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MANAGEMENT REFORM

Continuing Attention Is Needed to Improve Government Performance

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Management Reform: Continuing Attention Is Needed to Improve Government Performance

The NPR has been one of the longest sustained and most well-known executive branch reform initiatives in the nation's history. However, the NPR's efforts were not undertaken in isolation from other management reforms. Indeed, reflecting the widespread interest in reforming government to improve effectiveness and service quality while limiting costs, Congress, the administration, and federal agencies have all undertaken ambitious and largely consistent reforms in the last decade. NPR attempted to build upon prior management reforms and operated in an atmosphere where other factors, such as agencies' ongoing efforts as well as the political environment, also influenced actions taken to address NPR's recommendations. At the same time, Congress has put in place a statutory framework intended to improve federal program effectiveness and public accountability by instilling a performance-based approach into the management of federal agencies. Congress has also taken legislative action consistent with selected NPR recommendations and initiated other improvements targeted to individual agencies.

In recent years, GAO has examined aspects of NPR's reform efforts and found that NPR claimed savings from agency-specific recommendations that could not be fully attributed to its efforts. GAO also found in its examinations of selected management reform efforts that have been emphasized by NPR, that agencies' downsizing has short- and long-term implications that require continuing attention; that better communication could help disseminate methods used by NPR reinvention laboratories to improve performance; that, despite recent reforms, the federal government still does not have a world-class purchasing system; and that regulatory reforms have yielded mixed results. The results of GAO's reviews underscore the work that still lies ahead in reforming federal management.

The next Congress and administration will face a series of long-standing management problems that will continue to demand attention if the efficiency and effectiveness of the federal government is to be fundamentally improved. A few of the more important management problems that will confront the next Congress and administration include

- adopting an effective results orientation,
- coordinating crosscutting programs,
- addressing high-risk federal functions and programs,
- developing and implementing modern human capital practices,
- strengthening financial management, and
- enhancing computer security.

Management Reform: Continuing Attention Is Needed to Improve Government Performance

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here this morning to discuss the management reform efforts conducted by the National Partnership for Reinventing Government, formerly known as the National Performance Review (NPR), and the continuing management improvement agenda facing federal decisionmakers. As you know, since the administration launched NPR in March 1993, under the leadership of the Vice President, the initiative has attempted to "make the government work better and cost less, and to get results Americans care about." The NPR has been one of the longest-sustained and most well-known executive branch management reform initiatives in the nation's history.

However, the NPR's efforts were not undertaken in isolation from other management reforms. Indeed, reflecting the widespread interest in reforming government to improve effectiveness and service quality while limiting costs, Congress, the administration, and federal agencies have all undertaken ambitious and largely consistent reforms in the last decade. For example, Congress has put in place a statutory framework intended to improve federal program effectiveness and public accountability by instilling a performance-based approach into the management of federal agencies. This framework provides the basis for developing fully integrated information about agencies' missions and strategic priorities, results-oriented goals that flow from those priorities, performance data to show progress in achieving those goals, the relationship of information technology investments to the achievement of performance goals, and audited financial information about the costs of achieving results.

In 1993, 1994, and 1996, we issued assessments of NPR's recommendations and the status of their implementation,[1] and we are currently reviewing selected NPR recommendations at your request, Mr. Chairman, and that of Senator Brownback. However, we have not comprehensively examined NPR. Therefore, as agreed, my statement today summarizes our work on selected aspects of the NPR where we have done recent work from a governmentwide perspective. I also will draw on our large body of work on management issues to highlight some of the more important management problems confronting the next Congress and administration. Our work on selected NPR initiatives, as well as our other related work on federal management issues, suggests an overriding theme—successful

[1] Management Reform: GAO's Comments on the National Performance Review's Recommendations (GAO/OCG-94-1, Dec. 3, 1993), Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994), and Management Reform: Completion Status of Agency Actions Under the National Performance Review (GAO/GGD-96-94, June 12, 1996).

reinvention is not an end-state but rather an ongoing process that seeks continuous improvements in performance, efficiency, and effectiveness.

NPR's Reinvention Efforts Have Evolved Over Time

NPR has had at least three phases, and has encompassed a wide range of different initiatives during the 7 years it has existed. NPR, given its organizational placement (as a taskforce within the staff offices of the Vice President), had no independent authority to force action. Rather, its efforts have been accomplished through others (agencies, the Office of Management and Budget (OMB), the Executive Office of the President, and Congress). NPR therefore has carried out its role by raising various issues, identifying possible solutions, leveraging partnerships, facilitating change, and stimulating action.

NPR's efforts have ranged from focusing on specific agency reforms to major crosscutting efforts, such as those to downsize the federal government and to streamline acquisition and regulatory processes. NPR has used various methods to advance its agenda, including

- issuing reports with recommendations;
- working with agencies to establish reinvention laboratories to test ways to improve performance and customer service;
- encouraging agencies to set customer service standards and surveying the public's level of satisfaction with federal services; and
- proposing new ways of operating, such as through Performance Based Organizations.

NPR's Initiatives Were Not Undertaken in Isolation from Other Management Reform Efforts

By their very nature, successful management reform efforts often entail (1) concerted efforts on the part of agencies, (2) leadership and follow through on the part of central management agencies and the administration, and (3) support and oversight from Congress. The presence of all three of these elements has been critical to the effective implementation of management reforms over the last decade.

As we reported in July 1999, NPR attempted to build upon prior management reforms and operated in an atmosphere where other factors, such as agencies' ongoing efforts as well as the political environment, also influenced actions taken to address NPR's recommendations.[2] At the same time, Congress has sought to reform the fiscal, program, and management performance of the federal government through a statutory framework, which includes the Chief Financial Officers Act of 1990 and related

[2] NPR's Savings: Claimed Agency Savings Cannot All Be Attributed to NPR (GAO/GGD-99-120, July 23, 1999).

financial management legislation; information technology reform legislation, such as the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995; and the Government Performance and Results Act (GPRA). Congress has also taken legislative action consistent with selected NPR recommendations and initiated other improvements targeted to individual agencies. Given the interaction of these elements, any attempt to isolate the specific contributions that any one entity made to successful management reforms—or to apportion "credit" among entities—is generally not possible and likely to have little, if any, value.

One of the first steps NPR took was to release a report in September 1993 that made 384 recommendations intended to make the government "work better and cost less."[3] This report made recommendations to reinvent individual agencies' programs and organizations, and also included governmentwide recommendations for, among other things, reducing the size of the federal workforce. In making its recommendations, NPR sought to build its initiatives on existing efforts, practices, and recommendations. Thus, in many cases, NPR's recommendations were consistent with recommendations that we and agency Inspectors General (IGs) had made in the past. Not surprisingly, because NPR's recommendations reflected issues that we and others had stressed for years, we reported that we generally agreed with most of them.[4]

Our ongoing review of selected NPR recommendations for this Subcommittee and Senator Brownback provides several examples illustrating the interrelationship between NPR's recommendations and other reform efforts. For example, IRS's current modernization effort is consistent with NPR's recommendation, made in 1993, which included actions to

- Support a new business vision,
- Realign the missions of IRS' organizations, and
- Improve taxpayer-focused output measures.

Several years after NPR's recommendation, Congress remained concerned about the need to modernize IRS and enacted the IRS Restructuring and Reform Act of 1998.[5] Building on the direction set forth in the

[3] From Red Tape to Results: Creating a Government That Works Better and Costs Less, National Performance Review, September 7, 1993.

[4] GAO/OCG-94-1, Dec. 3, 1993.

[5] P.L. 105-206, July 22, 1998.

Restructuring Act and recommendations from NPR and others, Commissioner Rossotti established a new mission statement and supporting strategic goals for the IRS. Recognizing the complex and interdependent nature of its long-standing problems, IRS also initiated a massive modernization effort that encompasses major changes to its organizational structure, business practices, performance management system, and information systems. While, in many ways, IRS remains as challenged an agency today as it was 2 years ago when the Restructuring Act was passed, we have said that this modernization effort has the potential to provide improvements in the agency's two key mission areas—taxpayer service and enforcement.[6] IRS modernization, however, is a long-term effort that is likely to take more than a decade to fully implement.

An additional example of the interrelationship between NPR's recommendations and other reform efforts, involves two recommendations NPR made to the Department of Energy (DOE) reflecting the political environment that followed the end of the cold war. One of NPR's recommendations called for DOE to redirect energy laboratories to post-cold war priorities by continuing the reduction already under way of funding for nuclear weapons production, research, testing programs, and infrastructure. NPR also recommended that DOE sell uranium no longer needed for national defense purposes. DOE said that NPR's recommendation was consistent with uranium disposition programs that DOE already had in place.

Information From Our Reviews of Selected NPR Initiatives

In recent years, we have examined aspects of NPR's cost savings estimates, downsizing initiative, reinvention laboratories, and acquisition and regulatory reform efforts. The results of our reviews, which are summarized below, underscore the work that still lies ahead in reforming federal management.

Claimed Agency Savings Cannot All Be Attributed to NPR

We reported in July 1999 that NPR claimed savings from agency-specific recommendations that could not be fully attributed to its efforts. NPR claimed that about $137 billion in savings has resulted from its efforts to reinvent the federal government, with about $44.3 billion of these savings claimed from recommendations that were targeted toward individual agencies. We reviewed six recommendations representing over two-thirds of this $44.3 billion, and found that the relationship between the NPR recommendations and the savings claims was not clear. These savings

[6] See IRS Modernization: Long-term Effort Under Way, but Significant Challenges Remain (GAO/T-GGD/AIMD-00-154, May 3, 2000) and IRS Restructuring Act: Implementation Under Way but Agency Modernization Important to Success (GAO/T-GGD/AIMD-00-53, Feb. 2, 2000).

estimates also could not be replicated, and there was no way to substantiate the savings claimed.

NPR relied on the OMB to estimate the savings it claimed from its recommendations, and OMB generally did not distinguish NPR's contributions from other initiatives or factors that influenced budget reductions at the three agencies we reviewed—the Department of Agriculture (USDA), DOE, and the National Aeronautics and Space Administration (NASA).

To estimate the savings from the agency-specific recommendations, OMB said it used the same types of procedures and analytic techniques that have long been used in developing the President's budget. These procedures and techniques are intended to support point-in-time budget estimates that are based on policies and economic forecasts in effect at a given time. As our previous reviews of budget estimates have shown, it is difficult to reconstruct the specific assumptions used and track savings for estimates produced several years ago.[7]

At NASA, for example, OMB attributed all $8.5 billion of expected reductions to NASA's budget for fiscal years 1996 through 2000 directly to NPR's recommendation to reinvent NASA. OMB did not account for other factors, such as ongoing NASA reform initiatives and budgetary spending caps, that also influenced NASA's budget during this period. Similarly, when OMB estimated savings from the recommendation to redirect DOE's energy laboratories to post-cold war priorities, it credited all savings from estimated reductions in the weapons activity budget account ($6.996 billion) to NPR. Considering the nuclear test ban treaty and other factors, it was apparent that the DOE laboratories' priorities would have changed regardless of whether NPR had made the recommendation.

Agencies' Downsizing Has Short- and Long-term Implications

Reflecting policy decisions to reduce the size of the federal government during the 1990s, both NPR and Congress proposed personnel reductions. NPR attempted to achieve the downsizing, without diminishing the quality of service to the public, by streamlining organizational structures to eliminate "overseers" while maintaining frontline staff, and by making better use of technology to more efficiently deliver services. The NPR called on agencies to restructure their workforces by directing their downsizing toward specific "management control" positions, including budget, procurement, and personnel positions, as well as managers and

[7] NPR Savings Estimates (GAO/GGD/AIMD-96-149R, July 24, 1996) and Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, Oct. 7, l994).

supervisors. Congress passed the Federal Workforce Restructuring Act of 1994, which mandated governmentwide reductions of 272,000 full time equivalent (FTE) positions through fiscal year 1999.

As a result of the legislation, executive branch efforts, and other budget and program pressures, the federal government is now smaller as measured by the number of federal employees. As the Comptroller General noted in his March 2000 testimony before this Subcommittee, from fiscal year 1990 to fiscal year 1999, the number of nonpostal civilian federal employees fell from about 2.3 million to about 1.9 million.[8]

Nevertheless, the manner in which the downsizing was implemented has short- and long-term implications that require continuing attention. The management control positions NPR sought to decrease were barely reduced as a proportion of the workforce as a whole, and at some agencies they increased.[9]

In addition, our reviews have found that a lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies may have affected their ability to achieve organizational missions.[10] Some agencies reported that downsizing in general led to such negative effects as a loss of institutional memory and an increase in work backlogs. For example, efforts to downsize while introducing new technology were not consistently well planned. In our review of agencies' initial efforts to restructure personnel operations, upgrading systems technology was a primary element of the restructuring plans because the departments planned to reduce the number of personnel specialists they employed and improve services and operating efficiency by automating paper-based processes.[11] However, the automation efforts were not completed as planned before reductions in personnel staffing occurred. As a result, the agencies were struggling to achieve their efficiency and service improvement objectives.

Although we found that agencies' planning for downsizing improved as their downsizing efforts continued, it is by no means clear that the current

[8] Human Capital: Managing Human Capital in the 21st Century (GAO/T-GGD-00-77, Mar. 9, 2000).

[9] Federal Downsizing: The Status of Agencies' Workforce Reduction Efforts (GAO/T-GGD-96-124, May 23, 1996).

[10] Federal Workforce: Payroll and Human Capital Changes During Downsizing (GAO/GGD-99-57, Aug. 13, 1999).

[11] Management Reform: Agencies Initial Efforts to Restructure Personnel Operations (GAO/GGD-98-93, July 13, 1998).

workforce is adequately balanced to properly execute agencies' missions today. For example, most major agencies' fiscal year 2000 annual performance plans that were prepared under GPRA do not sufficiently address how the agencies will use their human capital to achieve results.[12] This suggests that one of the critical components of high-performing organizations, the systematic integration of human capital planning and program planning—is not being adequately addressed across the federal government.

Better Communication Could Help Disseminate Reinvention Laboratories' Methods That Improved Performance

Another of NPR's initiatives was to establish reinvention labs, which were designated to test ways that agencies could improve their performance and customer service by reengineering work processes and eliminating unnecessary regulations.

Some of the lab efforts began before NPR's initiative, and the labs covered a wide variety of subject areas, ranging from acquisition systems to ways to use technology to improve operations.[13] Our 1996 review found that the labs' results suggested a number of promising approaches to improving existing agency work processes. For example, the Veterans Affairs New York Regional Office sought to improve customer service and communication in its claims processing function by creating self directed work teams responsible for handling a veteran's claim from start to finish. Similarly, the U.S. Geological Survey's information dissemination lab sought to improve internal communications and job processes by combining the organizational unit that took map purchasing orders with the unit that filled the orders and by cross-training staff.

These and other reinvention labs represent real achievements. The real value of the labs' efforts can only be realized when effective practices spread beyond the lab sites to the rest of the government. Unfortunately, we found a lack of substantial communication among labs and between the labs and other federal entities to disseminate lab results. Therefore, we recommended establishing a clearinghouse to facilitate the sharing of information and provide performance information that demonstrates results. The National Academy for Public Administration initially filled such a role in response to our recommendation by establishing a clearinghouse on the Internet. However, it did not appear that this Web-site has been updated since October 1998.

[12] Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

[13] Management Reform: Status of Agency Reinvention Lab Efforts (GAO/GGD-96-69, Mar. 20, 1996).

Continued Improvements in Acquisition Management Are Needed

Congress and the administration have taken a number of important steps to improve federal acquisition, but despite recent reforms, the government still does not have a world-class purchasing system. Reform efforts, including the Federal Acquisition Streamlining Act of 1994 and the Clinger-Cohen Act of 1996, have focused principally on simplifying the process for buying commercial products and services and on attempting to improve decisionmaking in acquiring information technology.

Despite these reforms, however, the products and services the government buys all too often cost more than expected, are delivered late, or fail to perform as anticipated. No commercial business would remain viable for very long with results like these. Problems are particularly evident in the two areas where most of the dollars are spent—on weapons systems and information technology. Significant improvements in these areas, as well as in the skills of the acquisition workforce, are needed in order to produce better outcomes. We have made a number of recommendations over the years to improve acquisition outcomes, including that federal agencies use best commercial practices.[14]

As we testified before the Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform, it is difficult to assess the impact of acquisition reforms because many of them are still being implemented.[15] In addition, it is difficult to measure any increase in the government's purchases of commercial items since the Federal Acquisition Streamlining Act of 1994, because reliable baseline data are not available.

Nevertheless, we are seeing some changes. Agencies have streamlined their acquisition processes, particularly by using governmentwide acquisition and schedule contracts to get what they need more quickly. However, much more needs to be done to achieve real and sustained improvements. It will take time to improve agency acquisition operations because the problems we have identified are difficult ones and are deep-rooted in very large programs and organizations. To insure that progress continues, sustained management attention and congressional oversight–particularly involving weapons systems, information technology, and human capital issues–will be necessary.

[14] For example, see Best Practices: DOD Training Can Do More to Help Weapon System Programs Implement Best Practices (GAO/NSIAD-99-206, Aug. 16, 1999), and Defense Acquisition: Best Commercial Practices Can Improve Program Outcomes (GAO/T-NSIAD-99-116, Mar. 17, 1999).

[15] Federal Acquisition: Trends, Reforms, and Challenges (GAO/T-OCG-00-7, Mar. 16, 2000).

Regulatory Reforms Have Yielded Mixed Results

One of NPR's major initiatives was to improve the federal government's regulatory system by, among other things, streamlining agency rulemaking and cutting regulations. In June 1995, President Clinton said that, as part of his administration's regulatory reform initiative, federal agencies would eliminate 16,000 pages of regulations from the 140,000-page Code of Federal Regulations (CFR), and that another 31,000 pages would be revised. When we examined this issue in 1996, agencies reported that they had eliminated 11,569 pages of the CFR and revised another 13,216 pages.

However, in our October 1997 report on this initiative, we noted that officials in each of the four agencies we reviewed (the Departments of Housing and Urban Development and Transportation, the Occupational Safety and Health Administration within the Department of Labor, and the Environmental Protection Agency) said that the page elimination totals that they reported did not take into account the pages that their agencies had added to the CFR while the eliminations were taking place.[16] In some cases, agencies added more pages than they removed during the page elimination initiative. The agencies pointed out that pages are often added to the CFR because of statutory requirements or to clarify requirements placed on regulated entities, and that pages are sometimes not eliminated at the request of those entities.

The Paperwork Reduction Act of 1995 (PRA) coincided with NPR's regulatory reform initiative on burden reduction and was similar to that initiative in its emphasis. We recently testified on the implementation of the PRA before the Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs, House Committee on Government Reform.[17] Although the PRA envisioned a 30-percent reduction in federal paperwork between fiscal years 1995 and 1999, preliminary data indicate that the paperwork has increased during this period. Federal paperwork increased by about 233 million burden hours during fiscal year 1999 alone—the largest increase in any 1-year period since the PRA was enacted. Nearly 90 percent of the governmentwide increase during fiscal year 1999 was attributable to increases at IRS, which IRS said were primarily a result of new and existing statutory requirements.

[16] Regulatory Reform: Agencies' Efforts to Eliminate and Revise Rules Yield Mixed Results (GAO/GGD-98-3, Oct. 2, 1997).

[17] Paperwork Reduction Act: Burden Increases at IRS and Other Agencies (GAO/T-GGD-00-114, Apr. 12, 2000).

The Impetus for Improving Government Has Not Diminished

The next Congress and administration will face a series of long-standing management problems that will continue to demand attention if the efficiency and effectiveness of the federal government is to be fundamentally improved. In recent testimonies, including one for the Senate Governmental Affairs Committee, the Comptroller General has suggested a framework for thinking about these weaknesses and how they can be addressed.[18] Today, I will highlight just a few of the more important management problems facing the federal government to give a sense of the range of continuing problems that will confront the next Congress and administration.

Adopting an Effective Results Orientation

We have seen that integrating a focus on results into agency operations does not come quickly or easily. In the 2-1/2 years since the requirements of GPRA were implemented across the executive branch, Congress and executive branch decisionmakers have been provided with a wealth of new and valuable information on the plans, goals, strategies, and results of federal agencies. However, continuing progress is needed to use that information in managing programs and making program, resource, and policy decisions.

Coordinating Crosscutting Programs

Our work has identified widespread mission fragmentation and program overlap in the federal government. The broad scope of this fragmentation and overlap—ranging from social programs to defense efforts—indicates the inherent complexity of national problems that the federal government traditionally has addressed in a piecemeal approach. Table 1 highlights the areas of fragmentation and overlap that we have identified in our work through 1999.

[18] Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus (GAO/T-AIMD-00-73, Feb. 1, 2000), and Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance (GAO/T-AIMD-00-96, Feb. 17, 2000).

Table 1: Areas of Potential Fragmentation and Overlap

Mission areas	Programs
Agriculture	•Food safety
Commerce and housing credit	•Financial institution regulation
Community and regional development	•Community development •Economic development •Emergency preparedness •Housing •Rural development
Education, training, employment, and social services	•Early childhood programs •Employment training •Student aid
General science, space, and technology	•High performance computing •National laboratories •Research and development facilities •Small business innovation research
General government	•Federal statistical agencies
Health	•Long-term care •Substance abuse •Nuclear health and safety •Telemedicine •Teen pregnancy prevention
Income security	•Child care •Welfare and related programs •Youth programs •Homelessness programs •Programs for people with disabilities
Defense	•Guided weapon systems •Telecommunications •Military health care •Satellite control systems •Nonmedical chemical and biological research and development
International affairs	•Educational programs •Policy formulation and implementation
Law enforcement	•Border inspections •Drug control •Investigative authority •Drug trafficking •Combating terrorism
Natural resources and environment	•Federal land management •International environmental programs •Hazardous waste cleanup •Water quality

Note: This table has been updated to reflect work we completed since our report Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997) was issued.

Source: GAO analysis.

Coordinating crosscutting programs is a persistent challenge for executive branch agencies and Congress. For example:

- The current system to ensure food safety suffers from inconsistent oversight, poor coordination, and inefficient allocation of resources. As many as 12 different federal agencies administer over 35 laws overseeing food safety. This fragmented federal approach costs over $1 billion each year and hinders the government's efforts to effectively protect consumers from unsafe food.[19]

- Better coordination is needed to improve the effectiveness of efforts to safeguard the nation from terrorist attacks. Over 40 agencies, bureaus, and offices implement numerous programs designed to prevent and deter terrorism, respond to terrorist threats and incidents, and manage the consequences of terrorist acts.[20]

- The 1994 Catalogue of Federal Domestic Assistance describes 342 economic development programs.[21] In addition, the limited information available on the impact of economic development assistance provided by three programs—the Appalachian Regional Commission, the Department of Commerce's Economic Development Administration, and the Tennessee Valley Authority—did not establish a strong causal linkage between a positive effect and agency assistance.

- There are over 90 early childhood programs in 11 federal agencies and 20 offices. The "system" of multiple early childhood programs with firm eligibility cutoffs could lead to disruptions in services from even slight changes in a child's family status. While multiple programs target disadvantaged preschool-aged children, most such children do not participate in any preschool program.[22]

[19] Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998), and Food Safety and Quality: Uniform, Risk-Based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

[20] Combating Terrorism: Issues to Be Resolved to Improve Counterterrorism Operations (GAO/NSIAD-99-135, May 13, 1999), and Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, Jan. 1999).

[21] Economic Development: Limited Information Exists on the Impact of Assistance Provided by Three Agencies (GAO/RCED-96-103, Apr. 3, 1996), and Economic Development Programs (GAO/RCED-95-251R, July 28, 1995).

[22] See Early Childhood Programs: Characteristics Affect the Availability of School Readiness Information (GAO/HEHS-00-38, Feb. 28, 2000), and Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, Oct. 31, 1994).

As these and other examples suggest, unfocused and uncoordinated crosscutting programs can waste scarce funds, confuse and frustrate taxpayers, and limit overall program effectiveness.

Addressing High-Risk Federal Functions and Programs

Over the years, our work has shown that federal functions and programs, ranging from Medicare to weapons acquisition, have been hampered by daunting financial and program management problems. Since 1990, as part of our "high-risk" initiative, we have reported on specific federal activities and functions that are particularly vulnerable to waste, fraud, abuse, and mismanagement.

Our 1999 high-risk update listed 26 areas at high-risk spanning a range of government operations, such as benefit programs that lose billions of dollars annually in improper payments, IRS' difficulty in controlling tax filing fraud, inefficient and weak lending programs, and the challenges the Department of Defense (DOD) faces in reducing infrastructure costs.

It will take time to fully resolve most high-risk areas because they are deep-rooted, difficult problems in very large programs and organizations. Congress has heightened its attention to resolving these weaknesses by reviewing agencies' progress and taking legislative action. However, more could be done by Congress and the executive branch to achieve real and sustained improvements. For example, in many cases, agencies have agreed with our recommendations but have not yet fully implemented them.

The annual planning process under GPRA provides an excellent vehicle for helping to address high-risk functions and programs and to ensure that clear accountability for progress is established. In our assessment of the fiscal year 1999 performance plans, we noted that precise and measurable goals for resolving mission-critical management problems are important to ensuring that the agencies have the institutional capacity to achieve their more results-oriented programmatic goals.[23] Similarly, our assessment of the fiscal year 2000 annual performance plans concluded that plans with goals and strategies that address mission-critical management challenges and program risks show that agencies are striving to build the capacity to be high-performing organizations and to reduce the risk of waste, fraud, abuse, and mismanagement.[24]

[23] Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD-98-228, Sept. 8, 1998).

[24] GAO/GGD/AIMD-99-215.

Developing and Implementing Modern Human Capital Practices

Modern strategic human capital management recognizes that employees are a critical asset for success, and that an organization's human capital policies and practices must be designed, implemented, and assessed by the standard of how well they support the organization's missions and goals. The government's human capital management has emerged as the missing link in the statutory management framework that Congress established to provide for a more businesslike and results-oriented federal government. It is federal employees who will make the principles of performance management work for government, and federal employees thus should be viewed not as costs to be cut, but as assets to be valued. Only when the right employees are on board and provided with the training, technology, structure, incentives, and accountability to work effectively is organizational success possible.

At present, serious concerns are emerging about the aging of the federal workforce, the rise in retirement eligibilities, and the actions needed to ensure effective succession planning. The size and shape of the workforce, its skills needs and imbalances, and agencies' approaches to management performance and incentives, all need greater attention than they have been given. For example, our work at DOD, where downsizing has resulted in a civilian workforce reduction of about 43 percent from 1989 levels, suggests that imbalances are developing in the age distribution of DOD civilian staff. The average age of this staff has been increasing, while the proportion of younger staff, who are the pipeline of future agency talent and leadership, has been dropping.[25] Further, to cope with downsizing, as well as to become more efficient, DOD has numerous initiatives under way to change the way it does business. Changes in business practices and mission strategies in both DOD and other federal agencies can affect the kinds of competencies that will be needed to carry out organizational missions in the future. Ensuring that such competencies are identified, and that the appropriate staff are on-board, will require that federal agencies take a strategic approach to viewing and managing their human capital.[26]

Strengthening Financial Management

The U.S. government, as a whole, has not yet been able to accurately report a significant portion of its assets, liabilities, and costs because of significant financial systems weaknesses; problems with fundamental recordkeeping and financial reporting; incomplete documentation; and

[25] Human Capital: Strategic Approach Should Guide DOD's Civilian Workforce Management (GAO/T-GGD/NSIAD-00-120, Mar. 9, 2000).

[26] See, for example, SSA Customer Service: Broad Service Delivery Plan Needed to Address Future Challenges (GAO/T-HEHS/AIMD-00-75, Feb. 10, 2000), Space Shuttle: Human Capital Challenges Require Management Attention (GAO/T-NSIAD-00-133, Mar. 22, 2000), and Human Capital: Observations on EPA's Efforts to Implement a Workforce Planning Strategy (GAO/T-RCED-00-129).

weak internal control, including computer controls. These deficiencies also affect the government's ability to accurately measure the full cost and financial performance of certain programs and to effectively manage related operations.[27]

The executive branch recognizes that, because of the extent and severity of the financial management deficiencies, addressing them will require concerted improvement efforts across government. The President has designated financial management improvement as a priority management objective, and efforts are under way across government to address the pervasive, generally long-standing financial management problems.

While obtaining unqualified clean audit opinions on federal financial statements is an important objective, it is not an end in and of itself. The key is to take steps to continuously improve internal control and underlying financial and management information systems as a means to assure accountability, increase economy, improve efficiency, and enhance the effectiveness of government. These systems must generate timely, accurate, and useful information on an ongoing basis, not just as of the end of the fiscal year. Unfortunately, for fiscal year 1999, the financial management systems of 19 of the 22 agencies that have reported thus far were again found not to be in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996. The act requires agency financial management systems to comply with system requirements and standards to provide uniform, reliable, and more useful financial information.

Enhancing Computer Security

Increasingly, the federal government is using technology to deliver products and services to the public. But the success of these efforts is critically dependent on computer security. Computer security is an area that OMB and GAO agree is of critical concern. Our nation's computer-based infrastructures are at increasing risk of severe disruption, as illustrated by the recent attacks on popular Internet Websites. Massive computer networks provide pathways among systems that, if not properly secured, can be used to gain unauthorized access to data and operations from remote locations. As a result, government officials are increasingly concerned about attacks from individuals and groups with malicious intentions, such as terrorists and nations engaging in information warfare.[28]

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

[28] Critical Infrastructure Protection: Comprehensive Strategy Can Draw on Year 2000 Experiences (GAO/AIMD-00-1, Oct. 1, 1999).

In February 1997 and again in January 1999, in reports to Congress, we designated information security as a governmentwide high-risk area,[29] and OMB has listed it as a priority management objective.

Summary Observations

The long-standing management issues confronting the next Congress and administration will likely stimulate new efforts to reform the federal government. In previous appearances before this Subcommittee, I have identified a number of factors that appear to be critical to making progress on these and other management issues. These factors are (1) a demonstrated leadership commitment and accountability for change; (2) the integration of management improvement initiatives into programmatic decisionmaking; (3) thoughtful and rigorous planning to guide decisions, particularly to address human capital and information technology issues; (4) employee involvement to elicit ideas and build commitment and accountability; (5) organizational alignment to streamline commitment and accountability; and (6) strong and continuing congressional involvement. These factors, derived from the lessons of past reforms, offer the opportunity for increased success for future reforms.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

Contacts and Acknowledgement

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[29] High-Risk Series: An Update (GAO/HR-99-1, January 1999), and High-Risk Program: Information on Selected High-Risk Areas (GAO/HR-97-30, May 16, 1997).

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