, *Inside Washington* publications, prescription-drug proprietary databases, and the *PIERS* database. These represent highly specialized and technical research resources and are not acquired by the Library of Congress for CRS use. These materials are, however, available to others who provide you information and who lobby for particular positions and policy outcomes. Without access to those resources, CRS experts' capacity to capture the range of knowledge available on an issue, to prepare you for challenges you may face in defending your position, and to provide you with the consequences of policy options is diminished.

MANAGEMENT INITIATIVES

Congress holds me accountable for managing responsibly, and in the last 11 years I have gratefully undertaken that charge. I take seriously my responsibility to assure you that the budgetary support you give the Service results in a cost-effective organization that is dedicated to its statutory mission and that offers you the highest quality of service. I would like to take this opportunity to summarize briefly some actions I have and continue to take that reflect this commitment.

We continually examine and adjust our organizational structure to maximize direct service to the Congress. We consolidated some CRS facilities in the House congressional buildings with the assistance of the Committee on House Administration. We made use of flexible hiring programs, such as the Presidential Management Fellows and Hispanic Association of Colleges and Universities (HACU) programs. We have taken advantage of the cost savings that can be achieved through outsourcing by implementing contracting services for our messenger service, copy operations, and technology help-desk, and continually seek out new opportunities.

Another initiative affecting personnel and improving efficiency is the reorganization of our information professionals into a single organizational unit. The thrust behind this major re-engineering effort is to increase collaboration between information professionals and analysts, which in turn will maximize efficiencies. Through collaboration each functional unit can ensure that the work is handled by the individual with the appropriate expertise to accomplish that work.

Earlier I noted that 88 percent of CRS' budget is salaries and benefits. The remaining 12 percent also merits close attention in my efforts to streamline. Although this 12 percent of the CRS budget represents our relatively fixed costs, we look carefully at those costs to see if any component of that expenditure can be reduced or eliminated. To achieve this we conduct an annual "zero scrub" of the entire CRS budget. We look at every single cost category from the ground up; we do not simply roll over the budget for these categories from one year to the next. Also, we have initiated audits of every on-going activity within CRS. These comprehensive audits will help us to continue to secure a well-executed and cost-effective program, with the assurance that every dollar spent contributes to the Service's singular mission. I hope that you would contact me directly if you have any concerns about our management activities, processes, or direction.

CONCLUSION

In closing, Mr. Chairman, I appreciate the opportunity to inform the Committee about the state of CRS and the near-term challenges we face in our continuing ability to serve the Congress. As the first branch of government, the Congress must ensure that it maintains its independent capacity to analyze the complex challenges that the Nation confronts, especially during a time of war. I hope that you agree that CRS contributes significantly to this independent capacity and that we are fulfilling our mission in a way that warrants your ongoing support. I am, of course, always available to answer any questions that the Committee may have.

CONGRESSIONAL RESEARCH SERVICE RESPONSE TIME

Senator ALLARD. Thank you for your explanation.

Are you measuring the length of time it takes you, or do you have some idea about the length of time it takes you to respond to the average Congressional request?

Mr. MULHOLLAN. The majority of information requests are answered in 24 hours. But a significant amount of time can be spent on more complex questions—for instance, a study for a committee dealing with, let us say, prescription drug pricing and what changes are being considered in medicare benefits. The use and

manipulation of the drug pricing database can take several months—and that could be considered one request.

Meanwhile, let us say an LA calls and says, “I have a Member who is looking at this language; can you explain this language to me? We have just gotten it and the subcommittee meeting is in a half hour.” So it is also this kind of rapid-response expertise that is drawn upon daily by the Congress.

PERFORMANCE MANAGEMENT

Senator ALLARD. As you can tell, for those of you here at the table and in future testimony, I have a lot of interest in performance and measurement. We require that on executive branch agencies. We do not require it on the legislative branch. But I do think that we ought to set an example here in the legislative branch for the rest of the agencies. So I am going to request more and more definitive assessment through what we call GPRA, Government Performance and Results Act.

I think it has been a good business tool. When I did my business, I set goals that were measurable, measured them, and then it helped me evaluate as a manager in my own business exactly whether we were meeting those goals or not.

So some of my questions are being laid out to prepare you a little bit for when we get into the next year and then I will be asking questions about how you are doing setting down performance standards and then measuring the results. I think as administrators it helps us all understand what is going on and then we can focus on results and do not have to focus about the nitty-gritty of management, we will leave that to you, but we just look at results and then we have something that is measurable, hopefully.

CRS PERFORMANCE MEASUREMENT

Mr. MULHOLLAN. Mr. Chairman, may I add for the Congressional Research Service, we welcome that. We have been spending a significant amount of time on considering meaningful performance measurements. You can look at the workload measures that we have identified. I think there are significant success stories. For example, in fiscal year 2002 we responded to a total of 811,000 requests, and in fiscal year 2004 we responded to almost 900,000 requests.

We break that down further, for example to track hits on the CRS web site, which is solely for use by the Congress. No one else has the depth of expertise covering roughly 170 major public policy areas, where you can have it targeted to meet the needs of each chamber, whether in committee or on the floor, and where the analysis anticipates the consequence of your decisions there. We have now, almost 5,000 reports, continually updated on more than 300 issues and available for the Congress. Two years ago we had 4,000. So it is an additional 1,000 reports that we are keeping updated along this line.

Another measure is e-mail exchanges. Following up with a Congressional request we now have an encrypted e-mail exchange between the Senate and the House and ourselves. As a consequence of that effort, last year we counted 77,000 exchanges. As of the first

quarter of the current fiscal year, we have seen a 13 percent increase from last year.

So our measures I think on our focused assistance are good and solid, and we are working to improve them.

Senator ALLARD. Very good. Thank you.

LIBRARY OF CONGRESS PERFORMANCE MEASUREMENT

Dr. BILLINGTON. Mr. Chairman, let me just add——

Senator ALLARD. Dr. Billington.

Dr. BILLINGTON [continuing]. A point, that we are not actually required to use the Government Performance and Results Act, but we do use it as a guide.

Senator ALLARD. I am glad to hear that.

Dr. BILLINGTON. I would only say also that, as we were just saying with the Open World program, which actually is a separate line item but I happen to chair the board, so I am happy to answer for it and it is in the legislative branch as well, in that as in the Library as a whole performance has to be seen over a long period of time. One would have said that there was very little justification for keeping old German archaeological records. Every other library in the world discarded them. But when it came to verifying whether the tanks that did the flanking motion in southern Iraq would sink in the sand or be able to sustain them, it was that kind of material that enabled them to verify, because the Germans pedantically reported how much they dug and how long it took, with what kind of shovel, in Mesopotamia, which is where a lot of the archaeology was.

So what I am saying is that having this extra margin, which is what we are talking about when we talk about the need for acquisitions and the use of our overseas offices—Islamabad, Cairo, all these places—where valuable information is gathered that really does not exist anywhere else, it is a long-term investment. You do not know when you are going to cash in the investment, but it is of incalculable value to have so much knowledge because you cannot possibly anticipate what kinds of questions are going to be essential for this country.

Senator ALLARD. I recognize the complexities of getting measurable goals out there. It is not always easy. And I recognize the fact that you cannot look at it just on a short-term basis, but you do need to collect this data on an annual basis and see over a trend line over several years, and then that gives you some idea of how your programs are operating.

Dr. BILLINGTON. Oh, absolutely, and we welcome it. And as I say, we try to follow these guidelines.

Senator ALLARD. That is one of the issues I am going to take a little time exploring with all the legislative agencies.

Thank you, Dr. Billington. Thank you, General Scott. Dan, thank you, and Mr. Mulhollan. I appreciate your testimony. Thank you.

General SCOTT. Thank you, sir.

ADDITIONAL COMMITTEE QUESTIONS

Senator ALLARD. Also, we will be making your full statement a part of the record.

If there are any additional questions, they will be submitted to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Library for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR WAYNE ALLARD

IMPACT OF TECHNOLOGY

Question. According to LOC's budget justification, "To help researchers quickly find information that is relevant, authoritative and verifiable, the Library must adapt its traditional strengths of acquiring, describing, serving and preserving information to an environment that is not bound by time or physical space." How do you balance the Library's traditional mission with this new requirement? How does technology help streamline and make more cost-effective the Library's ability to meet its mission, and even reduce costs?

Answer. The Library's traditional mission is being pushed by the expectations of users, who increasingly demand and rely on electronic resources in addition to the traditional reference, descriptive, and access services for physical collections that the Library provides. While the Library continues to make accessible and preserve its print and multimedia collections, it requires additional resources and new skill sets among staff to purchase and serve electronic resources such as subscription databases, which are the cornerstones of research in many academic disciplines today.

Technology enables the Library to increase its services to the Congress and to its other constituencies in many ways:

- Entire Library collections of primary source materials are available online via American Memory and Global Gateway to be shared in libraries and classrooms around the country and around the world.
- Reference questions are asked and responded to via the Web.
- Guides to Library manuscript and other special format collections are available online for researchers to peruse before they come to the reading rooms, making their time in the Library more productive.
- Catalogers are pioneering Electronic Data Interchange (EDI) applications to share bibliographic and authority control records with other national libraries and library services vendors.
- Publishers share pre-publication galleys of books electronically with the Cataloging in Publication (CIP) program to streamline cataloging processes and shorten publication time.

The Library offers direct services to Congress electronically as well. "LCnet" premiered this spring as an online portal devoted solely to Members of Congress and their staff to interact with the Library on a number of fronts—to reserve rooms and plan special events, to arrange tours for constituents, to receive customized calendars of Library events, and to fulfill other special services or information needs that arise.

CVC TUNNEL

Question. The Capitol Visitor Center will include a tunnel to the Library of Congress' Jefferson Building. Do you have any estimate of how much visitation will increase? Will you need additional staff for tours or security? Do you plan any new activities that will necessitate additional resources?

Answer. The number of visitors to the Library could triple to more than three million annually with the opening of the Capitol Visitor Center tunnel. Should the number of visitors exceed building safety requirements, the entrance through the tunnel to the Thomas Jefferson Building will be limited on an hourly basis or through a ticketing system. At present, we are assuming that security screening will take place on the Capitol Visitor Center side and that visitors entering the Library through the tunnel will not be re-screened.

The Library is studying the impact the Capitol Visitor Center tunnel will have on the level of visits to the Thomas Jefferson Building in particular and to the Library and its services for visitors as a whole. Planning is underway to enhance the visitor experience, and it is not yet clear whether the experience will be largely self-guided and enhanced by interactive kiosks and audio tours, or whether it will be more traditionally led by staff and volunteer docents. Internal and external planning expertise is being deployed on this front, and the results of these consultations will determine whether additional resources will be necessary.

BOOKS FOR THE BLIND AND PHYSICALLY HANDICAPPED

Question. The Library has been working for several years to develop a design for a “digital talking book” to replace the current cassette tape system to make books available to the blind. When do you expect to need the funds necessary to begin the full conversion to the digital format? How much will be required in total?

Answer. The National Library Service for the Blind and Physically Handicapped projects that a total of approximately \$76.5 million will be required to fund the transition from analog cassette to a digital format over a period of four years. An initial request of approximately \$19 million will be submitted in fiscal year 2007.

NATIONAL DIGITAL INFORMATION INFRASTRUCTURE AND PRESERVATION PROGRAM

Question. Library has been spearheading a \$100 million effort aimed at preserving “born-digital” materials. There are now 8 NDIIP grantees/partners, who were awarded \$14.5 million. What has been accomplished to date and what do you expect to accomplish in the year ahead? Why is the Library requesting a waiver for state government entities of the dollar-for-dollar match requirement? Do you anticipate additional funds will be needed in the future for this effort? Are other federal agencies, such as the National Archives, providing resources for this effort?

Answer. NDIIPP Accomplishments to date and expected accomplishments include the following:

- The goal of the NDIIPP is to build a national preservation program for reliable digital content. The Library is following the plan approved by Congress in 2002, executing three areas of investment: building a network of partners to share in this responsibility; developing the technical architecture to support that network (standards and protocols); and creating the tools for digital preservation. Continuing investment in these three areas is expected in the coming years.
- An 18-month test of 6 existing technical architectures was completed with 4 other large research libraries. This work advances the development of the architecture necessary support a network of partners.
- NDIIPP launched its first partners in January 2004—8 consortiums with a total of 36 organizations to collect at risk digital content in excess of 60 terabytes. The content is diverse and consists of web sites, social science data sets, geospatial materials, business history, and digital television programming. These partners provided \$15 million in pledged matching funds over the next 3 years.
- A Copyright Working Group, made up of representatives of the content creator/distributor communities, libraries, and archives, was just launched to examine Section 108 of the copyright law dealing with libraries and archives. This work is sponsored by NDIIPP working with the U.S. Copyright Office. The working group will make recommendations to Congress about revisions to the law.
- Working with NSF, the Library is funding 7 advanced research grants for developing tools and techniques for digital preservations.
- The Library is working with E-Archives, the San Diego Super Computer Center and the Los Alamos National Laboratories to develop repository software for archiving different types of digital content.

In 2005, we are developing a program to bring state and local organizations into the preservation network. The request for a waiver results from the Library’s experience in building collaborative NDIIPP relationships in the last few years. The Library recognizes that there are limited discretionary funds available, especially from state governmental entities, to meet common digital preservation challenges faced by all preserving institutions. Building sustainable preservation network partnerships is a long-term process. By requesting the state waiver, the Library plans to encourage the active building of broad collaborative relationships within and among state entities. By not subjecting these entities immediately to the match provision, the Library hopes to catalyze states to seek out building sustainable long-term collaborative relationships during and after the grant period, and not before.

The Library does not anticipate additional funds, beyond that which already has been authorized for NDIIPP, will be needed to execute the NDIIPP program by 2010.

The Library works collaborative with other federal agencies through their participation in the National Digital Strategy Advisory Board (NDSAB), joint participation in developing technical digital preservation guidelines and best practices, and their work with the Library’s collaborating partners in the NDIIPP program. Other federal agencies do not provide direct resources to the Library and its NDIIPP program.

OUTSOURCING

Question. Is the Library seeking opportunities to outsource any activities, as a way to reduce costs? Please explain.

Answer. The Library outsourced a significant number of activities and continually seeks to identify additional activities that are appropriate for outsourcing in order to improve service, reduce cost, increase responsiveness, and promote efficiency in the agency. Some examples of activities that are currently outsourced include:

- Infrastructure support services (custodial services, food services, furniture and furnishings installations and maintenance, trash removal and recycling pick-up, vehicle leases, secure mail operations, messenger service, graphics and design services, etc.)
- Human Resource Services (employee assistance program, retirement services, management of personnel records, job analysis, selected training, etc.);
- Information technology (help desk and user support);
- Security (security within reading rooms, exhibit areas, and outlying annexes, and ID card and finger printing functions);
- Financial (payroll processing, travel services, implementation of new financial systems, etc.); and
- Program support (translation services, receptionist support).

In addition, several of the Library's major programs are either outsourcing some of their work or investing in outsourcing pilots. For example:

- Library Services has issued a contract to an Italian bookseller for a pilot project in which Italian books bought for the collection will also be cataloged by the bookseller. If this pilot is successful, outsourcing the cataloging of some of the foreign language collections is a possibility—both to reduce costs and to gain language expertise that is not always available on staff.
- The Copyright Office outsourced its registration certificate production (i.e., printing and quality checking for over half a million copyright registration certificates per year). In addition, data entry of titles from recorded copyright documents, totaling anywhere from 300,000 to 500,000 titles per year, and contracting for selected divisional IT technical support are partially outsourced.
- The Law Library outsourced work related to its Global Legal Information Network (GLIN), including scanning of documents, data input, and quality control of laws, regulations and other legal sources that comprise the GLIN. The Law Library has also outsourced a number of core services related to collection management, such as processing new receipts, binding preparation, loose leaf filing and shelving.
- In addition to actions taken and planned within the Library, the Congressional Research Service (CRS) has done a significant amount of outsourcing and continues its efforts to seek out additional opportunities. In response to the recent Legislative Branch Agency Self-Certification Survey, CRS described a number of activities that have been outsourced and for which the tangible benefits have already been factored into the Service's annual Operating Plan. Over the past eight to ten years, CRS has permanently outsourced a number of on-going business activities, including its messenger service; mail operations; copy centers; technology help-desk and user support; foreign language translations; receptionist positions; job analysis; graphics design work; and general laborers/movers. CRS utilizes contractors to produce specific deliverables within a limited timeframe where securing in-house capability is not warranted given the temporal nature of the need. Examples of this type of outsourcing include library support functions; professional librarians; on-site group training and staff development services; assistance with developing a performance management system; professional survey instruments; professional services to help develop new authoring policies and procedures as well as meeting federal archiving obligations under the Federal Records Act; and cataloguing services.

Savings gained through these outsourcing measures has provided CRS with some interim financial flexibility to absorb cost increases in other aspects of the Service's budget, e.g., software maintenance, research materials, employer-paid benefits costs for staff, and staff performance awards. While the Service believes that it has reached a level of critical mass with paring down its expenses and defraying unavoidable cost increases, CRS continually evaluates its programs, activities, and projects to determine the feasibility of undertaking them through outsourcing mechanisms.

Further, CRS conducts in-depth program/financial audits of each of its on-going business activities every two years to ensure that the level of service is both appropriate for and contributes directly to meeting the mission and strategic objectives and performance targets set forth by the Director. In addition to the on-going activ-

ity reviews/audits, CRS conducts other internal studies to assess organizational structure or performance in comparison to the Service's total program needs. The results of these studies inform business decisions about the proper skills levels and mix needed throughout the Service, the right distribution of those skills and capacities, and the most cost effective way to deliver the skills and capacities—specifically, via in-house staffing or by outsourcing. Using information gleaned from its quarterly/annual performance reviews and annual management control reviews, CRS is continually probing its own operation to ensure that every aspect of the day-to-day business is carried out in the most efficient and cost-effective way possible and contributes to the singular goal of meeting the analytic research and information needs of the Congress.

GOVERNMENT ACCOUNTABILITY OFFICE
STATEMENT OF DAVID M. WALKER, COMPTROLLER GENERAL OF THE
UNITED STATES

ACCOMPANIED BY:

GENE DODARO, CHIEF OPERATING OFFICER
SALLYANNE HARPER, CHIEF ADMINISTRATIVE OFFICER
STAN CZERWINSKI, CONTROLLER

Senator ALLARD. Now we will call the Government Accountability Office (GAO), please. We are having Mr. David Walker, Comptroller General; Gene Dodaro, Chief Operating Officer; and Sallyanne Harper, Chief Administrative Officer; and then Stan Czerwinski, who is our Controller.

Mr. Walker, when you are ready you may proceed. We will ask that you limit your testimony to 5 minutes or so, and we will go into question and answer. We will make your full statement part of the record.

OPENING REMARKS

Mr. WALKER. Thank you, Mr. Chairman. It is a pleasure to be back before this subcommittee to talk about our fiscal 2006 budget request. As you mentioned, accompanying me on my immediate right, Sallyanne Harper, our Chief Administrative Officer and Chief Financial Officer; on her right, Stan Czerwinski, about whom you had very kind comments, our Controller; on my left, Gene Dodaro, our Chief Operating Officer. We appreciate your having us before you, because all of these individuals and others have played an important part in putting together this budget submission.

I respectfully request, Mr. Chairman, that my entire statement be included in the record. Therefore, I will summarize the highlights.

Senator ALLARD. So ordered, without objection.

Mr. WALKER. Thank you very much.

As you know, Mr. Chairman, GAO is the third largest agency in the legislative branch based upon budget authority. Our job is to help the Congress discharge its constitutional responsibilities, basically geared toward helping to improve the performance of Government and assure the accountability of Government for the benefit of the American people. I was encouraged and had a very favorable reaction to your conversation before about performance and results.

I would note that we voluntarily comply with the Government Performance and Results Act. Our objective is not just to comply with the Act; it is to lead by example and to be the best in Government in anything that we do. I would respectfully suggest that when you have a chance you may want to take a look at GAO's Fiscal Year 2004 Performance and Accountability Highlights Report, because I think you will be proud of what it has to say.

We have an important philosophy of leading by example, because we are the agency that audits, investigates, and evaluates others. Therefore, I believe we have a responsibility to be as good or better than the agencies we audit, investigate or evaluate. This adds to our effectiveness as well as our credibility. In fact, one of our four goals under our strategic plan for serving the Congress is to be a model Federal agency and a world class professional services organization.

MEASURING SUCCESS

We have four key success measures: results that are outcome based, not activity based; the feedback we get from clients; what our most valuable asset, our employees, say about us; and what our partners within and outside of Government, say about us, namely whether we are a good partner.

For fiscal year 2004 we had record results, all-time record results for GAO. For example, we achieved \$44 billion in financial benefits, a \$95 return for every dollar spent by GAO—an all-time record. Number one in the world, nobody is even close. Second, with regard to clients, a 97 percent client satisfaction rate. Also, an all-time record. With regard to employees' views on our overall operations and work environment, GAO will probably receive one of the highest ratings in the federal government based upon past reported activity. With regard to our partners, we get very positive feedback.

With regard to our budget, we are very well aware that the federal government faces a large deficit and a long-range fiscal imbalance. Therefore, for several years we have tried to lead by example in this regard as well. We have had very modest budget requests, as is the case this year.

There is some risk, Mr. Chairman, in trying to lead by example in this regard, because it means that we count on you, your capable staff, and others to make sure that there is a level playing field in scrubbing these budget requests before you make final decisions. For example, if this subcommittee were to approve the request of every legislative branch agency—and I know you are unable to do that because of the fiscal pressures—and if you were to see how much of a budget increase would have been achieved in the last 3 years, from fiscal years 2004 to 2006, versus the average for the legislative branch, GAO's increase if we got everything that we asked for, which is based on need versus want, would be a total of 7.4 percent. That is basically inflation. The average for the legislative branch would be 18.4 percent.

So I would respectfully suggest, Mr. Chairman, that it is important not just to look at 1-year budget requests, but also to look, as you pointed out before, at the trendline of what has happened over the last several years, where do things stand on a relative basis as well as hopefully be able to look at return on investment. By having a modest budget request and a strong return on investment, we hope that puts us in a strong position to get our fair share.

PREPARED STATEMENT

The last thing I would say, Mr. Chairman, is I appreciate this subcommittee's past support of GAO. I look forward to working with you. I congratulate you on your appointment to the chairman-

ship, and I know that it is going to be a tough year and series of years. But I think by focusing on minimizing budget requests, maximizing return on investment, and focusing on positive, outcome-based results, I hope that it will make your job a little bit easier.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF DAVID M. WALKER

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you today in support of the fiscal year 2006 budget request for the U.S. Government Accountability Office (GAO). This request is necessary to help us continue to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

We are grateful to the Congress for providing us with the support and resources that have helped us in our quest to be a world-class professional services organization. I am proud of the work we accomplish as we continue to provide our congressional clients with professional, objective, fact-based, non-partisan, non-ideological, fair, balanced, and reliable information in a timely manner regarding how well government programs and policies are working and, when needed, recommendations to make government work better. We believe that investing in GAO produces a sound return and results in substantial benefits to the Congress and the American people. In the years ahead, our support to the Congress will likely prove even more critical because of the pressures created by our nation's current and projected budget deficit and long-term fiscal imbalance. These fiscal pressures will require the Congress to make tough choices regarding what the government should do, how it will do its work, who will help carry out its work in the future, and how government will be financed in the future.

We summarized the larger challenges facing the federal government in our recently issued 21st Century Challenges report.¹ In this report, we emphasize the critical need to bring the federal government's programs and policies into line with 21st century realities. Continuing on our current unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. We, therefore, must fundamentally reexamine major spending and tax policies and priorities in an effort to recapture our fiscal flexibility and ensure that our programs and priorities respond to emerging security, social, economic, and environmental changes and challenges in the years ahead. I believe that GAO can be of invaluable assistance in helping the Congress address these challenges.

My testimony today will focus on our (1) performance and results with the funding you provided us in fiscal year 2004, (2) streamlining and management improvement efforts under way, and (3) budget request for fiscal year 2006 to support the Congress and serve the American people.

SUMMARY

In summary:

—The funding we received in fiscal year 2004 allowed us to audit and evaluate a number of major topics of concern to the nation and, in some cases, the world. For example, we reported on the reconstruction efforts in Afghanistan and Iraq; important concerns about pay and other support for the National Guard and Reserve forces; numerous topics related to homeland and national security, including improving operations of the Departments of Homeland Security and Defense; curbing the use of counterfeit identity documents; and making the nation's transportation system safer from potential acts of terrorism. We also continued to raise concerns about the nation's long-term fiscal imbalance, summarized key health care statistics and published a proposed framework for related reforms, and provided staff support for the 9/11 Commission. In fiscal year 2004, we exceeded or equaled our all-time record for six of our seven key performance indicators while continuing to improve our client and employee feedback results. I am especially pleased to report that we documented \$44 billion in financial benefits—a return of \$95 for every dollar spent, or \$13.7 million per

¹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

employee. In fiscal year 2004, we also recorded 1,197 other benefits that could not be measured in dollar terms including benefits that helped to change laws, to improve services to the public and to promote sound agency and government-wide management. Also, experts from our staff testified at 217 congressional hearings covering a wide range of important public policy issues during fiscal year 2004.

- Shortly after I was appointed Comptroller General, I determined that our agency would undertake a transformation effort. This effort is consistent with the elements of House Report (H. Rpt.) 108-577 that focus on improving the efficiency and effectiveness of operations at legislative branch agencies. Our transformation effort has enabled us to eliminate a management layer, streamline our organization, reduce our overall footprint, and centralize many of our support functions. Currently, over 50 percent of our support staff are contractors, allowing us to devote more of our staff resources to our mission work. We recently surveyed managers of agency support operations and identified additional activities that potentially could be filled through alternative sourcing strategies. In fiscal years 2005 and 2006, we will further assess the feasibility of using alternative sourcing for these activities. I would be pleased to brief you at a later date on our preliminary analyses.
- In developing our fiscal year 2006 budget, we have taken into consideration the overall federal budget constraints and the committee's desire to lead by example. Accordingly, we are requesting \$493.5 million which represents a modest increase of 4 percent over fiscal year 2005. This increase is primarily for mandatory pay costs and price level changes. This budget request will allow us to continue to maximize productivity, operate more effectively and efficiently, and maintain the progress we have made in technology and other areas, but it does not allow us sufficient funding to support a staffing level of 3,269—the staffing level that we requested in previous years. Even as we are tempering our budget request, it needs to be acknowledged that there are increasing demands on GAO's resources. For example, the number of congressional mandates for GAO studies, such as GAO reviews of executive branch and legislative branch operations, has increased more than 15 percent since fiscal year 2000. While we have reduced our planned staffing level for fiscal years 2005 and 2006 in order to keep our request modest, we believe that the staffing level we requested in previous years is a more optimal staffing level for GAO and would allow us to better meet the needs of the Congress and provide the return on investment that both the Congress and the American people expect. We will be seeking your commitment and support to provide the funding needed to rebuild our staffing levels over the next few fiscal years, especially as we approach a point where we may be able to express an opinion on the federal government's consolidated financial statements.

FISCAL YEAR 2004 PERFORMANCE AND RESULTS

In fiscal year 2004, much of our work examined the effectiveness of the federal government's day-to-day operations, such as administering benefits to the elderly and other needy populations, providing grants and loans to college students, and collecting taxes from businesses and individuals. Yet, we remained alert to emerging problems that demanded the attention of lawmakers and the public. For example, we continued to closely monitor developments affecting the Iraq war, defense transformation, homeland security, social security, health care, the U.S. Postal Service, civil service reform, and the nation's private pension system. We also informed policymakers about long-term challenges facing the nation, such as the federal government's financial condition and fiscal outlook, new security threats in the post-cold war world, the aging of America and its impact on our health care and retirement systems, changing economic conditions, and the increasing demands on our infrastructure—from highways to water systems. We provided congressional committees, members, and staff with up-to-date information in the form of reports, recommendations, testimonies, briefings, and expert comments on bills, laws, and other legal matters affecting the federal government. We performed this work in accordance with the GAO Strategic Plan for serving the Congress, consistent with our professional standards, and guided by our core values. See appendix I for our Strategic Plan Framework for serving the Congress and the nation.

Outcomes of Our Work

In fiscal year 2004, our work generated \$44 billion in financial benefits, primarily from recommendations we made to agencies and the Congress (see fig. 1). Of this amount, about \$27 billion resulted from changes to laws or regulations, \$11 billion resulted from agency actions based on our recommendations to improve services to

the public, and \$6 billion resulted from improvements to core business processes, both governmentwide and at specific agencies, resulting from our work (see fig. 2). Our findings and recommendations produce measurable financial benefits for the federal government when the Congress or agencies act on them. The funds that are saved can then be made available to reduce government expenditures or be reallocated to other areas. The monetary effect realized can be the result of changes in business operations and activities; the structure of federal programs; or entitlements, taxes, or user fees.

Figure 1: GAO's Financial Benefits

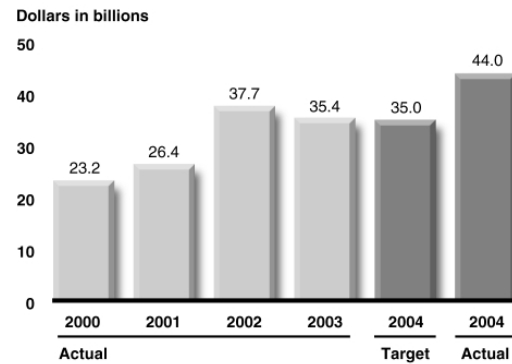
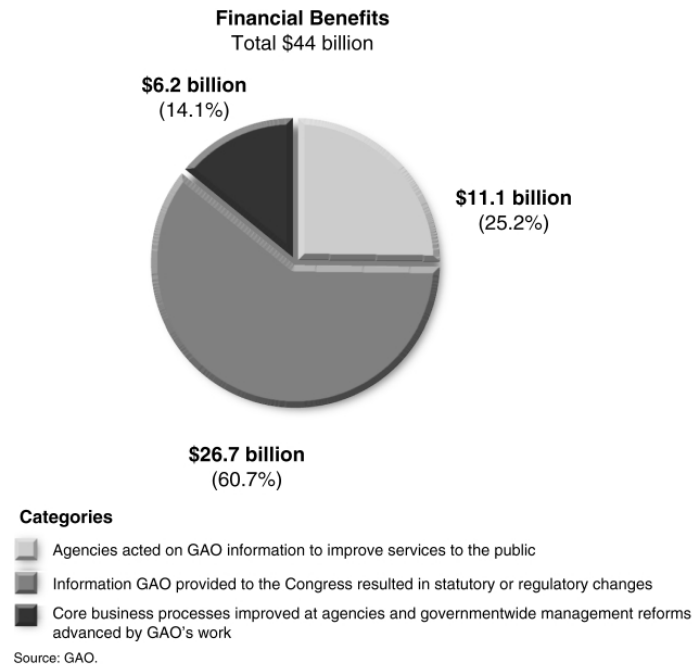


Figure 2: Types of Financial Benefits Recorded in Fiscal Year 2004 from Our Work

For example, financial benefits could result if the Congress were able to reduce its annual cost of operating a federal program or lessen the cost of a multiyear program or entitlement. Financial benefits could also result from increases in federal revenues—due to changes in laws, user fees, or sales—that our work helped to produce. Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the costs associated with taking the action that we recommended. Figure 3 lists several of our major financial benefits for fiscal year 2004 and briefly describes some of our work contributing to financial benefits.

FIGURE 3.—GAO'S SELECTED MAJOR FINANCIAL BENEFITS REPORTED IN FISCAL YEAR 2004

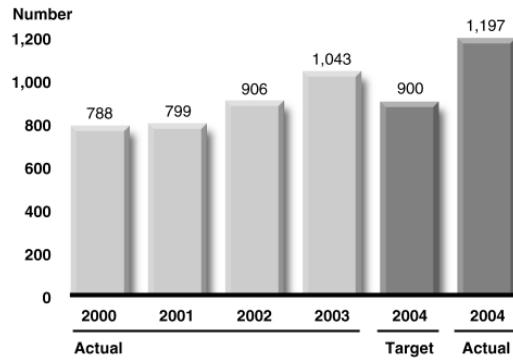
Description	Amount
Eliminated Medicaid's upper payment limit loophole. We identified a weakness in Medicaid's upper payment limit methodology that allowed states to make excessive payments to local, government-owned nursing facilities and then have the facilities return the payments to the states, creating the illusion that they had made large Medicaid payments in order to generate federal matching payments. Closing the loophole prevented the federal government from making significant federal matching payments to states above those intended by Medicaid. The amount shown represents the net present value of estimated financial benefits for fiscal years 2005 and 2006—the final years for which benefits can be claimed.	\$10,073
Updated the Consumer Price Index (CPI). We recommended that the Bureau of Labor Statistics periodically update the expenditure weights of its market basket of goods and services used to calculate the CPI to make it more timely and representative of consumer expenditures. The bureau agreed to do this every 2 years, and the CPI for January 2002 reflected the new weights. For federal programs that use the CPI as an index for determining benefits, the adjustments have resulted in decreased federal expenditures (e.g., reduced Social Security cost-of-living adjustments) and increased federal revenues, such as reductions in the growth of personal exemptions for federal income taxes. The amount shown represents projected financial benefits for fiscal year 2007, the fifth and final year for which we will allow benefits to be claimed for this action.	\$5,074

FIGURE 3.—GAO'S SELECTED MAJOR FINANCIAL BENEFITS REPORTED IN FISCAL YEAR 2004—
Continued

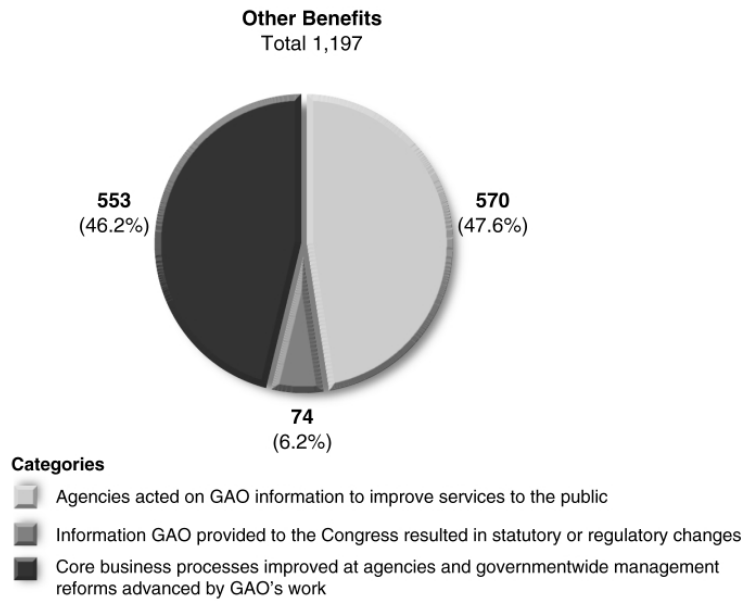
Description	Amount
Reduced costs associated with Medicare spending on home health care. We reported in 2002 that Medicare's payments for home health care episodes were, on average, about 35 percent higher than the estimated costs of home health care provided in the first 6 months of 2001. Our report helped to ensure that the Congress did not delay or eliminate a scheduled reduction in Medicare home health payments that had risen rapidly from the late 1980s through the mid-1990s.	\$4,661
Reduced the cost of federal housing programs. We determined that the Department of Housing and Urban Development (HUD) did not have the information it needed to routinely calculate and track unexpended balances in its housing and community development programs. As a result of our work, the Congress required HUD to prepare quarterly reports on unexpended balances for each program, and HUD management committed to closely monitor these balances and identify amounts available for recapture.	\$3,638
Improved the use of the Iraqi Freedom Fund. We reported that the military services may not obligate all of the funds appropriated for the global war on terrorism in fiscal year 2003 as required. Thus, the Congress rescinded \$3.49 billion from the September 2003 balance remaining in the Iraqi Freedom Fund as part of the fiscal year 2004 Department of Defense Appropriations Act. These funds were made available for other purposes.	\$3,490
Reduced costs associated with preparing the Department of Defense's (DOD) financial statements. We determined that DOD's initial plans to obtain a favorable fiscal year 2004 audit opinion were not feasible or cost-effective. Therefore, instead of moving \$2.2 billion to fund the DOD components' efforts focused on a fiscal year 2004 audit opinion, the DOD Comptroller shifted \$184 million to begin auditability assessments and audits, as applicable, as part of a long-term strategy to improve DOD's fiscal accountability. The Comptroller's decision not to reprogram the funds allowed DOD to use over \$2 billion for other purposes during the fiscal year.	\$2,057
Modified the focus of funding for DOD's V-22 Osprey aircraft program. We highlighted for DOD officials—before full production of the aircraft was scheduled to begin—numerous risks and unknowns that existed in the V-22 Osprey program because of inadequate testing and evaluation. We reported these concerns to a blue-ribbon investigative panel established after a second fatal crash of the V-22. As a result of our work, the blue-ribbon panel recommended that DOD temporarily reduce the production of the V-22 to a minimum level to free up funds to better address the research and development issues we raised. The Congress reduced the procurement funding for purchasing V-22 aircraft from the planned 37 to 11 for each of fiscal years 2003 and 2004. This action allowed some funds to be used for development testing of the V-22 aircraft, but the remaining funds were made available for other purposes.	\$1,618
Eliminated unnecessary military funding from the budget. We recommended that requested fiscal year 2004 funds be eliminated for three terminated military operations involving Iraq's compliance with various United Nations resolutions, Operations Northern and Southern Watch and Operation Desert Spring. These funds were made available for other purposes.	\$1,353
Improved DOD's contracting and acquisition practices. We developed a strategic framework—based on the best practices of leading private-sector companies—to guide DOD's services contracting reforms and recommended changes in DOD's organizational structure and approach to acquiring goods and services, such as using cross-functional teams and spend analyses to coordinate key purchases and leverage buying power for the agency. As a result of work done by us and others, the Congress cut DOD's budget in its fiscal year 2003 appropriation in anticipation of expected savings. This accomplishment amends a financial benefit we claimed in fiscal year 2002 and represents an additional benefit in fiscal year 2004—the final year for which a benefit can be claimed.	\$868

Source: GAO.

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2004, we recorded a total of 1,197 other benefits (see fig. 4). We documented 74 instances where information we provided to the Congress resulted in statutory or regulatory changes, 570 instances where federal agencies improved services to the public, and 553 instances where agencies improved core business processes or governmentwide reforms were advanced (see fig. 5). These actions spanned the full spectrum of national issues, from ensuring the safety of commercial airline passengers to identifying abusive tax shelters. See figure 6 for examples of other benefits we claimed as accomplishments in fiscal year 2004.

Figure 4: Other Benefits

Source: GAO.

Figure 5: Types of Other Benefits Recorded in Fiscal Year 2004 from Our Work

Source: GAO.

FIGURE 6.—GAO'S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2004

	Explanation
OTHER BENEFITS THAT HELPED TO CHANGE LAWS	
Vision 100-Century of Aviation Reauthorization Act, Public Law 108–176.	We worked closely with the Congress to draft language that was included in this law related to curriculum and certification requirements for aviation mechanics. The language, which was based on recommendations we had made, included a requirement that the Federal Aviation Administration update and revise curriculum standards for aviation mechanics.
Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108–173.	Congress included six provisions in the law based on analyses and recommendations we made. For example, our work found that Medicare's method for establishing payment rates for drugs obtained under Medicare Part B—which covers doctors' services, outpatient hospital care, and some other nonhospital services—was flawed because it based payments on nonmarket-driven price estimates. The law addressed these issues by lowering payment rates in 2004 for drugs covered by Part B to more closely reflect acquisition costs and by changing the method for calculating these payment rates in 2005, basing these rates on a market-driven estimate. Also, partly on the basis of our work, the Congress modified the eligibility criteria for small rural hospitals to qualify as critical access hospitals under the Medicare program. This change provides flexibility for some additional hospitals to consider conversion. Because of Medicare's payment methodology, converting to a critical access hospital may help bolster a hospital's financial condition, allowing it to continue to provide services to patients.
Consolidated Appropriations Act, 2004, Public Law 108–199.	We found that HUD could make more accurate eligibility decisions for individuals seeking housing assistance if it had access to more timely income information available from the Department of Health and Human Service's Office of Child Support Enforcement's National Directory of New Hires. We recommended that HUD match applicants and current recipients of its rental housing assistance programs with the new hires database. This law gives HUD access to information from the database that will better ensure that only eligible individuals receive housing assistance.
National Defense Authorization Act for Fiscal Year 2004, Public Law 108–136.	We testified that most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not designed to support a meaningful performance-based personnel system, and agencies should have to demonstrate that these systems are modern, effective, and valid in order to receive any additional performance-based flexibilities. We suggested that the Congress establish a governmentwide fund whereby agencies could apply for funds to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This law established the Human Capital Performance Fund to support all executive agencies as they plan for and carry out performance-based rewards for their civilian employees.
OTHER BENEFITS THAT HELPED TO IMPROVE SERVICES TO THE PUBLIC	
Helped to Ensure the Safety of Shellfish ...	In July 2001, we reported that the Food and Drug Administration's (FDA) oversight of states' shellfish safety programs was not risk-based and thus FDA was not using its limited resources wisely. To better ensure shellfish safety, we recommended that FDA identify risk factors for each of its program elements (growing area classification, processing and shipping, and control of harvest). FDA developed a scoring system for these factors. FDA shellfish specialists compute a total risk score of high, medium, or low that determines the frequency of the evaluation of that program element. High-risk elements were to be evaluated every year beginning in fiscal year 2003, medium-risk elements every second year beginning in fiscal year 2004, and low-risk elements every third year beginning in fiscal year 2005.

FIGURE 6.—GAO'S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2004—Continued

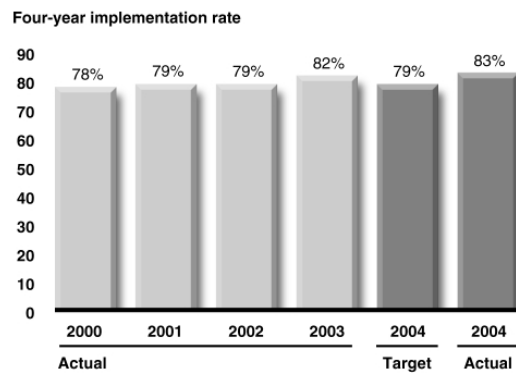
	Explanation
Identified the Need for Better Criteria to Determine Highly Qualified Teachers.	Our report found that states did not have the information needed to determine whether teachers had met criteria to be considered highly qualified, as required by the No Child Left Behind Act. Specifically, states did not have the information they needed to develop methods to evaluate the subject area knowledge of teachers. To help states determine the number of highly qualified teachers they have and the actions they need to take to meet the requirements for highly qualified teachers by the end of the 2005–2006 school year, we recommended that the Secretary of Education provide more information to states about methods to evaluate subject area knowledge of current teachers. In January 2004, Education issued a revised version of the guidance “Improving Teacher Quality,” which contains more information on how to evaluate subject area knowledge to meet the federal definition of a highly qualified teacher. Specifically, the guidance includes a new section that, among other things, defines evaluation standards and factors to consider when developing them.
Encouraged VA to Clarify the Array of Home Health Care Services Available to Veterans.	We recommended that the Department of Veterans Affairs (VA) specify in policy whether three home health services—home-based primary care, home-maker/home health aide, and skilled home health care—are to be available to all enrolled veterans. In response, VA published an information letter on October 1, 2003, clarifying that, according to VA policy, the three home health services are to be available for all enrolled, eligible veterans in need of such services. The information letter was distributed to all facilities through e-mail and is available on the VA Web site.
OTHER BENEFITS THAT HELPED TO PROMOTE SOUND AGENCY AND GOVERNMENTWIDE MANAGEMENT	
Identified the Need for More Specific Criteria to Select for Audit Tax Returns from Large Corporations.	We found that the Internal Revenue Service (IRS) is investing more in audits of large corporations and getting less in return. To improve the audits of tax returns filed by large corporations, we recommended that IRS provide more specific objective criteria and procedures to guide the selection of large corporate tax returns and classification of tax issues with high audit potential across the districts. In March 2002, IRS implemented a process for scoring returns in order to fully implement a plan to place these returns in the field for audit. IRS has begun to identify high-risk returns from corporate and partnership tax returns using the Discriminant Analysis System.
Helped to Centralize the Oversight of Major DOD Contracts.	We examined various DOD initiatives underway that are intended to better manage acquisition of services, including drafting policy to provide better oversight on purchases of high-dollar value services. In response to our work, the Under Secretary of Defense for Acquisition, Technology, and Logistics and each of the military departments now have a management structure in place and a process for reviewing major (i.e., large-dollar or program-critical) service acquisitions for adherence to performance and other contracting requirements. The new policy establishes a threshold of \$500 million or more for selecting service purchases for review and approval by the military department and possibly DOD headquarters, allowing DOD to adequately plan major purchases before committing the government to major expenditures.
Helped to Reduce Fraud, Waste, and Abuse of Agencies' Purchase Cards.	In a series of reports and testimonies beginning in 2001, we highlighted pervasive weaknesses in the government's \$16 billion purchase card program. Our work identified numerous cases of fraud, waste, and abuse at DOD, HUD, and the Federal Aviation Administration. These agencies have taken significant steps to implement the hundreds of recommendations we made to upgrade their controls. Major improvement areas include enhanced controls over card issuance and cancellation, reduced span of control for approving officials, increased human capital resources and training, new performance measures and goals, required advance approval of purchases, and independent receiving and acceptance of goods and services. These efforts will substantially reduce the government's vulnerability to fraud, waste, and abuse in agencies' purchase card programs.

Source: GAO.

Recommendation Acceptance Rate

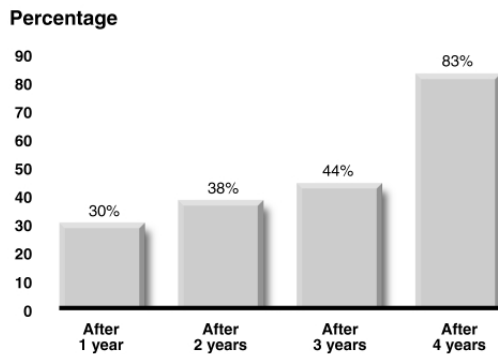
At the end of fiscal year 2004, 83 percent of the recommendations we made in fiscal year 2000 had been implemented (see fig. 7), primarily by executive branch agencies. Putting these recommendations into practice is generating tangible benefits for the American people. As figure 8 indicates, agencies need time to act on our recommendations. Therefore, we assess recommendations implemented after 4 years, the point at which experience has shown that, if a recommendation has not been implemented, it is not likely to be.

Figure 7: Past Recommendations Implemented



Source: GAO.

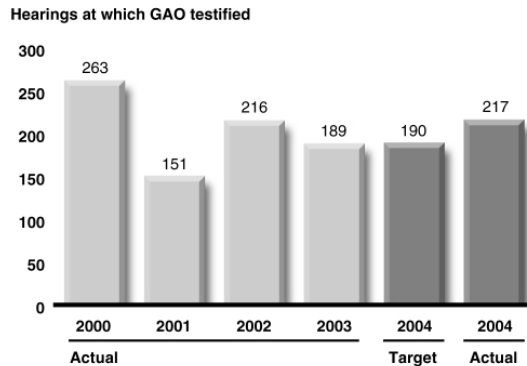
Figure 8: Cumulative Implementation Rate for Recommendations Made in Fiscal Year 2000



Source: GAO.

Testimonies That Serve the Congress

During fiscal year 2004, experts from our staff testified at 217 congressional hearings (see fig. 9) covering a wide range of complex issues. For example, our senior executives testified on the financial condition of the Pension Benefit Guaranty Corporation's single-employer program, the effects of various proposals to reform Social Security's benefit distributions, and enhancing federal accountability through inspectors general. Nearly half of our testimonies were related to high-risk areas and programs. See figure 10 for a summary of issues we testified on, by strategic goal, in fiscal year 2004.

Figure 9: Testimonies

Source: GAO.

FIGURE 10.—Topics on Which GAO Testified During Fiscal Year 2004*Goal 1: Well-being and financial security of the American people*

Student loan programs	U.S. gasoline markets
Child welfare	Farm program payments
Pension plan insurance programs	Security challenges at chemical facilities
Energy Employees' Occupational Illness Compensation Program	Oil and gas activities on federal lands
Social Security reform's effect on benefits and taxes	Postal Service transformation
Medicare spending	Rail security
Intergovernmental Medicaid transfers	Federal real property
Private health insurance	Federal aviation management and modernization
Defense and veterans' health care	Pipeline safety
	Telecommunications

Goal 2: Changing security threats and challenges of globalization

Gulf War illnesses	Military base closures
International broadcasting	Operations in Iraq
Border security	Challenges in inspecting oceangoing cargo containers
Terrorist financing	Homeland security advisory system
United Nations Oil-for-Food program	Security at nuclear facilities
Oversight of government-sponsored enterprises	Counterfeit identities
Securities and Exchange Commission operations	Information security
Mutual funds	Critical infrastructure protection
Use of Reserve forces	International defense sales
Destruction of chemical weapons	U.S. Army combat systems
Mail delivery to deployed troops	Military aircraft
Defense personnel clearances	Defense's space systems
Unmanned aerial vehicles	National strategy for homeland security

Goal 3: Transforming the Federal Government's role

Army Reserve and Army National Guard pay	Abusive tax shelters
Defense contractor tax system abuses	Diversity among senior federal executives
Fraudulent diplomas	Transformation of the federal government
Illicit Internet pharmacies	Long-term federal budget issues
Information technology management	Office of Management and Budget's Program Assessment Rating Tool
Information technology continuity of operations	The impact of the Government Performance and Results Act
Electronic government	District of Columbia government
Border and transportation security	
Electronic voting	

Federal financial management and fiscal challenges	Excess Defense property
Federal purchase and travel cards	Space shuttle program
	Defense contract management

GAO's High-Risk Program

Issued to coincide with the start of each new Congress, our high-risk update lists government programs and functions in need of special attention or transformation to ensure that the federal government functions in the most economical, efficient, and effective manner possible. Our latest report, released in January 2005, presents the status of high-risk areas identified in 2003 and lists new high-risk areas warranting attention by the Congress and the administration.²

In January 2003, we identified 25 high-risk areas; in July 2003, a twenty-sixth high-risk area was added to the list (see table 1). Since then, progress has been made in all areas, although the nature and significance of progress varies by area. Federal departments and agencies, as well as the Congress, have shown a continuing commitment to addressing these high-risk challenges and have taken various steps to help correct several of their root causes. GAO has determined that sufficient progress has been made to remove the high-risk designation from the following three areas: student financial aid programs, FAA financial management, and Forest Service financial management.

Also, four areas related to IRS have been consolidated into two areas.

This year, we designated four new high-risk areas. The first new area is establishing appropriate and effective information-sharing mechanisms to improve homeland security. Federal policy creates specific requirements for information-sharing efforts, including the development of processes and procedures for collaboration between federal, state, and local governments and the private sector. This area has received increased attention, but the federal government still faces formidable challenges sharing information among stakeholders in an appropriate and timely manner to minimize risk.

The second and third new high-risk areas are, respectively, DOD's approach to business transformation and its personnel security clearance program. GAO has reported on inefficiencies and inadequate transparency and accountability across DOD's major business areas, resulting in billions of dollars of wasted resources. Senior leaders have shown commitment to business transformation through individual initiatives in acquisition reform, business modernization, and financial management, among others, but little tangible evidence of actual improvement has been seen to date in DOD's business operations. DOD needs to take stronger steps to achieve and sustain business reform on a departmentwide basis. Further, delays by DOD in completing background investigations and adjudications can affect the entire government because DOD performs this function for hundreds of thousands of industry personnel from 22 federal agencies, as well as its own service members, federal civilian employees, and industry personnel. The Office of Personnel Management (OPM) is to assume DOD's personnel security investigative function, but this change alone will not reduce the shortages of investigative personnel.

The fourth high-risk area is management of interagency contracting. Interagency contracts can leverage the government's buying power and provide a simplified and expedited method of procurement. But several factors can pose risks, including the rapid growth of dollars involved combined with the limited expertise of some agencies in using these contracts as well as recent problems related to their management. Various improvement efforts have been initiated to address interagency contracting, but improved policies and processes, and their effective implementation, are needed to ensure that interagency contracting achieves its full potential in the most effective and efficient manner.

Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.

TABLE 1.—THE YEAR THAT AREAS ON GAO'S 2005 HIGH-RISK LIST WERE DESIGNATED AS HIGH RISK

Area	Year designated high risk
Medicare Program	1990
DOD Supply Chain Management	¹ 1990

² GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

TABLE 1.—THE YEAR THAT AREAS ON GAO'S 2005 HIGH-RISK LIST WERE DESIGNATED AS HIGH RISK—Continued

Area	Year designated high risk
DOD Weapon Systems Acquisition	1990
DOE Contract Management	1990
NASA Contract Management	1990
Enforcement of Tax Laws	² 1990
DOD Contract Management	1992
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
DOD Financial Management	1995
DOD Business Systems Modernization	1995
IRS Business Systems Modernization	³ 1995
FAA Air Traffic Control Modernization	1995
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
DOD Support Infrastructure Management	1997
Strategic Human Capital Management	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook	2001
Medicaid Program	2003
Managing Federal Real Property	2003
Modernizing Federal Disability Programs	2003
Implementing and Transforming the Department of Homeland Security	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation	2005
DOD Personnel Security Clearance Program	2005
Management of Interagency Contracting	2005

¹ This area was formerly entitled DOD Inventory Management.

² One of the two high-risk areas that were consolidated to make this area—Collection of Unpaid Taxes—was designated high risk in 1990. The other area—Earned Income Credit Noncompliance—was designated high risk in 1995.

³ IRS Financial Management has been incorporated into the IRS Business Systems Modernization high-risk area. Both areas were initially designated as high risk in 1995.

Source: GAO.

In fiscal year 2004, we issued 218 reports and delivered 96 testimonies related to our high-risk areas and programs, and our work involving these areas resulted in financial benefits totaling over \$20 billion. This work, for example, included 13 reports and 10 testimonies examining problems with DOD's financial management practices, such as weak internal controls over travel cards, inadequate management of payments to the Navy's telecommunications vendors, and abuses of the federal tax system by DOD contractors, resulting in \$2.7 billion in financial benefits. In addition, we documented \$700 million in financial benefits based on previous work and produced 7 reports and 4 testimonies focusing on, for example, improving Social Security Administration and Department of Energy processes that result in inconsistent disability decisions and inconsistent benefit outcomes.

STREAMLINING AND MANAGEMENT IMPROVEMENT EFFORTS

Shortly after I was appointed in November 1998, I determined that GAO should undertake a major transformation effort to better enable it to "lead by example" and better support the Congress in the 21st century. This effort is consistent with the House Report 108–577 on the fiscal year 2005 legislative branch appropriation that focuses on improving the efficiency and effectiveness of operations at legislative branch agencies.

The Mandate:

H. Rpt. 108–577 directed GAO to work closely with the head of each legislative branch agency to identify opportunities for streamlining, cross-servicing and outsourcing, leveraging existing technology, and applying management principles identified as "best practices" in comparable public and private sector enterprises. H. Rpt. 108–577 also directed the legislative branch agencies to be prepared to discuss recommended changes during the fiscal year 2006 appropriations hearing cycle.

Our agency transformation effort has enabled GAO to become more results-oriented, partnerial, client-focused, and externally aware, and less hierarchical, process-oriented, “siloed,” and internally focused. The transformation resulted in reduced organizational layers, fewer field offices, the elimination of duplication in several areas, and improved our overall resource allocation. We began our transformation effort by using the GAO Strategic Plan as a framework to align our organization and its resources. On the basis of the strategic plan, we streamlined and realigned the agency to eliminate a management layer, consolidated 35 issue areas into 13 teams, and reduced our field offices from 16 to 11. We also eliminated the position of Regional Manager—a Senior Executive Service level position—in the individual field offices and consolidated the remaining field offices into three regions—the eastern region, the central region, and the western region, each headed by a single senior executive. Following the realignment of our mission organization and field offices, GAO’s support organizations were restructured and centralized to eliminate duplication and to provide human capital, report production and processing, information systems desk-side support, budget and financial management, and other services more efficiently to agency staff. This has resulted in a 14 percent reduction in our support staff since 1998. As shown in figure 11, these and subsequent measures improved the “shape” of the agency by decreasing the number of mid-level managers and by increasing the number of entry level and other staff with the skills and abilities to accomplish our work.

Figure 11: GAO’s Human Capital Profile

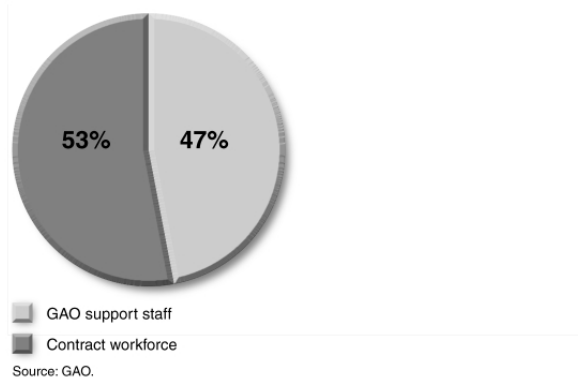
	FY 1998	FY 2004	FY 2005	FY 2006
SES/SL	3.9%	4.0%	4.0%	4.0%
Analyst band III	12.2%	13.4%	13.2%	13.0%
Analyst band II	45.6%	38.8%	39.4%	40.0%
Analyst band I	13.1%	20.3%	20.1%	19.9%
Attorney & Criminal Investigator	4.2%	4.5%	4.6%	4.6%
Admin. & Professional Support	21.0%	19.0%	18.7%	18.5%

Source: GAO.

Note: Profiles represent staffing at the end of each fiscal year. Fiscal years 2005 and 2006 are projected.

During my tenure, GAO has outsourced and cross-serviced many administrative support activities, which has allowed GAO to devote more of its resources to mission work. In fiscal year 2004, about two-thirds of our nonhuman capital costs were spent to obtain critical mission support services for about 165 activities from the private and public sectors through outsourcing. Outsourcing contracts include a wide range of mission support activities, including information technology systems development, maintenance, and support; printing and dissemination of GAO products; operation and maintenance of the GAO Headquarters building; information, personnel, and industrial security activities; records management; operational support; and audit service support. GAO also meets many of its requirements through cross-servicing arrangements with other federal agencies. For example, GAO uses the Department of Agriculture’s National Finance Center to process its personnel/payroll transactions. Also, GAO uses the legislative branch’s long-distance telephone contract, which has resulted in continual reductions in long-distance rates. GAO also uses a wide range of contracting arrangements available in the executive branch for procuring major information technology (IT) services. GAO also uses the Library of Congress’ Federal Library and Information Network to procure all of its commercial online databases.

Currently, as shown in figure 12, over 50 percent of our staff resources in the support area are contractors, allowing us to devote more of our staff resources to our mission work. We recently surveyed managers of agency mission support operations and identified additional activities that potentially could be filled through alternative sourcing strategies. In fiscal years 2005 and 2006, we will assess the feasibility of alternative sourcing for these activities using an acquisition sourcing maturity model and cost-benefit analyses.

Figure 12: Composition of GAO's Support Staff

Utilizing IT effectively is critical to our productivity, success, and viability. We have applied IT best management practices to take advantage of a wide range of available technologies such as Web-based applications and Web-enabled information access, as well as modern, mobile computing devices such as notebook computers to facilitate our ability to carry out our work for the Congress more effectively. We make wide use of third-party reviews of our practices and have scored well in measurement efforts such as total cost of ownership, customer service, and application development. In fiscal year 2002, an independent study of GAO's IT processes and related costs revealed that, "GAO is delivering superb IT application support and development services to the business units at 29 percent less than the cost it would take the Government peer group to deliver." In confirmation of these findings, in fiscal year 2003, GAO was one of only three federal agencies to receive the CIO Magazine 100 Award for excellence in effectively managing IT resources to obtain the most value for every IT dollar. We were named to the CIO Magazine's "CIO 100" for our excellence in managing IT resources in both 2003 and 2004.

Because one of our strategic goals is to maximize our value by serving as a model agency for the federal government, we adopt best practices that we have suggested for other agencies, and we hold ourselves to the spirit of many laws that are applicable only to the executive branch. For example, we adhere to the best practices for results-oriented management outlined in the Government Performance and Results Act (GPRA). We have strengthened our financial management by centralizing authority in a Chief Financial Officer with functional responsibilities for financial management, long-range planning, accountability reporting, and the preparation of audited financial statements, as directed in the Chief Financial Officers Act (CFO Act). Also, for the eighteenth consecutive year, independent auditors gave GAO's financial statements an unqualified opinion with no material weaknesses and no major compliance problems.

In the human capital area, we are clearly leading by example in modernizing our policies and procedures. For example, we have adopted a range of strategic workforce policies and practices as a result of a comprehensive workforce planning effort. Among other things, this effort has resulted in greatly upgrading our workforce capacity in both IT and health care policy. We also have updated our performance management and compensation systems and our training to maximize staff effectiveness and to fully develop the potential of our staff within both current and expected resource levels.

GAO'S FISCAL YEAR 2006 REQUEST TO SUPPORT THE CONGRESS

We are requesting budget authority of \$493.5 million for fiscal year 2006. This budget request will allow us to continue to maximize productivity, operate more effectively and efficiently, and maintain the progress we have made in technology and other areas. However, it does not allow us sufficient funding to support a staffing level of 3,269—the staffing level that we requested in previous years. In preparing this request, we conducted a baseline review of our operating requirements and reduced them as much as we felt would be prudent. However, with about 80 percent of our budget composed of human capital costs, we needed to constrain hiring to

keep our fiscal year 2006 budget request modest. We plan to use recently enacted human capital flexibility from the GAO Human Capital Reform Act of 2004 as a framework to consider such cost savings options as conducting one or more voluntary early retirement programs and we also plan to review our total compensation policies and approaches.

There are increasingly greater demands on GAO's resources. Since fiscal year 2000, we have experienced a 30 percent increase in the number of bid protest filings. We expect this workload to increase over the coming months because of a recent change in the law that expands the number of parties who are eligible to file protests. In addition, the number of congressional mandates for GAO studies, such as our reviews of executive branch and legislative branch operations, has increased more than 15 percent since fiscal year 2000. While we have reduced our planned staffing level for fiscal years 2005 and 2006, we believe that the staffing level we requested in previous years is a more optimal staffing level for GAO and would allow us to successfully meet the future needs of the Congress and provide the return on investment that the Congress and the American people expect. We will be seeking your commitment and support to provide the funding needed to rebuild our staffing levels over the next few fiscal years, especially as we approach a point where we may be able to express an opinion on the federal government's consolidated financial statements. Given current and projected deficits and the demands associated with managing a growing national debt, as well as challenges facing the Congress to restructure federal programs, reevaluate the role of government, and ensure accountability of federal agencies, a strong GAO will result in substantially greater benefits to the Congress and the American people.

Table 2 summarizes the changes we are requesting in our fiscal year 2006 budget.

TABLE 2.—FISCAL YEAR 2006 BUDGET REQUEST, SUMMARY OF REQUESTED CHANGES

[Dollars in thousands]

Budget category	FTEs	Amount	Cumulative percentage change
Fiscal year 2005 budget authority to support GAO operations	3,215	\$474,565	.....
Fiscal year 2006 requested changes:			
Nonrecurring fiscal year 2005 costs		(4,122)	(0.9)
Mandatory pay costs		20,778	3.5
Price level changes		1,428	3.8
Relatively controllable costs		899	.....
Subtotal—requested changes		\$18,983	4.0
Total fiscal year 2006 budget authority required to support GAO operations	3,215	\$493,548	4.0

Source: GAO.

Our budget request supports three broad program areas: Human Capital, Mission Operations, and Mission Support.

In our Human Capital program, to ensure our ability to attract, retain, and reward high-quality staff and compete with other employers, we provide competitive salaries and benefits, student loan repayments, and transit subsidy benefits. We have undertaken reviews of our classification and compensation systems to consider ways to make them more market-based and performance-oriented and to take into consideration market data for comparable positions in organizations with which we compete for talent. Our rewards and recognition program recognizes significant contributions by GAO staff to the agency's accomplishments. As a knowledge-based, world-class, professional services organization in an environment of increasingly complex work and accelerating change, we maintain a strong commitment to staff training and development. We promote a workforce that continually improves its skills and knowledge.

We plan to allocate funds to our Mission Operations program to conduct travel and contract for expert advice and assistance.

Travel is critical to accomplishing our mission. Our work covers a wide range of subjects of congressional interest, plays a key role in congressional decision making, and can have profound implications and ramifications for national policy decisions. Our analyses and recommendations are based on original research, rather than reliance on third-party source materials. In addition, GAO is subject to professional standards and core values that uniquely position the agency to support the Congress in discharging its oversight and other responsibilities under the Constitution.

We use contracts to obtain expert advice and or assistance not readily available within GAO, or when expertise is needed within compressed time frames for a particular project, audit, or engagement. Examples of contract services include obtaining consultant services, conducting broad-based studies in support of audit efforts, gathering key data on specific areas of audit interest, and obtaining technical assistance and expertise in highly specialized areas.

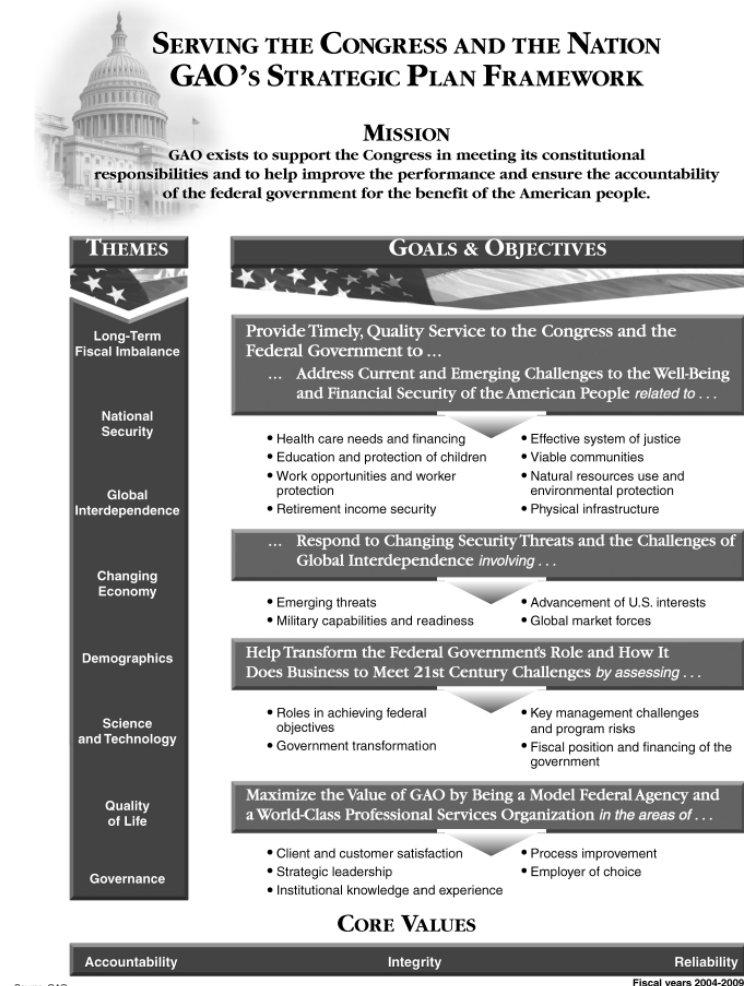
Mission Support programs provide the critical infrastructure we need to conduct our work. Mission support activities include the following programs:

- Information Technology.*—Our IT plan provides a road map for ensuring that IT activities are fully aligned with and enable achievement of our strategic and business goals. The plan focuses on improved client service, IT reliability, and security; it promotes effectiveness, efficiency and cost benefit concepts. In fiscal years 2005 and 2006, we plan to continue to modernize outdated management information systems to eliminate redundant tasks, automate repetitive tasks, and increase staff productivity. We also will continue to modernize or develop systems focusing on how analysts do their work. For example, we enhanced the Weapons Systems Database that we created to provide the Congress information to support budget deliberations.
- Building Management.*—The Building Management program provides operating funds for the GAO Headquarters building and field office locations, safety and security programs, and asset management. We periodically assess building management components to ensure program economy, efficiency and effectiveness. We are currently 8 percent below the General Services Administration's (GSA) median costs for facilities management. We continue to look for cost-reducing efficiencies in our utility usage. Our electrical costs are currently 25 percent below GSA's median cost. With the pending completion of our perimeter security enhancements and an automated agency wide access control system, all major security enhancements will have been completed.
- Knowledge Services.*—As a knowledge-based organization, it is essential for GAO to gather, analyze, disseminate, and archive information. Our Knowledge Services program provides the information assets and services needed to support these efforts. In recent years, we have expanded our use of electronic media for publications and dissemination; enhanced our external Web site, resulting in increased public access to GAO products; and closed our internal print plant and increased the use of external contractors to print GAO products, increasing the efficiency and cost-effectiveness of our printing operation. Due to recent budget constraints, we have curtailed some efforts related to archiving paper records. We currently are implementing an electronic records management system that will facilitate knowledge transfer, as well as document retrieval and archival requirements.
- Human Capital Operations.*—In addition, funds will be allocated to Human Capital Operations and support services to cover outplacement assistance, employee health and counseling, position management and classification, administrative support, and transcription and translation services.

CONCLUDING REMARKS

We appreciate your consideration of our budget request for fiscal year 2006 to support the Congress. GAO is uniquely positioned to help provide the Congress the timely, objective information it needs to discharge its constitutional responsibilities, especially in connection with oversight matters. GAO's work covers virtually every area in which the federal government is or may become involved anywhere in the world. In the years ahead, GAO's support will prove even more critical because of the pressures created by our nation's large and growing long-term fiscal imbalance.

This concludes my statement. I would be pleased to answer any questions the Members of the Subcommittee may have.



SOURCES OF GAO WORK

Senator ALLARD. Well, thank you for your testimony.

You talked quite a bit about your staffing levels. You have requested fewer staff for 2006, FTEs is 3,215 employees, than you had in 2005, which is also down from 2004. At the same time, you report that the number of congressional mandates for GAO studies has increased by more than 15 percent. How do you plan to meet the Congress' increased expectations with fewer staff?

Mr. WALKER. Mr. Chairman, first, if you look at the trend line over the last 3 years you will see that the number of mandates we received and the percentage of staff time spent on them has gone up. What this means is that we will have to respond more and more to requests from committee and subcommittee chairs, such as yourself, and committee and subcommittee ranking members. We will have less ability to respond to requests from Members who may be on a relevant committee of jurisdiction but not in a leadership capacity.

Basically what happens is that when we have more mandates, when we have constrained resources, it limits our ability to be able to deal with non-leadership requests. It also can have an effect on how long it might take us to get to a particular issue. That is the fallout.

I did say for the record, Mr. Chairman, that we also are trying to lead by example on what we are requesting. Since 80 to 81 percent of our total costs are people costs, to the extent that we have funding constraints it very quickly affects our people, and our head count, because we do not have a whole lot of flexibility in other areas.

BACKLOG OF REQUESTS

Senator ALLARD. Do you have a backlog in some areas on work that is requested from the Congress? Are there some areas where you do not have enough flexibility to permit you to initiate work on your own? Could you comment on that?

Mr. WALKER. Thank you, Mr. Chairman. As you know, 90 percent of the work that GAO did in fiscal 2004 was either a mandate from the Congress or a written request from the Congress, typically a chair or ranking member of a committee or subcommittee of jurisdiction. The other 10 percent includes about 5 percent that represents events of broad interest to the Congress that I do under my own authority as Comptroller General because many committees are interested and it is not appropriate for one committee to capture it. For example, the work that we are doing on Iraq contracting, and the work that we are doing with regard to a variety of other issues of broad interest to the Congress.

About 5 percent has to do with items where we may not get a request, but relate to significant issues in our strategic plan that we know are of interest to the Congress, but they may not be an immediate concern. For example, we did work on Social Security reform starting several years ago, when Congress was not focused on it, so we are well ahead of the curve. We have done work on health care reform before Congress was focused on it, to be well ahead of the curve. We did work on counterterrorism before 9/11 to be ahead of the curve.

We do have varying backlogs. Our biggest backlog is in health care, as you can imagine, Mr. Chairman.

Senator ALLARD. Not a surprise.

HEALTH CARE BACKLOG

Mr. WALKER. Probably our single biggest domestic policy challenge is health care. That has been and continues to be our biggest backlog. We are continuing to do the best that we can to recruit

as many people as possible in the health care area to staff up. There is a tremendous amount of demand from other organizations. It is a highly competitive marketplace. As a result, we continue to work with the relevant committees of jurisdiction to try to rebalance the portfolio and reset priorities.

There are some areas where we do not have as large a backlog, but that can be explained in part because many times committees want us to do work, but they do not necessarily want to put their name on it. For example, we do a lot of work in the defense area. I can assure you that the work that we do in the defense area is highly valued and sought after. At the same point in time, from time to time Members do not necessarily want to put their name on a request to look at a particular weapons system because of the potential implications that that might have for employment levels or other issues.

So we would be happy to provide for the record if you like a detail of exactly where our backlogs are and how they are trending. But I think we are very actively managing these backlogs. As I said, we would not have 96 percent client satisfaction unless we were doing a decent job. But it is a constant challenge.

PERFORMANCE RECOGNITION

Senator ALLARD. Well, I do agree that there is a lot of good work coming out of the Government Accountability Office. You have changed your name a little bit. I have to think about it, the Government Accountability Office. And I like your approach. I like your pay for performance effort that you are implementing.

Do you think that it has improved the overall performance of employees throughout GAO, your results-driven management style?

Mr. WALKER. I think the numbers speak loudly, Mr. Chairman. If you look at GAO today, we actually have slightly fewer people today than we had 5 years ago. But our outcome-based results—financial benefits, nonfinancial benefits, client feedback, employee feedback, client satisfaction, et cetera—have gone up dramatically. In fact, with regard to our financial results, they have more than doubled during that 5-year period of time.

Now, that is for a lot of reasons. Strategic planning. We did our first strategic plan in Spring 2000. GAO never had one before that. We realigned our organization based on that plan. We eliminated a layer of management, reduced the number of field offices, reduced the number of units from 35 to 13, redeployed resources horizontally and externally. We redefined success for GAO as outcomes and developed results-based measures. We linked institutional, unit, and individual performance measurement and reward systems.

We did a number of things and the combination of all these initiatives, which were done in partnership with my colleagues here with me today as well as others, has had a dramatic and profound effect, not only on the results but I think, quite frankly, on the culture and the reputation of our agency.

Senator ALLARD. Well, I think you bring a good news story here to the subcommittee and I am delighted to hear what you have to say.

MAKING A DIFFERENCE IN GOVERNMENT

Mr. WALKER. Gene Dodaro has been with GAO, we like to say, since the beginning, since he graduated from college. He might be able to give you a little perspective.

Senator ALLARD. Okay.

Mr. DODARO. Yes, Mr. Chairman. We track why people come to GAO to work and then why they stay with us. The basic reason is they want to make a difference. They want to make Government better, they want to improve the situation. To the extent to which we say, we are going to reward you for bringing about positive change in Government, either saving money or improving programs, public safety, et cetera, they are energized by that. They are not here just to produce reports, although at times, as you know, for policy issues we give information without recommendations to the Congress to help you make decisions.

We are making more recommendations in our reports, and our recommendation implementation rate is at an all-time high—83 percent of the recommendations we made in fiscal year 2000 got implemented within a 4-year timeframe. So it is very important to the employees.

PERFORMANCE AWARDS

Senator ALLARD. Well, thank you. I would suspect an important part of your employee motivation is your rewards and bonuses. I see where your budget request increases rewards and recognition by 8 percent, for a total of \$2.6 million. Maybe you can explain that.

Mr. WALKER. Mr. Chairman, part of our philosophy is we want to be able to have as many people as our budget will allow. But it is very, very important that, however many employees we have, they be reasonably compensated and rewarded based upon results. Consequently, our whole philosophy is that we want a market-based and performance-oriented compensation system. We want to recognize both team and individual outcome-based performance geared toward our strategic plan for serving the Congress and the country.

That means by definition that we need to make sure we have adequate funding to be able to recognize and reward people when they generate positive results. That is what that budget request is.

Sallyanne, I do not know if you have anything else you want to add to that.

Ms. HARPER. We are also implementing this year, Mr. Chairman, for the first time pay-for-performance for the administrative staff of the agency. They previously were under the General Schedule (GS) system and only got the within-grade increases based on length of service and, perhaps, a special recognition award.

Mr. WALKER. In fact, Mr. Chairman, now virtually all of GAO's employees are not only in broadbanding, but also pay-for-performance systems. So we are a window to the future, I think, with regard to the Federal Government.

Senator ALLARD. Well, I think you are doing a great job and I think you set a good example for the legislative branch. As you heard in my previous comments, I think that is important when we

are setting policy throughout the Government. I think it is incumbent on this subcommittee to hold each of the agencies accountable so that Members of the Senate and House do not get embarrassed because somehow we have a different standard here than you have for the rest of the government.

I know in my own personal office I make an effort to set an example so that when you are asking other agencies to be frugal that you can show in your own office you are frugal. I think the same thing applies here.

ADDITIONAL COMMITTEE QUESTIONS

I compliment you on the way you are running your agency and your office. I think that you reflect in a positive way what is happening here in the legislative branch and I think that is something that all the Members need to appreciate in the Senate. So I am going to carry a very positive message as to what you are doing to my colleagues, and I thank you for your testimony and I thank you for your good work.

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR WAYNE ALLARD

Question. Your report on 21st Century Challenges emphasizes a need for dramatic change to federal government programs and policies if we are to avoid serious damage to our economy, our standard of living and our national security. You say that we need to fundamentally reexamine major spending and tax policies and priorities if we are to meet the challenges that lie ahead. What role do you believe GAO, and you as the Comptroller General of the United States, should play in addressing these challenges?

Answer. In our report and testimony on 21st Century Challenges, we stated that nothing less than a fundamental review, reexamination, and reprioritization of all major spending and tax policies and programs is needed. Given our role in supporting the Congress, we believe that GAO has an obligation to provide policymakers in Congress with the support they need in identifying issues and options that could help to address these fiscal pressures. Of course, while answers to these questions may draw on the work of GAO and others, only elected officials can and should decide which questions to address and how and when to address them.

GAO and I stand ready to assist the Congress as it develops its agenda and to help collect facts, develop options, conduct analyses and perform other work in connection with the questions the Congress wishes to pursue. The challenges identified in the report are based upon our past and pending work, a vast majority of which was performed at the direction or request of the Congress. In addition, the reexamination questions are based heavily on GAO's issued work, our strategic plan, and the institutional knowledge of our staff. However, the size of the problem is so large and the programs and issues covered span such a wide range that the process of rethinking government programs and activities will in all likelihood rely on multiple approaches and sources of analysis (e.g., GAO, your staff, other Congressional support agencies and OMB) over a period of years.

GAO and I may also be useful to the Congress by helping to raise public awareness of issues and problems thereby preparing the way for the Congress to take related actions. Our past and pending work has addressed and will continue to address such items, including federal spending and tax programs, existing budget processes and financial, fiscal, and performance management activities. Inevitably, given the breadth of our work, some of our past and current engagements touch on many of the reexamination issues and questions, but it is up to the Congress to determine the issues and questions that merit GAO's resources.

Question. Is GAO currently structured properly with adequate resources in the right places to address the complexities of the issues you raise?

Answer. Yes. We believe we are well positioned to help the Congress address these issues. We are currently organized to align our work in support of our strategic plan for serving the Congress. This plan reflects the same emerging themes discussed in our 21st Century Challenges report. Importantly, we can both cover

broad cross-cutting government-wide issues while providing support to Congressional Committees on their specific areas of interest.

We have worked very hard over the past several years to build and modernize the structure that will best address our client's needs and make GAO a model for other federal agencies. We believe it is working very well. In particular, we are greatly encouraging a risk-based and matrix management oriented approach to our work that facilitates and motivates staff in different areas to work together to produce analyses of very complicated issues. Accordingly, we are not planning to change our basic structure at this time. Of course, we will continue to monitor our services to the Congress for the benefit of the American people and make changes as needed.

Question. Will the role you envision for GAO require additional resources in future years?

Answer. Yes, but not to any significant extent. We will work with our congressional clients to prioritize our work so that we are most beneficial to them while assisting them in this reexamination. Also, as mentioned above, we envision this to take place over several years and involve numerous organizations in addition to the GAO. The most challenging issue we may face in accomplishing this is to harness the great potential of our new staff, a very sizable portion of our agency, and give them the experience they will need. We are working very hard to help develop them so that they can make meaningful contributions to the Congress for years to come. We do, however, expect that additional staff and resources will be necessary when the federal government comes closer to being able to receive a qualified opinion on the consolidated financial statements.

Question. Your budget submission shows very little change in the distribution of FTE resources among your teams between fiscal year 2005 and fiscal year 2006. Do you expect that to continue or do you think you will need to redistribute to better help the Congress meet the challenges you say we are facing?

Answer. Although small, our fiscal year 2006 request does reflect some adjustment to our team FTEs to better meet the Congress' needs. Each year we adjust our FTE distribution based on a systematic assessment of the workforce that we will need to carry out our work in support of the Congress, the American public, and our strategic priorities. Our total FTE request, as well as our internal allocation of FTEs, is based on a number of factors including: Congressional requests and interests, strategic priorities, emerging issues, current staffing data, identified skill shortages, succession and knowledge retention issues, results achieved with staff resources, and budgetary considerations. Based on our analysis of this data, GAO's leadership team makes fact-based decisions about our FTE needs and the optimal deployment of our staff resources to most efficiently accomplish our work. Since 2002, we have used this process to make refinements to our unit-specific staffing allocations to reflect shifting strategic priorities. For example, as tax policy issues rise to the forefront of federal budget and deficit issues, we combined our tax group with other areas that address cross-cutting, broad-based fiscal issues. We also re-allocated existing resources to create the Homeland Security and Justice team to focus on these areas after a major realignment of executive branch departments and agencies. While we have not finalized our fiscal year 2006 workforce plan, we do expect some changes to the team allocations, but not of a significant nature.

In addition to our workforce planning process, we also foster a spirit of cooperation throughout GAO whereby staff on several teams will work together under a matrix management approach to produce the most efficient product. Much of our workforce is now working in this manner. This provides flexibility and helps minimize the need for major realignments of resources. Of course, we will continue to monitor the need for organization structure changes and will notify the Congress of any major realignment.

Question. You mention in your budget materials that over 50 percent of your mission support staff resources are contractors and that during your tenure you have outsourced many administrative tasks allowing you to devote more resources to mission work. Have you found that contractors actually cost less than performing the same functions with GAO employees or are you adding contract money and moving FTE's and salary money to mission units? If you have an analysis of cost comparison between in-house and contractor operations could you share that analysis with the Subcommittee? What factors other than cost savings led you to decide to turn so much of your administrative operations over to contractors?

Answer. In an environment of increasing fiscal restraint, we have in recent years reduced our overall FTE staff usage from 3,275 in fiscal year 1999 to 3,215 FTEs planned for fiscal years 2005 and 2006. Through a number of targeted initiatives, including reengineering, technology applications, and contracting out, we have also reduced the number of administrative, professional and support (APSS) staff from

21 percent at the beginning of fiscal year 1999 to less than 18.9 percent. Some of this reduction in APSS staff has allowed GAO to devote more FTEs and salary funds to core mission operations. Since fiscal year 1999, we have also leveraged more contractor resources, increasing the level of contract funds from \$45.7 million to \$69.7 million.

GAO contracts out for many reasons, such as improving service delivery, obtaining specialized expertise not readily available within GAO or when needed within compressed timeframes, providing technology, and minimizing demands on the agency's resources. Contracts provide an efficient, flexible vehicle to obtain technical assistance and expertise in highly specialized areas, and allow us to better respond to fluctuating demands. When GAO contracts-out for cost-effectiveness reasons, it is to take advantage of firms with lower cost structures than GAO. While direct salary and benefit costs for GAO staff and contractor staff in many instances are comparable, contractors do not always have lower costs. Contractor costs include management time and other fees that make up corporate overhead, equivalent to indirect costs an agency would pay to provide supervision, staff development, equipment, and other overhead costs. In addition, contractor costs also include profit not found in the federal environment. In other instances, the federal sector cannot compete with salaries paid by the private sector to staff in highly specialized disciplines, such as information technology (IT).

Independent of cost, technical factors specific to the service area are identified and assessed to ensure quality services or products are obtained. A technical evaluation of contract proposals would assess such items as, qualifications and skill levels of the proposed staff, contractor's approach to providing services, ability to integrate services in GAO's environment, and customer impact. Use of contract staff provides the agency the flexibility to maintain operational capabilities and obtain specific expertise for a limited duration—expanding or shrinking the workforce as demands change for specific skills—without the constraints of the federal recruitment and retention processes. It also allows an agency to focus its own staff on core functions, inherently governmental functions, and critical or sensitive issues, while managing and overseeing contractor functions to ensure accountability. For example, we found that we are able to reduce the number of staff working in our financial management area. Vendor invoice processing could be performed more cost effectively through a cross-servicing arrangement with the Department of Interior's National Business Center. In addition, as a result of travel management system improvements made in fiscal year 2004, we are able to further reduce our staffing requirements in this area. Our new travel management system streamlines and expedites transaction processing, reduces administrative processing requirements, and reduces the number of manual external processes needed by GAO to manage this function.

A cost benefit analysis is conducted for each situation where GAO considers utilizing contract resources. For example, in fiscal year 2003, GAO conducted a study of its mail operations center. GAO decided to retain its in-house operation managed by GAO staff, and supplemented by contract services for selected functions, after comparing GAO's operation with other federal mail operations and assessing the cost to outsource the operations. This decision resulted in a cost-avoidance of about \$250,000. Nine years ago, the mail center had 19 staff. Through a series of changes, the mail operation has been reduced to a small, but efficient operation with six staff.

In the area of library services and records management support, however GAO has been able to obtain contract staff at less cost than GAO staff. For example, the contract costs of a contract supervisory library technician is about \$61,000 compared to a salaried employee whose fully-loaded cost is about \$76,000. As current staff retire or separate, we plan to increase our reliance on contract resources, especially in the area of interlibrary loan services.

In the IT area, the costs for contract labor is higher than that of salaried GAO staff and reflect the marketplace. Current fully-loaded contract costs for an entry-level IT employee are about \$30,000 above that of an entry level IT salaried GAO employee. Most of our IT contracts are GSA schedule contracts. In addition, we further negotiate with vendors to obtain best value services and rates. Given the rapidly changing IT environment, our contracts are structured to provide GAO maximum flexibility to quickly obtain staff with the appropriate skill mix to meet both short and long-term needs.

Question. The Subcommittee applauds GAO's efforts to transform the agency to become more results-oriented and to devote more of its resources to the agency's core mission. However, we also note that GAO is asking for an increase in resources for mission support in fiscal year 2006. Why?

Answer. In developing our fiscal year 2006 budget, we have taken into consideration the overall federal budget constraints and the committee's desire to lead by example. We have continued to streamline our agency, modernize our policies and

practices, and leverage technology in manners that help us achieve our mission more effectively and efficiently. These efficiencies have allowed us to maintain our support of the Congress and enhance our overall performance without the need for large budgetary increases. In addition, we conducted a baseline review of our operating requirements and allocated our resources to achieve the greatest return on investment. These actions led us to request a modest increase of 4 percent over fiscal year 2005. However, in order to keep our request modest, we needed to constrain our staffing levels. We will be seeking your commitment and support to provide the funding needed to rebuild our staffing levels over the next few years. This will be essential when we get closer to the time when GAO may be able to render our opinion on the consolidated financial statements of the U.S. Government.

GAO is requesting a 3 percent increase in mission support operations costs to support our infrastructure and cover the cost of mandatory price-level increases and targeted investments, such as information security and building management improvements. This increase is less than the total requested increase in our budget authority of 4 percent. We have been able to minimize the requested increase by conducting base reviews of our support costs and through offsets of non-recurring requirements. For example, our facilities management program cost estimates assume that a GAO staff person will retire and can be replaced by a more junior contract staff person.

Question. What is the percentage of staff allocated to mission support activities?

Answer. The administrative and professional staff responsible for GAO's mission support activities currently comprise less than 18.9 percent of total staff, down from 21 percent at the beginning of fiscal year 1999. We expect this percent to decline to 18.5 percent by the end of fiscal year 2006. The staff provides essential services for IT, building management, knowledge services, human capital operations and other support services. These services are vital to ensuring consistency in the delivery of quality products to our clients and customers.

Question. What is the percentage of costs allocated to mission support activities? Where do you see these percentages going in the next few years? What do you believe is the appropriate level of investment in mission support?

Answer. Administrative and professional support staff and mission support operational costs represent about 26 percent of GAO's total budget authority. We believe that we have achieved a core level of administrative and professional support staff and operating costs necessary to provide the appropriate infrastructure for staff to conduct their work. While we continue to seek opportunities to streamline operations and leverage outsourcing mechanisms for efficiency and economy purposes, we believe our investment is the appropriate level without sacrificing quality in our administrative and professional support services.

Question. GAO has established a strategic goal of being a model agency. Your fiscal year 2004 Performance and Accountability Report indicates three major management challenges, human capital, physical security, and information security. Why were these areas identified as management challenges? What actions have been taken to address these challenges? What additional actions and funding are required to address current weaknesses in these areas? Are there other areas that you consider to be challenged?

Answer. At GAO, the Comptroller General and the agency's senior executives through the agency's strategic planning, management, and budgeting processes identify key management challenges. The three challenges identified are all areas in which we have, and will continue to experience substantial and continual change and challenges. They are also areas that significantly impact our ability to support our mission. We must focus our efforts and resources on maintaining our flexibility to adapt to changing technology and world events, while ensuring the security of our information assets and systems, and ensuring that our human capital resources are best suited to meet the needs of our congressional client. These are all internal challenges. Our key external challenge is to assure that Congress adequately funds GAO for the benefit of itself and the country.

Human Capital Management

In the area of human capital management, during the last few years, we developed our first formal and comprehensive strategic plan for human capital which communicates GAO's strategy for becoming a model professional services organization, including how we plan to attract, retain, motivate, and reward a high-performing and top-quality workforce. We also fully implemented our workforce planning processes, addressing the size, deployment, and profile of our staff to ensure we have the appropriate resources strategically placed to pursue our goals and objectives now and in the future. We continue to build on our accomplishments in attracting and retaining a diverse workforce with the knowledge, skills, and abilities

to meet the new century's challenges through succession planning activities and training and development. For example, we implemented revised policies to expand the use of flexi-place to provide employees additional options. Such initiatives are particularly important given our employee profile where about 50 percent of our staff are recent hires.

During fiscal year 2004 we completed establishment of market-based and performance-oriented compensation systems and competency-based appraisal systems for all our staff, and we began monitoring, reviewing, and assessing these systems to identify enhancements that may be needed. In fiscal year 2005, a consulting firm assisted us in establishing pay rates that are competitive with comparable organizations and these rates were used for certain purposes in our annual pay for performance process for analysts, specialists, and attorneys. We also began implementing policies and processes to implement the human capital flexibilities authorized by Congress under GAO's Human Capital Flexibilities Act of 2004. Other actions we have taken include initiating strategy formulation for the annual adjustment of GAO employees' salaries; revising and issuing our regulations on pay administration to implement the satisfactory performance requirement for GAO analysts and related specialists and attorneys; drafting and issuing for review a regulation applicable to employees placed in lower grades or bands as a result of workforce restructuring or reclassification; revising and issuing for comment our leave policies and procedures regulation, which includes the provision permitting designated key employees with less than 3 years of federal service to earn 6 hours of annual leave; and drafting and issuing for comment our regulation implementing the Executive Exchange Program.

We anticipate that we will implement a number of the human capital flexibilities authorized by Congress and for which we are drafting, revising, and issuing for comment a number of regulations in fiscal year 2005. In addition, we will implement a streamlined, user-friendly guide to government and non-government professional development opportunities; develop and implement an expedited and coordinated new hire process; determine the feasibility of implementing a development program for new hires with previous experience; and enhance our competency-based performance systems. No additional funding will be needed for these actions.

Physical Security

The challenge to provide a safe and secure work environment for employees remains a government-wide issue in light of changing security threats, which can have a profound impact on the way GAO conducts business in the United States and around the world. Protecting our people and our assets is paramount to agency operations. We continue to devote time and resources to the assessment of security operations as we further enhance GAO's security posture. Within the next few months, our perimeter security enhancements will be complete. These enhancements include protective barriers, such as installation of walls and bollards around the building, vehicle restraints at the garage ramps, ballistic-rated security guard booths, and vehicle surveillance equipment at the garage entrances. We also plan to install a state-of-the-art electronic security system during fiscal year 2005.

During fiscal year 2004, we developed a continuity of operations plan and held communications drills to test our plan this fiscal year. As part of our plan to ensure our continuity of operations should we have to vacate our headquarters because of an emergency, we identified an alternative facility to house our continuity-of-operations team. We have also updated our Shelter in Place plan and *Emergency Response Handbook* for headquarters and prepared similar plans for the field offices. We continue to hold annual security fair seminars to disseminate information on security and emergency preparedness at the workplace and at home. We have no additional funding requirements at this time.

Information Security

Following the events of September 11, 2001, expanded internet access, and global technology, information security remains a government wide issue. In the area of information security we implemented a centralized reporting system to track audit findings through a Plans of Action and Milestones tool; established monthly remediation meetings for regular remediation effort tracking; completed updates to our security awareness training presentation; began performing weekly vulnerability assessments of our information systems to ensure our scheduled patching process and configuration management practices are working; and installed a firewall and spyware on our workstations.

New initiatives for fiscal year 2006 include establishing annual specialized training for various levels of management and IT staff with elevated system privileges; and combining the IT Disaster Recovery and the Continuity of Operations Plan into

an integrated security plan, and completing training for these plans. In addition, activities that will be completed during fiscal year 2006 include completion of the integration of a Web caching proxy and a firewall for Web-based traffic into the GAO network architecture to provide additional information security protection at the network level; continuing efforts to harden our network and desktops with upgraded authentication devices, exploring intrusion protection devices and external monitoring services for after hours network security monitoring of our intrusion detection devices; and completing the information sensitivity program to provide system data sensitivity in accordance with FIPS Pub 199 and NIST SP 800-60. We anticipate additional funding of \$487,000 will be needed to complete these actions.

Question. Have you assessed the costs and benefits associated with being a “model” agency?

Answer. No. While we have not conducted a formal cost/benefit analysis, there is little question that our actions result in enhanced value and better cost management. They also serve to enhance GAO’s image externally and our credibility within the government and the accountability profession, both domestically and internationally.

Question. Your fiscal year 2006 budget request indicates that the two main focal points for increased funding and new initiatives in IT for fiscal years 2005 and 2006 will be in the areas of IT security and business systems development. Please provide the Subcommittee an update on your efforts to date in these areas. Please elaborate on the opportunities that you have identified to affect economies and efficiencies?

Answer. GAO has redesigned and automated numerous business and work processes, as well as taken advantage of numerous electronic tools, to foster productivity, improve cost savings and enhance timeliness. As reliance on technology has grown, our technology efforts have and will continue to directly affect the quality of our mission work and the service GAO staff provide to the Congress through audits and analyses. Our GAO fiscal year 2004 Performance and Accountability Report highlights a number of efforts that have directly affected economies and efficiencies while improving the quality, responsiveness, and timeliness of GAO services. Several of these initiatives best illustrate our efforts.

Acquisition Systems Management (ASM) Weapons Systems Database

This system has enabled GAO to become Congress’ primary source of annual evaluations of DOD acquisitions. The system expanded staff’s ability to query and view information across weapons systems programs, perform micro and macro trend analysis, and shortened turnaround times. Major benefits of this system include more comprehensive and sophisticated analyses and improved multi-year reporting on weapons acquisitions practices. The tool has significantly increased staff productivity while contributing to recommendations that resulted in \$1.6 billion in programmatic savings in fiscal year 2004.

Financial Management and Assurance (FMA) Consolidated Financial Statement Audit Database

This system, whose development is currently underway, documents the planning, internal control and testing, and reporting phases of GAO’s annual audit of the U.S. Government’s Consolidated Financial Statements (CFS). Major efficiency benefits will include (1) shortened audit cycle and ability to perform increased audit work; (2) increased functionality and accessibility of audit tool to project users; (3) improved reliability of the financial data collected and analyzed; (4) improved security and backup capability; (5) increased potential for data analysis as needed to improve the reliability of information of the U.S. Government; (6) ability to conduct in-depth analyses to support rendering opinions on CFS; and (7) ability to document audit work performed to support auditor’s reports on the CFS. In addition, by reducing the staff days required for database maintenance, staff would be able to devote more time to analyses and improved service to clients. Plans are to also make this system available to the Inspector General community for their individual department and/or agency audits.

Staffing Information System

This subsystem of the Engagement Management System will support team decision-making and facilitate matrixing, multitasking, and sharing of staff. It will support team decision making by balancing staff preferences/development needs and provide real time access to staffing data. By integrating data from all related systems, it will eliminate staffing cuff systems and reduce the administrative burden on teams.

Electronic Records Management System

This system automates management of GAO's records to leverage institutional knowledge within and across agency functions. It establishes a foundation for knowledge management in GAO, while providing the ability to manage and dispose of records electronically. It will also afford a seamless records system for GAO's move to electronic business processes. Several significant benefits include: Reduced in time spent by mission and administrative staff managing and locating records; ready access to and retrieval of GAO records; reduced costs for offsite storage, secure destruction, and courier services to records centers; and more efficient and effective records management processes.

Question. What savings will you be able to achieve by fiscal year 2006?

Answer. IT initiatives enable GAO to increase productivity and ensure economy, efficiency, and effectiveness in performing GAO's work. Many of the initiatives cited in the previous response are good examples of these efforts. In many of our IT projects a residual benefit is enabling staff to redirect time once spent on redundant, time-consuming, and unproductive activities to more productive, mission-related work. For example, the ASM Weapons Systems Database enabled staff to shift time once spent on data collection and entry to more analyses of greater breadth and depth. Prior to this database, ASM reviewed about 10 weapon systems programs per year with estimated costs of \$78.9 billion. In fiscal year 2004, ASM was able to review 60 programs and report on 51, covering estimated costs of \$672 billion. As a result, GAO was able to identify for the Congress a total potential reduction in funding of \$1.5 billion in these programs.

There are also IT efforts that provide opportunities for cost savings in IT and non-IT areas. Remote access improvements are an effort that resulted in a reduction in IT operational costs. The movement to AT&T remote access services provided local access points and eliminated reliance on costly "800#" dial-up services. It also increased efficiencies by giving staff the ability to access the GAO network using a wider range of devices such as DSL and cable modems.

The videoconferencing expansion project was an IT effort that reduced non-IT costs. We provided a second videoconferencing system in most field offices and expanded the number of units in headquarters. This has resulted in increased communications and matrixing across geographic locations and increased staff productivity. It also created the potential for reductions in travel time and costs.

Question. What is the status of your efforts to upgrade your financial management system?

Answer. This year we initiated efforts to replace our financial management system by obtaining these services through cross-servicing with another government agency. To date we have:

- Assembled a project team consisting of staff from our Financial Management and Information Systems and Technology Services organizations which has developed a steering committee charter and identified steering committee members and a management team that will oversee requirements definition, system selection, procurement activities and system deployment.
- Conducted initial rounds of interviews to identify user-specific requirements and major pain points with the current financial management.
- Developed a Government-off-the-shelf (GOTS) evaluation process methodology.
- Identified potential cross-service agencies.

We plan to select a system early in fiscal year 2006 and implement the system for operational use in fiscal year 2007.

Question. Your focus in recent years has been on implementing technology improvements and tools that enhance business practices, as well as improve staff productivity. Which of these improvements has the ability to create efficiencies throughout the legislative branch?

Answer. Two improvements that could create efficiencies throughout the legislative branch for those agencies that utilize the Department of Agriculture's National Finance Center (NFC) computer services are WebTA and I*CAMS. Both GAO and the Library of Congress are using these systems.

In 2004, GAO deployed WebTA, a user-friendly Web-based time and attendance (T&A) system that replaced a costly and inefficient T&A process. Benefits of this system include: Elimination of duplicate entry of T&A data; an automated interface with NFC; on-line supervisory approval; reduced time to process T&As; and decrease of T&A errors.

The second initiative that could benefit other legislative branch agencies is the utilization of a Web-based human capital front-end to the NFC personnel/payroll system, I*CAMS (Agriculture's Internet-based Combined Administrative Management System). To date GAO has implemented the transaction processing system that supports and integrates transaction processing, position management, and

awards processing. There are a variety of benefits agencies may realize: Improved data accuracy and timeliness; customized and real-time reports; elimination of paper driven and standalone, automated ad hoc systems for tracking and supporting transactions; reduced duplicate data entry; and human capital portal capability for role-based and personalized access to human capital information.

HEALTHCARE BACKLOG

Question. Are there some areas in GAO where there is a backlog of work requested by Congress and other areas where there is enough flexibility to permit you to initiate work on your own? Explain to the Subcommittee the process you use to prioritize and address congressionally requested work.

Answer. Yes. GAO has a backlog of congressionally-requested work, but it is not uniformly spread across all of our teams. The backlog in a few areas like health care and natural resources and the environment is particularly large. At any point in time, the backlog may not reflect all of the work that our clients would like us to do, as some of them prefer not to send requests when they know that we do not have the resources to begin the work.

To ensure adherence to GAO's core values, effective management practices, and efficient use of available resources, GAO generally initiates work according to the following priorities: Congressional mandates; Senior congressional leader and committee leader requests for issues within a committee's jurisdiction; and Individual Member requests, with additional consideration given to requests from Members who are on a committee of jurisdiction.

After receiving a mandate or a request, GAO will initiate a meeting with the committees of jurisdiction staff to gain a better understanding of the need for information, the nature of the research questions and related timing issues.

Question. Do you routinely move resources from areas where backlogs are small or non-existent to areas where they are significant?

Answer. Yes, we do move resources, but only to the extent that we believe it can be done efficiently and without harming our long-term responsibility to serve the entire Congress. We have also reassigned work from overbooked areas to others that may be able to address the work more quickly. For example, six requesters asked us to do a review of the Klamath River Basin Conservation Area Restoration Program. One of our teams—Natural Resources and Environment—was unable to do it because of their backlog, so we assigned the work to our Financial Management and Assurance team. In another case, our Homeland Security and Justice team had difficulty staffing a review of reprogramming of air marshal program funds, so it was assigned to our Strategic Issues team.

We also work hard to foster matrix management in our work, wherein we have staff from one team work with other teams without making a permanent reassignment. This allows us to work more efficiently. Nonetheless, in some cases, a specific expertise is needed that cannot be met through matrixing or by using staff from another area. In those cases, we may need to wait for the staff with the proper expertise to be available before we can start the work. We also work periodically with some committees to have them help prioritize the backlog of work attributable to their committees.

Question. The organization chart in your budget submission shows 13 teams that perform the substance of GAO's work. Would you please provide the Subcommittee with a breakout by team of the number of congressionally mandated jobs in fiscal year 2004 and fiscal year 2005, the average amount of time that elapsed from receipt of a Congressional mandate to when data gathering actually began on the job, and the number and age of requests currently on hand for each team?

Answer.

Team	Fiscal Year 2004 Completed Man- dates/Requests	Fiscal Year 2005 Ongoing and Completed Man- dates/Requests as of 3/31/2005	Median Age in Months from Re- quest Receipt to Engagement Ini- tiation ¹	Number of Re- quests Pending as of 3/31/ 2005 ¹	Median Age in Months
GAO	1,061	894	1.1	278	3.7
Goal 1—Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People					
Education, Workforce, and Income Security	79	79	1.3	16	1.5
Financial Markets and Community Investment	50	46	1.0	11	3.7
Health Care	75	79	2.1	248	13.2
Homeland Security and Justice	83	70	2.3	29	1.9
Natural Resources and Environment	105	106	3.1	355	7.2
Physical Infrastructure	79	64	.5	15	5.4
Goal 2—Respond to Changing Security Threats and the Challenges of Global Interdependence					
Acquisition and Sourcing Management	54	46	1.8	28	1.1
Defense Capabilities and Management	92	57	.1	10	2.9
International Affairs and Trade	75	46	.5	19	1.6
Goal 3—Help Transform the Federal Government's Role and How it Does Business to Meet 21st Century Challenges					
Applied Research and Methods	8	12	.2	.....	.....
Financial Management and Assurance	181	168	.2	5	3.6
Information Technology	95	58	.4	25	1.0
Strategic Issues	85	63	.6	17	1.4

¹ These figures exclude legislative mandates and those requests that are dependent on (1) a triggering event (e.g. an agency action), (2) a distant future due date that does not require GAO to start too early, and (3) sequencing situations where other GAO work must be performed before work can logically be started.

² Ten of these jobs have been started, but the engagement initiation paperwork is pending.

³ The team has made steady progress in reducing its backlog. Some requests await staff with appropriate clearances; others have been sequenced by requesters. Ten requests are from individual members and are, therefore lower in priority and have been in the backlog for some time.

Question. How much work do you initiate each year that is not requested by Congress? How many FTE's and how much money do you spend on that work?

Answer. In fiscal year 2004, about ninety percent of our audit resources were spent on congressional requests and legislative mandates, and about 10 percent on work performed under the CG's legal authority. Importantly, a significant majority of the CG initiated requests relate to areas of broad interest to the Congress. Under our Congressional protocols, such items, especially when they are precipitated by a significant event, can be done under the CG's authority in order to facilitate broad sharing of related information with the applicable congressional committees, e.g., election reform, Iraq contracting. Many requests under the CG's authority represent items of interest to Committees and/or Members, but they would prefer not to be identified as the requester, e.g., defense related work.

We have further categorized the ten percent of our audit resources initiated under the Comptroller General's authority (CGA). They include

- Engagements initiated by GAO that provide an opportunity for us to do work on a wide range of issues we believe have particular value but have not been requested (5.5 percent).
- GAO's High-Risk program, which focuses on selected federal programs that are more vulnerable to waste, fraud, abuse, and mismanagement than other programs or have major challenges with their economy, efficiency, or effectiveness (1.6 percent).
- Our budget justification reviews that are of considerable help to the Congress in authorizing and appropriating funds for federal programs every year (1.6 percent).
- Work that addresses the broad interests of the Congress on longer-range, cross-cutting, and transformational issues; the topics may be heavily requested by numerous Congressional clients, as was the case on some of our most recent work on elections and Iraq (0.6 percent).
- Presentations and guidance given on GAO's key responsibilities such as the recently revised Government Auditing Standards or accounting issues (0.5 percent).

The amount of work done under the CGA also varies from team to team in GAO as shown in the following table for fiscal year 2004:

Team	Percent of Fiscal Year 2004 Audit Resources Spent	
	Requests and Mandates	Engagements Under the CGA
Goal 1—Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People		
Education, Workforce, and Income Security	85	15
Financial Markets and Community Investment	93	7
Health Care	99	1
Homeland Security and Justice	99	1
Natural Resources and Environment	97	3
Physical Infrastructure	97	3
Goal 2—Respond to Changing Security Threats and the Challenges of Global Interdependence		
Acquisition and Sourcing Management	75	25
Defense Capabilities and Management	68	32
International Affairs and Trade	97	3
Goal 3—Help Transform the Federal Government's Role and How it Does Business to Meet 21st Century Challenges		
Applied Research and Methods	74	26
Financial Management and Assurance	98	2
Information Technology	99	1
Strategic Issues	90	10

Question. Do you believe that there is a need to maintain a certain level of work that is not requested by Congress?

Answer. Absolutely. This allows the GAO to address significant current or emerging issues having broad-based Congressional interest that may have a significant ef-

fect on the nation's future. Indeed, a very significant portion of our financial¹ and other non-quantifiable benefits are attributable to work initiated by us and eventually used by the Congress. In fact, every engagement initiated by us under our CGA relates to our strategic plan and is expected to be of significant value to the Congress and the American people.

Examples of this work include work assessing: major DOD weapon programs, funding for the global war on terrorism, offshoring of American jobs, reporting of uncollectible debt to IRS, SBA's disposition of disaster assistance applications, the Centers for Disease Control and Prevention, factors influencing gasoline prices, and issues associated with the future of intercity passenger rail transportation.

Question. How do you decide what that work should cover?

Answer. The GAO has a comprehensive strategic planning effort that lays the foundation for all of the work we do. This effort, which draws heavily upon our staff's knowledge of federal programs and issues, is also heavily dependent on the views of Congress and others in the government and elsewhere who are interested in the work of the GAO. We would be pleased to provide additional copies of this plan if needed. Our Web site (www.gao.gov) also features this plan.

Our most senior executives, including the Comptroller General and Chief Operating Officer, must approve engagements initiated by the GAO. Our senior executives meet every week to discuss new engagements, routinely consider each job and the likelihood that it will be of significant use to our Congressional clients and produce results such as financial benefits to the American people and improvements in the management of the nation's government.

Question. You have been using a pay for performance system for some years now. Have you done any analysis to determine whether your system costs more than what the rest of the Government is doing? Also, please describe your efforts to establish a market-based compensation system. Do you have benchmark data available on GAO salaries?

Answer. No, GAO has not analyzed the cost of the agency's pay for performance system in relation to other federal government agencies. There are a variety of pay for performance systems operating throughout the federal government, so there is no single model which can be used for cost comparison. Importantly, in our view, given the operational flexibility provided to GAO in 2004, it would be more appropriate to consider conducting any such analyses after our pending changes have been in effect for several years.

In July 2004, Watson Wyatt Worldwide, a leading compensation consulting firm, assisted us in establishing pay ranges that are competitive with comparable organizations including selected government, not-for-profit, and professional services entities in the labor markets where GAO staff are located. Watson Wyatt worked closely with GAO executives and representatives of our Employees' Advisory Council to assure that the GAO positions were appropriately matched to positions in the numerous published compensation surveys from which compensation data were extracted. Watson Wyatt presented their recommendations for compensation ranges to GAO's Executive Committee in November 2004. After consideration of the unique aspects of the roles and responsibilities of some GAO positions in relation to the applicable markets, as well as the need to assure internal equity among positions doing similar work, the Executive Committee made some minor adjustments to the compensation ranges recommended by Watson Wyatt. The proposed compensation ranges were presented to all GAO employees in a Comptroller General Chat in December 2004. These proposed ranges were used for certain purposes in making individualized performance-based compensation decisions for fiscal year 2004 performance, but our new overall compensation ranges will not be formally adopted and fully implemented until January 2006. Initially, we focused on establishing competitive pay rates for the analysts, specialists, and attorneys, who make up about 77 percent of our workforce, but we will also establish competitive pay rates for our administrative and professional support staff by the end of 2005.

The establishment of competitive pay ranges, along with the development of a new methodology for making individualized performance-based compensation decisions, was undertaken as part of a comprehensive classification and compensation review that is guided by seven principles:

- Enable GAO to attract, retain, motivate, and reward top talent.
- Result in equal pay for work of equal value over time.
- Be reflective of the roles and responsibilities that we expect GAO staff to perform.

¹In fiscal year 2004, \$16.4 billion of the \$44 billion in GAO's financial benefits (37 percent) flowed directly from our work performed under GAO's CGA.

- Be reasonable, competitive, performance-oriented, and based on skills, knowledge, and role.
- Be affordable and sustainable based on current and expected resource levels.
- Be in conformity with applicable statutory limits.
- Try to assure a reasonable consistency in ratings and related compensation results within and between teams.

Watson Wyatt was able to benchmark 34 of the 36 positions for which GAO requested assistance in developing competitive pay rates. We were very pleased with this result, which greatly exceeded the 40–60 percent of positions that Watson Wyatt indicated would normally be benchmarked to the market and gave us increased confidence in the reliability of the market matches. GAO's proposed compensation ranges set the "competitive rate" at the 50th percentile relative to our comparable organizations. The most robust data was found for positions in the Washington, DC market. GAO's 12 field locations are grouped into five zones. The salaries for each zone are adjusted using a geographic differential that contemplates the cost of labor for that geographic location against the market data collected for positions in Washington, DC.

One of the significant findings of the compensation study was that the cap for our Band I analysts and specialists should be lowered from \$81,986 to \$74,000. When GAO validated its new competency-based performance management system, we found that there were two different roles for analysts and specialists at the Band II or "Senior" level—that of an "individual contributor" and that of an "engagement leadership." In doing the compensation study, we asked Watson Wyatt to see if the market made a distinction in how the two roles are compensated. They found the market did distinguish between the two roles. In fact, the distinction led them to recommend that we increase our current pay range for Band IIs from \$114,987 to \$125,000, but only for individuals who are in a leadership role. For individual contributors, the market data indicated that the current pay range should be lowered from \$114,987 to \$99,000. Over the next few months, as we prepare for the full implementation of these market-based compensation ranges, we will be developing the final pay ranges, as well as the criteria and a process we will use to make pay range placement decisions for our current Band II staff. We recognize the importance of assuring that both the criteria and the process are objective, transparent and non-discriminatory. We will also assure that staff have an opportunity to appeal their placement.

At the Band III level, the current statutory cap of \$135,136 limits our ability to fully implement the compensation ranges the market indicates would be competitive, especially for attorneys and PhD economists, and to a lesser extent, for analysts and specialists with management or senior leadership responsibilities. For example, the true competitive rate for attorneys is \$143,000, which would put the pay range maximum at \$178,750. That is 32 percent higher than the current cap. Even attorneys at the current cap will be below the market rate by about 5.4 percent.

Question. Will changes in your compensation system improve your ability to retain staff?

Answer. Yes, we expect that it will and believe that it will not have an adverse effect. As I mentioned earlier, one of the principle objectives in undertaking the development of our market-based compensation system was to enhance GAO's ability to attract, retain, motivate, and reward top talent within current and expected resource levels. Individuals generally cite the nature of the work, the opportunity to make a difference, and the reputation of the agency as primary reasons they choose to work for GAO. While it is true that for individuals who choose public service, salary is not the primary motivator, it is nonetheless an important factor. Except as I discussed above with respect to the limitations the current statutory cap places on our ability to adopt market-based pay ranges reflective of the true competitive rate for Band IIIs, I am confident that we will be competitive with entities that we regularly compete with for talent. I believe that our competitive position will over time be enhanced by our approach to individualized performance-based compensation that assures that top performing staff are identified and well rewarded. I also believe that it is important in adopting a market-based compensation philosophy that we have reasonable flexibility to implement the competitive pay ranges that are applicable to our workforce. As a result, I am planning to request legislative authority to exceed the GS–15/10 statutory cap when the market-based data indicates a higher cap is reasonable and appropriate given the relevant facts and circumstances. This will help us to more effectively compete with the SEC, banks, regulatory agencies, and other federal entities.

Question. How will planned changes impact your average annual salary?

Answer. I have made a commitment to our staff that no GAO employee's current salary, including accumulated locality pay, will be reduced irrespective of their cur-

rent position, pay, performance, or location. I also have made a commitment that they will receive annual adjustments that will at least maintain their purchasing power, if they are performing at the “Meets Expectation” level or above on all of the competencies relevant to their band level and if their current salary is not in excess of their applicable pay range limit. While annually we will review and adjust, as appropriate, our pay ranges to reflect changes in labor market rates, the salaries for individuals being paid in excess of their pay range limit will be frozen. That means that they will not receive an annual salary adjustment until their salary falls within the expected pay range. However, they will still have an opportunity to earn an annual performance bonus if their rating places them in the top 20 percent of their band level within their team. This “floor guarantee” will be paid as a cash bonus. In addition, they will still be eligible for various other incentive awards, e.g. spot awards.

Over time, an employee’s average annual salary will be based more on the competitive rate for their position and band level, with only top performing staff receiving salaries that are above a certain point in the pay range (e.g., the 75th percentile) that is referred to as a “speed bump”. This is a key aspect of a performance-oriented and market-based compensation philosophy and is markedly different from the pay philosophy under which GAO and most federal agencies have been operating. When GAO went to pay banding in 1989, we adopted pay ranges that followed the GS schedule, and we assumed that staff were correctly classified. In retrospect, that may not have been the case. However, the underlying pay philosophy was that everyone had the right to advance to the pay cap in the absence of performance issues—it was not a matter of “if”, but only “when”. As we transition to a performance-oriented and market-based compensation philosophy where pay ranges are set to be competitive with entities that compete with GAO for talent, everyone has the opportunity to advance to the pay cap—but individuals must have performance in excess of a certain level to advance beyond “speed bumps”. That will limit the number of staff who will advance to the pay cap. It will also help to assure that the only individuals who are paid in excess of the minimum pay rate for the next higher level of responsibility are strong performers.

Within a few years after implementing the market-based compensation ranges, I expect that the combined effect of managing salaries around the competitive rate and implementing a performance “speed bump” will result in a lower average annual salary (in today’s dollars) as compared to what would otherwise occur under our current system. However, that won’t necessarily translate to a lower average total cash compensation because of the impact of our new individualized performance-based compensation system, which allocates pay earned on the basis of performance between a salary increase and a one-time cash bonus payment. Individuals whose current salaries are below the competitive rate receive more of their performance pay as a salary increase, while individuals whose current salaries are above the competitive rate receive more of their performance pay as a one-time cash bonus. For 2005 pay adjustments, all Washington, DC-based employees received across-the-board and locality increases of 3.71 percent. In addition, analysts, specialists, attorneys, and economists received an average performance-based compensation increase of 1.65 percent, allocated between salary increase and cash bonus.

With the flexibilities provided by the GAO Human Capital Reform Act of 2004, more of individuals’ annual pay adjustments in future years will be determined by their performance. The allocation process is a key element in managing salaries around the competitive rate, but it is also justifiably a source of concern for GAO staff because the portion received as cash is not a component of the calculation of an individual’s “high-3” for retirement or of the salary base upon which Thrift Savings Plan (TSP) contributions are computed. Therefore, in order to address these concerns, I am planning to request legislation that would permit calculation of “high-3” and TSP contributions on an individual’s total cash compensation, rather than on base salary plus accumulated locality pay as required by current law. I believe such authority could significantly facilitate more widespread use of more market-based and performance-oriented compensation systems that allocate annual performance pay between salary increases and bonus payments.

Question. Please elaborate on the cost savings options that you are considering as part of your revised human capital framework.

Answer. By implementing a more market-based and performance-oriented compensation system, GAO is continuing to work towards our strategic goal of maximizing the agency’s value under current and expected resource levels. Our compensation initiatives have involved the assessment of positions to ensure appropriate classification of various career streams and levels of responsibility along with a market-based determination of the appropriate salary range for positions. Each year as part of the annual performance-based compensation process, GAO provides

employees with pay adjustments that reward performance, are reflective of the market value of positions, consider changes in purchasing power, and are financially sustainable. For increases effective October 1, 2005, GAO will develop and apply its own methodology for annual cost-of-living and locality pay adjustments. For example, pay ranges in Washington, DC, and in other cities in which GAO employees reside, will be based on the results of an independent, market-based compensation study conducted for GAO.

While cost savings are not the impetus for our market-based, performance-oriented compensation system and other human capital initiatives, the Congress will likely place increasing emphasis on fiscal restraint given large budget deficits and the nation's long-range fiscal imbalance. GAO is planning for the possibility of significant and recurring constraints on the available agency resources. Since 80 percent of our budget is composed of people-related costs, any serious budget situation will have an impact on our human capital policies and practices. Using our recent human capital flexibility as a framework, GAO would consider such options as conducting early out offers, reviewing our policies and approaches to total compensation, delaying or reducing investments in discretionary programs that support the workforce, rethinking our current approach to hiring, and considering workforce restructuring actions on the basis of organizational need and budgetary considerations.

Question. Can you tell us what the average cost per FTE is for your Band II and Band III employees and how that compares to the average cost per FTE for GS-13 through GS-15 employees in agencies like OMB and OPM? How does the percentage of Band II and Band III employees in GAO compare to the percentage of GS-13 through GS-15 in OMB and OPM?

Answer. The average salary for GAO Band II and Band III employees at September 30, 2003, the most recent year when comparable data is available, was \$98,426. The average salary for GS-13 to GS-15 staff was \$98,333 for OMB and \$112,174 for the SEC. We do not consider OPM comparable to GAO since over 72 percent of OPM staff perform clerical, administrative and compliance related work which is typically compensated at lower salary levels than staff performing work of an analytical nature. We believe that work performed by the SEC is more comparable to that performed by GAO. The average salary for GS-13 through GS-15 employees at OPM at September 30, 2003, was \$89,099.

As of September 30, 2003, Band II and III employees accounted for 51 percent of GAO's staff. OMB and SEC GS-13 through GS-15 employees accounted for 54 percent and 55 percent, respectively. At the OPM, the percentage of GS-13 through GS-15 employees was 25 percent.

Question. Does your pay for performance and broad banding system cover all GAO employees?

Answer. No. We have 5 Wage System employees who will not be converted to a broad banded pay for performance system and 20 criminal investigators who we are in the process of converting to a broad-banded system. All GAO employees who are covered by a pay-banding system will be eligible for pay for performance.

Question. Do you believe there is a need to further refine your system to make it more effective? If so, what changes do you plan to make and how much will they cost? Do you expect these refinements, once implemented, to reduce overall compensation costs? If compensation costs are reduced, can the savings help you to restore your FTE levels?

Answer. Yes. After the completion of each performance appraisal cycle and performance based compensation process, GAO conducts an evaluation by reviewing data and by soliciting feedback from managers and employees. As part of our continuous improvement process, we have made modifications to the performance appraisal and pay process every year based on this evaluation. We are currently analyzing the results of our evaluation of the fiscal year 2004 process to determine what, if any, modifications will be recommended for next year. Continuous improvement costs are minimal, as the majority of changes require minor adjustments to the existing system. We do anticipate a review of the analyst band structure and the competencies associated with the band levels in connection with the implementation of market-based compensation ranges. We anticipate the cost of this effort to be minimal because the compensation work has already been completed and the majority of the work on the competencies was completed when GAO initially undertook revising its performance appraisal system.

While cost savings are not the impetus for our competency-based performance management and compensation systems, by implementing a more market-based and performance-oriented compensation system, GAO is continuing to work towards our strategic goal of maximizing the agency's value while managing its costs. Our compensation initiatives have involved the assessment of positions to ensure appro-

appropriate classification of various career streams and levels of responsibility, along with a market-based determination of the appropriate salary range for positions. Each year as part of the annual performance-based compensation process, GAO will provide employees with pay adjustments that reward performance, are reflective of the market value of positions, consider changes in purchasing power, and are financially sustainable. For increases effective on or after October 1, 2005, GAO will develop and apply its own methodology for annual cost-of-living and locality pay adjustments. For example, pay ranges in Washington, DC, and in other cities in which GAO employees reside, will be based on the results of an independent market-based compensation study conducted for GAO.

Within a few years after implementing the market-based compensation ranges, I expect that the combined effect of managing salaries around the competitive rate and implementing a performance “speed bump” will result in a lower average annual salary (in today’s dollars) as compared to what otherwise would occur under the current system. However, that won’t necessarily translate to lower average total cash compensation because of the impact of our new individualized performance-based compensation system, which allocates pay earned on the basis of performance between a salary increase and a one-time cash bonus payment. Individuals whose current salaries are below the competitive rate, set at the 50th percentile of the compensation ranges compared to comparable organizations, will receive more of their performance pay as a salary increase, while individuals whose current salaries are above the competitive rate will receive more of their performance pay as a one-time cash bonus. For 2005 pay adjustments, all Washington, DC-based employees received an across-the-board and locality increase of 3.71 percent. In addition, analysts, specialists, attorneys, and economists received an average performance-based compensation increase of 1.65 percent, allocated between salary increase and cash bonus. Finally, benefits costs also need to be considered when determining total compensation and average compensation amounts.

Question. Could you also explain the process you use to determine who gets monetary awards, how many GAO employees received them last year and what the amount of the award was for each?

Answer. GAO employees receiving performance-based compensation are eligible for an increase to base pay, a bonus or a combination of the two. A summary of the performance-based compensation is as follows:

Each year, the Comptroller General determines the budgetary parameters for performance-based compensation, the methodology by which amounts will be calculated and awarded to employees and the effective date on which it will be paid. The methodology used to award performance based compensation for fiscal year 2004 considered an employee’s appraisal, current salary and the applicable competitive compensation range. Employees’ appraisal averages were converted to statistically standardized rating scores in order to minimize the impact of any variability in raters’ applications of the standards. Performance based compensation amounts were calculated as a percentage of the midpoint of the employee’s band. The distribution of the compensation amount between a permanent salary increase and a lump sum was based on the employee’s salary with employees at the lower portion of the salary range receiving their awards primarily as base increases and those employees at or near the top of the pay range receiving their awards as lump sum payments. Performance based compensation is prorated for those employees who have less than a full year of service during the performance cycle.

In addition to performance-based compensation, GAO employees are eligible for incentive awards. Agency regulations describe the categories of incentive awards, the forms the award may take, e.g., plaque, money, time off, etc., and the recommendation and approval process associated with each category of award.

GAO-wide honor awards, GAO’s highest awards, recognize individuals and teams for their noteworthy achievements and extra effort through the performance-based compensation system and provide incentives for employees to strive for greater achievements. These awards consist of plaques and may include monetary recognition for individual recipients (not teams) based on annual guidance. Each year, a request for nominations is issued agency-wide and a screening committee reviews the resulting nominations. The screening committee, which is selected by the Executive Committee, comprised of the agency’s top management team, makes recommendations to the Executive Committee. Two SES level employees lead the committee which is comprised of nine other members representing mission teams, mission support and field operations. GAO provides the following agency-wide honor awards: Comptroller General’s Award, Distinguished Service Award, Meritorious Service Award, Equal Employment Opportunity Award, Customer Service Award, Client Service Award, Community Service Award, Integrity Award, Grand Finale Award, Big Picture Award and Human Capital Management Award.

GAO also provides Results through Teamwork Awards, which recognize the accomplishment of teams working collaboratively across organizational lines beyond what is normally expected and recognized through the performance based compensation system. Awards may be provided in the form of a monetary, time off, or a certificate award. Managing Directors submit team nominations for the Executive Committee's review and approval.

Employees are also eligible for unit awards, which are designed to reward deserving individuals or teams for extra effort above and beyond what is normally expected and recognized through the performance-based compensation system. Rewards may include cash, paid time off, and written expressions of appreciation, or combinations thereof. Unit awards must be approved by the SES-level unit head and each unit is responsible for developing a process to make award decisions that ensures that all staff are fairly considered, and that awards are based on performance, contributions, and extra effort above and beyond what is normally expected and recognized through the performance-based compensation system.

In fiscal year 2004, cash incentive awards were provided as follows:

- Number of Awards: 2,293
- Average Amount: \$471
- Median Amount: \$300
- Total Cost: \$1,080,000.

Question. The GAO Human Capital Reform Act of 2004 provided you with a number of flexibilities in the human capital arena, including the ability for the GAO to decouple itself from annual executive branch pay adjustments. Please provide the Subcommittee an update on each of the provisions of the Act, including expected implementation timeframes and outstanding issues.

Answer. Public Law 108–271 contained various human capital flexibilities. As required by section 10 of the act and consistent with GAO's long standing practice, the human capital flexibilities authorized by sections 2, 3, 4, 6, 7 and 9 are being implemented in continuing consultation with GAO's employees and executives. The status of each of these flexibilities is as follows:

- Section 2 amended Public Law 106–303, the GAO Personnel Flexibilities Act of 2000, to permit the Comptroller General to offer voluntary early retirement and voluntary separation incentive payments on a permanent basis. GAO's regulations for offering voluntary early retirement were issued on November 15, 2004. Since fiscal year 2002, GAO has held several early retirement opportunities. To give the fullest consideration to all interested employees, any employee may apply for consideration when an early retirement opportunity is announced, even if he or she does not meet the stated criteria. The Comptroller General may also authorize early retirements for applicants on the basis of the institutional needs of GAO subject to certain statutory limits. The following table summarizes data on the voluntary early retirement program.

SUMMARY DATA ON VOLUNTARY EARLY RETIREMENTS

Applications/Status of applications	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005	Total
Applicants separated by voluntary early retirement	54	28	21	9	112

The amendment in section 2 also removed the December 31, 2003 sunset date on the CGA to offer voluntary separation incentive payments. The voluntary separation incentive provision, which is now permanent, has not yet been implemented by regulation. The costs associated with voluntary separation incentives can be considerable. GAO anticipates little, if any, use of this authority because of the associated costs. For this reason, as well as to avoid creating unrealistic employee expectations, GAO has not developed and issued agency regulations to implement this section of the act.

- Section 3 of the act amended 31 U.S.C. 732(c), which required GAO employees' pay to be adjusted at the same time and to the same extent as the General Schedule and instead authorizes the Comptroller General to determine the amount of annual pay adjustments subject to the factors enumerated in section 3. Additionally, section 3 establishes a requirement that an employee must be performing at a satisfactory level in order to receive an annual pay adjustment.

The CGA under section 3 is effective for increases on or after October 1, 2005. We are formulating strategies for determining the appropriate methodology for establishing alternatives to the annual adjustment and anticipate the issuance of regulations prior to January 2006—the first opportunity for the Comptroller

General to exercise this authority. GAO Order 2500.1, Pay Administration in the GAO Regulations, was issued January 4, 2005 and implemented the satisfactory performance requirement for GAO's analysts and related specialist and attorneys. These groups of employees have been covered by validated competency-based appraisal systems for at least one full appraisal cycle. The regulations provided for withholding annual increases from any employee whose performance on any competency was rated as below expectations. Our regulations will be revised to make this requirement applicable to the analysts and related specialists and attorneys prior to the January 2006 annual adjustment. The administrative, professional and support (APSS) staff were recently converted to a pay for performance system. We are continuing to implement components of the APSS system and have not yet determined the methodology for establishing annual adjustments.

- Section 4 authorizes the Comptroller General to establish pay retention regulations applicable to employees who are placed in lower grades or bands as a result of workforce restructuring, reclassification or other appropriate circumstances. Draft regulations are currently under review. It is our intention to complete the review and consultation process and implement this section prior to January 2006.
- Section 6 authorizes GAO to provide increased annual leave to key employees. After consultation, GAO Order 2630.1, Leave Policies and Procedures, was issued for employee comment on December 29, 2004. These regulations contain a provision permitting designated key employees with less than 3 years of federal service to earn 6 hours of annual leave. The 45-day comment period closed on February 14, 2005 and employees' comments are being analyzed and will be considered by GAO's Executive Committee before finalizing the regulations. We anticipate finalization of the regulations and implementation of this provision on or before June 1, 2005. In addition, in January 2005, we updated GAO Order 2317.1, GAO's Senior Executive Service and Senior Level Positions, to allow senior executives and senior level staff to accrue annual leave at the rate of 1 day for each full biweekly pay period without regard to the length of their service with the federal government.
- Section 7 authorized GAO to establish an Executive Exchange Program. Draft regulations implementing the Executive Exchange Program were provided to employees for comment on January 31, 2005. The comment period closed on March 4, 2005 and review and analysis of the comments is in process. We anticipate issuing final regulations on or before June 1, 2005, and are concurrently working on the operational implementation of the program.
- Section 9 amended 31 U.S.C. 732(d) and incorporated additional requirements for GAO's competency-based performance management system. GAO's competency-based performance management system, including its competency-based appraisal systems, addresses all of these factors. However, we conduct an annual review and assessment of our performance appraisal policies and processes as part of ongoing continuous improvement of the system.

SUBCOMMITTEE RECESS

Senator ALLARD. The subcommittee stands in recess until Wednesday, April 27, when we will take testimony from the Senate Sergeant at Arms and the Capitol Police Board. Thank you very much.

[Whereupon, at 11:33 a.m., Tuesday, April 19, the subcommittee was recessed, to reconvene at 11 a.m., Wednesday, April 27.]