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OVERSIGHT OF GAO: WHAT LIES AHEAD FOR CONGRESS' WATCHDOG?

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

SEPTEMBER 16, 2003

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

90–235 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
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OVERSIGHT OF GAO: WHAT LIES AHEAD FOR CONGRESS' WATCHDOG?

TUESDAY, SEPTEMBER 16, 2003

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Voinovich, Pryor, Carper, and Lautenberg.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order. Good morning.

For more than 80 years, the General Accounting Office has worked with Congress to make Federal agencies and programs more accountable. The GAO works for Congress, but its beneficiaries are the American people, who rightfully expect the Federal Government to spend their tax money carefully. The GAO has played the role of auditor, overseer, investigator, evaluator, and watchdog. Today, we consider the GAO itself by examining its work, the results it has achieved, and the challenges it faces.

This morning's hearing on the GAO, the investigative arm of Congress, has two purposes. First, we want to examine the GAO's efforts to support Congress in meeting its constitutional responsibilities to help improve the performance and accountability of the Federal Government. Second, we will discuss legislation pending before this Committee that would provide the Comptroller General, who leads this important agency, with greater flexibility in allocating and enhancing its workforce.

When it was first established in 1921, the General Accounting Office provided the services its name suggests. It examined the legality, propriety, and accuracy of government expenditures. GAO clerks checked vouchers and approvals and whether the items purchased were actually received.

Over the years, the GAO's mission has expanded far beyond these bookkeeping functions. To better meet its broadened scope of responsibility, in the 1970's, the GAO added physical scientists, social scientists, computer professionals, and experts in fields such as health care, public policy, and information management to its staff of accountants.

In 1998, David Walker, who will testify before us today, became the Nation's seventh Comptroller General. Under his leadership,

the depth and breadth of the agency's work on behalf of Congress have continued to expand along with the myriad challenges that confront the Federal Government. GAO auditors, investigators, and analysts have helped Congress address broad, challenging areas, such as military transformation, restructured energy markets, private pensions, prescription drugs, homeland security, and postal reform.

The Senate Governmental Affairs Committee, along with the House Government Reform Committee, has a uniquely close relationship with the GAO. Last year, for example, nearly one-third of the GAO's projects were completed for these two oversight committees. Currently, this Committee has made 32 work requests of the GAO that are either pending or already underway. We depend on the GAO to help identify waste, fraud, and abuse in government programs. We look to the GAO for recommendations on making Federal programs operate more efficiently and effectively for the American people, whose hard-earned tax dollars support their government.

The GAO's expanded role in the Legislative Branch of government also poses many challenges, which Mr. Walker will discuss today, including the agency's human capital needs. The GAO is requesting additional personnel flexibilities in order to assure quality service to the Congress, to continue leading by example in the government, and to attract, retain, motivate, and reward a high-performing workforce.

I am pleased to have joined Senator Voinovich in introducing the GAO Human Capital Reform Act of 2003, which would allow the GAO to reward employees based on their knowledge, skills, and performance. This proposal is part of a larger program to strengthen the management systems and capacity of the GAO.

I commend the Comptroller General and his human capital team for working collaboratively with GAO employees during the development of the proposed reform. In developing its reforms, the GAO undertook an extensive, phased approach that involved developing a proposal that was vetted broadly both externally and internally, and then it made adjustments based on employee comments and concerns raised during the process.

The GAO worked closely with its Employee Advisory Council, which represents a cross-section of the agency, to obtain the feedback necessary as part of a successful process. I want to commend the GAO for taking that approach, which contrasts with the approach that some other departments and agencies have taken. I think that is why GAO's system has been more successful. That kind of collaborative, inclusive approach has worked well.

The GAO's past use of management flexibilities and continued efforts to build the infrastructure necessary to responsibly shape its organization should serve as a model for the rest of the Federal Government. The GAO has demonstrated well how to be responsive to the concerns of its employees. As agencies move forward in implementing various human capital reform initiatives they should carefully examine this fine example.

Before I turn to our first witness today, I just want to say that I don't know how this Committee would be able to do its work without the invaluable assistance of the GAO. We rely on the GAO

in so many areas, and the breadth of expertise that the GAO now brings to Federal projects requested by Congress is truly impressive.

I am very pleased to welcome our first witness today, the Hon. David M. Walker, the Comptroller General of the United States. Mr. Walker has been a very valuable contributor to the Committee's work on a variety of issues. I am particularly grateful for his recent assistance with the Committee-passed version of the civilian personnel reform legislation for the Department of Defense. Today, we will benefit from a discussion of GAO's performance as a whole, and we will use this opportunity to build a legislative record on the legislation that Senator Voinovich and I have introduced.

So, Mr. Walker, we welcome you and you may proceed with your testimony.

TESTIMONY OF HON. DAVID M. WALKER,[1] COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE

Mr. WALKER. Thank you, Madam Chairman. It is a pleasure to be here. It has been almost 5 years since I became the seventh Comptroller General of the United States. Much has happened during that 5-year period of time and I look forward to providing an executive overview of what has happened, along with the changes, the challenges, and the opportunities that are before us.

I also would like to thank you and Senator Voinovich for your sponsorship of the GAO Human Capital Act of 2003. That is a critical piece of legislation and we are hopeful that the Congress can act on it this year.

If I can, I would like for my entire statement to be inserted into the record and I will summarize now.

Chairman COLLINS. Without objection.

Mr. WALKER. Thank you. When I came to GAO 5 years ago, I found an organization with a longstanding reputation, thousands of outstanding and dedicated public servants, and an organization that did many things right. At the same point in time, I found, like many organizations in the public sector, an organization that had not changed very much in a number of decades, who had gone through significant downsizing in the last several years and needed to reposition itself for the future in order to best serve the Congress, the country, and American citizens for the 21st Century.

As a result, we embarked on nothing less than a fundamental transformation of the GAO, which has been ongoing now for about 4 years. I think we have accomplished a tremendous amount, but much remains to be done.

As you pointed out, Senator Collins, the GAO is very different today than it was in 1921 in so many different ways, although we are still faithful to our responsibility to assure accountability for the American people. I have benefited from the positive efforts of all of my predecessors, six predecessors, but in particular, Elmer Staats and Chuck Bowsher, who made major contributions to the agency over a number of years and I am pleased and proud to have succeeded them and to lead GAO.

[1] The prepared statement of Mr. Walker appears in the Appendix on page 34.

We are in a situation now where I believe we need to lead by example in helping the Federal Government and the Congress determine how best to position itself for the 21st Century. This includes what the government should do, how the government should be organized, how the government should do business, and in some cases, who should do the government's business.

And to do that, I believe very strongly that as the leading performance and accountability organization in the United States and arguably the world, we have a responsibility to lead by example. We have a responsibility to be as good or better than any other entity that we evaluate, audit or investigate. Not only do I think we can and we should, I think it adds to our credibility by doing so. That way, we are practicing what we preach, walking the talk, if you will.

Over the last 4 years, we have taken a number of steps and we have adopted what I would call a strategic and balanced scorecard approach to transforming the agency. As you know, any organization has to have a strategic plan. If you don't have a strategic plan, any road is going to get you to an uncertain future. You may go nowhere fast.

I found at GAO that in the past, we had a number of individual plans, but we really didn't have a strategic plan. So we worked with the Congress in a very participative, partnership-oriented fashion to, in the year 2000, issue our first truly strategic plan that has four main goals, a foundation based on our core values, and identifies certain key trends and challenges that face the United States and many other countries to help drive our work.

We used that plan to reorganize and streamline GAO. We eliminated a layer of management. We didn't lay off any of those management officials or their support staff. We redeployed them. But we eliminated a layer of management, which makes us more economical, efficient, and effective. We consolidated from 35 teams to 13. We went from 16 field offices to 11. We redeployed resources horizontally and to focus externally with our clients, with our accountability partners, and with other good government organizations.

The result of that has been profound and positive results. If you look at the first factor of the balanced scorecard approach, results, our financial benefits, as evidenced by either savings achieved or resources freed up for redeployment to other high priorities, have gone up from $19.7 billion in 1998 to $37.7 billion in 2002. That is an almost doubling. Our return on investment just for financial benefits alone has gone from $58 for every dollar invested in GAO to $88 for every dollar invested in GAO, and this doesn't count a whole range of other accomplishments as a result of adopting our recommendations that can't be measured in dollar terms. These deal with safety, security, and privacy issues, that can't be measured in dollar terms, but they are very important.

And obviously, in the testimony, I have a number of other indicators. But results count.

At the same point in time, we have tried to do a number of things with regard to our clients. We have had a continuous Congressional outreach effort. We sought feedback, first from this Committee, and then the House Government Reform Committee, on our

testimonies and our products that we did for the Committee with very favorable outcome, over 90 percent positive ratings for both products as well as testimonies. We have now expanded that to other committees throughout the Congress. We would like the response rate to be a little bit higher, but the positive results are continuing. And so we are encouraged by that and we are going to try to do what we can to see if we can get the response rate a little bit higher.

We have improved our timeliness. We are holding steady on 200-plus testimonies a year for Congress. That is important, because if Congress thinks that our work is important enough for us to testify at a hearing, that is a good sign. It is an interim measure, it is not an outcome, but as you know, Congress through appropriations, oversight, authorization, many times will end up having hearings, and to the extent that our employees or our work is a subject of hearings, it increases the likelihood that we will have positive outcomes down the road.

And last but not least, one of the things that we have done to try to help our clients on the other side of the Hill is because of the anthrax events, we actually became the home for the U.S. House of Representatives for about 2 weeks back in 2001 and now we are one of several contingency sites. So we not only have to concern ourselves with the safety and security of our own employees and also those who we lease space to, namely the headquarters of the Army Corps of Engineers in our headquarters building, but we also have to be concerned with the potential safety and security of our clients in the event of a contingency.

With regard to agencies, we have tried to employ a constructive approach with agencies, not just to point out what is wrong, but to acknowledge what is right, to benchmark them on progress, and to benchmark them against other agencies. I think this is a more constructive way to approach our role and we have had very positive results as a result of it.

Last but certainly not least with regard to what we have done so far is our people. People, by far, are our most important asset. We are only as good as our people. We have arguably the most diverse, as to skills and knowledge, professional workforce of any entity, even in the private sector. And as I said previously, I am pleased and proud to lead them.

We make people a top priority at GAO and we have led the way, I believe, in human capital reforms, both administratively and legislatively. That is part of what the bill is about today, is the next installment, which would be the third installment on our human capital reforms legislatively. But we also partner very much with our Employee Advisory Council and our employees to try to make a great agency even better.

For example, every year, we ask our employees to fill out a confidential electronic survey asking them how we are doing, where we are making progress, and what is important to you. This past couple of months, we got the results back from the most recent survey. We had an 89 percent response rate on a voluntary survey, which is phenomenal. Two-thirds of GAO's employees wrote me a personal and confidential note, anywhere from two lines to two-

and-a-half pages. I read every one of them during the first weekend that I had the information.

Our positive results went up in 72 out of 83 areas. We are ahead of the Federal Government in 9 out of 11 areas and we are ahead of the private sector in all four benchmark areas. So we are making great progress, but we can always be better and we will continue to strive to do that.

I know the Employee Advisory Council has a statement that they have prepared for the record and I appreciate your willingness to be able to insert it into the record at the appropriate time.[1]

Let me last say that as noted within the last 2 weeks, one of the areas where we have also made tremendous progress is information technology. Specifically, within the last 2 weeks, GAO was recognized as one of the top 100 CIO organizations in the United States, and that includes the private sector.

So we are making real progress on leading by example, serving the Congress and serving the country. Now, what about challenges? There are several challenges which I will hit the highlights on. Details are in my testimony.

Our challenges include continuing our transformation, and continuing to build on our positive results and to make sure that they are sustainable. Some of our special challenges include unfunded mandates. We are concerned about unfunded mandates. Many times, when you are successful, Congress wants you to do more. It is fine if Congress asks us to do certain reports as a part of the legislative process. That is fine. But when Congress wants to expand the scope of our authority and get us in new lines of business, we think it is important that somehow there will be funding for it. Otherwise, we are diluting our ability to do our primary mission.

Second, sometimes Congress will end up passing pay raises without fully funding the pay raises. That is very difficult when 80 percent of your costs are people costs. You can eat that maybe in 1 year, but you cannot eat that on a recurring basis without adverse outcomes.

Supply and demand imbalances—when you are doing a good job, you get requests for more work. That is good news. The bad news is, you have a certain amount of resources. We have supply and demand imbalances that we manage very carefully. Some of them are particularly acute in areas like health care, which means that sometimes we are going to have to end up going back to leadership of the committees as well as overall to try to relook at what is in the in basket and see if we can reprioritize. Obviously, we are having to place more and more attention on committee and subcommittee requests and less on individual member requests because of that supply and demand imbalance.

Access to records—while we had one highly publicized problem within the last couple of years, we have not had a proliferation of records access problems and, therefore, do not need any legislation at this point in time. We are hopeful that we will not have problems in the future.

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[1] The prepared statement of the GAO's Employee Advisory Council appears in the Appendix on page 127.

The Deputy Comptroller General position has never been filled since the law was enacted in 1980. The current process just doesn't work, and I would respectfully request that the time has come to reconsider that process and hopefully follow a process similar to what other supreme audit institutions around the world do, and that is to allow the Comptroller General, in consultation with certain parties on the Hill, to make that appointment or make a recommendation for that appointment. I think we need to do something because the current process just doesn't work.

Performance and accountability community coordination—we are only part of a broader portfolio, the Inspector Generals, for example. This is the 25th anniversary of the IG Act. I think there is a need over the next year or so to look at what is working, what is not, how can we achieve economies, improve efficiency and effectiveness in that community, as well.

Our bid protest volume is also continuing to increase.

And last but not least, we are being asked to do more and more work for the Legislative Branch on the Legislative Branch. By that, I mean where we are being asked to do work on the Capitol Police, the Capitol Visitors Center, the Architect of the Capitol, the Government Printing Office, and a variety of other entities. Obviously, we are happy to help our client, and yet these engagements do create certain challenges that have to continually be assessed.

Finally, S. 1522, the GAO Human Capital Reform Act of 2003. Again, thanks to both you, Senator Collins, and you, Senator Voinovich, for your sponsorship of this legislation. We believe that this is both a reasoned and reasonable proposal. We believe that it will make GAO a more effective place and a better place to work. We believe it will help us to continue to lead by example in this critically important area. We believe that we followed a model process and we believe that we have got a proposal that deserves your support and this Committee's support and hopefully the Congress' support this year.

As I look forward, in closing, there are three areas that I, along with my colleagues at GAO, would like to help the Congress on in the next 10 years.

First, help the Congress address our large and growing fiscal imbalance. The numbers just don't add up. Tough choices are going to be required. We are not going to grow our way out of this problem. I have a speech at the National Press Club tomorrow and I will talk more about this issue then.

Second, helping to transform what the government does and how the government does business is critically important for the 21st Century. Right now, a vast majority of government is an amalgamation of programs, policies, functions, and activities over decades and the base has not been reviewed thoroughly for its relevancy in the 21st Century. The base is not OK and the base is unsustainable going forward, especially if the Congress wants flexibility to meet new demands that is placed on it.

And last, to continue efforts to make GAO the Federal employer of choice and the gold standard for a world class professional services organization that just happens to be in the public sector.

With that, thank you for your time. I appreciate the opportunity. I would be happy to answer any questions that you may have.

Chairman COLLINS. Thank you very much, Mr. Walker.

Before I turn to my questions, I would like to call on Senator Voinovich for any opening comments that he might have. As you are well aware, he is the Senate's expert on human capital issues, and he is the primary sponsor of S. 1522, which I was very pleased to join him in introducing. Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Madam Chairman. Comptroller General Walker, it is always a pleasure to see you and receive your testimony. I apologize, Madam Chairman, for not being here until now. I had a little plane problem.

I want to thank you, Mr. Walker, for being a pace-setter on Federal strategic human capital management and for serving on my human capital working group. I appreciate your balanced review of the administration's proposed human capital performance fund and the Defense Department's national security personnel system, as well as your forthrightness about the Federal budget situation. We are hopeful that your comments and our legislation will make its way into the Conference Committee that is being held on the defense authorization bill.

Mr. McTigue, thank you for being here, as well. I am grateful for the excellent analysis you and your colleagues at the Mercatus Center provide on Federal performance and accountability issues. Both of you have assisted in my efforts to reform the Federal workforce during my 5 years in the Senate and I look forward to making some other changes as we finish the year.

Madam Chairman, as you know, I have a keen interest in the management of Federal agencies, and during my 5 years in the Senate, GAO really has played an integral role in providing comprehensive analyses and thoughtful recommendations on reforming the Federal Government's strategic human capital management, an issue that I have made a centerpiece of my efforts, as you mentioned, as Chairman of the Oversight of Government Management Subcommittee.

I would say that, Comptroller General Walker, we have made some real progress. I remember being in my office 2 or 3 years ago when you indicated that reform was going to be very difficult. It is amazing when I think about how much change has occurred so far, and hopefully more will occur before the end of this year.

In addition to receiving the benefit of GAO's excellent research on personnel and management issues, the Federal Government has in its own midst an examplar of excellent management practices. In the first 5 years of his 15-year term as Comptroller General, Mr. Walker has begun an important cultural transformation of his agency. Assisted in part by Congress' enactment of special personnel flexibilities in GAO in 1980 and in 2000, Mr. Walker is in the process again of restructuring GAO's workforce in order to maintain its mission both now and in the coming years. That makes GAO noteworthy not only for recommending to other agencies how to improve their management, but for setting an example for those agencies through its own practices. In other words, GAO is a best practices organization. It is difficult to go out and tell

other people what to do if you are not doing them in your own shop.

On July 31, I was pleased to introduced S. 1522, the GAO Human Capital Reform Act of 2003. This legislation, which was developed by GAO, I believe will further enhance those personnel authorities.

Madam Chairman, I hope that we will be able to report out the bill at the Committee's next business meeting in October. I am pleased to note that the House Civil Service Subcommittee already has reported out a companion bill. Madam Chairman, Mr. Walker has often observed that for too long, Federal employees have been seen as "costs to be cut rather than assets to be valued." I mentioned that yesterday when I spoke with a group of representatives from labor unions in the Federal Government. He has done a good job in changing that perception at GAO. I think, frankly, that perception has been changed during the last couple of years, from beating up on Federal employees to valuing them and you have been a great leader in that area.

I thank you for your testimony, and Madam Chairman, thank you for giving me a chance to make this opening statement.

Chairman COLLINS. Thank you, Senator Voinovich.

Mr. Walker, in your testimony, you gave some impressive statistics on the return on investment. I believe you said for each dollar that GAO receives that there is a return of $88, and that is up from $58, which is very impressive.

Could you quantify for the Committee how much money the GAO has saved the Federal Government through its recommendations being implemented during the past 4 years, and could you also tell us, since there are undoubtedly some skeptics out there, how GAO goes about estimating the savings?

Mr. WALKER. It would be around $100 billion or a little bit more, but let me clarify for the interest of full and fair disclosure. The financial benefits are a combination of two things. They are either outright savings, or they are resources that are freed up that Congress decides to redeploy to other priorities, which we don't control. Obviously, the Congress has the prerogative to do that. But we believe that it is a better utilization of taxpayer resources and, therefore, appropriate for us to count as a financial benefit, because if that had not occurred, then they may have spent both, if you will.

The way that we go about it is we have a very disciplined process where the teams who want to claim these financial benefits have to be able to document what was the recommendation that we made and was it adopted by the department or agency or the Congress, can we demonstrate that we are the primary or a major reason why this change occurred as a result of our work, and then an estimation of what the financial benefits were as a result of adopting that recommendation, whether it is a one-time savings, whether it is a multi-year savings. If it is, we don't consider forever. We just consider several years and come back to a discounted present value.

For this year, for anything that involves $500 million or more, our Inspector General independently reviews the estimated savings and either signs off or doesn't sign off, and if the Inspector General

doesn't sign off, we don't count it. And if she does sign off, then we do count it.

We also are going to be undergoing a peer review that is going to be led by the Auditor General of Canada. It will involve a consortium of other countries within a couple of years and we expect that they will probably take a look at this, as well.

We are also trying to get our external auditors to take a look at our financial benefits. We have had a clean opinion, no material control weaknesses, no compliance problems with our financial management reporting for years. We are trying to get our external auditors to be willing to express an opinion on our performance statistics. That is something CPAs haven't done and I am trying to, frankly, get the profession to modernize itself and to lead by example in that area, as well, and I am hopeful that we will be able to get them to assume that responsibility. But right now, it is not in accordance with professional standards, so we need to update professional standards to make them more relevant for the 21st Century, as well.

Chairman COLLINS. And as you know, the need for an independent outside evaluation is an issue Mr. McTigue has raised. Do you agree that it would be helpful?

Mr. WALKER. I agree, and we are very much on the case. We would like for our external auditors to do it. Again, it is going to take a change in professional standards for that to happen and we are also trying to explore whether or not as part of the peer review something might be able to be done. That is where our peers, other supreme audit institutions, are going to take a look at us.

Chairman COLLINS. When the GAO makes recommendations to agencies, whether they would result in cost savings or simply better operation and more effective delivery of services, what percentage of those recommendations are adopted by agencies. Are agencies generally receptive to the recommendations, or is there a pushback and resistance?

Mr. WALKER. Well, first, that is an indicator. That is something that we follow, what percentage of our recommendations are adopted. For 2002, 79 percent of the recommendations that we made 4 years prior had been adopted by 2002. Now, some were adopted immediately. Some are adopted 1 year to 4 years later. We use 4 years because we believe that if you don't adopt it within 4 years, you are probably not going to adopt it. So 79 percent, which we think is very high. And then from that 79 percent, what were the financial benefits, the non-financial benefits which occurred, which we report, as well.

As you know, they are not required to adopt our recommendations, but as a result of our constructive engagement approach, where we are trying to work with them on a much more constructive basis to make government work better for everybody, we have actually seen the percentage go up. Specifically, we have also seen the percentage of our recommendations implemented go up. This year, I think it may go up a little bit from what it was last year.

Chairman COLLINS. That is encouraging to hear, as well.

Could you give us some examples of major recommendations the GAO has made that have resulted in either significant cost savings or in significant program improvements?

Mr. WALKER. Well, we have made a number of recommendations in the area of acquisition practices and contract management as to how the government goes about engaging those types of activities that have resulted in significant dollar savings. We have also made—been involved in past base closure and realignment commissions and related activities to try to rationalize the excess infrastructure that the Federal Government has, which, by the way, is not just DOD, it is also the Postal Service, it is also VA, it is also a variety of other departments and agencies who are built on infrastructures and organizational systems for the 1950's rather than the 21st Century, in many cases.

There is a whole list in our performance and accountability report, which is on our website, which is www.gao.gov.

Chairman COLLINS. I am going to ask you one more question before I turn to my colleague, and then we will do a second round, and you led me into it nicely. The GAO, as you well know, issues a high-risk list of programs or activities in the Federal Government that are particularly vulnerable to mismanagement or not reaching their goals to limit waste, fraud, and abuse. One of the disturbing aspects of that list is while there are additions to it, such as the real property issue that you have just mentioned, there are also programs that have been on the list for over a decade—I think since the list was first formulated. Medicare, DOD contracting are examples of that.

What can we do? This Committee really wants to play a role in ensuring that programs don't appear year after year on the high-risk list with no progress being made to remove them from the list by identifying management weaknesses and correcting them. I am going to try to follow up. We are working very closely with the GAO on the real property management issue, and we are going to have a hearing on it shortly.

Mr. WALKER. Sure.

Chairman COLLINS. But what can we do so that we don't repeat this cycle, of seemingly making little or no progress?

Mr. WALKER. Well, several things. First, on Medicare, just to touch on that for a second, that is another area where there were significant financial benefits because we have done a lot of work with improper payments, and improper payments have come down from about $23 billion a year to about $13 billion a year, still unacceptable, but that is a $10 billion difference every year. We still need to make more progress.

With regard to the items that remain on the list, there are a variety of things that I think Congress has to consider doing. First, hold agencies accountable as part of the oversight process. Second, consider as part of the appropriations process whether and to what extent they should be given incremental resources to solve a problem or resources should be pulled back when they are not making progress in certain areas.

Let me give you an example of DOD, and I think it is a good case study. In my view, DOD is No. 1 in the world in fighting and winning armed conflicts. There is nobody even close. We are the gold standard. So they are an A-plus on fighting and winning armed conflicts.

DOD is, however, a D on economy, efficiency, transparency, and accountability. They have 8 of 25 high-risk areas, and they probably would have had them for decades before we had the high-risk list. They haven't made much progress. I think there are several reasons that they haven't made much progress, one of which is they are in the line of business of fighting and winning armed conflicts, and as long as they do well there, there is not a whole lot of time and attention focused on the other and they still get what resources they want.

I think the other reason is, is that if we look at leadership in the Executive Branch, we are talking about the need for cultural transformation. We are talking about changing how the government does business. Authoritative literature will tell you that is a 7-plus-year effort to do that and to make it stick, and yet the typical leader in the Executive Branch stays 2 to 3 years. You can't transform an organization, you can't deal with the kind of issues that have to be dealt with in a 2- to 3-year period of time no matter how good you are. It just doesn't work.

And so as a result, one of the things that we have thrown out is the idea that for selected departments and agencies who face major challenges—not everybody, and DOD is clearly one—the concept of exploring the possibility of a chief management officer or a chief operating officer, a level two official whose job is to focus on these key management issues—strategic planning, organizational alignment, financial management, IT, human capital strategy, knowledge management, change management. This person would have a term appointment, ideally for five to 7 years, with a performance contract, who would end up focusing on these issues that just frankly don't get focused on.

Now, I know under the current administration, we have the President's Management Council, which is comprised primarily of the deputies. But the problem is the deputies already have full-time jobs. Many of them have backgrounds and interests in the area that I am talking about, but most don't. But the fact is, even if they do, they don't have the time to be able to do what needs to be done.

So I think that is a modest proposal. If you do that, I think you could then look at CFOs, CIOs, and some other positions. You might make this job a PAS and you may not have to have PASs on the others. I mean, you could actually streamline and simplify the process and expedite getting some good people in some of these other jobs. That is one example.

Chairman COLLINS. Thank you very much.

I know that I said we would do two rounds of questions for Mr. Walker, but now that we have been joined by two additional colleagues, we will do 10 minutes on this round and then go to our next witness.

Senator Voinovich.

Senator VOINOVICH. Thank you. I have been impressed with your comments about the fiscal crisis that is looming for us. I recall that when I became Governor, I said that gone are the days when public officials will be judged by how much they spend on a problem. The new realities dictate that public officials must work harder and be smarter and do more with less.

It seems to me that with the budget problems that we have, we really need to do a comprehensive budget review, what I would refer to as an operations improvement task force in the Federal Government to look at the areas where we have the most opportunity to reduce spending. I would be interested, do you believe that the place to start on that would be to knock off those high-risk areas that the Chairman has spoken about?

Mr. WALKER. Well, I think you have to recognize that the high-risk areas represent an opportunity for improving economy, efficiency, and effectiveness. They are not just fraud, waste, abuse, and mismanagement. I mean, we have really made a concerted effort since 2001 to make that list more strategic. It includes a number of transformational challenges, like human capital, the Postal Service, disability programs, etc. I think if you look at the high-risk list, there is a lot of opportunity for savings——

Senator VOINOVICH. In other words, is the high-risk list—if you looked at the Federal Government, that list was reflective of what you think would result in the most savings for the Federal Government and improvement in efficiency?

Mr. WALKER. I would say that they represent an opportunity for significant savings and significant improvement. But one of the things that I am also asking GAO executives to do, which is new, is that our high-risk list is based to a great extent on work we have already done.

One of the things that I am asking GAO executives to do is that given our fiscal challenge, and based upon their experience, expertise, and institutional memory, we are going to have some internal brainstorming sessions on areas that we may not have done work on yet but we believe represent opportunities that we want to bring to the Congress for exploration and consideration. This is more proactive than historically GAO has done. We need to do this in conjunction with the Congress. We don't want to do this on our own. But I think the time has come to do it.

Senator VOINOVICH. I do, too. I think if you had a comprehensive list of things—if you surveyed the whole operation of the Federal Government, broke it down and prioritizing the areas where we would get the biggest return for the time that we would spend, that would be very helpful to us as we move through the next several years.

I am a little bit concerned about the one statement that you made in terms of the Defense Department and we have talked about this before, saying that the only way that we can handle the high-risk list would be to have a chief operating officer who would have continuing responsibilities. It would seem to me that once people come on board at the Defense Department, you would have one group that would be concentrating on doing the war thing and then the other would be just strictly working on the management and dotting the "i"s and crossing the "t"s and following up on some of the recommendations that you folks have made.

Obviously, they have been on there a long time, and so you are basically saying that under the current structure, it is not going to happen without something like what you are suggesting?

Mr. WALKER. I don't think that the chief operating officer or chief management official, or call it whatever you want, is a panacea,

but I think it is a significant missing link, and in the absence of having that, I think it is not likely that you are going to be successful. I think you need to do other things, too, and some of which the Department of Defense, Secretary Rumsfeld and his people are trying to focus on now.

I am an ex officio member of the Defense Department Transformation Advisory Board to the Secretary. I use that as a way to make sure they are aware of all the good work that GAO is doing, and I am pleased to say that they have liked a lot of our work and have made a number of recommendations to the Secretary to move on some of them. I also understand they are going to make a recommendation to Secretary Rumsfeld around this chief management officer/chief operating officer concept soon, and hopefully he will view that favorably, but it would take legislation to make it happen.

Senator VOINOVICH. I am sure that this Committee would be interested in that.

I would also like your thoughts on other things that we can do. We talked a couple of years ago about better oversight by Congress. One of the areas that was discussed, Madam Chairman and Senator Carper, was the area of the Appropriations Committee and the fact that they have the power of the purse. I believe they should be more involved in looking at what is going on in those agencies because all they do is come in and ask them for money. I just wonder how much real oversight is occurring while they are looking at the appropriations to these various areas.

It seems to me that perhaps if we could come up with some kind of a process where the authorizing committees would work with the Appropriations Committees to talk about some real significant problems that we have in some of these agencies and really come together and say, we have a problem here, we have to get it taken care of, and use both the authorizing and the appropriations processes to really put the pressure on and get some action on these things that have been laying around for the last 5 or 10 years.

Mr. WALKER. Senator, I think you have put your finger on a very important issue. The old saying, money talks. And in this town, for years and years and years, it was "get the money, spend the money." The fact is, I think there is a tremendous opportunity and a tremendous need for a partnering arrangement between the authorizing committees and the appropriators to focus on those areas of opportunity, because in the end, if there aren't consequences, if people aren't making progress and there's not consequences, then why should they pay attention?

At the same point in time, sometimes to solve a problem, you need an investment. It may be a one-time investment, but that is something that has to be pointed out, as well.

Senator VOINOVICH. Well, it is something and I think that we are really going to have to spend some more time on it if we are going to get any kind of action. I think a lot of people show up and we talk with them and importune them to do things and they walk out and say, well, they had their hearing and they just go back to doing what they have been doing before.

I also think in the military area that we should recall Dwight Eisenhower's admonitions about the military-industrial complex. We

have people leaving the Defense Department and going to the private sector. There is just a little club that is there. Even, I think, some of the members of the Appropriations Committee in that area have been around a long time and they know all the same people and they don't want to rock the boat or do anything to make anybody unhappy.

I think it is long overdue that we really look at that area, particularly because of the money that we are putting in today for the defense establishment.

Mr. Walker, in regard to your budget, how much has your budget increased in the last couple of years? I should know that, but I don't.

Mr. WALKER. Well, this year, do we have that number right off, how much the budget has gone up? While we are looking for that real quick, I can tell you that what we are asking for, which, I think, is another example of leading by example, for 2004, we are asking for a 2 to 3 percent increase.

Now, in fairness, in the interest of full and fair disclosure, our budget went down by $100 to $110 million the 5 years before I came. In the 5 years since I have been here, our budget has gone up about $100 million, and part of that is to be able to reinvest in our people, to deal with pentup technology, safety, and security issues.

But now we are in a situation where I think we have dealt with the most acute needs and what we are doing now is trying to tighten our belt, recognizing that we have got a situation where the Congress faces a growing deficit. We are holding the line on what we are asking for on future increases. We are having business cases, to the extent that we need something other than basic inflation and the mandates that Congress tells us that we have to comply with. And I just hope that the Congress will consider the results that they are getting from us and the return on investment when they are making resource allocations and decisions in the future so they don't take an across-the-board approach, which obviously is not the best way to do it.

Senator VOINOVICH. And the budget is adequate, and you have the manpower to respond? Every time we turn around, there is another request. In fact, this is a little provincial, but I was shocked at the report that you folks came out with on medical malpractice. Frankly, I thought the conclusions were off the wall. I don't know if anybody reviews those before they are released. Do you do that?

Mr. WALKER. The Medicare—are you talking about the objective——

Senator VOINOVICH. I am talking about the crisis that I have in my State with people dropping out of the medical profession because of the high cost——

Mr. WALKER. Medical malpractice?

Senator VOINOVICH. Medical malpractice.

Mr. WALKER. Well, first, I think it is important to put it in context, Senator. I understand your frustration. The fact of the matter is, medical malpractice is a problem. There is no question that it is a problem. Is it the only problem? Absolutely not. Is it the same degree of problem on a State-by-State basis? No. And so I think what our report is trying to say is, yes, medical malpractice is a

problem, but it is not the only problem and the degree or the acuteness of that problem varies significantly depending upon what State you go to. In some States, it is not a big problem. In other States, it is a big problem.

Senator VOINOVICH. Do you have a team that reviews those reports before they hit the street?

Mr. WALKER. The way that we deal with it, Senator, is that we do it on a risk-based approach. Depending upon the complexity and the controversy of the work, among other things, we have different levels of review within the agency and different entities within the agency involved.

The other thing that we do, as you probably know, is that we also have stakeholders either within the government and sometimes outside the Federal Government—it could be State and local government, it could be other professions or whatever—have an opportunity to comment if they are significant stakeholders before we finalize our report, and we consider their input and make adjustments as appropriate before we finalize our report.

So we have a very thorough process and it is rare that we have any controversies associated with our report. But sometimes we do, especially on issues like health care.

Senator VOINOVICH. My time is up.

Chairman COLLINS. Thank you. Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Madam Chairman. I just have a couple of lines of questions here very quickly.

One is, as I understand it, the GAO requested feedback on its proposal relating to human capital on its internal website. I was curious about what kind of feedback you received from the employees.

Mr. WALKER. With regard to our human capital proposal, there was two phases of the human capital proposal. The first phase was an initial straw proposal where we went out, and I had not even had an opportunity to explain it yet, and we got feedback at that point in time and then we got subsequent feedback through various mechanisms.

Initially, I would say that most of the proposals were not controversial. There was one proposal that was very controversial and that was the proposal to decouple our annual pay increases from the automatic adjustments in the Executive Branch. That was by far the most controversial proposal.

After putting out the straw proposal, there were a number of supplemental outreach efforts, listening sessions, talking to the Employee Advisory Council, the managing directors. I went out to a number of field offices, a variety of different mechanisms was used. Also, employees had the opportunity to make comments, either confidentially or associating their name, directly to me and to other parties, including the Employee Advisory Council.

Based on that, we made a number of changes, clarifications, and commitments, such that, in my view, the only area where there is any degree of controversy still is the decoupling of pay. I believe I have gone about as far as I can go to deal with employee concerns, to the extent that they exist there, and still maintain the

concept of we want to have a somewhat more pay-for-performance-oriented system. And so I believe that what we are asking for is reasoned and reasonable and I believe it will make GAO a better place.

Senator PRYOR. And the other question I had is somewhere I have read that you want to establish an executive exchange program with the private sector, which I actually kind of like that concept, but the question I have is, how do you do that and make sure that you are protecting yourself against conflicts of interest? How do you set that up?

Mr. WALKER. A very important point. First, let me clarify what we are asking for. We are asking for the authority to be able to have up to 30 people come into GAO at any given point in time and/or up to 30 people to go out of GAO at any given point in time for knowledge exchange, best practices, etc. Candidly, I expect that this is going to be more people coming into GAO than people going out of GAO for a variety of reasons. For example, supply and demand.

Senator PRYOR. Do you think those would be government people coming into GAO or private sector——

Mr. WALKER. It could be private sector or government people, if you will. We are very concerned with the conflict of interest issue. You raise an excellent point. That is particularly acute in the Executive Branch, because in the Executive Branch, they have responsibility for policy making and for enforcement. They are on the front line of actually making government decisions.

In our case, we are doing audits, investigations, and evaluations. We are not the ones making the final call. We are the ones gathering facts and doing analysis. We are very sensitive to that and we will make sure that the assignments that they have are such that they would not present a real or perceived conflict of interest.

Senator PRYOR. That is all I have, Madam Chairman. Thank you.

Chairman COLLINS. Thank you, Senator. Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thanks, Madam Chairman. General, how are you doing?

Mr. WALKER. It is good to see you again, Senator.

Senator CARPER. It is nice to see you, as well. Thanks for joining us today and thank you for your leadership and your stewardship.

You talked a little bit about an Employee Advisory Council. Describe that council to me—who is on it, how do they get appointed, how long do they serve, that kind of thing.

Mr. WALKER. Well, it has evolved. The way that it is right now, it is a 23-member group. It is comprised of people from different levels of the organization, different occupations, and different locations. It is entirely democratically elected now. Depending upon the nature of the group, they could—for example, if it is an association dealing with Asian Americans, or African Americans where they have an association, then they will end up electing their representative. If it is a level, for example, supervisory personnel or senior analysts, if you will, then they will run an election to elect one or more representatives to represent them. So it is a fully democrat-

ically-elected body that is representative of the diverse workforce that we have.

That body meets with the Executive Committee, which is myself, Gene Dodaro, Chief Operating Officer, Sallyanne Harper, Chief Mission Support Officer, and Tony Gamboa, our General Council—the four of us make up the Executive Committee—and others at least once a quarter to talk about issues of mutual concern and how to make GAO a better place. They set the agenda. We may add to it. We don't take items off though. But I think it is one of the reasons why we have been able to make real progress, is having this mechanism where we are partnering with our employees, partnering for progress.

Senator CARPER. Just describe for me, if you will, the evolution. How long have you been head of GAO now?

Mr. WALKER. It will be 5 years effective November 8, I think.

Senator CARPER. Just describe for us, if you will, the evolution of the relationship and the interchange between the leadership that you represent and the council.

Mr. WALKER. Well, when I first came in, we didn't have a collective council. We had individual councils. Specifically, we had councils representing various interest groups and we didn't really have a collective council.

I looked at it and I said, we need to maximize progress for all rather than for segments. We don't have a union at GAO, but I believe very strongly that we need to have our employees as key players to help us figure out what we are doing well and how we need to make additional progress.

And so we started out with a concept of let us create an Employee Advisory Council that has representatives from these previous councils that were more interest group councils and then let us make it more diverse and more representative. I initially appointed representatives for groups that didn't have representation. And then, believing in democracy and working with the council, we agreed to make this a fully democratically-elected body over time, and we did. About a year ago, we ran elections for the slots that I used to appoint and now it is a fully democratically-elected body.

So it has been a mechanism that is in place now for several years. It is a very important mechanism because I talk to them at the same time as we talk to the managing directors, which includes the senior executives that lead the 13 teams. We are talking to them basically at the same time on important issues and give their input great weight.

Senator CARPER. I don't believe the council or representatives of the council are going to be testifying today.

Mr. WALKER. They have a statement for the record.[1]

Chairman COLLINS. They have submitted testimony, which will be included in the record.

Senator CARPER. Good. I have not seen their statement. If they were here, what might we hear from them?

Mr. WALKER. Well, they were at the House hearing and I would commend that statement to you. I think what they would say is ba-

[1] The prepared statement of the GAO's Employee Advisory Council appears in the Appendix on page 127.

sically what their statement says, is that with regard to what we are asking for, that our employees don't have a concern about a vast majority of the provisions, that the only area where there is still some concern is our proposal decoupling from the Executive Branch with regard to automatic pay adjustments.

At the same point in time, they acknowledge that the process was a good process, that we have made changes, clarifications, and commitments to try to deal with employee concerns. They acknowledge that we need to continue to modernize our human capital practices, and they acknowledge that there is mixed opinions about changing our name. They don't take a position one way or the other on that.

My view is, is that we haven't had a tremendous problem in the past, but you don't know who you miss because of your name. If you are trying to hire lawyers, if you are trying to hire Ph.D. economists, if you are trying to hire people who aren't accountants, you don't know who you miss. What I do know is our name is very confusing to the public. They think we are in the accounting business, and less than 15 percent of what we do has anything to do with accounting or traditional financial management. And so it is a problem.

Senator CARPER. As I understand it, what you are trying to do is put in place a pay-for-performance system, but one that does not undercut the ability of your employees to meet the rising cost of living. How do you do that? Have I mischaracterized that?

Mr. WALKER. Here is what we are trying to do. This is very, very important. First, unlike most Federal agencies, GAO has had a pay-for-performance system since about 1989. And so what we are trying to do here is to make it somewhat more pay-for-performance oriented.

Specifically, what we are looking to do is that while we have our own personnel system and we have broadbanding and pay for performance, we are still subject to the annual across-the-board increase that applies to the Executive Branch, even though we are not in the Executive Branch under the current system, which means your best performer and your worst performer, even those individuals who are not performing at a satisfactory level, are guaranteed by law that across-the-board increase, irrespective of their skills, knowledge, performance, and irrespective of where they live.

What we want to be able to do is to say that for the 97-plus percent of our employees who are performing at an acceptable level or better, that we will protect them against inflation at a minimum; that we will consider differences in competitive compensation by locality, but based upon surveys that are more reflective of our workforce rather than how it is currently done; and that with regard to anything else, that the increases will be based on performance.

And so what we are doing, basically, is taking what otherwise—there was a 4.1 percent pay increase last year that applied to everybody. Basically, what we would be saying is if you are not performing at a satisfactory level—that is less than 5 percent of our workforce—you are not guaranteed that. But if you are, then you will get inflation, consideration for differences by locality, and

something on top of that for your performance, but that will vary based upon what your performance is.

Senator CARPER. I think you have indicated that GAO's responsibilities continue to expand. I know I asked you and your agency to do a variety of things, and I am sure other Senators do, as well. My understanding is that you are attempting to meet the requests that are made of GAO without adding to the number of employees that you have. Just talk a little bit about how you manage to balance all that.

Mr. WALKER. That is an excellent question. Here is what we do. We have a much more disciplined and transparent process with regard to what the rights of our clients are, what our responsibilities are to our clients, and what our engagement acceptance practices are.

Basically, the priorities that we have are if it is a mandate by law, including something that is in the Committee report, we consider that top priority because the Congress as a whole has spoken. We monitor potential mandates a lot closer because sometimes there are mandates that may not represent a good use of your resources and the taxpayers' resources and so we will try to intervene before they become law. But if they become law, they are our top priority.

We are also required, in accordance with current law, to do work for committees. Therefore, if we get a request from a committee chair or a subcommittee chair, we are bound to do it. As a matter of policy, and in accordance with our wanting to be professional, objective, and nonpartisan in nature, we accord the same priority to ranking minority member requests, even though as a matter of law they don't have the same legal standing. And so as a matter of policy, we give them the same priority. We give them the same rights.

The next level would be individual member requests, which, candidly, we are not doing a whole lot of individual member requests. We tell members that they need to go to a chair or ranking member for two reasons. One, we have a supply and demand imbalance. And two, in order for our work to be able to benefit the Congress, the country and the taxpayers, realistically, you are probably going to have to have it go through a committee or subcommittee. And so what we are trying to do is to have more chair and ranking member requests. We are also trying to encourage bipartisan requests. They have gone up. We can't require that, but they have gone up, as well.

And so we have a much more disciplined and transparent process and we are getting a lot more results out of the same level of employees. But that can only go so far.

Senator CARPER. And that is only so far as my time goes, too. It has expired. Thanks very much.

Mr. WALKER. Thank you, Senator.

Chairman COLLINS. Thank you, Senator Carper.

Mr. Walker, I want to thank you on behalf of the Committee for your testimony this morning, but also for your first-rate leadership of the GAO. Under your leadership, the GAO has continued to make great strides in the work that it does. It is very important work, particularly to this Committee and to the American tax-

payers. So I thank you for your excellent leadership and look forward to continuing to work with you.

Mr. WALKER. Thanks, and if I could just say for the record, I am pleased and proud to lead this agency. We have a great executive committee and executive team and a lot of very bright and dedicated public servants. We look forward to working with this Committee and others in the future. Thank you very much.

Chairman COLLINS. Thank you.

Our next witness this morning is the Hon. Maurice McTigue, the Director of the Government Accountability Project at George Mason University's Mercatus Center.

As a former cabinet minister and member of Parliament in New Zealand, Mr. McTigue has a unique perspective on issues relating to government management, and more specifically, results-oriented government.

From 1984 to 1994, Mr. McTigue led an ambitious and successful effort to restructure New Zealand's public sector. In his current position, Mr. McTigue conducts annual evaluations of how Federal agencies are performing. He reviews their performance plans and reports required under the Government Performance and Results Act. For the last 2 years, the Comptroller General has asked Mr. McTigue to conduct a similar evaluation of GAO's performance reports, and that will be the subject of his testimony today.

Mr. McTigue, we very much appreciate your appearing today, and I look forward to hearing your statement. Please proceed.

TESTIMONY OF MAURICE P. McTIGUE,[1] DIRECTOR, GOVERNMENT ACCOUNTABILITY PROJECT, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Mr. MCTIGUE. Thank you, Madam Chairman and Senator Voinovich. I am honored to have been asked to present myself before you today and to give to you some of the knowledge that I have acquired in the 6 years that I have been here in the United States at George Mason University's Mercatus Center, working with your government, and in particular the experience that I have had in working with GAO.

Madam Chairman, when we talk about GAO, we have to recognize that we are talking about the best of the best. It is my considered opinion that GAO is certainly the premier organization in government. Also, I think that in David Walker, you have an extraordinary leader who stands head and shoulders above most in the public sector.

However, when you are looking at the best of the best, it doesn't mean that there is no room left for improvement, and I certainly think that there are areas in which GAO can continue to show improvement on the role that it has played in the past.

First, I want to really look at the perception of GAO. What is its role? Many people might look at it as the research arm of Congress, and that would be true. They might look at it as the government's auditor, and that would be true. They might look at it as the government's accountability office, and that also would be true.

[1] The prepared statement of Mr. McTigue appears in the Appendix on page 120.

But of all things, I think that the most important contribution that GAO makes is that it maintains the public confidence in the institutions of government. Any erosion of public confidence in the institutions of government is detrimental to all of us.

How does it do that, because GAO does not actually have any power to instruct organizations to do things? It doesn't have any power to compel people to do things. It just has the power of influence, and that power of influence is directly proportional to its reputation. So for GAO, continuously enhancing its reputation is a high priority.

In enhancing its reputation, I think that there are important values that are involved. The first of those is the quality of the work that it does. If it doesn't meet a very high standard, then its reputation is damaged, and it seems to be able to continually excel itself in improving on the quality of its work.

It is the integrity with which it does that work. It is the fairness with which it does its work. It is also the perception of fairness by those who are examined and the public at large.

It is the fearlessness with which it approaches its job, because it must not be put off from examining something that might be controversial or difficult because it fears consequences for itself. And it is the reliability with which it produces its information.

One of the areas of reform that occurred in my country while I was in government was a reform of the equivalent of the GAO, which we called the Auditor General's Office. We rewrote its law between 1984 and 1994. We made it very independent so that it is answerable only to the Parliament, it is not able to be compelled by any particular party or the government to do anything. The Auditor General makes his or her own decisions as they think appropriate.

It still does much of the investigative research for the government and it still does two-thirds of the auditing for government, but not all of it, and that is a deliberate policy so that there is a chance to compare what private sector auditing produces as opposed to what is produced by the Auditor General's Office.

It also has the liberty to examine issues of its own volition, because the auditor general perceives them as risks or failures. It might be why certain social problems have not responded to the investment that the government has made in those social problems, or, indeed, the programs used have not produced results.

This is my view in an area of inquiry that is going to become increasingly more important for GAO as the U.S. Government moves to results accountability. I want to touch on that a little bit more in a moment or two, but there are two other things that I think are important and that I see as challenges for GAO.

The first of those is the world post-September 11. Given GAO's role in maintaining public trust in the institutions of government and given the necessity for the U.S. Government to take unto itself additional powers that in many ways compete with or infringe on the rights of individuals, being able to maintain public trust in how those powers are used may be an important part of protecting trust in the institutions of government.

Looking at how the Immigration Service uses its extended powers, looking at how the FBI uses its extended powers, and accept-

ing that some of this inquiry may have to be done in confidence, GAO could indeed examine the use of those extended powers, assure itself that the use of the powers was appropriate, and then give such an assurance to the public without having to disclose things that might be damaging to our security. This is a different world. GAO has to have both the resources and the time to be able to examine these powers or a dangerous erosion of confidence could occur.

While thinking of that expanded role for GAO, it raises another issue, and that is the changing world of government. GAO, like all other government organizations, is going to have to manage its human capital, to produce the capability necessary to accomplish its mission.

I think that your move to give to GAO more flexibility in how it manages its human capital is a good move. I think that GAO should use that opportunity to set itself up as a role model for the rest of government setting up a template that can be copied by other government organizations.

I want to make a comment here about the concept of human capital. Many people think about human capital in the way in which they have thought about human resources in the past. In my view, that is incorrect.

Human capital encompasses two concepts. The first of those concepts is the concept of being a good employer. Do we do all of the things that we should for our staff? Everybody knows the principles of being a good employer and should be able to practice them.

The new and more important concept is that human capital is really a reflection of the capability of the organization. Do the people, the skills, and the talents necessary to do the job exist? How do we manage that capability? How do we assess what capability we need in the future? How to develop policies that will bridge the gap from the organizations capability now and the capability needs of the future?

For example, the expanded role that GAO will have to play in examining how enhanced security measures are utilized inside the American Government may well require capabilities they don't have today. The Congress should be cognizant of that and should allow them both the latitude and the resources to be able to accomplish that task.

Another area of challenge, in my view, is the world of results managed government. A few moments ago, Senator Voinovich asked David Walker about the challenges on the fiscal side of government and how they might actually be addressed. In my review, results-based management of government is one of the best ways of addressing that.

Having been a member of Parliament and having sat where you sit from time to time, Madam Chairman, one of the challenges we faced was that we were very badly served with the information necessary to make good decisions about allocating scarce resources. We didn't know what was being achieved in public benefit trends by different activities. Minus that knowledge and often minus the knowledge also of what it cost to do that, we couldn't make very good decisions.

As that capability improved and we were to compare these activities results against those activities results, it became possible to strategically move funding into those activities that worked better. Consequentially it became possible to enhance public benefit with considerably less in resources.

In my view, the U.S. Government is in the early evolutionary stages of this process at the moment. You will not see the full benefits of this change until about the 2005 or 2006 fiscal year. It will take that long to get the full results-based information necessary to be able to compare activities and reallocate resources accordingly.

GAO will play a significant role in determining the validity of measures used by agencies. If I can just, as an example, Madam Chairman, use something that David Walker mentioned in his testimony and you questioned him on, and that was the recoveries of $37 billion made by GAO last year.

It can be said, that is a fine achievement. It is an increase of $11 billion over the year before. However, those recoveries were able to be made because there was some inappropriate practice, malfeasance, misallocation, or misappropriation of monies or resources inside government. Success should be measured in terms of whether that number comes down as a result of GAO's actions. The public benefit would then go where Congress intended. Over time it should become more difficult for GAO to be able to find those monies. This would then become a measure of the outcome. The complained-of behavior is gradually being eliminated.

In exactly the same way when looking at the recommendations made by GAO the fact that they are accepted by agencies is an important interim measure, but the final measure is, did they cure the complained-of behavior. Achieving the cure is what we need to know if we are going to focus on outcomes. To me, GAO playing a role in examining government organizations and determining what result was achieved would be a major contribution towards good government here in the United States.

That is the conclusion of my comments, Madam Chairman, I would like to ask that my written statement be included in the record. Thank you.

Chairman COLLINS. It will be entered in full, without objection.

Mr. McTigue, thank you very much for your testimony and also the very important work you are doing in this area, not only with the GAO but also with other agencies in evaluating their performance reports.

We looked long and hard to try to find an expert who could comment on the GAO. The GAO comments on everybody else, and we thought it would only be fair to have an outside group. I suggested to my staff that they contact your organization, the Accountability Project. I was delighted to learn that you had, indeed, done work in this area, and I give David Walker credit for asking you to do this work, as well.

We heard today the Comptroller General's discussion of how the GAO prioritizes the requests it receives from Congress. As a committee chair, needless to say, I like the priority the GAO gives to requests that come from committee chairmen and their ranking members. But I understand you have a slightly different perspec-

tive on how the requests should be prioritized. I would invite you to share that with us today.

Mr. MCTIGUE. Madam Chairman, if I was sitting in your chair, I would feel exactly the same way that you do. [Laughter.]

And certainly, I think that the bulk of what GAO does is going to continue to be the work that it does for Congress. But Congress itself may well have to start to think about the prioritization of that work so that low-value work from Congress isn't setting aside some other things that GAO might be looking at that would be very much more valuable.

I think the visionary role that GAO plays is very important in identifying risks to the American Government, doing work on those risks, and then starting to publicize that activity or lead that debate.

I would pose the question that if David Walker had not spent so much time on commenting on the crisis in human capital in the Federal Government, would it have got the attention that it has received to date and would the American Government be taking action on it? And I think the answer is probably no, or it might have been postponed 2 or 3 years into the future.

I think the work that he is leading now in taking a long-term look at the fiscal crisis so that there are more options available to government before the crisis becomes incurable is work that is extremely valuable. Congress does need to weigh the value of these tasks against the requests that Congress is making and accepting some prioritization.

The reassurance of the American people about the trustworthiness of institutions of government is incredibly important, particularly at a time of crisis of security accompanied by some erosion of civil liberties. The guarantee that new powers are used with the greatest propriety is very important. To me GAO has the reputation and credibility to give those assurances.

So what I am really saying is that in allocating to GAO tasks, I think Congress has to be cognizant of the fact that there is a limited resource, there are other activities that are carried out by GAO that are very important for the quality of government. Congress should not crowd those activities out with requests that are of a lower priority.

I think David Walker's suggestion that from time to time members are going to have to work through committees rather than making individual requests is a good one. I think that making collective requests rather than partisan requests is a good one.

Chairman COLLINS. Thank you. The other issue I want to have you comment on is the GAO's high-risk list. I have found this list to be useful in directing our attention to problem areas in the Federal Government, but I am troubled by the fact that programs stay on the list year after year after year. How could the GAO change its assessment of the high-risk list to make it more useful to Congress and to Federal agencies?

Mr. MCTIGUE. In my view there are a variety of approaches that could be given consideration. Madam Chairman, there are activities in government that are inherently high risk and might need to be included all the time. For example, in the field of taxation, the collection of revenue is always something that is subject to at-

tack by clever lawyers and accountants who want to find legal ways for their clients to minimize their taxes. So a risk exists that there will be continuing erosion to the tax base and there needs to be protective measures taken to deal with that. That might mean that tax collection is something that inherently remains on a high-risk list.

Other activities currently on the high-risk list may be making significant progress towards getting off the high-risk list. It would be good to know that significant progress is being made.

It is of concern that some risks are there for 12 or 13 years. These are things that should be readily manageable, like contract management, acquisitions. There is plenty of experience around the United States on how you do those things well. The fact that it takes 12 or 13 years to eliminate these risks is unacceptable.

Perhaps GAO has to be more aggressive in detailing the unacceptable nature of these failures. GAO may need to say to Congress, there needs to be legislative action to eliminate this problem.

Chairman COLLINS. Thank you. Senator Voinovich.

Senator VOINOVICH. It is interesting that that last question you asked was one that I had on my list. [Laughter.]

From your experience in government, and based on my comments to General Walker about getting the Appropriations Committee involved in coming up with some kind of strategy where they really could lean on some of these agencies to get done what needs to be done.

What would your reaction be if this Committee was going to pick out a couple of areas, get letters off to the heads of those agencies, let them know that we are dead serious about something being done, drag them in here, and then let them know that every 2 months, we are going to drag them back in here until we start to see some kind of action taken as a result of that and maybe highlight some of these issues to the point where they will feel they have to do it because they are being pressured.

The point around here is you don't know the number of letters I have sent to some of these agencies, and it takes them 5 months to get something back to me. They just ignore them. They just figure it is going to go away. If you don't stay on them over and over and over again, you don't get any action from them. What is your reaction to that?

Mr. MCTIGUE. I don't really have an opinion, sir, about the recalcitrance of agencies in answering your questions, but what I do have some views about is one of the areas in which you might move that would help to relieve some of these problems.

I think that you have already "put in train" by passing in 1993 the Government Performance and Results Act something that is having a quiet revolution throughout the Federal Government but which you at Congress level have not yet become the beneficiaries of. Gradually, you will get information that tells you that a variety of different activities are addressing the same outcome, but they have a huge range of success rates in addressing that outcome and they have very different costs.

What would happen if you were to invest in the most successful of those activities and to either give the others the chance to perform at that level or to lose their funding? That would make a big

difference. I think that Congress will be doing business in this manner by the 2005 or 2006 fiscal year.

Regarding Congress itself, it would be worthwhile to study the reforms of legislatures around the world. Many have dealt with the disconnect between the processes of policy decisionmaking, authorizing and oversight, and the appropriation process.

Many legislatures have reformed their operations by using their committee structure as fact finding opportunities to inform the appropriation process. Direct recommendations coming from those committees require that appropriators take note. Certainly, the New Zealand legislature made reforms of that nature. Those reforms made the work of the Parliament much more meaningful.

For Congress, there are issues that need to be addressed so that appropriators take note of the work that goes on in your other committees. Otherwise, if they don't, why do you do oversight and why do you do authorization work?

Senator VOINOVICH. This has been raised by some of the appropriators. I know I have talked to Senator Stevens about this on a couple of occasions. The spirit is willing but the flesh is weak. We just have so many other things that we are doing, we just never get to it and I am afraid that the people who are supposed to do it know it. [Laughter.]

That is the problem.

In your written testimony, you said Congress should ensure that the GAO has the freedom and the flexibility to be a role model in human capital management. Could you comment on how the flexibilities contained in S. 1522, the GAO Human Capital Reform Act, could assist GAO in further improving its workforce management as an example for other Federal agencies?

Mr. MCTIGUE. Senator, while you were out of the room, I made some comments, some of which I will need to repeat now.

Senator VOINOVICH. I apologize.

Mr. MCTIGUE. What GAO has to deal with is developing different capabilities as it addresses some of its tasks. Those capabilities are going to require different skills, some of which it will have internally, but some of which it may have to go out into the marketplace and buy. It needs to be able to buy those skills because its credibility is very important to its main task, which is reassuring the American people that they can trust the institutions of government, particularly as they examine the utilization of the new powers required to maintain the security of the homeland and whether they are being used appropriately.

GAO needs to become a 21st Century employer, recognizing that we as individuals, will approach work in a very different way. We will move frequently in our jobs. We will work from different locations. GAO has to have the flexibility to be able to acquire talent, to let talent go and to bring it back again if necessary. Being able to reward the performance of high achievers, is going to be an essential part of employing in the 21st Century if you are to keep your high performers working for you.

Senator VOINOVICH. Thank you.

Chairman COLLINS. Thank you, Senator. Senator Lautenberg.

Senator LAUTENBERG. Thank you very much, Madam Chairman, Senator Voinovich. It is always a pleasure to work with my colleagues here, even when they are wrong sometimes. [Laughter.]

But it is a pleasure to be here and to welcome you, Mr. McTigue.

Madam Chairman, do I have just a couple of minutes for an introductory statement?

Chairman COLLINS. Certainly. We are expecting a vote very shortly, so you are going to be the last, but please, go ahead.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. I do thank you for holding this hearing on this very important department of government. Usually, we see Comptroller General Walker here to testify about government policy or another Federal agency, but today we are here to discuss the management and performance of his Department, GAO.

And by all accounts, GAO is a model agency. In 2002, their programmatic and policy recommendations have helped Congress and the Executive Branch to achieve nearly $38 billion in financial benefit. That is a return of 88 cents on each dollar invested in GAO, and that is a pretty good return. I come out of the corporate world and I know a good one when I see one and that is good. We can only hope that other government investments, such as an administration's tax cuts for people who don't need it, and I had a good run in some years of business.

Frankly, I like investing where I get a good return, and investing, in my view, in government, where we have the ability to do things that no one else has for our society, sounds like a good idea to me. I think I do a lot better for my children and my grandchildren and over the years ahead if we continue to build our internal strength even as we protect our security from external attempts to disrupt it.

The value of GAO should not only be measured in dollars. Waste, fraud, abuse don't just cost money. They erode the public's confidence in government. That confidence, that faith, is something too precious to calculate. The fact is that GAO, Comptroller General Walker and his 3,200 employees help Congress meet responsibilities to the American people by improving the accountability, efficiency, and the overall performance of the Federal Government.

One particular matter does concern me, and I think it is regrettable that we don't have administration cooperation with GAO's investigation of the White House's secretive energy task force. And if the stories are true, it is regrettable that the administration supporters here in Congress have threatened GAO's funding because of the investigation.

Congress needs to stick up for GAO. They are an arm or a tool for us, a resource for us to really understand what is taking place, even when the agency has some unpleasant truths to tell us. We shouldn't stand idly by while people who might be discomforted by what GAO might try to cow it into submission.

So I just have a question, because we are seeing changes that are contemplated, and Mr. McTigue, I wanted to get your response. According to GAO's performance and accountability report for fiscal year 2002, GAO conducted its first voluntary early retirement of 52 employees. They also implemented new performance appraisals, re-

vised pay, promotion and rewards system. And now they are working on implementing a broadband pay-for-performance system for administrative professionals and support staff. I understand that GAO also wanted to eliminate locality pay.

I mentioned the fact that I had some experience in the corporate world, and the company that I helped found is a company today that has more than 40,000 employees, and when I left to come to the Senate, we had 16,000, not a small company, but it also shows you what happens when progress comes with new leadership. [Laughter.]

But the fact is, I had a lot of experience in the kind of bonuses and natural expense increases that we had to be concerned with.

We couldn't, in our earliest days in business—my company is called ADP—we could transfer people willy-nilly and just say, hey, you are going to—I don't want to name the cities, but those that are less desirable, let us say, than San Francisco or Washington, D.C., or Portland, Maine, of course, and they would go. But as time went on and people assessed the value of family life in a different way, they would say to me, "Yes, Frank, I would like to go, but I am going to need something more than just a transfer to take care of my family needs, etc.," and I approved of that.

I approve it when we have tension-filled jobs like those in the control towers, to take someone from a quiet area with not too many flights each day, put them into the New York region, Chicago region, Los Angeles and say, OK, you are going to go to work there. Yes, expenses are higher, but it is service for your country. That is not good enough.

So all of that is a preface to what I want to ask you. Mr. McTigue, did you assess the morale within GAO in contemplation and in expectation of these changes that might be made?

Mr. MCTIGUE. The answer, Senator, to your question is, no, we didn't do a specific assessment of morale. I could comment, though, from my observations because we work closely with GAO in a wide range of areas. GAO has some of the most capable people that you have in the civil service in the United States. They also are people who have skills that are in very high demand in the private sector and there is no indication that there is a significant exodus from GAO.

Modern human capital management, sir, I think is going through some major evolutions, and a wise manager today is going to recognize that the ability of his organization to function successfully is going to be directly attributable to the skills and talents of the people who work for him or her and being able to keep those people is going to be one of the most essential tasks that you would carry out as a manager.

Acting in a way that is contrary to the best interests of people means that you are going to lose them, because we are talking about people who will not have difficulty finding other jobs. They are people who are already in high demand. They have high quality skills where there is plenty of demand for them. So you don't have the liberty to be able to say, I can make these decisions without there being a consequence. There will be a consequence.

And at GAO, we did not see a high exodus rate. So in my view, GAO have people who find the work rewarding, they find the man-

agement acceptable, and they find the rewards acceptable. Otherwise, there would be a significant exodus. Morale is not something that GAO can be complacent about, though, because the expectations of the workforce will change over time and management has to be astute enough to be able to meet those changed expectations as they develop.

Senator LAUTENBERG. I would ask you this. I am sure that the people who do their work there really like working for the U.S. Government, as I see in staff personnel all around, whether it is Committee personnel or my own staff personnel, and having worked in the private sector for as long as I did and being able to make a comparison about the dedication to service is quite striking, and that is that people will work for the government for less money, for less often recognition, but because there is an inner satisfaction that is drawn from doing the right thing.

However, if you want to transfer somebody, no matter how much they love their job, is it fair to say, OK, you are going to go into this high-cost area and that is where you are going to be located and carry out this responsibility. Do you think that would have any effect on one's view of the transfer that might occur for a family who is trying to get by, educate their children? There isn't anybody—there are few in government that are paid excessive amounts of money, and it would be terribly political for me to suggest otherwise, but the fact—I am teasing, obviously.

But people have to live and they have to be able to be paid on a relative basis so that they can sustain themselves and their families. And even though they can go get jobs in the private sector, it does mean some kind of a disruption. It does mean some kind of a risk. It does necessitate change of some significance.

Mr. MCTIGUE. Unless I knew the specific circumstances, sir, I don't think I can give you a definitive answer, but I can give you this answer, and that is that if you are thinking as a manager about transferring somebody to somewhere else, particularly if it is a more expensive place to live, it is a more densely populated city, the presumption is that there is probably a promotion, as well. And unless you compel the person to move, then it seems to me that it is going to be a matter of choice by you, the manager, to ask them to move and they, the employee, to decide to move.

If they decide to turn it down, then I presume that they have to accept the consequences for that. It would mean that perhaps they don't get the increase in pay that might have gone with the move and perhaps it may also impact their ability to be able to achieve promotion in the organization.

But as long as you are not constrained in terms of the choices that you make and you are able to make those choices open and freely, then I think that that is something that between the employer and the employee they are going to have to work out and it may be different decisions for each employee.

Senator LAUTENBERG. We don't have the liberty of saying, in my view, that a lateral transfer, which is graded based on the civil service system, at the same level of pay, is automatically the province of the manager. There are other conditions that dictate what happens, and I think when you try to put someone in a high-cost area, much higher costs than they have, and if they are family-

bound, that is a tough decision and I, frankly, am very wary of those proposals to limit that.

Thank you very much, and thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator.

We do have a vote in progress, so I am going to thank Mr. McTigue for his testimony. We may have a few questions for the record that we may submit for either you or Mr. Walker. The record for this hearing will remain open for 15 days for the submission of any additional materials.

But I want to thank both of our witnesses this morning. I think this was a very useful oversight and legislative hearing on the General Accounting Office, and I thank you both for your participation.

After the vote, we will resume with the second hearing of the day. It will be a new hearing on the nomination of Suzanne Mencer to be the Director of the Office for Domestic Preparedness for the Department of Homeland Security.

This hearing is now adjourned.

[Whereupon, at 11:16 a.m., the Committee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR COLEMAN

Thank you Chairman Collins for holding this hearing.

At the outset, Mr. Walker, I want to take a brief moment and commend you for your teams that are working closely with my staff on two oversight matters. The GAO team headed by Gene Aloise is assisting in the Permanent Subcommittee on Investigations' continued review of the Federal Government's response to nuclear terrorism, particularly the deployment of radiation portal monitors by the Bureau of Customs and Border Protection, Second Line of Defense and the Department of Energy. The GAO team headed by Rich Stana is assisting us in our assessment of the Container Security Initiative and the targeting techniques employed by Customs at our nation's ports and borders. In addition, Marjorie Kanof's team has already produced one investigation concerning SARS and is currently working on another looking at infectious disease surveillance. You are well served by these three individuals and their teams. Please ensure that they have the resources and cooperation to continue their vital work with us.

As the members of this committee know, in order for Congress to do its job, it needs to be adequately informed on the issues before it. Of course we rely on our staffs for a great deal of advice, but on more complex issues the role of specialists is crucial. The General Accounting Office, along with the Congressional Research Service and the Congressional Budget Office play a vital role in helping us fulfill our Constitutional duties. GAO is especially important to this committee and the Permanent Subcommittee on Investigations, which I chair, since we are responsible for overseeing government itself.

GAO has already undergone significant structural transformation in order to adapt to changes in finance, technology, society, and politics. It has had to develop expertise in new skills while struggling to replace an aging workforce. It has had to adapt to the creation of independent inspector generals who are tasked with performing many of the type of investigations it traditionally handled. Yet it retains a vital role in keeping us informed.

Like any tool, GAO's ultimate value depends on how well it is maintained and used. I commend both the Chairman and Sen. Voinovich for introducing S. 1522, the "GAO Human Capital Reform Act of 2003." It is my understanding that this legislation reflects extensive external and internal research on GAO's part, including consultation with both its Employee Advisory Council and the Office of Personnel Management. I intend to cosponsor it and look forward to voting for its passage.

United States General Accounting Office

GAO

Testimony

Before the Senate Committee on Governmental Affairs

For Release on Delivery
Expected at 9:30 a.m. EDT
Tuesday, September 16, 2003

GAO

Transformation, Challenges, and Opportunities

Statement of David M. Walker
Comptroller General of the United States

GAO-03-1167T

September 16, 2003

GAO

Highlights

Highlights of GAO-03-1167T, a testimony before the Senate Committee on Governmental Affairs

GAO

Transformation, Challenges, and Opportunities

Why GAO Did This Study

The Committee sought GAO's views on GAO's accomplishments, challenges, and opportunities for its oversight hearing. The Committee also sought GAO's views on its latest human capital proposal, which has been introduced in the Senate as S. 1522.

What GAO Recommends

GAO recommends that the Committee act on S. 1522 promptly and that the Congress enact the GAO Human Capital Reform Act of 2003 before it adjourns this year.

GAO believes that its latest human capital proposal is both well reasoned and reasonable. There are compelling reasons why GAO ought to be given this additional human capital authority. These include the fact that GAO already has a hybrid pay system established by the authority that the Congress granted it over two decades ago, the proposal is modest if viewed in light of authorities granted and requested by other agencies, and GAO already has a number of key systems and safeguards in place and has plans to build in additional safeguards.

GAO has conducted extensive external and internal outreach efforts on this proposal. GAO respectfully requests the Committee's support and prompt passage by the Congress.

www.gao.gov/cgi-bin/getrpt?GAO-03-1167T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gene Dodaro at (202) 512-5600 or dodarog@gao.gov.

What GAO Found

As an arm of the legislative branch, GAO exists to support the Congress in meeting its constitutional responsibilities to improve the performance and ensure the accountability of the federal government for the American people. Established in 1921 by the Budget and Accounting Act to follow the federal dollar and ensure that it is spent in an economical, efficient, and effective manner, GAO has evolved over its 82-year history to meet the changing needs of the Congress and the nation. Faced with a budgetary reduction in the mid-1990s that had to be implemented over a 2-year period, GAO undertook measures that, while necessary, also increased the risk that the agency would not be positioned well to serve the Congress in the future.

To effectively position itself for the future, GAO has been undergoing a major transformation effort over the past 4 years that even in the best of organizations takes 7 or more years to implement. Based on its strategic plan developed in consultation with the Congress, GAO's effort is focused on three specific areas: achieving results, serving the client, and investing in people. GAO has realigned the agency to eliminate a management layer, consolidate 35 issue areas into 13 teams, and reduce its field offices from 16 to 11. Today, GAO is a significantly smaller organization—40 percent smaller than in 1992—with slightly over 3,250 staff on board. GAO has worked with its appropriations committees to obtain targeted funding for such particularly acute risk areas as human capital and information technology. GAO also launched a range of internal and external initiatives that have helped it become more strategic, results-oriented, partnerial, integrated, flexible, responsive, employee-oriented, and externally focused. Since 1998, GAO's work has produced a steady increase in financial benefits and nonfinancial benefits including many improvements in government operations. For example, in fiscal year 2002, GAO's work helped achieve $37.7 billion in financial benefits—a $88 return for every dollar invested in GAO. In addition, GAO's work informed the debate and the resulting legislation relating to such areas as our nation's national security, homeland security, economic security, and the financial security of Americans.

GAO faces a number of challenges. Issues that GAO is either watching closely and/or believes require congressional attention include supply and demand imbalances, unfunded mandates, access to records, the Deputy Comptroller General selection process, performance and accountability community coordination, and additional bid protest volume. S. 1522, the GAO Human Capital Reform Act of 2003, which mirrors H.R. 2751, which has been marked-up and reported to the full House Government Reform Committee, is urgently needed to help address GAO's challenges. Some specific initiatives that the Comptroller General plans to focus on for the future include helping the Congress address challenges relating to the long-term fiscal outlook, transforming government and how government does business, and making GAO the federal employer of choice and the gold standard for a world class professional services organization.

Madam Chair and Members of the Committee:

I am pleased to appear before you today—almost 5 years after becoming the seventh Comptroller General of the United States—to discuss what GAO has accomplished during my tenure thus far, the challenges we face at GAO, including why passage of S. 1522, the GAO Human Capital Reform Act, is an integral part of helping GAO prepare for those challenges, and what we are contemplating for the future. Before I begin, I would like to commend you for holding this oversight hearing, the first oversight hearing this Committee has held on GAO since 1995. In addition, Madam Chair, I would like to thank both you and Sen. Voinovich for sponsoring S. 1522, the GAO Human Capital Reform Act, and for introducing the bill before the August recess.

When I became Comptroller General in November 1998, I found an organization, with a long-standing reputation for doing good work and a talented workforce, that was doing many things right. However, the agency was in need of revitalization because it had not had a confirmed agency head for more than 2 years and had undergone many years of downsizing and severe budgetary reductions. I also found an organization that, in my opinion, was still too hierarchical, process-oriented, "siloed," internally focused, and somewhat risk adverse. My consultations with congressional members and staff, external entities in both the public and private sectors, and GAO staff led me to the belief that GAO must do things differently as we move forward in order to continue to maximize our value to the Congress and the country, especially in view of the strong likelihood of constrained resources and client demands. Specifically, we needed to take steps to transform GAO to make it more results-oriented, more client focused, more partnerial, more externally aware, more transparent, more strategic, more employee oriented, and more constructive in dealing with those who are the subject of our work. Over the past 5 years, we believe that we have accomplished much. Nevertheless, we recognize that we still have much to do and welcome and value the comments of every Member of this Committee in helping us become and stay a model federal agency that supports the Congress' important responsibilities under the U. S. Constitution.

GAO's Evolving Role

Established in 1921 by the Budget and Accounting Act to follow the federal dollar and ensure that it is spent in an economical, efficient, and effective manner, GAO has evolved over its 82-year history to meet the changing needs of the Congress and the nation. Today's GAO is profoundly different

in organization than the one established in 1921. For example, over the years, GAO has changed from an entity that once

- operated as an independent entity (the law did not state that GAO was to be part of the legislative branch) to one that is recognized as an independent agency within the legislative branch whose primary client is the institution of the Congress;
- audited the government's vouchers to one that evaluates the efficiency and effectiveness of a wide range of federal policies and programs;
- performed work mostly of a self-initiated basis to one where 89 percent of its work in fiscal year 2002 was either mandated or requested by the Congress;
- conducted work primarily in the area of oversight to one that now performs work in the areas of oversight, insight, foresight, and legal/adjudicatory activities.
- employed principally voucher examiners to an organization that employs a highly educated, skilled, and diverse professional staff with degrees in a variety of academic disciplines, such as accounting, law, engineering, public administration, business administration, computer science, economics, medicine, and social and physical sciences.

Although today's GAO is different from that of 1921, it has remained faithful throughout its history to its original mandate of assuring the government's accountability to the American people. In addition, GAO has historically defended its ability to conduct and report its work in an independent, objective, professional, and nonpartisan manner in order to maintain the credibility that an "honest broker" must have in order to have its information, analyses, and judgments trusted by lawmakers, policymakers, and the American people.

GAO has benefited from the past leadership of several of my predecessors. In particular, I would like to commend my most recent predecessors, Elmer B. Staats, who served from 1966 to1981 and, Charles A. Bowsher, who served from 1981 to 1996, both of whom accomplished a great deal during their 15 year tenures. Mr. Staats strengthened GAO's emphasis on program evaluation and policy analysis so that GAO would be better equipped to review the expanded social programs of the Great Society. He also promoted progress in federal financial and program accountability both

domestically and internationally. In addition, Mr. Staats was responsible for the United States' joining the International Organization of Supreme Audit Institutions (INTOSAI), an organization composed of national audit offices of 184 nations who share knowledge and expertise on an ongoing basis. Mr. Bowsher championed federal financial management reform, in general, and the Chief Financial Officers (CFO) Act, in particular. He also initiated GAO's high-risk series. In the human capital arena, it was Mr. Staats who in 1980 successfully gained GAO's legislative authority to establish a broad-banding and pay for performance system that Mr. Bowsher subsequently was able to implement in 1989. It is because of their leadership efforts that GAO had certain initial human capital tools and flexibilities for over two decades that many executive branch agencies are either just requesting or recently received and was able to exercise them.

Today, GAO is an agency uniquely poised to serve the Congress with the information it needs to address the full range of important issues and challenges our nation faces in a complex, rapidly changing, and increasingly interdependent world. We examine a broad range of federal activities and programs, publish thousands of reports and other documents annually, and provide a number of other services to the Congress. We also look at national and international trends and challenges to anticipate their implications for the Congress and our country. By making recommendations to improve the practices and operations of government agencies, we contribute not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government.

For us, achieving our goals and objectives rests on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information to the Congress and the public at large. We develop and present this information in a number of ways to support the Congress, including the following:

- evaluations of federal policies and the performance of agencies;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- insight related work that involves determining which programs work and which do not;

- foresight related work that is future oriented and involves identifying key trends and emerging challenges before they reach crisis proportions;
- reviews and analyses of agencies' budgets in support of the appropriations process;
- investigations to assess whether illegal or improper activities are occurring;
- analyses of the financing for government activities;
- legal/adjudicatory activities, including legal opinions to determine whether agencies are in compliance with applicable laws and regulations and resolution of bid protests by disappointed bidders seeking to obtain federal contracts;
- policy analyses to assess needed actions, develop options, and note the implications of possible actions;
- "constructive engagements" whereby we help agencies make progress in key areas by "helping them to help themselves" through the issuance of self-help guides, benchmarking and best practice studies, etc.; and
- additional assistance to the Congress in support of its oversight and decision- making involving legislative branch entities, activities, and functions.

See appendix I for graphics describing GAO past and present.

GAO'S Downsizing

The 1990s was a difficult period for the GAO. Beginning in 1992, GAO began an over 5-year period of significant staff downsizing. During the mid-1990s, GAO underwent a 25 percent budgetary reduction that had to be implemented over a 2-year period. In order to absorb such a large budgetary reduction within such a short period of time, GAO undertook a number of measures such as closing 5 field offices (including our European and Far East field offices) and 4 sublocations in 1995. GAO also reduced its workforce, using authority granted by the Congress, by granting voluntary early retirements and buyouts and by conducting a reduction in force or "layoffs" of staff in select field offices and in Washington, D.C. While the measures taken allowed the agency to address the immediate budgetary

challenge, they also increased the risk that GAO would not be positioned well to serve the Congress in the future. For example, GAO's hiring freeze at the entry level produced an over 5-year gap in the workforce pipeline that affected a smooth succession and resulted in a top heavy workforce. GAO also significantly reduced its investments in technology by curtailing upgrades of hardware and software, which adversely affected its ability to apply technology to perform work better, faster, and more efficiently. GAO also eliminated bonuses and reduced other investments in its people.

Today, we have a significantly smaller staff–40 percent smaller than in 1992—with slightly over 3,250 staff on board. About 75 percent of our staff are located in our headquarters in Washington, D. C. and 25 percent in 11 field offices around the country. While maintaining approximately the same number of staff, we have been able to accomplish much in support of the Congress. How was this made possible? First, we conducted a comprehensive outreach and risk assessment shortly after I became the Comptroller General. We identified risks that could undermine our ability to support the Congress in future years, such as in the areas of human capital and information technology and worked with our appropriations committees to obtain targeted funding for those areas. We also determined that the agency needed to undertake a transformation that even in the best of organizations typically takes 7 or more years to accomplish. Critical to that transformation was the development of a strategic plan that would provide the agency a clear set of strategic goals and objectives.

Becoming More Strategic, Partnerial, and Externally Aware

Fortunately, before my becoming Comptroller General, GAO had recognized the need to prepare a strategic plan. We made this a top priority after my appointment as Comptroller General. GAO's strategic plan, which is developed in consultation with the Congress, is forward looking and built on several key themes or trends that relate to the United States and our position in the world community. GAO's strategic plan continues to be a model for others, a framework for aligning our organization and resources, and a basis to help inform client requests and identify work initiated on the Comptroller General's authority (also termed research and development work). Our strategic planning process provides for updates every 2 years, including an ongoing analysis of emerging conditions and trends, extensive consultation with congressional clients and outside experts, and assessments of internal capacities and needs.

Our first strategic plan, issued in the spring of 2000, set forth the issues around which we needed to focus and develop our resources to effectively

serve the Congress in covering the period 2000-2005. We updated the plan in fiscal 2002, carrying forward the following four strategic goals, and will retain these goals for our latest update scheduled to be issued in early 2004 (see appendix I of this statement for our strategic plan framework):

- Goal 1: Address current and emerging challenges to the well-being and financial security of the American people.
- Goal 2: Respond to changing security threats and the challenges of global interdependence.
- Goal 3: Help transform the government's role and how it does business to meet 21st century challenges.
- Goal 4: Maximize the value of GAO by being a model federal agency and a world-class professional services organization.

Because achieving our strategic goals and objectives also requires strategies for coordinating with other organizations with similar or complementary missions, we use (1) advisory panels and other bodies (e.g., the Comptroller General Advisory Board, the Educators' Advisory Panel, the Accountability Advisory Board) to inform GAO's strategic and annual work planning and (2) initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts. In order to leverage our resources and tap certain expertise not resident in GAO, we have entered into a partnership agreement with the National Academy of Sciences. Also, we have worked to foster partnerships with other "good government" organizations, such as the National Academy for Public Administration, the Private Sector Council, the Council for Excellence in Government, the Partnership for Public Service, and the Association of Government Accountants. These types of strategic working relationships allow us to extend our institutional knowledge and experience and, in turn, to improve our service to the Congress, the country, and the American people.

As previously mentioned, since 1970 GAO has been part of an international network, INTOSAI, which is composed of 184 accountability organizations. We have benefited from this network directly as an organization doing work in support of the Congress in that the relationships fostered by INTOSAI have facilitated our access to people, information, and knowledge sharing needed to maximize the value and ensure the expeditious completion of our international engagements. It is my opinion that our

country has also benefited from our participation in this network because our efforts have served to promote democratic institutions and fight corruption through strengthening accountability organizations around the world. I serve on the Board of INTOSAI and head of the Accounting Standards Committee and the Board's Strategic Planning Task Force. In this regard, during fiscal 2002, GAO was asked to lead a 10-nation task force to develop a strategic planning framework for INTOSAI. INTOSAI's draft strategic planning framework, which was based on GAO's approach to strategic planning, was approved by INTOSAI's Board in October 2002. During fiscal 2003, the task force has been working to expand that framework into a comprehensive strategic plan. GAO also is an active member of the auditing standards, internal control standards, and public debt committees. I am a founder of the Global Working Group (GWG), in which the heads of GAO's counterparts from 17 countries and I meet annually to discuss mutual challenges and share best practices. These 18 members represent over 75 percent of global gross domestic product (GDP), and the efforts of this group have helped all member countries as well as INTOSAI as a whole.

Domestically, I chair the National Intergovernmental Audit Forum, and through 10 regional intergovernmental audit forums, GAO consults regularly with federal inspectors general as well as state and local auditors on issues of mutual interest and concern. In addition, through the Domestic Working Group (DWG), the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate in a manner similar to the GWG. As Comptroller General, I also serve as one of the four principals of the Joint Financial Management Improvement Program (JFMIP), who are actively fostering financial management reform. The JFMIP principals have met five times during the past 2 years with significant progress being made during this period of time.

GAO'S Transformation Efforts

In a testimony on executive reorganization authority that I delivered in April this year, I stated that creating high performing organizations requires a cultural transformation within agencies. Hierarchical management approaches will need to yield to participative approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. Siloed organizations—burdened with overlapping functions, inefficiencies, and turf battles—will need to become more horizontal and integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Internally focused agencies will need to focus

externally in order to meet the needs and expectations of their ultimate clients—the American people.

Consistent with our strategic plan's fourth goal, I believe that GAO should "lead by example" and be a model federal agency and world-class professional services organization. As the leading performance and accountability organization in the United States and possibly the world, GAO should be the federal government's model for best practices in every major operational area, from strategic planning and organizational alignment to performance and accountability reporting, client service, human capital practices, financial management, information technology, change management, and knowledge management. To achieve this, we have undertaken a comprehensive transformation effort over the past few years. Leading this transformation team is an Executive Committee that I established to provide strategic leadership. The members of the Committee include myself as Chief Executive Officer; Gene Dodaro, Chief Operating Officer; Sallyanne Harper, Chief Mission Support Officer and Chief Financial Officer; and Anthony Gamboa as our General Counsel. Together, we have focused GAO's transformation efforts on three primary areas: results, clients, and people.

Our efforts to transform GAO into a high performing organization have included a range of internal and external initiatives that has helped us become more strategic, results-oriented, partnerial, integrated, responsive, flexible, employee oriented, externally focused and constructive with those who we audit. Our strategic and annual planning processes, as discussed earlier, have helped us look forward and allowed us to proactively engage our clients in planning work that is focused on a more balanced time horizon and results orientation. Our organizational restructuring efforts have resulted in a significant streamlining and consolidation. We have expanded and revised our products to better meet client needs. In addition, we have redefined success in results-oriented terms and have linked our goals both to institutional and individual performance measures. We have strengthened our client relations and employed a constructive engagement approach to those we review. The impact of these and other efforts has been dramatic.

Over the past 4 years, we have worked on continuously improving GAO's performance measures, including most recently the development of a balanced scorecard that would allow us to better monitor, track, and report the achievement of results. Measuring the right things is vitally important because you manage what you measure and measurements ultimately drive

basic organizational and individual behaviors. The performance measures that I found upon arriving at GAO were similar to other traditional performance measures in that, among other things, some of them focused on items that can be easily counted (e.g., numbers of reports); were numerous and of undifferentiated significance; and were process-oriented rather than results oriented. Our balanced scorecard is based on the three key areas that I mentioned earlier: results, clients, and people. For results, we measure such items as: financial benefits, other (nonfinancial) benefits, progress towards meeting the strategic plan's goals and objectives, number of recommendations made, the percentage of reports with recommendations; and the percentage of our recommendations adopted. For clients, we measure such items as: direct client feedback on individual products and testimonies, number of testimonies, and timeliness. For people, we measure: attracting and retaining quality talent; developing, supporting, and using staff; and leading, recognizing, and listening to staff.

Realigning the Organization

After our strategic plan was developed in 2000, we used it to restructure our organization in that same year to align with the goals and objectives of our strategic plan. Restructuring can be an important tool, but in order to be effective, it must be focused on clear goals and specific desired outcomes. GAO's restructuring resulted in the elimination of a layer of management and the consolidation of 35 issue areas into 13 teams. These teams perform the bulk of our research, analysis, and audit work for the Congress.

Of the agencies in the legislative branch, GAO is the only one with a field office presence that has allowed it to be Congress' "eyes and ears" beyond the nation's capital. However, with changes in air transportation, computer technology, demographics, and federal presence, our field office structure needed to be reexamined. After extensive study, we continued a process that began in 1986 and, as a result of the organizational realignment effort referenced above, further reduced our field offices from 16 to 11. Subsequently, we further restructured our field offices by eliminating the position of regional manager—a Senior Executive Service level position—in the individual field offices and consolidating the remaining field offices into three regions—the eastern region, the central region, and the western region, each headed by a single senior executive.

Achieving Results

GAO's contributions to the Congress and our country are significant and varied. While our contributions to financial benefits are quantifiable, what

is more difficult to quantify and yet very valuable, are contributions to help inform the national debate on a broad spectrum of issues; providing the Congress with assistance such as reviews of agency budgets that help identify areas of potential savings; preventing major problems from occurring through constructive engagement efforts, when appropriate, with agencies to "help them help themselves" make progress in key areas; leading by example to demonstrate to agencies what can be done to advance management reform; and advancing the accountability community, both domestically and internationally, through the sharing of best practices and methodologies in areas where GAO is a recognized leader, such as performance auditing, financial auditing and reporting, standards setting, and governance.

To move towards a results orientation, we have reexamined our desired outcomes and are working to simplify and improve our performance measures to capture those contributions that are most significant. Beginning with the issuance of our strategic plan, we monitor our progress. Fortunately, by any reasonable benchmark, we are making excellent progress towards achieving most of our performance goals. We also modified our performance measures and eliminated specific goals, such as the number of products issued, which, while easy to count, was not results-oriented and did not have a strong enough correlation to positive results.

GAO delivers by any benchmark, an excellent return on investment to the Congress and the American people. I would like to briefly summarize some of our achievements over the past 5 years. Our financial and nonfinancial accomplishments have increased steadily over the past 5 years, and some have almost doubled. See table 1 for a summary of GAO's financial and nonfinancial benefits.

Table 1: Annual Measures and Targets

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Target	2002 Actual	5-year Avg. Actual	2003 Target
Financial benefits (billions)	$19.7	$20.1	$23.2	$26.4	$30.0	$37.7[a]	$25.4	$32.5[b]
Other benefits	537	607	788	799	770	906	727	800[b]
Past recommendations implemented	69%	70%	78%	79%	75%	79%	N/A	77%
New recommendations made	987	940	1,224	1,563	1,200	1,950	1,333	1,250[b]
New products with recommendations	33%	33%	39%	44%	45%	53%	40%	50%
Testimonies	256	229	263	151	200	216	223	180[b]
Timeliness	93%	96%	96%	95%	98%	96%	95%	98%

Source: GAO.

[a]Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent.

[b]Four targets published in GAO's performance plan for fiscal 2003 were subsequently revised based on more current information. Two were raised; two were lowered. The original targets were financial benefits, $35 billion; other benefits, 785; recommendations made, 1,200; and testimonies, 210.

As depicted in table 1, in fiscal year 1998, for every dollar invested in GAO, we helped the Congress and the agencies produce about $58 in financial benefits or $19.7 billion in total. In fiscal year 2002, for every dollar invested in GAO, we helped the Congress and the agencies produce about $88 in financial benefits or $37.7 billion in total. The 5-year average for financial benefits was $25.4 billion for fiscal years 1998 through 2002. These financial benefits were achieved through actions taken by the Congress and federal departments and agencies that led to budget reductions, avoided costs, deferred appropriations, or resulting in additional revenue collections. Several recent examples of where our work resulted in significant financial benefits include our work in preventing inappropriate Medicare payments (financial benefits of $8.1 billion) and our work on the Department of Defense's (DOD) consolidation initiatives at its computer centers (financial benefits of $859 million). Based on our results to date, we fully expect our fiscal year 2003 financial benefits to significantly exceed the 5-year average.

GAO's work has helped inform congressional deliberations and debate on a broad spectrum of issues. During the 107th Congress, we made substantive contributions through our products, testimonies, briefings, and technical assistance in areas vital to helping legislators address challenges to our nation's national security, homeland security, economic security, as well as

the financial security of Americans. For example, during the 107th Congress, GAO's work supported legislative deliberations and policy decisions involving the Homeland Security Act of 2002, Public Law 107-296; the Aviation Security and Transportation Act, Public Law 107-71; the Sarbanes-Oxley Act of 2002, Public Law 107-204; Help America Vote Act of 2002, Public Law 107-252; Best Pharmaceuticals for Children Act, Public Law 107-1092; Terrorism Insurance Act of 2002, Public Law 107-297; and the E-Government Act of 2002, Public Law 107-347. Our work has also helped facilitate the transformation of the federal government in general. More specifically, our efforts have helped identify the attributes of high performing organization, challenges in the human capital arena, competitive sourcing, and reforms needed for specific entities like the U. S. Postal Service and the Pension Benefit Guaranty Corporation.

In addition to financial benefits, GAO's work has led to improvements in a wide range of government operations and activities. GAO's work was instrumental in bringing 906 needed improvements in the effectiveness and efficiency of government operations and services in fiscal year 2002. Since most of the results of our work take the form of action initiated in response to our recommendations, we use the number of recommendations made during the year as a performance measure. In fiscal year 2002, we made 1,950 recommendations for improvements in the economy, efficiency, and effectiveness of federal operations. An example of recommendations that led to such improvements is our work on improper payments, where we made recommendations on actions agencies should take to reduce improper payments. These recommendations not only led to the enactment of the Improper Payments Information Act of 2002, Public Law 107-300, but also resulted in action by the Office of Management and Budget (OMB) through the President's Management Agenda which required selected agencies to report improper payment rates and the causes of those payments. Because our recommendations take time to implement, we track recommendations made in past years. Specifically, in fiscal year 2002, we noted that 79 percent of the recommendations we had made in fiscal 1998 had been implemented, a significant percentage when the work we have done for the Congress becomes a catalyst for creating tangible benefits for the American people.

GAO continued its long-standing tradition of providing the Congress a framework for oversight through the issuance of our *Performance and Accountability Series and High-Risk Update*. Our 2001*Update* identified close to 100 major management challenges and program risks at 21 federal agencies and highlighted actions to address these serious problems. In

preparing the 2001 update, we established a new framework with respect to the *High Risk list* that provided greater consistency in determining which areas should be designated high risk and which areas would be eligible for getting off the high risk list. Our 2003*Update* added the new high risk issues Implementing and Transforming the New Department of Homeland Security, Modernizing Federal Disability Programs, Federal Real Property, and the Medicaid Program; subsequently, we added the Pension Benefit Guaranty Corporation's Single-Employer Insurer Program. We are currently examining ways of improving on our *Performance and Accountability Series and High-Risk Update* with an eye towards making it even more strategic and foresight oriented.

Serving the Client

From the beginning of my tenure, I have sought to strengthen relations and improve communications with our congressional clients. Addressing client needs is critical to any organization's success, and while GAO is unique in that it must provide the Congress its best professional opinion in a political, and sometimes contentious, environment, it must be perceived by its client as meeting its needs. Both prior to and subsequent to my appointment as Comptroller General, I consulted broadly with key Members and staff in both houses and on both sides of the aisle as well as with a variety of other parties. Based on this outreach, some believed or perceived that GAO may have strayed from important values related to its mission, may have become closer to one political party, and, may not have effectively managed its staff details to certain congressional committees. Another concern that I heard was that GAO's basis for decision making on requests was not very transparent, well known, or understood.

To address these issues, upon becoming the Comptroller General, I immediately worked with GAO's top management to establish and communicate to all GAO staff our mission and core values, to guide what we do and how we do our work. Our mission statement states: "GAO exists 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." After a lot of discussion and debate, we agreed on an express set of core values to guide our work. GAO's core values are accountability, integrity, and reliability. The values are further defined as follows:

- Accountability: We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, lawyers, auditors, economists, information technology

specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people.

- Integrity: We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based nonpartisan, nonideological, fair and balanced approach to all activities. Integrity is the foundation of reputation and the GAO approach to work ensures both.

- Reliability: We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear and candid.

These are values that represent our institutional beliefs and boundaries. I use them every day in my internal and external decision making. Both our mission and core values are communicated externally and internally through many venues.

In addition, we also developed and implemented a set of Congressional Protocols—policies and procedures—to guide our interactions with and ensure our accountability to the Congress. These protocols, which underwent a 9-month pilot test, set out clear, transparent, consistently applied policies and practices for GAO's relations with the Congress. They are designed to help reduce miscommunications and ensure that our congressional requesters are treated both consistently and equitably. The final protocols were issued in November 2000 and have been well received. We are in the process of updating our Congressional Protocols now and will be vetting them with your Committee and others before finalizing the revisions.

To respond more effectively to the Congress, we changed our process for accepting congressional requests (if accepted, these requests are termed engagements) and our approach to identifying related risk. We have become increasingly sophisticated in meeting our clients' needs within available resources. We believe that our engagement acceptance process has provided more structure; a broader institutional perspective; greater internal collaboration; and additional awareness of the external environment, including potential partnerships in connection with GAO engagements. Annually, in addition to mandates established in law, we receive over a thousand requests from the Congress, with most coming

from congressional committees and lesser numbers from individual members of Congress and the senior leaders. To address these requests in a timely basis and allow for prompt communication back to the requesters, the requests are reviewed and discussed in a weekly meeting chaired by Gene Dodaro, our Chief Operating Officer. During that meeting, members of the Executive Committee and GAO's managing directors discuss congressional requests received during the previous week. As part of that discussion, we determine whether to accept the request based on consideration of factors such as our ability to carry out the work in terms of both authority and resources available, work that may already be ongoing, and the priority assigned to the requester based on those set forth in our Congressional Protocols. Also, during that meeting, a risk factor is assigned to the engagement that will, among other things, determine the level of product review required before issuance. To facilitate the timeliness of our response to our clients, I have delegated to our team managing directors the authority to sign off on products with lower risk designations.

In the interest of leading by example and promoting transparency and accountability in government, we provide annual Performance and Accountability reports to the Congress and the public. We have also improved congressional access to GAO information on our active assignments and our products. GAO's first Accountability Report to the Congress, which discusses our performance and accountability in serving the Congress and the American people, was issued for fiscal year 1999. For fiscal year 2001, we issued a performance plan that contained the performance measures and annual performance targets we planned to use to gauge progress towards accomplishing our strategic goals and objectives. For 2002, we combined an assessment of our accomplishments in fiscal year 2001 with our plans for continued progress through fiscal year 2003 into one performance and accountability report and issued a new and condensed "highlights report." George Mason University's Mercatus Center evaluated our fiscal year 2002 Performance and Accountability report at our request and ranked GAO's report number one in the federal government. The report earned a Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA). It also earned honors for graphics design in the annual American Graphics Design Award competition of 2003. The annual competition attracts about 10,000 entries from advertising agencies, graphic design firms, corporate creative departments, and publishers in a wide range of categories, and fewer than 10 percent were selected for awards.

In the past, GAO has made several attempts to devise systems for measuring how well it was meeting the needs of our congressional clients, yet none of these attempts proved to be particularly successful. We now seek direct client feedback through our continuous congressional outreach effort and a Web-based client feedback survey on certain individual products and testimonies. These initiatives are set forth as follows.

- Continuous congressional outreach. Since the mid-1990s, we have conducted a structured outreach to our key congressional clients—the Senate and House senior leaders and the congressional committees—in order to obtain feedback on our performance, discuss the legislative agenda for the coming year and how GAO can best support the Congress, and obtain information needed to update our strategic plan.

- Feedback on individual products. In fiscal year 2001, we developed a Web-based process to more effectively collect feedback from congressional clients on our reports and products. This new system, which we piloted for 7 months with our oversight committees and implemented in fiscal year 2002, used E-mail and a Web site to obtain client feedback on (1) product timeliness and (2) communications and professional conduct during the engagement for a sample of recently issued products. For example, of those who responded, we received a 91 percent favorable response rate for our testimonies and a 93 percent favorable response rate for our written products for the period covering March through November 2002. Indications are that the favorable response rate for our products and testimonies is holding for this fiscal year as well.

- Congressional testimonies. Since the early 1980s, GAO's testimonies at congressional hearings have increased. At one time, only the Comptroller General and a few others could testify. My predecessor, Mr. Bowsher, expanded the pool of potential GAO witnesses to our senior executive corps. During fiscal 2002, members of our senior executive service or I testified 216 times in fiscal year 2002 across a broad spectrum of congressional committees, sometimes on as little as 24 hours notice.

- Timeliness. Given the time sensitive nature of the legislative process and the fact that information delivered after decisions have been made is not useful, we have worked hard to make sure that information is provided in a timely manner. In fiscal year 2002, our on-time delivery

rate was 96 percent. Of our seven agencywide annual performance targets, timeliness was the only measure that we did not fully meet.

Recognizing that members and key staff are inundated with information and pressed for time, we sought better ways of communicating information to them. We initiated efforts in fiscal year 2001 to revamp our communications strategy. We piloted and have now implemented for most of our products and testimonies a new reporting product line entitled Highlights—a one-page summary that provides the key findings and recommendations from a GAO engagement. This summary has been extremely well-received by our congressional audience as well as the press and the general public. In addition, we continue seeking better ways to communicate, including presenting information in a visual manner to quickly convey the message.

We have applied technology and used our Website to issue and publicize our products not only to the Congress, but also to the general public. Our external website now logs about 130,000 hits each day and more than 1 million GAO products are downloaded every month by our congressional clients, the public, and the press. Further, to better inform the client about the work we have in progress, we have implemented a Web-accessible active assignment list for congressional clients and to facilitate key contacts, enhanced the search capability for GAO products on our external Web site.

In yet another example of serving the Congress, GAO opened our doors to Members of the House of Representatives and their staffs on October 23, 2001, in response to the anthrax incident on Capitol Hill. As an outgrowth of that experience, the House of Representatives has designated GAO one of its contingency sites in the event of an emergency in order to maintain legislative continuity of operations.

Fostering Constructive Agency Relations

To better maximize our value to the Congress and work smarter, we have increased our constructive engagement efforts with other agencies. Rather than deal with problems after the fact, piecemeal, or when they've reached crisis proportions, we are working to prevent problems by pointing out what is right, recognizing the progress made, and guiding agencies to positive results by publishing self-assessment guides that provide tools with which agencies can help themselves. One area in particular where this has made a big difference is information technology. As we have reported repeatedly, the federal government does not have the systems in

place that can provide accurate and real-time information for legislators and policymakers to evaluate program effectiveness and efficiency. However, our benchmarking and best practices studies are recognized industrywide for their excellence. Other examples of our assisting agencies include GAO's work in strategic planning, human capital, and financial management.

To this end, we have worked hard to cultivate good working relations with the Office of Management and Budget (OMB) and Cabinet-level officials. These relations have proven mutually beneficial. Because Congress' need for information is time sensitive, having good working relations with the executive branch agencies has helped us overcome bureaucratic inertia or resistance in their providing information in a timely manner. As part of our constructive engagement efforts, we have assisted in the congressional and presidential transitions and provided new legislators and officials with information about the challenges facing them. These and other constructive engagement efforts are helping focus increased attention on major management challenges and high-risk issues, thus contributing to good government. Our *Performance and Accountability Series and High Risk Update* has proven useful in carrying out our responsibility under the Presidential Transition Act in that it helped serve as a key source of information for the incoming administration and Members of the 107th Congress. In addition, the President's Management Agenda (PMA) for reforming the federal government mirrors many of the management challenges and program risks that GAO reported on in its *2001 Performance and Accountability Series and High-Risk Update*, including a governmentwide initiative to focus on strategic management of human capital.

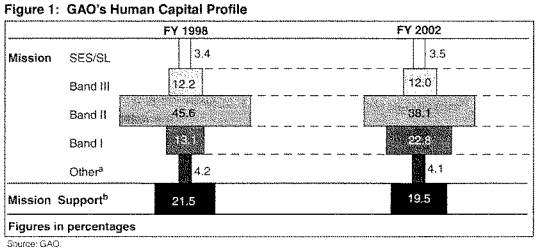
To minimize misunderstanding and miscommunication between us and the agencies relating to how we do our work and report the results, we piloted a first-ever set of agency protocols for a 6-month period from December 2002 through June 2003, to guide our interactions with federal agencies and provide clearly defined, consistently applied, well-documented, and transparent policies for conducting our work with these federal agencies. In developing the protocols, we sought comments from 28 federal departments, agencies, and entities and are in the process of considering their comments. After analyzing the comments from the pilot, we plan to implement the agency protocols in fiscal year 2004.

Investing in People: Human Capital Initiatives

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people. I think it is fair to say that while our people account for 80 percent of our costs, they constitute 100 percent of our real assets. Without excellent human capital management, we could still run the risk of being unable to deliver what the Congress and the nation expects of us. For this and other reasons, we seek the additional human capital flexibilities contained in S. 1522.

At the beginning of my term in fiscal year 1999, we completed a self-assessment that profiled our human capital workforce and identified a number of serious challenges facing our workforce, including significant issues involving succession planning and imbalances in the structure, shape, and skills of our workforce. As presented below, through a number of strategically planned human capital initiatives over the past few years, we have made significant progress in addressing these issues. The flexibilities provided GAO in the GAO Personnel Flexibilities Act of 2001, Public Law 106-303, enacted on October 26, 2000, was a contributing factor in helping us reshape the organization. In fiscal years 2002 and 2003, because of the authority granted us under the law, we granted voluntary early retirement to 52 employees in fiscal year 2002 and 37 employees in fiscal year 2003. As a result of our various human capital initiatives, as illustrated in figure 1, by the end of fiscal year 2002, we had almost a 60 percent increase in the percentage of staff at the entry-level (Band I) as compared with fiscal year 1998. Also, the proportion of our workforce at the mid-level (Band II) decreased by 8 percent.

Figure 1: GAO's Human Capital Profile



Source: GAO.

[a]Attorneys and criminal investigators.

[b]Mission support includes both mission and mission support offices.

One of my top priorities when I became Comptroller General was to enhance internal communications as a means of empowering staff and facilitating our agency transformation and our change management efforts. This has been accomplished through various means. For example, any GAO staff member can e-mail me with comments and concerns, and believe me, I do respond. Since becoming Comptroller General, I have provided employees throughout GAO the opportunity to provide me their views through a periodic, now annual, confidential employee survey. An independent contractor collects the survey results and aggregates them. They then are provided to GAO's managing directors and me. Employees are also given the opportunity to provide written narrative comments that I, and I alone, receive for review. I recently received the results of the 3rd employee survey in which 89 percent of GAO's workforce responded and 2,101 provided me with written narrative comments, which I personally read. Highlights of this most recent employee survey are as follows.

- The results of the 2003 Employee Survey were by and large very positive. Of those questions with a basis for year-to-year comparisons, employee satisfaction (as measured by the number of strongly agree/agree responses) was up in 72 of the 83 areas, with one area remaining unchanged.

- Critical "People Measures Scores," which are used in our balanced scorecard and reported externally, went up in all four areas (i.e.,

organizational climate, staff utilization, leadership, and staff development) in 2003 versus 2002. The increases in people measures were attributable to both new and experienced staff responses to the 2002 survey.

- In comparing our results to OPM's 2002 survey of executive branch agencies for 11 benchmark questions, our 2003 survey results were higher than the governmentwide benchmark numbers for 9 of 11 comparable questions. GAO's overall average positive score for these 11 benchmark questions was about 10 percent higher than the OPM benchmark questions' average. Similarly, for the four benchmark questions also applicable to the private sector, GAO's scores were higher than both the private sector and government averages in all four areas, significantly so in three of the four questions.

- Some areas, such as encouraging innovation and creativity and soliciting and considering employee views, went up dramatically, which are big steps in the right direction with respect to our overall transformation effort.

- There was only one area where the positives went down and the negatives went up, and that was in the area of requiring our employees to prepare Individual Development Plans (IDP). As a result, we are reassessing and reconsidering our approach to IDPs.

I have also used periodic CG "Chats," which are closed-circuit telecasts to all agency staff. Through the years, I have used these telecasts on numerous occasions to discuss critically important issues, such as GAO's strategic plan and congressional protocols, client service, employee survey results, work processes, organizational alignment, information technology-- including our most recent human capital initiative, which your committee is considering today. In addition, we established an employee suggestion program in October 1999 as a means of tapping the ideas and ingenuity of GAO staff members to improve the agency's processes, products, and services. Since the start of the program, 2,348 suggestions have been submitted, of which 345 have been accepted, with most of the remaining either rejected or closed because they didn't meet the program's criteria or had duplicated earlier suggestions.

One of the areas of which I am most proud is the establishment of our now fully democratically elected Employee Advisory Council (EAC). This 23-member Council represents virtually every group of GAO employees. The

members of the Executive Committee and I use this Council to discuss current and emerging issues of mutual interest and concern and to continuously improve GAO. While the EAC opted not to testify today, I understand that they have submitted a statement for the record on GAO's human capital proposal.

Other major human capital initiatives include the following:

- Recruiting talented staff. Because of the budget reductions of the mid-1990s, GAO froze hiring, which created an over 5-year gap in its workforce pipeline. In fiscal year 1998, we resumed hiring, and in fiscal year 2002, we hired nearly 430 permanent staff and 140 interns. We also developed and implemented a strategy to place more emphasis on diversity in campus recruiting. A recent article in the *Washington Post* lauded GAO's recruitment innovations and efforts as an example of a federal agency that is approaching recruiting right.

- Identifying and assessing skills. A modern professional services organization needs to know what skills its workforce possesses and be able to readily assess those skills in support of its clients. GAO has conducted an agencywide assessment and inventory of our workforce's knowledge and skills that is updated periodically.

- Retaining staff with critical skills. A challenge facing the federal government is the retention of critical skills, particularly in the technical areas. Using the authority granted us by Public Law 106-303, we established a corps of senior level executives who have the pay and benefits of the Senior Executive Service but need not be generalist managers. To retain staff with critical skills and staff with less than 3 years of GAO experience, we implemented legislation authorizing federal agencies to offer student loan repayments in exchange for certain federal service commitments. GAO ranks as one of the top agencies in providing student loan repayments. GAO also periodically administers an employee preference survey that is being used along with the results of the knowledge and skills inventory to meet our institutional work needs while accommodating staff preferences for types of work to the extent possible. In addition, we have recently instituted a new knowledge transfer and succession planning program that would allow select retirees to become reemployed annuitants for up to 2 years following retirement in order to facilitate the transfer of knowledge in critical areas and allow for a smooth transfer of responsibilities.

- Modernizing the performance assessment system. In fiscal year 2002, GAO completed an overhaul of its performance assessment system and implemented a new, modern, effective, and credible performance appraisal system for analysts and specialists; adapted the system for attorneys; and began modifying the system for administrative professional and support staff. Our performance standards were revised to incorporate our core values and strategic goals. We also updated descriptions of performance to better reflect the current nature of our work and implemented other key concepts, such as leadership-by-example, client service, measurable results, matrix management, open and constructive communications, and balancing people and product considerations.

- Investing in training. One of the down sides of the budget reductions of the mid-1990s was that GAO reduced its training investment in employees. World-class professional service organizations with staffs similar to GAO's multidisciplinary workforce invest nearly 6 percent of their budgets in training staff. GAO's investment in training its staff in fiscal year 1998 was less than that. We have resumed our training investment, but with an eye towards maximizing the efficiency and effectiveness of our investment. To this end, we have hired a Chief Learning Officer and established a new Learning Board to guide our Center for Performance and Learning in formulating its training priorities. We have also begun developing a new core training curriculum for managers and staff to provide additional training on the key competencies required to perform GAO's work.

- Creating incentives and improving recognition. One of the areas that I have championed since coming into office has been establishing the allocation of pay on a more performance-oriented basis. We have been fortunate to be the beneficiaries of excellent recruits, due in part to the economic downturn, a renewed interest in public service following the events of September 11, 2001, and our innovative human capital strategies. Retaining these recruits, however, will require a range of efforts including providing a continuous learning environment, adequate technological support, and reasonably competitive compensation. Also, for those who have made GAO their careers, there should be rewards for outstanding performance. For example, during fiscal year 2003, we began providing performance bonuses to top performers who are "pay capped"—those who, because they have reached the pay ceiling, are ineligible for any permanent pay increases.

S. 1522 would help us continue to invest in our people and attract, recruit, and retain staff with the critical skills we need.

Building an Integrated and Reliable Information Technology Infrastructure

Information technology is critical to our productivity, success, and viability. As such, we have been working on a number of initiatives to enhance and protect our investments in information technology. Specifically, we have

- completed a comprehensive review of our information technology;
- rechartered and reestablished our Information Technology Investment Committee to provide high-level vision, review, and approval of program initiatives to transition from the current technological environment to the target one.
- developed, as required by the Clinger-Cohen Act, an enterprise architecture program—a blueprint for operational and technological change;
- expanded information systems security efforts and disaster recovery systems that allow for continuity of operations;
- made progress to implement a risk-based, agencywide security program, provide security training and awareness, and develop and implement an enterprise disaster recovery solution; and
- begun implementing an information security program consistent with the requirements in the Government Information Security Reform provisions (commonly referred to as "GISRA") enacted in the Floyd D. Spence National Defense Authority Act for fiscal year 2001.

During 2002 and 2003, we acquired new hardware and software and developed user-friendly systems that enhanced our productivity and responsiveness to the Congress. Specifically, we replaced aging desktop workstations with notebook computers that provided greater computing power, speed, and mobility; developed new, integrated, user-friendly Web-based systems that eliminate duplicate data entry while ensuring the reusability of existing data; expanded the availability of cellular phones and personal digital assistants to GAO's senior management; and added video broadcast capability to the desktop. In addition, we upgraded remote access capability, improving the speed and reliability of dial-up connections to GAO's information technology facilities; completed communications

upgrades to the field to provide high-speed, reliable connectivity to the GAO network; replaced aging videoconferencing equipment with current technology; and began planning communications upgrades to support evolving video technologies.

Recently, the CIO Magazine's August 15, 2003, issue named GAO as a "CIO 100" organization, thereby recognizing GAO's excellence in managing information technology resources. Of the over 400 applicants from both the public and private sectors, GAO was one of just three federal agencies named a "CIO 100". Specifically, GAO was recognized for asset management (i.e., getting the most out of it existing systems), staffing and sourcing (i.e., flexible and creative approaches to meeting personnel needs), and partnerships (i.e., building internal and external relationships to deliver new products and services). In addition, GAO was specifically cited for a best practice—staffing new projects through internal "help wanted" ads.

Reengineering Business Processes

As part of the organizational realignment implemented in calendar year 2000, we established an internal group whose mandate was to focus on business process reengineering as a tool for increased productivity and knowledge management. One of the accomplishments of this group was the launching of the Electronic Assistance Guide for Leading Engagements—the EAGLE, which is the prototype of a comprehensive Web-based guide to conducting GAO engagements. Recently, we have established a Continuous Improvement Board to guide the activities of the group that has been integrated into our Quality and Continuous Improvement office.

Along with our realignment, we also implemented two new management strategies: risk management and matrix management. GAO's risk management approach allows management to identify key stakeholders throughout an engagement, to transcend traditional organizational boundaries, to maximize value, and manage risks in connection with GAO's engagements and other activities. GAO's matrix management approach maximizes our value to the Congress by leveraging the knowledge, skills, and experience of all employees to ensure the highest quality products and services and to help the Congress address the challenging, complex, rapidly changing, and multidimensional problems facing the nation.

Being Good Stewards of Our Financial Resources

As the leading performance and accountability organization in the public sector, it is vital that GAO set the example in the area of financial management as well. GAO's financial statements for fiscal years 2002, like those for fiscal years past, received an unqualified opinion from an independent auditor. No material weaknesses in internal control were identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 (the Improvement Act) for financial systems. In addition, the auditor did not find any instances of noncompliance with the laws or regulations for which they tested.

Challenges

As with any organization, we face a range of internal and external challenges that could affect our ability to effectively support the Congress in the future. Some of these challenges are those that require ongoing management vigilance and attention (e.g., assuring product quality and adherence to core values, human capital, physical security, and information security) while others are special challenges that warrant monitoring and/or congressional attention.

While we have put in place a good risk management system for our engagements, whereby all the engagements are reviewed weekly and categorized by a variety of factors including risk, we nevertheless must always be vigilant that GAO does not stray from its values and therefore, lose its reputation for being an "honest broker" on important government operations and policy issues. Given that about 25 percent of our staff have been with GAO for 3 years or less, it is vitally important that we inculcate these values in our staff and train them in the proper conduct of our work. Also, we need to make sure the staff who have been here for more than 3 years remain true to our values and our quality assurance standards and practices. To ensure that we have an independent quality check in place, GAO has had, beginning with its financial audits issued in 1995 and continuing for every 3 years thereafter, an external group—an independent CPA firm—performs a peer review of our work. We are currently in the process of extending this practice to our non-financial work and expect our products issued in 2004 to be peer reviewed by a team headed by the Auditor General's office of Canada who will conduct their work between 2004 and 2005. To prepare for this, we have invested much effort in revamping our quality assurance framework.

We named in our fiscal year 2002 Performance and Accountability report three risk areas—human capital, physical security, and information security—as areas that could affect our ability to perform work for the Congress. We have made progress in addressing each of these challenges, but still have work to do.

In the human capital area, we are faced with a challenge because a significant percentage of our workforce is nearing retirement age, while marketplace, demographic, economic, and technological changes indicate that competition for skilled workers will be greater in the future. We are recruiting diverse, high-caliber staff with the skills and abilities we need to achieve our strategic goals and objectives. Whether we will be able to retain them when the economy improves remains to be seen, but I can assure you that we are doing our best to do so. Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. Over the next several years, we need to continue to address skill gaps, maximize staff productivity and effectiveness, and reengineer our human capital policies, programs, and processes to make them more user-friendly. We plan to address skill gaps by further refining our recruitment and hiring strategies to target gaps identified through our workforce planning efforts, while taking into account the significant percentage of our workforce eligible for retirement.

In the aftermath of the September 11 terrorist attacks and subsequent anthrax incidents, the ability to provide a safe and secure workplace emerged as a challenge for our agency. Protecting our people and our assets is critical to our ability to carry out our mission to serve the Congress and the American people. Also in light of these incidents, we need to ensure information systems security and disaster recovery systems that allow for the continuity of operations. We have made progress through our efforts to, among other things, implement a risk-based, agencywide security program; provide security training and awareness; and develop and implement an enterprise disaster recovery solution.

Special Challenges

The following are some special challenges that we are carefully monitoring and may need to work with the Congress on to address:

- Unfunded mandates. Since becoming the Comptroller General, I have not asked for any increase in our staffing levels and have requested

targeted investments in human capital, information technology and security, and physical security initiatives based on specific business cases. Last year, the Congress passed a 4.1 pay increase but did not provide funding for all of the increase. While we were able to reallocate our budget to cover these increases, we are concerned that if this becomes a regular practice, we will be unable to effective discharge our responsibilities in view of the fact that our employees' salaries and related benefits comprise 80 percent of our budget. We have worked hard with available resources to cover mandatory expenses, including inflation and compensation costs. In addition, there has been recent interest in having GAO expand the scope of its activities in such areas as evaluating regulatory costs and benefits as well as conducting technology assessments. While I obviously want to be sure that we meet the changing needs of the Congress, I believe strongly that any significant expansion of the scope of our work should be coupled with appropriate funding. Doing otherwise would ultimately undermine our ability to carry out our core activities. Looking longer-term, we are concerned about the future fiscal outlook and its potential impact on our organization. We hope that the Congress will resist the tendency, in responding to budgetary constraints, to institute across the board budget reductions or reward the "basket cases" with additional flexibilities and appropriations, instead of rewarding organizations such as ours that generate positive results, do many things right, and are trying to do the right things.

- Supply and demand imbalances. While the overall number of congressional requests has decreased, the quality of these requests has improved which is reflected in the results we are achieving. Also, more requests are of a bipartisan nature. However, we are monitoring closely the number of engagements that we have accepted but not yet staffed, which has increased during the past 4 years. These engagements, totaling over a hundred, are spread among our 13 teams. The backlog is particularly acute in certain teams and areas (e.g., health care) because of increasing congressional demands. While we are working to achieve more flexibility in the way we staff and are reexamining our inventory, there is a limit to our ability to address these challenges by shifting resources from one area to another because of the specialized skills and knowledge required. We are concerned that we may not be able to respond to engagements we accept in a timely manner if the backlog builds. Also, if this supply and demand imbalance continues to grow, we will need to work with this Committee, the House Government Reform Committee, our appropriations committees, and senior leaders in

making some tough choices, such as possibly reconsidering and reprioritizing any pending requests and not being able to accept requests from individual Members. Further, we may have to limit the small percentage of resources dedicated to research and development work (work that by law the Comptroller General is able to initiate on his own authority), which would hamper our ability to respond to urgent issues as we were able to do in the areas like national preparedness, homeland security, human capital, and Postal Service reform. I believe that it is important for GAO to be able to dedicate roughly 10 - 15 percent of its total resources to research and development work, which ultimately improves our ability to respond to longer-range issues. In this regard, the percentage of resources devoted to research and development work was 13 percent in FY 01, 11 percent in FY 02, and 9 percent year to date in FY 03.

- Access to records. Not surprisingly, GAO has faced access to record problems periodically in its history. Most of the time, we have been able to work with the executive branch. In my opinion, it was very unfortunate that we could not work out our information request relating to the National Energy Policy Development Group with the Vice President, who chaired the Group. We felt that we had no choice but to seek redress through the courts because the request was backed by four Senate committee or subcommittee chairmen, and as you know, we are required by law to perform work for committees. In addition, the administration did not exercise its option to withhold the information based on executive privilege or under the certification provision in GAO's statute. The federal district court ruled in its decision that GAO did not have the standing to sue, but did not render an opinion on the merits of the case. We decided not to proceed with an appeal for a variety of reasons. Since then, we have monitored our access-to-record issues closely and have not experienced thus far a proliferation of access to records problems. In light of certain records access challenges during the past few years, and with concerns about national and homeland security unusually high at home and abroad, it may become more difficult for us to obtain information from the executive branch and report on certain issues. If this were to occur, it would hamper our ability to complete congressional requests in a timely manner. We are updating GAO's engagement acceptance and review policies and practices to address this issue. However, we do not require legislative changes in this area at the present time.

- Selection process for the Deputy Comptroller General. GAO has only two political appointee positions—the Comptroller General and the Deputy Comptroller General. GAO has not had an official Deputy Comptroller General since the appointment process was changed by law in 1980. Under the law, the Deputy Comptroller General is nominated by the same 10 member board that nominates the Comptroller General (i.e., Senate and House leaders and the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Government Reform) working with the Comptroller General. Under the current scheme, the Deputy Comptroller General is supposed to serve in the Comptroller General's absence or after his 15-year term is completed. I believe the time has come to consider having the Comptroller General, in consultation with the aforementioned board, be able to pick the Deputy, which is how it works in most of our international counterpart organizations.

- Performance and accountability community coordination. Related to trying to do more with the resources we have in the performance and accountability area is determining how GAO and the Inspectors General should best complement each other and coordinate. The Inspectors General Act of 1978 as amended, Public Law 95-452, which established the Inspectors General, has been in existence for almost 25 years and merits a review. Given the challenges facing the federal government, I believe that the past should not be prologue in this arena. The law currently requires that the Inspectors General coordinate with GAO to ensure that they are not duplicating efforts. The traditional division of responsibilities has been that GAO looks horizontally at programs and functions across government, while the Inspectors General have been the "local cop" on the beat focusing on combating fraud, waste, abuse and mismanagement within their respective agencies. With OMB's efforts to make performance and financial reports more relevant to management decision-making, our collaborative efforts in improving governmentwide financial management will merit review. Over the next few years, GAO will need to invest more resources, (through use of GAO's own staff and/or through contractors) in assuring the work of the Inspectors General and external auditors in the financial statements area. This resource investment is necessary if we are to be able to render an opinion on the consolidated financial statements of the U.S. government.

- Additional bid protest volume. Over the past year, GAO has seen the number of bid protests filed increase by close to ten percent, and that

upward trend is continuing. In addition to its other roles, GAO also serves as a quasi-judicial forum, hearing bid protests from disappointed bidders seeking to obtain federal contracts. GAO provides an objective, independent, and impartial forum for resolving protests, and GAO's decisions, which are published on our website, are relied on by the courts, the contracting agencies, and the public. This means of resolving disputes saves both time and money in that the parties need not go through the federal court system. Two particularly significant areas in which GAO has issued, and expects to continue issuing, decision on bid protests are public/private competitions under OMB Circular A-76 and procurements involving purchases under GSA's Federal Supply Schedules.

- Work involving other legislative branch entities. GAO is increasingly being requested to provide assistance on work involving other legislative branch entities such as the Architect of the Capitol, including its Capitol Visitors Center project, the Capitol Police, the Government Printing Office, and the Library of Congress. This assistance can take difference forms (e.g., direct assistance, contract procurement and monitoring, or management and technical assistance) and can be of a sensitive and high risk nature.

Need for S. 1522

I believe that it is vitally important to GAO's future to continue modernizing and updating its human capital policies and practices in light of the changing environment and anticipated challenges ahead. GAO's proposal represents a logical incremental advancement in modernizing our human capital policies. Given GAO's human capital infrastructure and unique role in leading by example in major management areas, the rest of the federal government can also benefit from GAO's pay system experience. We respectfully request the Committee's support of our request. We also respectfully request prompt passage of S. 1522 by the Congress, since some of our existing authorities are set to expire at the end of this calendar year.

GAO has used the narrowly tailored flexibilities granted by the Congress previously in Public Law 106-303, the GAO Personnel Flexibilities Act, responsibly, prudently, and strategically. GAO's latest proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance its performance; assure its accountability; and help ensure that we can attract, retain, motivate, and reward a top-quality and high-performing workforce both now and in future years. Specifically, GAO is requesting that the Congress (1) make permanent GAO's 3-year authority to offer early

outs and buyouts, (2) allow GAO to set its own annual pay adjustment system separate from the executive branch, (3) permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his/her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to GAO but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

We believe that our proposal is both well reasoned and reasonable. Although GAO's request for authority to adjust its annual pay system separate from the executive branch may appear to be dramatic to some, there are compelling reasons why GAO ought to be given this authority. These include the fact that GAO already has a hybrid pay system established by the authority the Congress granted it over two decades ago. In addition, the proposal is modest if viewed in the light of authorities already granted and requested by other agencies (e.g., DHS, DOD). Further, GAO already has a number of key systems and safeguards in place (e.g., a validated performance measurement system for its analysts and attorneys; a grievance process which allows employees to appeal to an independent Personnel Appeals Board; and opportunity periods for employee improvement) and has plans to build in additional safeguards if the additional authorities that we are seeking are granted.

Since submitting the proposal, I testified on July 16, 2003, before the House Government Reform Subcommittee on Civil Service and Agency Organization, along with Chris Keisling, the Employee Advisory Council's representative, Paul Light of Brookings Institution, and Pete Smith of the Private Sector Council. See Appendix II for a copy of the statement that I presented before the House. GAO's proposal was introduced that same day as H. 2751, the GAO Human Capital Reform Act of 2003, and was subsequently marked up and reported out of the Subcommittee on July 23, 2003, with an amendment that added a requirement that we periodically report on the status of certain provisions; modified the target group for the increased annual leave benefit from upper-level hires to key officers and employees; and limited our exchange program to no more than 30 people coming to GAO from the private sector and no more than 30 people leaving GAO for a detail to the private sector. We concurred with these

amendments. The bill that Senator Voinovich introduced on July 31, 2003, S. 1522, which you co sponsored, Madam Chair, mirrors the bill that was marked up in the House.

Based on employee feedback, there is little concern relating to most of our legislative proposal. Although some elements of GAO's initial straw proposal were very controversial (e.g., GAO's pay adjustment provision), I have made a number of changes, clarifications, and commitments to address employee concerns. While I believe that some employees remain concerned about the pay adjustment provision, I also believe that employee concerns have been reduced considerably due to the clarifications, changes, and commitments I have made. This view has been underscored by the results of the recent employee staff survey. Of the 2,101 GAO employees who provided narrative comments, only a small percentage commented on our legislative proposal.

Opportunities

Over the balance of my tenure, I will seek to continue the transformation of GAO into a world class professional services firm able to provide the Congress the best information and analyses possible delivered in a manner timely for appropriations, oversight, authorization, and legislative policy decision-making. While many think that this is a difficult goal to achieve, I believe that we are well on the way there. We will continue seeking to lead by example in all the aforementioned areas, including strategic planning, human capital management, process reengineering, information technology, and financial management. We will continue to examine what we do and how we do it focusing on achieving results. Some specific initiatives contemplated include the following:

- Helping the Congress in addressing challenges relating to the long-term fiscal outlook. GAO's mission of assuring accountability has been and will remain closely linked to supporting congressional oversight and improving government efficiency and effectiveness. However, we believe in the years ahead, this support will prove even more critical because of the pressures that will be created by our country's fiscal outlook. These pressures will require the Congress to make tough choices on what the government does, including how the government does business and who does the government's business in the future. I believe that GAO can be of invaluable assistance in helping the Congress review and reprioritize existing mandatory and discretionary spending programs and tax policies.

- Transforming government and how government does business. While supporting congressional oversight will remain a major part of our mission, we believe that the work GAO performs in the areas of insight (e.g., determining which programs and policies work and which don't and sharing best practices and benchmarking information, both horizontally across government and vertically through different levels of government) and foresight (e.g., identifying key trends and emerging challenges before they reach crisis proportions and developing proposed frameworks for moving forward, including various options with related pros and cons) will be increasingly important and that our work in these areas needs to be further increased. I believe that GAO can do much to promote and facilitate government transformation, including how government does business. GAO's work in the government transformation area (e.g., DOD business practices, information technology, human capital, Postal Service, and Social Security) has helped the Congress reexamine what the federal government does, what it should do, and how it does it best. An additional focus on foresight activities will be crucial in developing information for congressional decision makers facing the challenges and opportunities of the 21st century so that they can fully assess the long-term consequences of today's policy choices.

- Making GAO the federal employer of choice and the gold standard for a world class professional services organization. Creating high-performing organizations often requires a cultural transformation that can take years to accomplish. GAO is no exception. GAO needs to continue its transformation process. We have made great progress in the past 3 years, but much remains to be done. For example, we have established task teams to examine how we staff our assignments and how we can best facilitate additional matrix management and knowledge sharing. As part of this cultural transformation, we are also hard at work in transforming GAO into a continuous learning organization. Opinion surveys of employees, such as our entry-level staff, indicate that one of the critical elements in their staying with an organization is the ability to continuously learn. Therefore, we must continue to strive to create such an environment through our training programs and employee development efforts. We must also continue, while addressing any skills imbalances and succession planning needs, to invest in our staff.

Concluding Observations

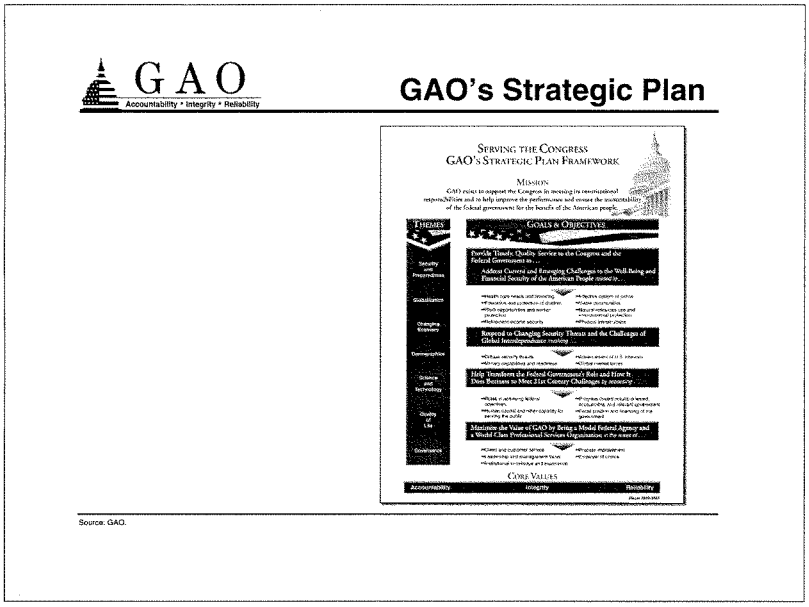
Since its creation, GAO has demonstrated that it has been able to adapt to the changing needs of the nation, the Congress, and the American people. Today, we live in a different world than even that of 2 years ago. The increasing interconnectedness of today's world is demonstrated in the issues we care most about—our national security, our economic security, our financial security, our personal security, and our personal health. As evidenced by the testimony that I've delivered today, I have done my best, working closely with our congressional clients and all of GAO's employees, to provide the best professional products and services to the Congress today and to position ourselves to continue to be able to do so in the future. We've also demonstrated that being "world class" doesn't mean a substantial appropriation increase, but rather that an effective, efficient, and creative use of resources, aided by selected additional legislative authorities and flexibilities, can translate into significant pay-offs in the form of real and measurable positive results. However, we believe that GAO, similar to most public and private sector organizations, is only as good as our people. S. 1522 will help us address many of the challenges we face, particularly in the human capital arena, and we urge that this Committee mark up the legislation and, working with the House, enact it before the Congress adjourns for the year.

Madam Chair Collins and Members of the Committee, this concludes my prepared statement. I would be happy to respond to any questions that you may have.

Contacts

For further information regarding the testimony, please contact David M. Walker, the Comptroller General of the United States, on (202) 512-5500 or at walkerd@gao.gov, Gene Dodaro, Chief Operating Officer (202) 512-5600 or at dodarog@gao.gov, or Helen H. Hsing, Director of Special Strategic Projects (202) 512-5500 or at hsingh@gao.gov

GAO's Strategic Plan 2002-2007



Source: GAO.

Annual Performance Measures (1998 and 2002)

Performance measure	Actual FY 1998	Actual FY 2002
Financial benefits (billions)	$19.7	$37.7
Other benefits	537	906
Past recommendations implemented	69%	79%
Return on investment (ROI)	58:1	88:1
Financial benefits per employee (millions)	$6.1	$11.7
Timeliness	93%	96%

Source: GAO.

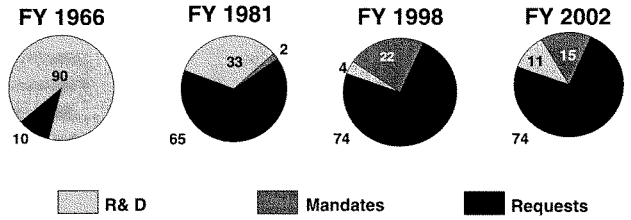
GAO's 2002 Reports

Selected Topics

- Food Safety
- Performance-Based Budgeting
- Military Transformation
- School Vouchers
- Restructured Energy Markets
- Securities Regulation
- Election Reform
- Information Security
- FBI Reorganization
- Nursing Homes
- Space Station
- Homeland Security
- Private Pensions
- Social Security
- Prescription Drugs
- Aviation Safety
- Welfare Reform
- Army Readiness
- Water Quality
- Nuclear Waste
- Export Controls
- Tax Administration
- Drug Control
- Postal Transformation
- Corporate Governance & Auditing Failures

Source: GAO.

The Nature of GAO's Work



Source: GAO.

GAO's High Risk List

July 2003

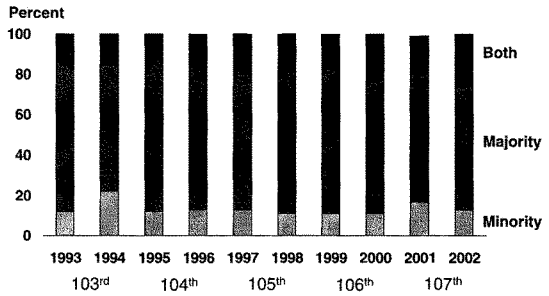
High Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting Information Systems Supporting the Federal Government and The Nation's Critical Infrastructures	1997
Strategic Human Capital Management*	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook*	2001
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs*	2003
Federal Real Property*	2003
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
IRS Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
Reducing Inordinate Program Risks	
Medicare Program*	1990
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
Student Financial Aid Programs	1990
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Earned Income Credit Noncompliance	1995
DOD Support Infrastructure Management	1997
Medicaid Program*	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program*	2003
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
Department of Energy Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992

*Additional authorizing legislation is likely to be required as one element of addressing this high risk area.

Source: GAO.

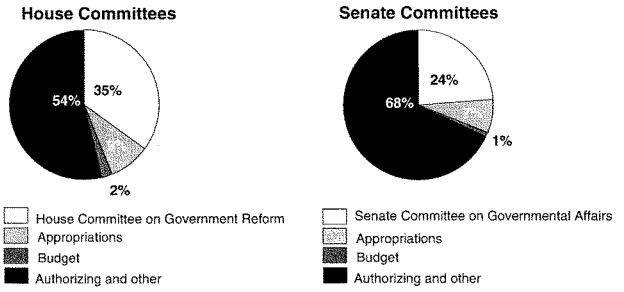
GAO
Accountability * Integrity * Reliability

Sources of Requested Work
During Congressional Sessions



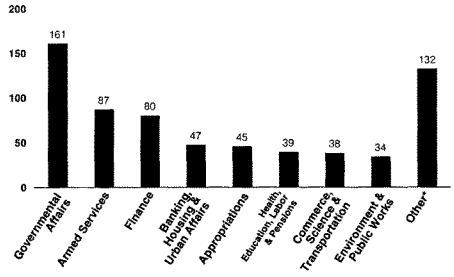
Note: As of 11-18-02
Source: GAO

Engagements For Congressional Committees
107th Congress



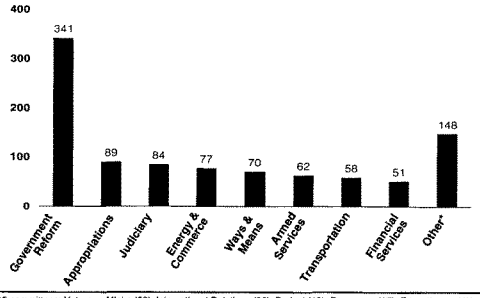
Source. GAO.

Engagements For Senate Committees
107th Congress



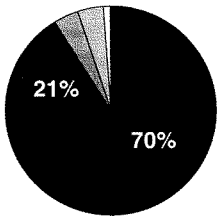
*Other includes 12 committees: Small Business and Entrepreneurship (27), Judiciary (23), Aging (18), Agriculture, Nutrition and Forestry (14), Veterans Affairs (12), International Narcotics Control (8), Foreign Relations (8), Intelligence (5), Indian Affairs (5), Energy and Natural Resources (5), Budget (4), and Rules and Administration (3).
Source: GAO.

Engagements For House Committees
107th Congress



*Other includes 12 committees: Veterans Affairs (33), International Relations (26), Budget (18), Resources (17), Education and Workforce (17), Small Business (13), Science (9), Agriculture (5), Intelligence (4), Administration (4), Homeland Security (1), and Rules (1).
Source: GAO.

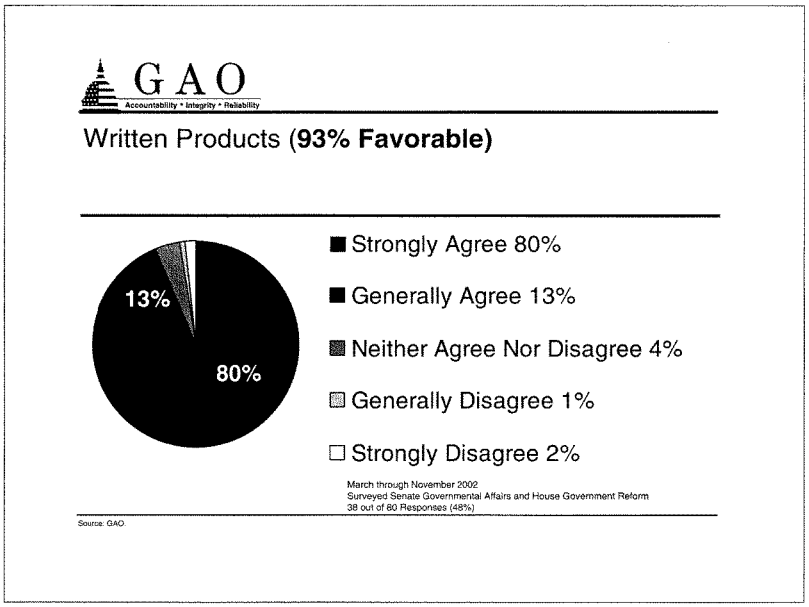
Testimonies **(91% Favorable Responses)**



- Strongly Agree 70%
- Generally Agree 21%
- Neither Agree Nor Disagree 4%
- Generally Disagree 4%
- Strongly Disagree 1%

March through November 2002
Surveyed Senate Governmental Affairs and House Government Reform
57 out of 113 Responses (50%)

Source: GAO.


GAO
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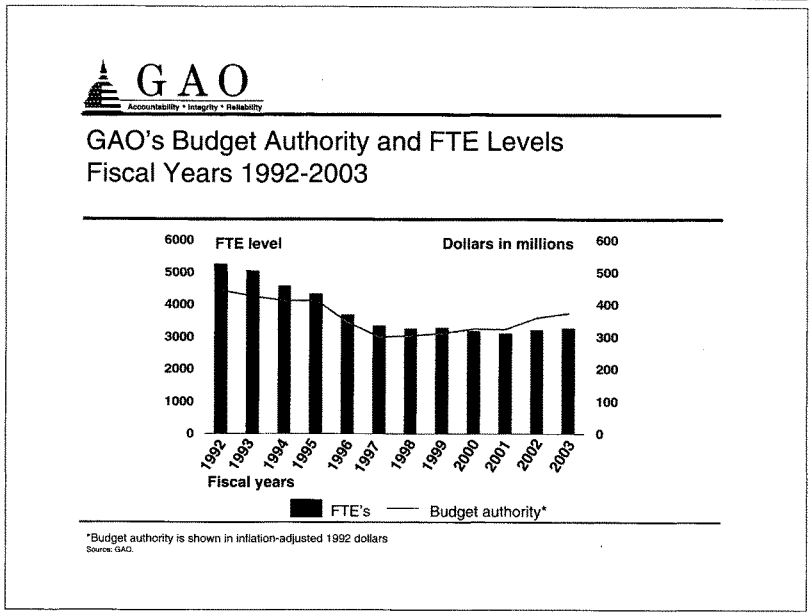
Written Products (93% Favorable)
13%
80%
Strongly Agree 80%
Generally Agree 13%
Neither Agree Nor Disagree 4%
Generally Disagree 1%
Strongly Disagree 2%
March through November 2002
Surveyed Senate Governmental Affairs and House Government Reform
38 out of 80 Responses (48%)
Source: GAO.


GAO
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GAO's Budget Authority and FTE Levels
Fiscal Years 1992-2003
FTE level
Dollars in millions
6000
5000
4000
3000
2000
1000
0
600
500
400
300
200
100
0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Fiscal years
FTE's
Budget authority*
*Budget authority is shown in inflation-adjusted 1992 dollars
Source: GAO.

Strategic Perspectives of GAO and OIGs

We both maximize government performance and ensure accountability

GAO	OIGs
▪ Government-wide scope	▪ Agency scope
▪ Horizontal and longer range issues	▪ Vertical and immediate issues
▪ Proportionately more audits, evaluations, policy analyses	▪ Proportionately more investigations
▪ Renders opinion on consolidated financial statements	▪ Audit agency financial statements
▪ Performance/Accountability and High Risk List	▪ Management challenges lists

Source: GAO.

Comptroller General's Testimony of July 16, 2003

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, July 16, 2003

GAO

Additional Human Capital Flexibilities Are Needed

Statement of David M. Walker
Comptroller General of the United States

GAO-03-1024T

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-03-1024T, a testimony before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

July 16, 2003

GAO

Additional Human Capital Flexibilities Are Needed

Why GAO Did This Study

The Subcommittee seeks GAO's views on its latest human capital proposal that is slated to be introduced as a bill entitled the GAO Human Capital Reform Act of 2003.

What GAO Recommends

GAO believes that its proposal is well reasoned and reasonable. Although GAO's request for authority to adjust its annual pay system separate from the executive branch appears broad based, there are compelling reasons why GAO ought to be given this authority. These include the fact that GAO already has a hybrid pay system established by the authority the Congress granted it over two decades ago, the proposed authority is not radical if viewed in the light of authorities already granted and requested by other agencies, and GAO already has a number of key systems and safeguards in place and has plans to build in additional safeguards if granted the authority.

GAO has conducted extensive external and internal outreach efforts on its latest human capital proposal. GAO respectfully requests the Subcommittee's support and prompt passage by the Congress.

www.gao.gov/cgi-bin/getrpt?GAO-03-1024T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sallyanne Harper at (202) 512-5800 or harpers@gao.gov.

What GAO Found

As an arm of the legislative branch, GAO exists 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 American people. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. GAO's latest proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance its performance, assure its accountability, and help ensure that it can attract, retain, motivate, and reward a top-quality and high-performing workforce currently and in future years.

Specifically, GAO is requesting that the Congress (1) make permanent GAO's 3-year authority to offer early outs and buyouts, (2) allow GAO to set its own annual pay adjustment system separate from the executive branch, (3) permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his/her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to GAO but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

GAO has used the narrowly tailored flexibilities granted by the Congress previously in Public Law 106-303, the GAO Personnel Flexibilities Act, responsibly, prudently, and strategically. GAO believes that it is vitally important to its future to continue modernizing and updating its human capital policies and system in light of the changing environment and anticipated challenges ahead. GAO's proposal represents a logical incremental advancement in modernizing GAO's human capital policies. Based on employee feedback, there is little or no concern relating to most of the proposal's provisions. Although some elements of GAO's initial straw proposal were controversial (e.g., GAO's pay adjustment provision), the Comptroller General has made a number of changes, clarifications, and commitments to address employee concerns. While GAO believes that some employees remain concerned about the pay adjustment provision, GAO also believes that employee concerns have been reduced considerably due to the clarifications, changes, and commitments the Comptroller General has made. Given GAO's human capital infrastructure and unique role in leading by example in major management areas, the rest of the federal government can benefit from GAO's pay system experience.

United States General Accounting Office

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss GAO's latest human capital proposal. Chairwoman Davis, we at GAO appreciate your support of our proposal and your leadership in seeking additional sponsors for the bill you plan to introduce, the GAO Human Capital Reform Act of 2003.

As I have testified on many occasions, strategic human capital management must be the centerpiece of any serious government transformation effort. A key component of this is modern, effective, and credible human capital policies, which are critical to the successful functioning of any enterprise, both public and private. As the Chief Executive Officer and primary steward of GAO, I am not just responsible for GAO's current economy, efficiency, and effectiveness, I am also responsible for ensuring that we are well positioned to serve our congressional clients, maximize our performance, and assure our accountability in the future.

With this important responsibility in mind, I asked this committee and others over 3 years ago to grant GAO certain additional narrowly tailored human capital authorities. In enacting Public Law 106-303, known as the GAO Personnel Flexibilities Act, the Congress granted GAO certain flexibilities, which we have used responsibly to help strategically reshape the organization in order to better support the Congress and the American people. After reviewing the range and limits of our existing administrative and legal authorities, I have concluded that we now need to seek from the Congress additional human capital flexibilities in order for GAO to: ensure quality service to the Congress; continue leading by example in the government transformation, in general, and human capital reform areas in particular; and continue to attract, retain, motivate, and reward a quality and high- performing workforce, both currently and in future years. We believe that our proposal is well reasoned and reasonable, especially if viewed in the light of authorities already granted and requested by other agencies and the extensive external and internal outreach efforts we have conducted. We also respectfully request your support and prompt passage by the Congress.

GAO: A Unique Agency with a Hybrid System

As an arm of the legislative branch, GAO exists 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. Today, GAO is a multidisciplinary professional services organization, comprised of about 3,250 employees,

that conducts a wide range of financial and performance audits, program evaluations, management reviews, investigations, and legal services spanning a broad range of government programs and functions. GAO's work covers everything from the challenges of securing our homeland, to the demands of an information age, to emerging national security threats, and the complexities of globalization. We are committed to transforming how the federal government does business and to helping government agencies become organizations that are more results oriented and accountable to the public. We are also committed to leading by example in all major management areas.

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and subject matter expertise as well as general analytical skills is vital to achieving the agency's mission. Carrying out GAO's mission today is a multidisciplinary staff reflecting the diversity of knowledge and competencies needed to deliver a wide array of products and services to support the Congress. Our mission staff—at least 67 percent of whom have graduate degrees—hold degrees in a variety of academic disciplines, such as accounting, law, engineering, public administration, economics, and social and physical sciences. I am extremely proud of our GAO employees and the difference that they make for the Congress and the nation. They make GAO the world-class organization that it is, and I think it is fair to say that while they account for about 80 percent of our costs, they constitute 100 percent of our real assets.

Because of our unique role as an independent overseer of federal expenditures, fact finder, and honest broker, GAO has evolved into an agency with hybrid systems. This is particularly evident in GAO's personnel and performance management systems. Unlike many executive branch agencies, which have either recently received or are just requesting new broad-based human capital tools and flexibilities, GAO has had certain human capital tools and flexibilities for over two decades. As a result, we have been able to some extent to operate our personnel system with a degree of independence that most agencies in the executive branch do not have. For example, we are excepted from certain provisions of Title 5, which governs the competitive service, and we are not subject to Office of Personnel Management (OPM) oversight.

Until 1980, our personnel system was indistinguishable from those of executive branch agencies—that is, GAO was subject to the same laws, regulations, and policies as they were. However, with the expansion of

GAO's role in congressional oversight of federal agencies and programs, concerns grew about the potential for conflicts of interest. Could GAO conduct independent and objective reviews of executive branch agencies, such as OPM, when these agencies had the authority to review GAO's internal personnel activities? As a result, GAO worked with the Congress to pass the GAO Personnel Act of 1980, the principal goal of which was to avoid potential conflicts by making GAO's personnel system more independent of the executive branch.

Along with this independence, the act gave GAO greater flexibility in hiring and managing its workforce. Among other things, it granted the Comptroller General authority to

- appoint, promote, and assign employees without regard to Title 5 requirements in these areas;
- set employees' pay without regard to the federal government's General Schedule (GS) pay system's classification standards and requirements; and
- establish a merit pay system for appropriate officers and employees.

By excepting our agency from the above requirements, the GAO Personnel Act of 1980 allowed us to pursue some significant innovations in managing our people. One key innovation was the establishment of a "broad banding," or "pay banding," approach for classifying and paying our Analyst and Attorney workforce in 1989. This was coupled with the adoption of a pay for performance system for this portion of our workforce. Therefore, while other agencies are only now requesting the authority to establish broad banding and pay for performance systems, GAO has had almost 15 years of experience with such systems.

Although GAO's personnel and pay systems are not similar to those of many executive branch agencies, I must emphasize that in important ways, our human capital policies and programs are very much and will continue to remain similar to those of the larger federal community. GAO's current human capital proposal will not change our continued support for certain national goals (e.g., commitment to federal merit principles, protection from prohibited personnel practices, employee due process through a specially created entity—the Personnel Appeals Board (PAB), and application of veterans' preference consistent with its application in the executive branch for appointments and all appropriate reductions-in-

force). Furthermore, our pay system is and will continue to be consistent with the statutory principle of equal pay for equal work while making pay distinctions on the basis of an individual's responsibilities and performance. In addition, we are covered and will remain covered by Title VII of the Civil Rights Act, which forbids employment discrimination. At GAO, we also emphasize opportunity and inclusiveness for a diverse workforce and have zero tolerance for discrimination of any kind. We have taken and will continue to take disciplinary action when it "will promote the efficiency of the service"—which for us includes such things as GAO's ability to do its work and accomplish its mission.

Although we are not subject to OPM oversight, we are nevertheless subject to the oversight of the Congress including our appropriations committees—the Senate Committee on Appropriations' Subcommittee on the Legislative Branch and the House Committee on Appropriations' Subcommittee on Legislative—and our oversight committees—the Senate Committee on Governmental Affairs and the House Committee on Government Reform. In addition, GAO's management actions are subject to the review of an independent five member board, the Personnel Appeals Board, which performs functions similar to those provided by the Merit Systems Protection Board for federal executive branch employees' personnel grievances. The Congress authorized the establishment of the PAB specifically for GAO in order to protect GAO's independence as an agency. As with other federal executive branch employees, our employees have the right to appeal certain kinds of management actions including removal, suspension for more than 14 days, reductions in pay or grade, furloughs of not more than 30 days, a prohibited personnel practice, an action involving prohibited discrimination, a prohibited political activity, a within-grade denial, unfair labor practices or other labor relations issue. However, they do so to the PAB rather than the MSPB.

While we currently do not have any bargaining units at GAO, our employees are free to join employee organizations, including unions. In addition, we engage in a range of ongoing communication and coordination efforts to empower our employees while tapping their ideas. For example, we regularly discuss a range of issues of mutual interest and concern with our democratically elected Employee Advisory Council (EAC). Chris Keisling, who is a Band III field office representative of the EAC, is testifying with me today. In addition, I consult regularly with our managing directors on issues of mutual interest and concern. In that spirit, I will consult with the managing directors and the EAC before implementing the provisions related to our human capital proposal. As we did with the

flexibilities granted it under Public Law 106-303, the GAO Personnel Flexibilities Act, we will implement the authorities granted under this provision of our proposal only after issuing draft regulations and providing all employees notice and an opportunity for comment. Specifically, for the authorities granted to us under Public Law 106-303, we posted the draft regulations on our internal Web site and sent a notice to all GAO staff advising them of the draft regulations and seeking their comments.

Key Elements of GAO's Proposal

GAO's proposal combines diverse initiatives that, collectively, should further GAO's ability to enhance our performance, assure our accountability, and help ensure that we can attract, retain, motivate, and reward a top quality and high-performing workforce currently and in future years. These initiatives should also have the benefit of helping guide other agencies in their human capital transformation efforts. Specifically, we are requesting that the Congress provide us the following additional human capital tools and flexibilities:

- make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments;
- allow the Comptroller General to adjust the rates of basic pay of GAO on a separate basis than the annual adjustments authorized for employees of the executive branch;
- permit GAO to set the pay of an employee demoted as a result of workforce restructuring or reclassification at his or her current rate with no automatic annual increase to basic pay until his or her salary is less than the maximum rate of their new position;
- provide authority in appropriate circumstances to reimburse employees for some relocation expenses when that transfer does not meet current legal requirements for entitlement to reimbursement but still benefits GAO;
- provide authority to put upper-level hires with less than 3 years of federal experience in the 6-hour leave category;
- authorize an executive exchange program with private sector organizations working in areas of mutual concern and involving areas in which GAO has a supply-demand imbalance; and

- change GAO's legal name from the "General Accounting Office" to the "Government Accountability Office."

I will go into more detail later in my testimony on the details and rationale for each of these proposals.

Process for Developing the Proposal

In developing our proposal, we used a phased approach that involved (1) developing a straw proposal, (2) vetting the straw proposal broadly both externally and internally, and (3) making appropriate adjustments based on comments and concerns raised during the vetting process. As we have previously testified, many of the management tools and flexibilities we needed to pursue modern human capital management approaches are already available to us and we have used them. We have chosen to come to the Congress for legislation only where the tools and flexibilities we have were inadequate for addressing the challenges we faced. For example, the Congress enacted Public Law 106-303 to provide us with certain narrowly tailored flexibilities we needed to reshape our workforce and establish senior-level technical positions in critical areas. These flexibilities were needed to help GAO address the past decade's dramatic downsizing (approximately 40 percent from 1992 through 1997) combined with a significant increase in the retirement-eligible workforce that jeopardized our ability to perform our mission in the years ahead.

In developing our preliminary proposal, we gathered suggestions for addressing GAO's human capital challenges as well as challenges faced by the rest of the federal government, discussed and debated them internally, and compiled a preliminary list of proposals. We received a number of viable proposals that we separated into two groups: (1) proposals that would be more applicable government-wide and (2) proposals GAO should undertake. I had our Office of General Counsel review the proposals GAO should undertake to determine whether we needed to seek legislative authority to implement them or whether I could implement them under the Comptroller General's existing authority.

Mindful of the need to keep the Congress appropriately informed, my staff and I began our outreach to GAO's appropriations and oversight committees on the need for additional human capital flexibilities beginning late last year. In early spring of this year, we shared with these committees a confidential draft of a preliminary draft proposal. We also advised them that we planned to conduct a broad range of outreach and consultation on the proposal with our employees and other interested parties and that we

would send them our revised legislative proposal at a later date. We conducted an extensive outreach and consultation effort with members of the Congress, including chairmen and ranking minority members of our appropriations and oversight committees and a number of local delegation members; congressional staff; the Director of OPM; the Deputy Director for Management of the Office of Management and Budget; public sector employee associations and unions; and various "good government" organizations.

Within GAO, members of the Executive Committee (EC), which includes our Chief Operating Officer, our General Counsel, our Chief Mission Support Officer and me, engaged in an extensive and unprecedented range of outreach and consultation with GAO employees. This outreach included numerous discussions with our managing directors, who manage most of GAO's workforce, and members of the EAC.

The EAC is an important source of input and a key communications link between executive management and the constituent groups its members represent. Comprising employees who represent a cross-section of the agency, the EAC meets at least quarterly with me and members of our senior executive team. The EAC's participation is an important source of front-end input and feedback on our human capital and other major management initiatives. Specifically, EAC members convey the views and concerns of the groups they represent, while remaining sensitive to the collective best interest of all GAO employees; propose solutions to concerns raised by employees; provide input to and comment on GAO policies, procedures, plans, and practices; and help to communicate management's issues and concerns to employees.

I have also used my periodic "CG chats," closed circuit televised broadcasts to all GAO employees, as a means of explaining our proposal and responding to staff concerns and questions. Specifically, I have held two televised chats to inform GAO staff about the proposal. One of these chats was conducted in the form of a general listening session, open to all headquarters and field office staff, featuring questions from members of the EAC and field office employees. I have also discussed the proposal with the Band IIs (GS-13-14 equivalents) in sessions held in April 2003, and with our Senior Executive Service (SES) and Senior Level members at our May off-site meeting. In addition to my CG chats, I have personally held a number of listening sessions, including a session with members of our Office of General Counsel, two sessions with our administrative support staff, and sessions with staff in several field offices. Furthermore, the Chief

Operating Officer represented me in a listening session with Band I field office personnel. Finally, I have also personally received and considered a number of E-mails, notes, and verbal comments on the human capital proposal.

I would like to point out to others seeking human capital flexibilities that the outreach process, while necessary, is indeed time-consuming and requires real and persistent commitment on the part of an agency's top management team. In order for the process to work effectively, it also requires an ongoing education and dialogue process that will, at times, involve candid, yet constructive, discussion between management and employees. This is, however, both necessary and appropriate as part of the overall change management process. To facilitate the education process on the proposal, we posted materials on GAO's internal website, including Questions and Answers developed in response to employees' questions and concerns, for all employees to review. Unfortunately, others who have sought and are seeking additional human capital flexibilities have not employed such an extensive outreach process.

Nature of GAO Employee Concerns

Based on feedback from GAO employees, there is little or no concern relating to most of the provisions in our proposal. There has been significant concern expressed over GAO's proposal to decouple GAO's pay system from that of the executive branch. Some concerns have also been expressed regarding the pay retention provision and the proposed name change. As addressed below, we do believe, however, that these employee concerns, have been reduced considerably due to the clarifications, changes, and commitments resulting from our extensive outreach and consultation effort.

On the basis of various forms of GAO employee feedback, it is not surprising, since pay is important to all employees, that the provision that has caused the most stir within GAO has been the pay adjustment provision. Fundamentally, some of our employees would prefer to remain with the executive branch's GS system for various types of pay increases. There are others close to retirement who are concerned with their "high three" and how the modified pay system, when fully implemented, might affect permanent base pay, which is the key component of their retirement annuity computation. Overall, there is a great desire on the part of GAO employees to know specifically how this authority would be implemented.

It is important to note that, even in the best of circumstances, it is difficult to garner a broad-based consensus of employee support for any major pay system changes. While it is my impression, based on employee feedback, that we have made significant strides in allaying the significant initial concerns expressed by employees regarding the pay adjustment provision, I believe that some of these concerns will remain throughout implementation. In addition, some can never be resolved because they involve philosophical differences or personal interest considerations on behalf of individual GAO employees.

GAO's history with pay banding certainly is illustrative of how difficult it is for an organization to allay employee fears even in the face of obvious benefits. While history has proven that an overwhelming majority of GAO employees have benefited from GAO's decision to migrate our Analysts and Attorneys into pay banding and pay for performance systems, there was significant opposition by GAO employees regarding the decision to move into these systems. The experience of the executive branch's pay demonstration projects involving federal science and technology laboratories shows that employee support at the beginning of the pay demonstration projects ranged from 34 percent to 63 percent. In fact, OPM reports that it takes about 5 years to get support from two-thirds of employees with managers generally supporting demonstrations at a higher rate than employees.

Following the pay adjustment provision but a distant second in terms of employee concern, has been the pay reclassification provision, which would allow GAO employees demoted as a result of workforce restructuring or reclassification to keep their basic pay rates; however, future pay increases would be set consistent with the new positions' pay parameters. Currently, employees subject to a reduction-in-force or reclassification can be paid at a rate that exceeds the value of their duties for an extended period.

A distant third in terms of employee concern is the proposed name change from the "General Accounting Office' to the "Government Accountability Office," which would allow the agency's title to more accurately reflect its mission, core values, and work. My sense is that some GAO employees who have been with GAO for many years have grown comfortable with the name and may prefer to keep it. At the same time, I believe that a significant majority of our employees support the proposed name change. Importantly, all of our external advisory groups, including the Comptroller General's Advisory Council, consisting of distinguished individuals from

the public and private sectors, and the Comptroller General's Educators Advisory Council, consisting of distinguished individuals from the academic community, and a variety of "good government" groups strongly support the proposed name change.

Changes Made in Response to Employee Feedback

The members of the EC and I took our employees' feedback seriously and have seriously considered their concerns. Key considerations in our decision making were our institutional responsibility as leaders and stewards of GAO and the overwhelming support expressed through anonymous balloting by our senior executives, who also serve as leaders and stewards for GAO, for proceeding with all of the provisions of our human capital proposal, including the pay adjustment provision. Specifically, in a recent confidential electronic balloting of our senior executives, support for each element of our proposal ranged from over 2 to 1 to unanimous, depending on the provision. Support for the proposed pay adjustment provision was over 3 to 1, and support for the proposed pay protection provision was over 4 to 1. Given this and other considerations, ultimately, we decided to proceed with the proposal but adopted a number of the suggestions made by employees in these sessions, including several relating to the proposal to decouple GAO annual pay adjustments from those applicable to many executive branch agencies.

A key suggestion adopted include a minimum 2-year transition period for ensuring the smooth implementation of the pay provisions which would also allow time for developing appropriate methodologies and issuing regulations for notice and comment by all employees. Another key suggestion adopted was the commitment to guarantee annual across the board purchase power protection and to address locality pay considerations to all employees rated as performing at a satisfactory level or above (i.e., meeting expectations or above) absent extraordinary economic circumstances or severe budgetary constraints. We have chosen to implement this guarantee through a future GAO Order rather than through legislative language because prior "pay protection" guarantees relating to pay banding made by my predecessor, Comptroller General Charles A. Bowsher, used this means effectively to document and operationalize that guarantee. I have committed to our employees that I would include this guarantee in my statement here today so that it could be included as part of the legislative record. Additional safeguards relating to our pay proposal are set forth below.

The following represents additional information regarding our specific proposal.

Voluntary Early Retirement and Separation Incentive Payment Authorities

Section 2 of our proposal would make permanent the authority of GAO under section 1 and 2 of Public Law 106-303, the GAO Personnel Flexibilities Act of 2000, to offer voluntary early retirements (commonly termed "early outs") and voluntary separation payments (commonly termed "buyouts") to certain GAO employees when necessary to realign GAO's workforce in order to meet budgetary or mission needs, correct skill imbalances, or reduce high-grade positions. We believe that we have behaved responsibly in exercising the flexibilities that the Congress granted us and deserve a permanent continuation of these authorities. In addition, the two flexibilities which we would like to be made permanent are narrowly drawn and voluntary in nature, since the employees have the right to decide if they are interested in being considered for the benefits. Further, the provisions also have built in limits: no more than 10 percent of the workforce in any one year can be given early outs and no more than 5 percent can be given buyouts.

GAO's transformation effort is a work in progress, and for that reason, the agency is seeking legislation to make the voluntary early retirement provision in section 1 of the law permanent. While the overall number of employees electing early retirement has been relatively small, GAO believes that careful use of voluntary early retirement has been an important tool in incrementally improving the agency's overall human capital profile. Each separation has freed resources for other uses, enabling GAO to fill an entry-level position or to fill a position that will reduce a skill gap or address other succession concerns. Similarly, we are seeking legislation to make section 2—authorizing the payment of voluntary separation incentives—permanent. Although GAO has not yet used its buyout authority and has no plans to do so in the foreseeable future, we are seeking to retain this flexibility. The continuation of this provision maximizes the options available to the agency to deal with future circumstances, which cannot be reasonably anticipated at this time. Importantly, this provision seems fully appropriate since the Homeland Security Act of 2002 provides most federal agencies with permanent early out and buyout authority.

Public Law 106-303 required that GAO perform an assessment of the exercise of the authorities provided under that law, which included the authority for the Comptroller General to provide voluntary early retirement

and voluntary separation incentive payments. With your permission, I would like to submit the assessment entitled *Assessment of Public Law 106-303: The Role of Personnel Flexibilities in Strengthening GAO's Human Capital*, issued on June 27, 2003, for the record. I will now highlight for you our observations from that assessment on voluntary early retirement and buyouts.

Voluntary Early Retirement

Public Law 106-303 also allows the Comptroller General to offer voluntary early retirement to up to 10 percent of the workforce when necessary or appropriate to realign the workforce to address budgetary or mission constraints; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. This flexibility represents a proactive use of early retirement to shape the workforce to prevent or ameliorate future problems. GAO Order 2931.1, Voluntary Early Retirement, containing the agency's final regulations, was issued in April 2001. Under the regulations, each time the Comptroller General approves a voluntary early retirement opportunity, he establishes the categories of employees who are eligible to apply. These categories are based on the need to ensure that those employees who are eligible to request voluntary early retirement are those whose separations are consistent with one or more of the three reasons for which the Comptroller General may authorize early retirements. Pursuant to GAO's regulations, these categories are defined in terms of one or more of the following criteria:

- organizational unit or subunits,
- occupational series,
- grade or band level,
- skill or knowledge requirements,
- performance appraisal average,
- geographic location, or
- other similar factors that the Comptroller General deems necessary and appropriate.

Since it is essential that GAO retain employees with critical skills as well as its highest performers, certain categories of employees have been ineligible

under the criteria. Some examples of ineligible categories are employees receiving retention allowances because of their unusually high or unique qualifications; economists, because of the difficulty that the agency has experienced in recruiting them; and staff in the information technology area. In addition, employees with performance appraisal averages above a specified level have not been eligible under the criteria.

To give the fullest consideration to all interested employees, however, any employee may apply for consideration when an early retirement opportunity is announced, even if he or she does not meet the stated criteria. Furthermore, under our order, the Comptroller General may authorize early retirements for these applicants on the basis of the facts and circumstances of each case. The Comptroller General or his EC designee considers each applicant and makes final decisions based on GAO's institutional needs. Only employees whose release is consistent with the law and GAO's objective in allowing early retirement are authorized to retire early. In some cases, this has meant that an employee's request must be denied.

GAO held its first voluntary early retirement opportunity in July 2001. Employees who were approved for early retirement were required to separate in the first quarter of fiscal 2002. As required by the act, information on the fiscal 2002 early retirements was reported in an appendix to our 2002 Performance and Accountability Report. Another voluntary early retirement opportunity was authorized in fiscal 2003, and employees were required to separate by March 14, 2003. In anticipation of the 3-year sunset on our authority to provide voluntary early retirements, I have recently announced a final voluntary early retirement opportunity under our current authority. Table 1 provides the data on the number of employees separated by voluntary early retirement as of May 30, 2003.

Table 1: Summary Data on Voluntary Early Retirements

Applications/Status of applications	Fiscal 2002		Fiscal 2003		Totals	
	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total
Total applications submitted	78	100.0	39	100.0	117	100.0
Approved applications	72	92.3	37	94.8	109	93.1
Disapproved applications	6	7.7	2	5.1	8	6.8
Approved applications withdrawn by employees	18	23.0	12	30.7	30	25.6
Applicants separated by voluntary early retirement	54	69.3	25	64.1	79	67.5

Source: GAO.

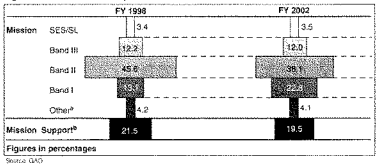
As you can see from the table, of the 79 employees who separated from GAO through voluntary early retirement, 66, or 83.5 percent, were high-grade, supervisory, or managerial employees. High-grade, supervisory, or managerial employees are those who are GS-13s or above, if covered by GAO's GS system; Band IIs or above, if covered by GAO's banded systems for Analysts and Attorneys; or in any position in GAO's SES or Senior-Level system.

In recommending that GAO's voluntary early out authority be made permanent, I would like to point to our progress in changing the overall shape of the organization. The 1990s were a difficult period for ensuring that GAO's workforce would remain appropriately sized, shaped, and skilled to meet client demands and agency needs. Severe downsizing of the workforce, including a suspension of most hiring from 1992 through 1997, and constrained investments in such areas as training, performance incentives, rewards, and enabling technology left GAO with a range of human capital and operational challenges to address. Over 3 years ago, when GAO sought additional human capital flexibilities, our workforce was sparse at the entry level and plentiful at the midlevel. We were concerned about our ability to support the Congress with experienced and knowledgeable staff over time, given the significant percentage of the agency's senior managers and analysts reaching retirement eligibility and the small number of entry-level employees who were training to replace more senior staff.

As illustrated in figure 1, by the end of fiscal year 2002, GAO had almost a 74 percent increase in the proportion of staff at the entry level (Band I)

compared with fiscal year 1998. Also, the proportion of the agency's workforce at the midlevel (Band II) decreased by 16 percent.

Figure 1: GAO's Human Capital Profile



Source: GAO

Voluntary Separation Payments

In addition to authorizing voluntary early retirement for GAO employees, Public Law 106-303 permits the Comptroller General to offer voluntary separation incentive payments—buyouts—when necessary or appropriate to realign the workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-grade, supervisory, or managerial positions. Under the act, up to 5 percent of employees could be offered such an incentive, subject to criteria established by the Comptroller General.

The act requires GAO to deposit into the U.S. Treasury an amount equivalent to 45 percent of the final annual basic salary of each employee to whom a buyout is paid. The deposit is in addition to the actual buyout amount, which can be up to $25,000 for an approved individual. Given the many demands on agency resources, these costs present a strong financial disincentive to use the provision if at all. 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. Nevertheless, as stated earlier, it is prudent for us to seek the continuation of this provision because it maximizes the options available to the agency to deal with future circumstances. Since GAO is also eligible to request buyouts under the provisions of the Homeland Security Act, the

agency will consider its options under this provision as well. However, under the Homeland Security Act, GAO would have to seek OPM approval of any buyouts, which raises serious independence concerns.

Annual Pay Setting Policy and Adjustments

Section 3 and 4 of our proposal would provide GAO greater discretion in determining the annual across the board and locality pay increases for our employees. Under our proposal, GAO would have the discretion to set annual pay increases by taking into account alternative methodologies from those used by the executive branch and various other factors, such as extraordinary economic conditions or serious budgetary constraints. While the authority requested may initially appear to be broad based, there are compelling reasons why GAO ought to be given such authority. First, as I discussed at the beginning of my testimony, GAO is an agency within the legislative branch and already has a hybrid pay system established under the authority the Congress granted over two decades ago. Therefore, our proposal represents a natural evolution in GAO's pay for performance system. Second, GAO's proposal is not radical if viewed from the vantage point of the broad-based authority that has been granted the Department of Homeland Security (DHS) under the Homeland Security Act of 2002; agencies that the Congress has already granted the authority to develop their own pay systems; the authorities granted to various demonstration projects over the past two decades; and the authority Congress is currently contemplating providing the Department of Defense (DOD). Third, GAO already has a number of key safeguards and has plans to build additional safeguards into our modified pay system if granted this authority.

Our proposal seeks to take a constructive step in addressing what has been widely recognized as fundamental flaws in the federal government's approach to white-collar pay. These flaws and the need for reform have been addressed in more detail in OPM's April 2002 White Paper, *A Fresh Start For Federal Pay: A Case for Modernization*, and more recently the National Commission on the Public Service's January 2003 report on revitalizing the public service. The current federal pay and classification system was established over 60 years ago for a federal workforce that was made up largely of clerks performing routine tasks which were relatively simple to assess and measure. Today's federal workforce is composed of much higher graded and knowledge-based workers.

Although there have been attempts over the years to refine the system by enacting such legislation as the Federal Employees Pay Comparability Act (FEPCA) which sought to address, among other things, the issue of pay

comparability with the nonfederal sector, the system still contains certain fundamental flaws. The current system emphasizes placing employees in a relative hierarchy of positions based on grade; is a "one size fits all approach" since it does not recognize changes in local market rates for different occupations; and is performance insensitive in that all employees are eligible for the automatic across the board pay increases regardless of their performance. Specifically, the annual across the board base pay increase, also commonly referred to as the cost of living adjustment (COLA) or the January Pay Increase which the President recommends and the Congress approves, provides a time driven annual raise keyed to the Employment Cost Index (ECI) to all employees regardless of performance. In certain geographic areas, employees receive a locality adjustment tied to the local labor markets. However, in calculating the locality adjustment, for example, it is my understanding that FEPCA requires the calculation of a single average, based on the dominant federal employer in an area, which does not sufficiently recognize the differences in pay rates for different occupations and skills. In view of the fact that today we are in a knowledge-based economy competing for the best knowledge workers in the job market, I believe that new approaches and methodologies are warranted. This is especially appropriate for GAO's highly educated and skilled workforce.

Our proposed pay adjustment provision along with the other provisions of GAO's human capital proposal are collectively designed to help GAO maintain a competitive advantage in attracting, motivating, retaining, and rewarding a high performing and top-quality workforce both currently and in future years. First, under our proposal, GAO would no longer be required to provide automatic pay increases to employees who are rated as performing at a below satisfactory level. Second, when the proposal is fully implemented, GAO would be able to allocate more of the funding—currently allocated for automatic across-the-board pay adjustments to all employees—to permanent base pay adjustments that would vary based on performance. In addition, our proposal would affect all GAO, non-wage grade employees, including the SES and Senior Level staff.

Ultimately, if GAO is granted this authority, all GAO employees who perform at a satisfactory level will receive an annual base pay adjustment composed of purchase power protection and locality based pay increases absent extraordinary economic circumstances or severe budgetary constraints. GAO will be able to develop and apply its own methodology for annual cost-of-living and locality pay adjustments. The locality pay increase would be based on compensation surveys conducted by GAO and

which would be tailored to the nature, skills, and composition of GAO's workforce. The performance part of an employee's annual raise would depend on the level of the employee's performance and that employee's pay band. We estimate that at least 95 percent of the workforce will qualify for an additional performance-based increase. However, under this provision, employees who perform below a satisfactory level will not receive an annual increase of either type.

How GAO Plans to Use This Authority

GAO's major non-SES pay groups include (1) Analysts and Attorneys which comprises the majority of our workforce and is our mission group, (2) the Professional Development Program staff (PDP) which is our entry level mission group, (3) the Administrative Professional Support Staff (APSS), which is our mission support group for the most part, and (4) Wage Grade employees who primarily operate our print plant. Each of these groups currently operate in a different pay system. Generally, our mission staff are all in pay bands whereby they currently receive the annual across-the-board base pay increase and locality pay increase similar to the GS pay system, along with performance-based annual increases that are based on merit. Generally, our mission support staff, with some exceptions, remain in a system similar to the GS pay system with its annual across- the-board pay increases, locality pay, quality step increases, and within grade increases. We are currently in the process of migrating the mission support staff into pay bands and a pay for performance system. Our Wage Grade staff will continue to be covered by the federal compensation system for trade, craft, and laboring employees. Because of the small number of employees and the nature of their work, we have no plans to apply the pay adjustment provision authority to this group.

I would like to point out the tables in appendices I through IV, which succinctly describe how GAO plans to operationalize our authority under our proposed annual pay adjustment provision over time.

GAO's Proposed Pay Authority Is Reasonable

GAO's proposal for additional pay flexibility is reasonable in view of the authority the Congress has already granted DHS through the Homeland Security Act of 2002; the other agencies for whom the Congress has granted the authority to develop their own pay systems; the demonstration projects that OPM has authorized; and the authorities that other agencies in the executive branch are currently seeking (e.g., DOD).

While we are aware that the passage of the Homeland Security Act of 2002 was not without its difficult moments, particularly with respect to the broad-based authorities granted the department, we are also aware that the process employed by DOD and certain of its human capital proposals are highly controversial. It is important to point out that GAO's proposal and proposed pay flexibilities pale in respect to those granted to the DHS and to those requested by the DOD in the Defense Transformation for the 21st Century Act of 2003. Collectively, these two agencies represent almost 45 percent of the non-postal federal civilian workforce. Specifically, in November 2002, the Congress passed the Homeland Security Act of 2002, which created DHS and provided the department with significant flexibilities to design a modern human capital management system, which could have the potential, if properly developed, for application governmentwide. DOD's proposed National Security Personnel System (NSPS) would provide wide-ranging changes to its civilian personnel pay and performance management systems, collective bargaining, rightsizing, and a variety of other human capital areas. NSPS would enable DOD to develop and implement a consistent, DOD-wide civilian personnel system.

In addition to DHS, there are a number of federal agencies with authority for their own pay systems. Some of these agencies are, for example, the Congressional Budget Office, which is one of our sister agencies in the legislative branch; the Federal Aviation Administration (FAA); the Securities and Exchange Commission (SEC) ; and the Office of the Comptroller of the Currency (OCC) within the Department of the Treasury. When the Congress created the CBO in 1974, it granted that legislative branch agency significant flexibilities in the human capital area. For example, CBO has "at will" employment. In addition, CBO is not subject to the annual executive branch pay adjustments. Further, CBO has extensive flexibility regarding its pay system subject only to certain statutory annual compensation limits.

Furthermore, there are twelve executive branch demonstration projects involving pay for performance. These projects have taken different approaches to the sources of funding for salary increases that are tied to performance and not provided as entitlements. Many of the demonstration projects reduce or deny the annual across the board base pay increase for employees with unacceptable ratings (e.g., the Department of Navy's China Lake demonstration, DOD's Civil Acquisition Workforce demonstration, the Department of Air Force's Research Laboratory demonstration, and the Department of Navy's Research Laboratory demonstration, among others.) Others, including the National Institute of Standards and Technology and

the Department of Commerce demonstration projects, deny both the annual across the board base pay increase and the locality pay adjustment for employees with unacceptable ratings.

Currently, this Congress is considering a NASA human capital proposal. This proposal would provide NASA with further flexibilities and authorities for attracting, retaining, developing, and reshaping a skilled workforce. These include a scholarship-for-service program; a streamlined hiring authority for certain scientific positions; larger and more flexible recruitment, relocation, and retention bonuses; noncompetitive conversions of term employees to permanent status; a more flexible critical pay authority; a more flexible limited-term appointment authority for the SES; and greater flexibility in determining annual leave accrual rate for new hires.

Safeguards Provided

As we have testified, agencies should have modern, effective, credible, and as appropriate, validated performance management systems in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicization and abuse. While GAO's transformation is a work in progress, we believe that we are in the lead compared to executive branch agencies in having the human capital infrastructure in place to provide such safeguards and implement a modified pay system that is more performance oriented. Specifically, for our Analyst pay group, we have gone through the first cycle of a validated performance management system that has adequate safeguards, including reasonable transparency and appropriate accountability mechanisms. We have learned from what has worked and what improvements can and should be made with respect to the first cycle. In fact, we have adopted many of the recommendations and suggestions of our managing directors and EAC and are now in the process of implementing these suggestions.

The following is an initial list of possible safeguards, developed at the request of Congressman Danny Davis, for Congress to consider to help ensure that any pay for performance systems in the government are fair, effective, and credible. GAO's current human capital infrastructure has most of these safeguards built in, and the others are in the process of being incorporated.

- Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes and

(2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.

- Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.
- Ensure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by the human capital offices and/or the offices of opportunity and inclusiveness or its equivalent in establishing and implementing a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels predominately made up of career officials who would consider the results of the performance appraisal process and other information in making final pay decisions).
- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality, and report periodically on internal assessments and employee survey results).

Transition Period

We have provided a statutory period minimum to allow for a smooth implementation of the law as it applies to both our mission and mission support staff. Specifically, for our Analyst and Attorney communities, we plan to allow for at least a two-year period, during which they will continue to receive their annual across the board pay raise and their locality pay, if applicable, based on the amount set by the GS system. Once the proposal is fully implemented, the new across-the-board increase, which provides for inflation protection and locality pay where applicable, would be computed based on GAO compensation studies, and the performance-based merit pay would be provided based on an employee's performance.

For our APSS employees, the transition period of at least 2 years would allow for a smooth migration to the pay bands and the implementation of at

least one performance cycle of a newly validated competency based performance appraisal system for that component of GAO's workforce. Our APSS employees are currently still in the GS system, but we are in the process of moving them into pay bands. We will allow time for the group to migrate to broad bands and to have at least one performance cycle under pay bands before moving it into the new pay system. Therefore, as with the analysts and attorneys, the administrative support staff will move into a hybrid pay system once they migrate to pay bands. Also, as with the analysts and attorneys, I have committed to providing them "pay protection." This guarantee would continue even after GAO's authority to adjust pay is fully implemented.

We have a small Wage Grade community of under 20 employees. As mentioned earlier, we do not contemplate having the pay adjustment provision apply to them.

"Pay Protection" Guarantee

My predecessor, Comptroller General Charles A. Bowsher, provided the analysts and attorneys a "pay protection" guarantee at the time of their conversion to broad bands. This guarantee, later spelled out in a GAO order, provided that the analyst and attorneys rated as meeting expectations in all categories would fare at least as well under pay bands as under the GS system. This guarantee would not apply to employees who are promoted after conversion or demoted, and to new employees hired after the conversion. It is my understanding that this guarantee provided by my predecessor is unique to GAO and has generally not been applied by other agencies that have migrated their employees to pay bands.

Currently, 535 GAO employees are still covered by this "pay protection" guarantee, while less than 10 employees annually have their pay readjusted after the merit pay process. I have committed to GAO employees that even if we receive the new pay adjustment authority, I would still honor my predecessor's pay protection guarantee. In addition, our mission support staff will also receive this guarantee upon conversion to pay bands. This guarantee will continue through the implementation period for our new human capital authority.

Pay Retention

Section 5 of our proposal would allow GAO not to provide any automatic increase in basic pay to an employee demoted as a result of workforce restructuring or reclassification at his or her current rate until his or her

salary is less than the maximum rate of the new position. Under current law, the grade and pay retention provisions allow employees to continue to be paid at a rate that exceeds the value of the duties they are performing for an extended period. Specifically, employees who are demoted (e.g., incur a loss of grade or band) due to, among other things, reduction-in-force procedures or reclassification receive full statutory pay increases for 2 years and then receive 50 percent of the statutory pay increases until the pay of their new positions falls within the range of pay for those positions. We believe that this antiquated system is inconsistent with the merit principle that there should be equal pay for work of equal value.

In granting GAO this authority, we would be able to immediately place employees in the band or grade commensurate with their roles and responsibilities. It is important to note that we have a key safeguard—employees whose basic pay exceeds the maximum rate of the grade or band in which the employee is placed will not have their basic pay reduced. These employees, who would still be eligible to increase their overall pay through certain types of performance-based awards (e.g., incentive awards), would retain this rate until their basic pay is less than the maximum for their grade or band. As with all the provisions in our proposal, we will not implement this pay retention provision until we have consulted with the EAC and managing directors and have provided all GAO employees an opportunity for notice and comment on any regulations.

Relocation Expenses

Section 6 would provide GAO the authority, in appropriate circumstances, to reimburse employees for some relocation expenses when transfers do not meet current legal requirements for entitlement to reimbursement but still benefit GAO. Under current law, employees who qualify for relocation benefits are entitled to full benefits; however, employees whose transfer may be of some benefit or value to the agency would not be eligible to receive any reimbursement. This provision would provide these employees some relief from the high cost of relocating while at the same time allowing GAO the flexibility to promulgate regulations in order to provide such relief. This authority has been previously granted to other agencies, including the FAA.

Leave for Upper Level Hires

Section 7 of the proposal provides GAO the authority to provide 160 hours (20 days) of annual leave to appropriate employees in high-grade, managerial or supervisory positions who have less than 3 years of federal

service. This is narrowly tailored authority that would apply only to GAO and not to executive branch agencies. While it is been a long-standing tenet that all federal employees earn annual leave based on years of federal service, we believe that there is substantial merit in revisiting this in view of today's human capital environment and challenges. We have found that, in recruiting experienced mid- and upper-level hires, the loss of leave they would incur upon moving from the private to the federal sector is a major disincentive. For example, an individual, regardless of the level at which he enters first enters the federal workforce, is eligible to earn 4 hours of annual leave for each pay period and, therefore, could accrue a total of 104 hours (13 days) annually so long as they do not use any of that leave during the year. This amount increases to 6 hours of annual leave after 3 years of federal service. By increasing the annual leave that certain newly hired officers and employees may earn, this provision is designed to help attract and retain highly skilled employees needed to best serve the Congress and the country.

Executive Exchange Program

Section 8 would authorize GAO to establish an executive exchange program between GAO and private sector entities. Currently, GAO has the authority to conduct such an exchange with public entities and non profit organizations under the Intergovernmental Personnel Act; there is no such authority for private sector exchanges. Under this program, high-grade, managerial or supervisory employees from GAO may work in the private sector, and private sector employees may work at GAO. While GAO will establish the details of this program in duly promulgated regulations, we have generally fashioned, with exceptions where appropriate, the legal framework for this program on the Information Technology Exchange Program authorized by Public Law 107-347, the E-Government Act of 2002, which the Congress enacted to address human capital challenges within the executive branch in the information technology area.

While the Information Technology Exchange Program only involves technology exchanges, GAO's exchange program will cover not only those who work in information technology fields, but also accountants, economists, lawyers, actuaries, and other highly skilled professionals. This program will help us address certain skills imbalances in such areas as well as a range of succession planning challenges. Specifically, by fiscal year 2007, 52 percent of our senior executives, 37 percent of our management-level analysts, and 29 percent of our analysts and related staff will be eligible for retirement. Moreover, at a time when a significant percentage of our workforce is nearing retirement age, marketplace, demographic,

economic, and technological changes indicate that competition for skilled employees will be greater in the future, making the challenge of attracting and retaining talent even more complex.

One of the key concerns raised in the past regarding private sector exchange programs has been the issue of conflict of interest. We believe that in this regard GAO differs from executive branch agencies in that, as reviewers, we are not as subject to potential conflicts of interest. Nevertheless, it is important to note in requesting this authority that we have made clear that the private sector participants would be subject to the same laws and regulations regarding conflict of interest, financial disclosure, and standards of conduct applicable to all employees of GAO. Under the program, private sector participants would receive their salaries and benefits from their employers and GAO need not contribute to these costs. We also believe that this will also encourage private sector individuals to devote a portion of their careers to the public sector without incurring substantial financial sacrifice.

Changing GAO's Name to the "Government Accountability Office"

Section 9 would change the name of our agency from the "General Accounting Office" to the "Government Accountability Office." At the same time, the well-known acronym "GAO," which has over 80 years of history behind it, will be maintained. We believe that the new name will better reflect the current mission of GAO as incorporated into its strategic plan, which was developed in consultation with the Congress. As stated in GAO's strategic plan, our activities are designed to ensure the executive branch's accountability to the American people. Indeed, the word accountability is one of GAO's core values along with integrity and reliability. These core values are also incorporated in GAO's strategic plan for serving the Congress.

The GAO of today is a far cry from the GAO of 1921, the year that the Congress established it through the enactment of the Budget and Accounting Act. In 1921, GAO pre-audited agency vouchers for the legality, propriety, and accuracy of expenditures. In the 1950s, GAO's statutory work shifted to the comprehensive auditing of government agencies. Later, beginning during the tenure of Comptroller General Elmer B. Staats, GAO's work expanded to include program evaluation and policy analysis. Whereas GAO's workforce consisted primarily of accounting clerks during the first three decades of its existence, today it is a multidisciplinary professional services organization with staff reflecting the diversity of

knowledge and skills needed to deliver a wide range of services to the Congress.

Although currently less than 15 percent of agency resources are devoted to traditional auditing and accounting activities, members of the public, the press, as well as the Congress often incorrectly assume that GAO is still solely a financial auditing organization. In addition, our name clearly confuses many potential applicants, who assume that GAO is only interested in hiring accountants. We believe that the new name will help attract applicants and address certain "expectation gaps" that exist outside of GAO.

Concluding Observations

In conclusion, I believe that GAO's human capital proposal merits prompt passage by this committee and, ultimately, the Congress. We have used the narrowly tailored flexibilities the Congress provided us previously in Public Law 106-303 responsibly, prudently, and strategically to help posture GAO to ensure the accountability of the federal government for the benefit of the Congress and the American people. Although some elements of our initial straw proposal were controversial, we have made a number of changes, clarifications, and commitments to address various comments and concerns raised by GAO employees. We recognize that the pay adjustment provision of this proposal remains of concern to some of our staff. However, we believe that it is vitally important to GAO's future that we continue modernizing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead. We believe that the proposal as presented and envisioned is well reasoned and reasonable with adequate safeguards for GAO employees. Given our human capital infrastructure and our unique role in leading by example in major management areas, including human capital management, the federal government could benefit from GAO's experience with pay for performance systems. Overall, we believe that this proposal represents a logical incremental advancement in modernizing GAO's human capital policies, and with your support, we believe that it will make a big difference for the GAO of the future.

Chairwoman Jo Ann Davis, Mr. Davis, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.

Contacts

For further information regarding this testimony, please contact Sallyanne Harper, Chief Mission Support Officer, on (202) 512-5800 or at harpers@gao.gov or Jesse Hoskins, Chief Human Capital Officer, on (202) 512-5553 or at hoskinsj@gao.gov.

Analysts and Attorneys: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases[a]	Current Pay System[b] (Broad band)		Transition Period[c] (Guaranteed Minimum; Pay Protection from Band Conversion)		Implementation Period[c] (Pay Protection from Band Conversion)	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay (Merit increases)	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; initial additional performance-based funds limited due to transition period guarantee)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses[b,d] (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends[b,d]	●	One-time	●	One-time	●	One-time
Incentive awards	●	One-time	●	One-time	●	One-time

● The element is applicable

N/A The element is not applicable

Source: GAO.

[a]The percentage allocated to each type of pay increase varies annually.

[b]Under our current pay system, GAO is linked to the executive branch for annual base and locality pay adjustments, however, since the implementation of broad banding, has not been linked to the executive branch for performance-based merit pay increases, performance bonuses/dividends, and other incentive award pay increases. The Executive Committee determines on an annual basis which pay categories, if any, are eligible for bonuses and dividends. For example, individuals in pay categories one and two received dividends for their FY 02 performance.

[c]During the transition period, GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic

circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to executive branch employees. All such GAO staff will also be eligible for additional performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The Executive Committee will determine on an annual basis which categories, if any, are eligible for bonuses and dividends.

[a]Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay adjustments after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all such staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Professional Development Program (PDP) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases[a]	Current Pay System[b] (Broad band/PDP)		Transition Period[c] Guaranteed Minimum		Implementation Period[d]	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS; for all satisfactory performers)	●	● (Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Performance-based pay	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually)	●
Performance bonuses[b,e] (for individuals who are pay capped)	●	One-time	●	One-time	●	One-time
Dividends[c,e]	N/A	N/A	N/A	N/A	N/A	N/A
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: PDP Staff who are Band IF (full performance) are covered by the merit pay system. See chart for Analysts & Attorneys.

[a]The percentage allocated to each type of pay increase varies annually.

[b]Under our current pay system, GAO is linked to the executive branch for base and locality pay. Band I staff in the PDP are eligible for periodic performance based PDP pay increases that are not available in the executive branch. PDP staff are not eligible for performance based merit increases and dividends.

[c]During the transition period, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will be guaranteed, at a minimum, barring extraordinary economic circumstances or serious budgetary constraints, base pay and locality pay according to the same adjustment provided to the executive branch employees. PDP staff rated as performing at the satisfactory level (i.e., meeting expectations or higher) will be eligible for performance-based PDP pay increases. During and after the transition period, PDP staff will not be eligible for dividends because PDP staff are evaluated every 6 months for performance based PDP increases. During the transition period, GAO will raise the pay cap for its Band I pay band commensurate with executive branch pay cap increases absent extraordinary economic circumstances or serious budgetary constraints. The

Executive Committee will determine on an annual basis which pay categories, if any, are eligible for PDP bonuses.

[4]Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a 2 plus year transition period. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, PDP staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) will continue to be eligible for additional performance-based compensation, including performance-based PDP pay increases and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees.

Administrative Professional Support Staff (APSS): Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases[a]	Current Pay System[b] (GS)		Transition Period[c] (Broad band) Pay Protection from Band Conversion		Implementation Period[d] Pay Protection from Band Conversion	
	Included	Permanent base pay	Included	Permanent base pay	Included	Permanent base pay
Annual across-the-board base pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Locality pay	●	●	● (Same percentage as executive branch GS)	●	● Percentage decoupled from executive branch GS; for all satisfactory performers)	●
Quality step increase (QSI)	●	●	N/A	N/A	N/A	N/A
Within grade increase (WIG)	●	●	N/A	N/A	N/A	N/A
Performance-based pay (merit increases)	N/A	N/A	● (Percentages determined by EC annually)	●	● (Percentages determined by EC annually; actual incremental amount will vary over time)	●
Performance bonuses[b,e] (for individuals who are pay capped)	N/A	N/A	●	One-time	●	One-time
Dividends[b,d]	N/A	N/A	●	N/A	●	●
Incentive awards	●	One-time	●	One-time	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

[a]The percentage allocated to each type of pay increase varies annually. This chart applies only to APSS employees who are under the General Schedule (GS) system. APSS employees who are already in broad bands should see the chart for Analysts and Attorneys.

[b]Under our current pay system, GAO is linked to the executive branch for annual base, locality, QSI, and WIG pay adjustments. APSS staff are eligible for performance incentive award pay increases; however, they are not eligible for performance bonuses (if pay capped) or dividends.

[c]During the transition period, GAO will implement broad banding for the APSS community between April – June 2004 and allow at least one full cycle of a new competency-based performance appraisal system before implementing any additional performance-based pay adjustments envisioned under HC II. Upon conversion to broad bands, GAO, as it did with its Analyst and Attorney communities, will replace QSIs and WIGs with performance pay increases that are not linked to the executive branch. Also, as it did with its Analyst and Attorney communities when they were converted to bands, GAO will provide a pay protection guarantee. Specifically, APSS staff who perform at the meets expectations level on any performance rating will earn a salary at least as high as they would have received had they remained under the General Schedule at their grade at the time of conversion. However, this

guarantee will not apply to staff who are promoted after conversion or demoted and to new employees hired after the conversion. APSS staff will be eligible for performance-based merit increases, performance bonuses (if pay capped) /dividends, and incentive awards. During the transition period, GAO will continue to raise the pay cap for its pay bands commensurate with executive branch pay cap increases. The Executive Committee will determine on an annual basis which pay categories, if any, are eligible for bonuses and dividends.

[a]Under its human capital proposal, GAO proposes to decouple itself from the executive branch for base and locality pay after a two plus year transition for the broad band conversion. After the transition period, GAO will fully implement a modified pay system in which absent extraordinary economic conditions or serious budgetary constraints, all GAO staff rated as performing at a satisfactory level (i.e., meeting expectations or higher) can expect to receive at a minimum, an annual adjustment designed to protect purchasing power (e.g., the Consumer Price Index) and address differences in compensation ranges by localities. In addition, all APSS staff will continue to be eligible for performance-based merit pay increases, performance bonuses (if pay capped)/dividends, and incentive awards. Before finalizing and implementing a modified pay system, GAO will seek the advice of the managing directors and GAO's Employee Advisory Council. We will also draft revised pay regulations and publish them for review and comment by all employees. In addition, APSS staff receiving the pay protection guarantee from their conversion into pay bands will continue to be eligible for pay protection during the implementation period.

Appendix IV

Wage Grade (WG) Staff: Pay Increases under GAO's Current System and Human Capital Proposal

Types of Pay Increases[a]	Current Pay System[b] (Wage Grade) System Same Under HC II	
	Included	Permanent
Annual across-the-board base pay	●	●
Locality pay	N/A	N/A
Quality step increase (QSI)	N/A	N/A
Within grade increase (WIG)	●	●
Incentive awards[c]	●	One-time

● This element is applicable

N/A This element is not applicable

Source: GAO.

Note: HC II refers to GAO's human capital proposal.

[a]The percentage allocated to each type of pay increase varies annually.

[b]Under its current wage grade pay system, GAO is linked to the executive branch for base, locality, and WIG pay increases. Wage grade employees are not eligible for QSIs and locality pay increases in GAO or anywhere in the federal government. Because its wage grade community is so small, GAO does not plan to include the wage grade community in the modified pay system under its human capital proposal.

[c]Wage grade staff are not eligible for bonuses and dividends.

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TESTIMONY

From

The Hon. Maurice P. McTigue, Q.S.O.
Director, Government Accountability Project

For

Committee on Governmental Affairs
United States Senate

September 16, 2003

On

"Oversight of GAO: What Lies Ahead for Congress' Watchdog?"

Madam Chairman and Senator Lieberman, I am honored to have been invited to testify before you on the current and future state of the United States General Accounting Office (GAO).

When considering the performance of the GAO, it is necessary to recognize that we are reviewing the best of the best in federal government organizations. In my experience, GAO is superior in every way to any other organization in the federal government. In addition to that superior performance, over the six years I have been in the United States I have observed continual improvement in performance at GAO. Therefore my comments today should be seen as making what is already very good, even better.

The General Accounting Office has many roles and they can be described in a variety of ways. My preference is to look at them in the most simple of language while capturing the range of outcomes sought.

GAO is the accountability office of the federal government. As such it investigates the widest range of government activity, while seeking to establish propriety in the business of government. It serves a number of clients: the Congress, the administration, the agencies of government and the public. You may find my inclusion of some of these clients strange. However, GAO serves to protect public confidence in the institutions of government. Thus, GAO needs to maintain the very highest standards of integrity and credibility in the work it does. Its effectiveness is directly proportional to its reputation.

- In its day-to-day work GAO is a seeker of fact and truth for the purposes of achieving informed debate and informed decision-making.
- It investigates and establishes the propriety with which government organizations conduct their business.
- It identifies remedies for inappropriate behavior and informs the offending organization, Congress and the public where appropriate.
- It identifies risks to government, articulates those risks and in some cases quite fittingly leads that debate.
- By setting the example in how it manages, GAO creates a role model for other organizations to follow.

Over the last two years we at the Mercatus Center at George Mason University, at the request of GAO, have examined the quality of performance disclosure by GAO through its Annual Performance Report. First I would like to acknowledge that GAO is not required by law to produce these performance reports but does so voluntarily and that act of responsibility is to be applauded.

We applied to GAO exactly the same criteria we apply to the 24 CFO Act agencies when we review the quality of their disclosure each year. I must point out here that this examination is not a review of performance but a review of disclosure documents. We judge whether or not these documents contain sufficient information for the public to form an opinion about whether the organization is performing up to expectations. These reports

should also give us a picture of whether progress is being made on the objectives addressed by this organization. GAO performs extremely well in disclosing information to the public.

However there are areas where we think they could improve. These areas of potential improvement are mainly in portraying progress towards more responsible government.

- For example: each year GAO claims as one of its successes the quantity of money recovered. Each year this amount increases. Last year $37 billion was recovered - nearly $11 billion more than the year before. This is a significant achievement but what does it tell us? Is the problem of bad behavior by government organizations getting worse? If so how can it be fixed and when? GAO's reporting falls short of giving us a picture of improvement or deterioration in management practices in government organizations.
- In another area GAO claims as a success the number of recommendations it makes and the number that are accepted. This is a good interim measure but ultimately we need to know whether the adopted recommendations eliminated the unacceptable behavior.
- GAO is addressing these challenges and we expect to see continuing improvement in disclosing final outcomes.

Challenges Facing GAO

I see two significant challenges facing GAO in the short term.

As the government moves towards accountability based upon outcomes (public benefits) then the validity of outcome measures becomes more critical. When accountability was based wholly upon whether money was spent in accordance with the appropriation, being the accountability officer was relatively simple. Now that a performance measure has to account for how much dependency declined, or by how much the risk of terrorist acts diminished, then the process is much more difficult. Add to that the need for an agency to show the high probability that their program *caused* that change and the task is even more challenging. Of course for Congress and the public, having that information brings a new confidence, because they know progress is being made. By knowing which activities are bringing the greatest progress and which are bring the least, Congress can act with new authority to invest taxpayer dollars only in those things that bring the greatest benefits.

For GAO the challenge is to bring a high level of integrity to this process so that decision-makers can act with confidence, knowing their decisions are sound. Assessing progress on outcomes frequently requires a level of subjectivity and the ability to measure non-tangible things. Therefore GAO will likely need to develop new human capital capabilities to meet this challenge.

The second challenge arises from the events of 9/11 and the War on Terrorism. In its attempts to protect the homeland against further attack, the government has been forced to take unto itself a number of powers that impinge on civil liberties and freedoms. In the interest of security the public has accepted this erosion of freedoms; however they are going to need constant assurance that government agencies are using their power in an ethical and proper manner. Given that much of these organizations' activities must remain confidential, maintaining public assurance remains problematic. It seems to me that an organization like GAO has the reputation for credibility and integrity to be able to examine the use of these powers in confidence. GAO could issue a statement of assurance to the public that the government's powers are being used in an appropriate and ethical manner.

Once again GAO will have to look at the capabilities necessary to carry out such a function and determine how it might acquire those capabilities. If the authority for GAO to carry out this work does not currently exist then this committee might well consider creating that power. I do know of some international parallels for the exercise of similar powers.

Identifying Risk to the Federal Government

In my view, risk management is progressively becoming a more important characteristic of high quality organizational performance. That will be true regardless of whether the risk is imposed by changes to the external environment in which the organization operates (terrorism), or internal problems like contract management. Tolerance of risk should be determined by whether the risk is manageable by the organization or whether the factors creating the risk are substantially beyond the control of the organization. I am going to break this segment into two parts. The first will look at what I call "big picture risks" or new issues that did not exist before. The second looks at what has now become a GAO tradition: "The High Risk List."

Big Picture Risks

GAO does well in assessing big picture risks, and should continue researching potential risks to government operations, to the economy and to society. GAO should also be encouraged to ignite public debate on these issues, while continuing to feed factual and relevant information to the public. Comptroller General David Walker has done an excellent job in sparking interest, debate, and action on the human capital crisis in government. Thanks to that work, we are now seeing some action on human capital management strategies that hopefully will bring about major changes to the way in which the federal workforce is managed.

We are also seeing Congress focus on legislative issues that will give agencies more freedom to manage their workforce in ways appropriate to a 21st Century economy.

The High Risk List

Every two years GAO compiles this list of issues it has determined produce significant risk to the government's effectiveness. Clearly this is an excellent tool for placing a focus on important issues, where finding a solution should be a high priority. However, it could lose much of its effectiveness if appropriate expectations for minimizing or eliminating the risk are not identified at the outset. In compiling the list it would be helpful for GAO to designate anything they saw as inherently high risk, so that it would be expected to remain on the list permanently. With all other items, GAO could perhaps include an assessment of their gravity, a prediction on how long it should take to remedy the risk, and the approximate cost of the remedy, where it is possible to determine.

When looking at the high-risk list there are some immediate concerns. Some issues have been on there for a very long time. Interestingly, most of them seem to be within the immediate control of the organization. For example, a significant number of items on the list over ten years are contract management or acquisition issues. There is a large body of knowledge about how to do those things well and 10 years seems an inordinately long time to put a remedy in place.

In other cases it might be that the solution sought is impossible and another solution should be identified. For example the collection of unpaid taxes has been there for thirteen years. The question needs to be asked, "Are these taxes collectable? If not, shouldn't the IRS write them off as

uncollectable?" Or maybe the collection of taxes is inherently high risk and will always be on the list. My only criticism of this activity is that it is very hard to get a realistic expectation of what can be achieved and in what time frame.

Again the Comptroller has been very articulate in addressing high risk arising from the convergence of health care issues, changing demographics and social security on long-term government budgets. This should also be encouraged. But, the urgency of these issues may be better conveyed if GAO underscores how delaying action reduces the government's options.

Role Model for Government Organizations

In two areas opportunities exist to expand GAO's reputation as a role model for other agencies. The first is in demonstrating how the principles imbedded in the Government Performance and Results Act can be used to create a high performance organization. GAO uses performance information to set its priorities and to determine the tools they use to bring about specific results. For example, GAO can show how its work on financial management was a causal factor in agencies getting unqualified audits. It can also demonstrate that its recommendations have diminished or eliminated other inappropriate behaviors.

The second area of opportunity is in the field of human capital management. GAO could set itself up as a role model in how it assesses capability needs, how to quantify the gap between current capability and future needs, and how to build strategies to bridge that gap. It can show others how it goes about acquiring the skill sets it needs either through new acquisitions of staff, investing in training existing staff, or both. It should also show the flexibility and innovation that it uses to acquire and keep skills that are critical to GAO's success in achieving its objectives. GAO is already experimenting with evaluation schemes. This should be encouraged, and their results made available to other agencies. GAO should be able to experiment with performance pay regimes, contract pay or pay-for-product structures, and certainly telecommuting. To this end Congress should ensure that GAO has the freedom and the flexibility to be a role model in human capital management.

I trust this testimony, Madam Chairman and Senator Lieberman, will be helpful to the Committee in its deliberations on the progress and potential of the General Accounting Office.

Respectfully prepared and submitted by:

Hon. Maurice P. McTigue
Distinguished Visiting Scholar
Director of the Government Accountability Project
Mercatus Center at George Mason University
Arlington, Virginia

The views and opinions expressed herein are exclusively those of the Honorable Maurice McTigue, and do not represent the views of the Mercatus Center, or George Mason University.

United States General Accounting Office

GAO

Testimony

Before the Senate Committee on Governmental Affairs

For Release on Delivery
Expected at 9:30 a.m. EDT
Tuesday, September 16, 2003

GAO'S PROPOSED HUMAN CAPITAL LEGISLATION

Views of the Employee Advisory Council

Statement for the Record by GAO's Employee Advisory Council

GAO-03-1162T

Mr. Chairman and Members of the Committee:

We are pleased to have the opportunity to comment on the Comptroller General's Human Capital II proposal. The Comptroller General formed the EAC about 4 years ago to be fully representative of the GAO population and advise him on issues pertaining to both management and employees. The members of the EAC represent a variety of employee groups and almost all employees outside of the senior executive service (more than 3,000 of GAO's 3,200 employees or 94 percent). The EAC operates as an umbrella organization that incorporates representatives of GAO's long-standing employee organizations including groups representing the disabled, Hispanics, Asian-Americans, African-Americans, gays and lesbians, veterans, and women,[1] as well as employees in various pay bands, attorneys, and administrative and professional staff.[2]

As established in our charter, the Employee Advisory Council serves as an advisory body to the Comptroller General and other senior executives by:

- seeking and conveying the views and concerns of the individual employee groups it represents while being sensitive to the mutual interests of all employees, regardless of their grade, band, or classification group;
- proposing solutions to concerns raised by employees, as appropriate;
- providing input by assessing and commenting on GAO policies, procedures, plans, and practices; and,
- communicating issues and concerns of the Comptroller General and other senior managers to employees.

In preparing this statement, the EAC considered the results of discussions with constituents, and input from Council representatives, including information gathered from employees during the initial introduction of the proposal and comments provided on the Comptroller General's revised

[1] While these organizations historically operated under separate charters by the Comptroller General, they now are included in the charter of the EAC and appoint representatives to serve on the Council.

[2] These members are elected by their constituency to two-year terms and may seek reelection once.

proposal. Although we have limited quantitative data in this regard and recognize that not all employees have the same opinions regarding all provisions of the proposed legislation, we believe our testimony is representative of a substantial cross-section of GAO employees.

In summary, GAO employees generally support many of the provisions in the proposed legislation. For example, most employees expressed support for

- the provision to make GAO's authority to offer voluntary early retirement permanent,
- provisions to enhance vacation time for upper-level hires and relocation expenses deemed necessary by the Comptroller General to recruit and retain top employees, and
- the provision to establish an exchange program with the private sector.

However, many employees have expressed concerns about the proposals that affect pay. Specifically, many staff are concerned about the potential negative impact of the change in the basis for annual salary increases, although some staff recognize the potential benefits for additional reward and management flexibility. To a lesser extent, staff are concerned about changes to pay protections provided under traditional federal employment rules. Staff have differing opinions on the provision to change GAO's name to the Government Accountability Office.

The EAC recognizes and appreciates the efforts the Comptroller General has made to address employees' concerns regarding provisions affecting pay by (1) providing assurances that the new system will sustain employees' purchasing power and provide parity with prevailing locality pay, (2) proposing short- and longer-term modifications to GAO's performance management system, and (3) incorporating a 2-year transition period for implementation of the new system. We hope that if the legislation is enacted, the Comptroller General will continue to be responsive to the concerns of employees as the agency moves forward in implementing these changes.

GAO Employees Support Most Aspects of the Proposed Legislation but Have Concerns about Pay Provisions and Differing Opinions about the Proposed Name Change

Outreach efforts by EAC representatives indicate that most employees support many portions of the legislative proposal under consideration by the Subcommittee but have concerns about provisions in the proposal related to pay. Specifically, employees generally support provisions that make the authorities provided to GAO for voluntary early retirement pay incentives permanent, to provide enhancements in vacation time and relocation expenses deemed necessary by the Comptroller General to recruit and retain top employees, and to establish a private sector exchange program. However, many employees are concerned about the provisions that change the way that annual pay decisions are made and, to a lesser extent, the proposed change to traditional protections for pay retention. Employees had differing opinions about the proposed change to GAO's name.

Most Employees Support Proposals to Improve GAO's Ability to Realign the Workforce and Attract and Retain High Quality Employees

Most employees support the Comptroller General's proposed provisions to make permanent GAO's 3-year authority to offer voluntary early retirement and voluntary separation payments to provide flexibility to realign GAO's workforce. In addition, GAO employees recognize that attracting and retaining high-quality employees and managers throughout the organization is vitally important for the future of GAO. Employees thus generally support the provisions to offer flexible relocation reimbursements, provide upper-level hires with 6-hour leave accrual, and establish an executive exchange program with private sector organizations. Most employees commented positively on these authorities so long as there are internal controls to monitor and report on their use, as are present to provide accountability for other authorities throughout GAO.[3]

Many Employees Are Concerned about the Provisions That Affect Pay

Many employees expressed concern about the provisions that affect the determination of annual pay increases and pay retention. The opinions expressed by employees generally fall into three categories: (1) general concerns and some supporting views regarding changes in traditional civil service employment rules that could reduce the amount of annual pay increases provided for economic adjustments but provide greater

[3] For example, the Comptroller General detailed GAO's use of the flexibilities provided in the first round of authorities granted in the GAO Personnel Flexibilities Act of October 2000 in U.S. General Accounting Office, *Assessment of Public Law 106-303*, GAO-03-954SP (Washington, D.C., June 27, 2003).

opportunity for rewarding performance, (2) concerns about making a portion of annual economic adjustments variable based on performance assessment, and to a lesser extent (3) concerns about the loss of traditional pay retention protections.

Concerns and Supporting Views on Proposed Changes That Could Reduce Annual Pay Provided for Economic Adjustments but Provide Greater Rewards

The first area of employee concern is proposed changes to traditional federal civil service employment rules that have historically provided a fixed annual increase for all federal employees determined by the President and the Congress. Government employees in general, and GAO employees in particular, often conduct work that can have far reaching implications and impacts. Such work can positively or negatively affect segments of the population and thereby the general public's perceptions of, and reactions to, the federal government, including Members of Congress. Over the years, the Congress has developed a bulwark of protections to shield federal workers from reprisals that might result from their service as employees. Included among these has been the process by which federal employees' salaries are annually adjusted as a result of the passage of, and signing into law, of the annual budget.

The historical process relies on passage of legislation which includes an annual increase in pay to reflect increases in inflation and overall employment costs, followed by determinations by the President (and the Office of Personnel Management) to calculate the distribution of the legislative economic adjustments between an overall cost-of-living adjustment and locality-based increases to reflect differences in cities across the nation. The current mechanism for annual federal pay adjustments is found in Public Law 101-509, the Federal Employees Pay Comparability Act.[4]

[4]While the goal of the act is to achieve full comparability, namely pay parity, between federal employees and their nonfederal counterparts on a locality-by-locality basis, the law has never been implemented as originally enacted as a result of a provision in the law that authorizes the President to offer an alternative pay plan in times of war or "serious economic conditions affecting the general welfare."

The Comptroller General has expressed his concern about trends in the executive branch that make it highly likely that the current civil service pay system will be the subject of comprehensive reform within the next few years. Citing federal agencies that already have many of these flexibilities, such as the Federal Aviation Administration[5] and the new Department of Homeland Security, as well as agencies currently seeking reform, such as the Department of Defense, he has stated his belief that GAO needs to be "ahead of the curve."

Under the proposal, rather than relying on the administration's determination and the Congress' mandate for an annual salary adjustment, GAO can develop and apply its own methodology for the annual cost-of-living adjustments and compensation differences by locality that the Comptroller General believes would be more representative of the nature, skills, and composition of GAO's workforce. Some employees have expressed following concerns.

- Removing GAO from the traditional process significantly alters a key element of federal pay protection that led some employees to seek employment in the federal sector. Changing this protection could diminish the attractiveness of federal service and result in the need for higher salaries to attract top candidates.

- A portion of appropriations historically intended to provide all federal employees with increases to keep pace with inflation and the cost of living in particular localities should not be tied to individual performance.

- GAO-based annual economic adjustments are more likely to be less than, rather than more than, amounts annually provided by the Congress; thus employees performing at lower (but satisfactory) levels who may not receive an equal or greater amount in the form of a bonus or dividend may experience an effective pay cut from amounts traditionally provided.

- The flexibility for the Comptroller General to use funds appropriated for cost-of-living adjustments for pay-for-performance purposes could

[5] While the Federal Aviation Administration is not required to grant cost of living allowances or locality pay increases, agency management has elected to continue providing these pay adjustments as they are generally applied to the federal pay system.

imperil future GAO budgets by making that portion of the annual budget discretionary where it was once mandatory.

- The wide latitude provided in the proposal gives the Comptroller General broad discretion and limited accountability for determining whether employees receive annual across-the-board economic adjustments, the amount of such adjustments, and the timing of adjustments could result in unfair financial harm for some employees if the broad authorities were improperly exercised.[6]

- The Comptroller General has not made a compelling case regarding the need for these pay-related and other legislative changes, for example by showing that existing cost-of-living adjustment mechanisms are inaccurate or that the agency has had difficulty in attracting and retaining high-quality employees.

On the other hand, some employees also recognize that the proposed pay provisions may offer some distinct advantages for some employees. Some employees commented in support of the provision indicating that

- the existing system for calculating inflation and local cost adjustments may not accurately reflect reality;

- most employees would not likely be harmed by a system that allocates a greater share of pay to performance-based compensation;

- the authorities would allow GAO managers to provide greater financial rewards to the agency's top performers, as compared to the present pay-for-performance system;

- making a stronger link between pay and performance could facilitate GAO's recruitment of top talent.

In addition, the provision may, to a limited extent, address a concern of some field employees by providing alternatives to reductions in force in times when mandated pay increases are not fully funded or in other

[6] While management's salary increase decisions for employees are not subject to appeal under the current system, some employees feel that the application of any methodology that GAO establishes to determine the amount of annual economic increases under the proposed approach should be subject to appeal.

extraordinary circumstances. For example, from 1992 to 1997, GAO underwent budgetary cuts totaling 33 percent (in constant fiscal year 1992 dollars.) To achieve these budgetary reductions, GAO staff was reduced by 39 percent, primarily through field office closures and the associated elimination of field-based employees. While we hope the agency will never again have to manage budget reductions of this magnitude, this provides a painful example of the vulnerability of staffing levels, particularly in the field, to budgetary fluctuations. The proposed pay provisions would provide the Comptroller General with greater flexibility to manage any future budget crises by adjusting the annual pay increases of all employees without adversely and disproportionately impacting the careers and lives of field-based employees.

Concerns about Making a Portion of Annual Pay Increases Variable Based on Performance Assessment

In addition to the revised basis for calculating annual economic adjustments, employees are concerned about the provision that transforms a portion of the annual pay increases that have historically been granted to federal employees for cost-of-living and locality-pay adjustments into variable, performance-based pay increases and bonuses. Because the GAO workforce is comprised of a wide range of highly qualified and talented people performing a similarly wide range of tasks, employees recognize that it is likely that some employees at times have more productive years with greater contributions than others. Therefore, most agree with the underlying principle of the provision to provide larger financial rewards for employees determined to be performing at the highest level. However, in commenting on the proposal, some employees said that GAO management already has multiple options to reward high performers through bonuses, placement in top pay-for-performance categories, and promotions. Others expressed concern that increased emphasis on individual performance could result in diminished teamwork, collaboration, and morale because GAO work typically is conducted in teams, often comprised of employees who are peers.

These concerns are compounded by long-standing widespread employee concerns regarding the accuracy and validity of GAO's performance appraisal system, which is used for the current system of performance-based pay adjustments. Any effort to increase the link between pay and performance implicitly relies upon the existence of a reliable method for gauging individual performance. We received comments that the varying levels of complexity, time frames, resource availability, and sensitivity of GAO work make it difficult to objectively assess individual performance and to fairly and accurately compare employees' performance with sufficient precision. In other words, some employees believe that the

subjectivity inherent in the system does not provide a valid basis for distinguishing between subtle differences in performance that may be measured in tenths of a percentage point between performance categories. Employee concerns about performance assessment have not significantly changed as a result of the new competency-based system GAO implemented last year. The comments we have heard are consistent with the concerns expressed to the Congress by GAO employees in 1993:

"The PFP (pay-for-performance) process involves managers making very fine distinctions in staff's performance in order to place them in discrete performance management categories. These categories set artificial limits on the number of staff being recognized for their contributions with merit pay and bonuses."

Related to concerns about subjectivity in the performance assessment system, Council representatives and employees expressed concern about data indicating that as a group, minorities, veterans, and field-based employees have historically received lower ratings than the employee population as a whole. While the data indicate that the disparity is considerably improved or eliminated for employees who have been with the agency fewer than 5 years, some employees have serious reservations about providing even greater discretion in allocating pay based on the current performance management system.

Concerns about the Loss of Traditional Pay Retention Protections

To a lesser extent, some employees expressed concerns about the elimination of traditional federal employment rules related to grade and pay retention for employees who are demoted due to such conditions as a workforce restructuring or reclassification. The proposed legislation will allow the Comptroller General to set the pay of employees downgraded as a result of workforce restructuring or reclassification at their current rates (i.e., no drop in current pay), but with no automatic annual increase to basic pay until their salaries are less than the maximum rates of their new grades or bands.

Employee concern, particularly among some Band II analysts and mission support staff, focuses on the extent to which this provision may result in a substantial erosion in future pay, since there is a strong possibility that these two groups may be restructured in the near future. For example, one observation is that the salary range within pay bands is such that senior analysts who are demoted would likely wait several years for their next increase in pay or bonus. In this circumstance, employees would need to reconcile themselves to no permanent pay increases regardless of their performance. Some employees cited this potential negative impact on staff motivation and productivity and emphasized that to continue providing

service at the level of excellence that the Congress and the American people expect from GAO, this agency needs the best contributions of all its midlevel and journeymen employees. However, the EAC recognizes that, absent this kind of authority and given some of the authorities already provided to the Comptroller General, some employees who may be demoted could otherwise face termination rather than diminished salary increases.

Employee Had Differing Opinions regarding a Change in GAO's Name

Finally, employees had differing opinions regarding the provision to change GAO's name to the Government Accountability Office. Some employees are concerned that the proposed change in GAO's name to more accurately reflect the work that we do will damage GAO's "brand recognition." Most employees who oppose the name change do not see the current name as an impediment to doing our work or to attracting quality employees. Some employees expressed concern that the legacy of high-quality service to the Congress that is embedded in the name "United States General Accounting Office" might be lost by changing the name. Other employees support the name change and cited their own experiences in being recruited or recruiting others and in their interaction with other federal agencies. In their opinion, the title "General Accounting Office" reflects misunderstandings and incorrect assumptions about GAO's role and function by those who are not familiar with our operations and may serve as a deterrent to attracting employees who are otherwise not interested in accounting.

The EAC Appreciates the Comptroller General's Efforts to Address Concerns of GAO Employees about Pay-Related Human Capital II Provisions

We appreciate the Comptroller General's efforts to involve the Employee Advisory Council and to solicit employee input through discussions of the proposal. As a result of employee feedback and feedback from GAO managers and the EAC, the Comptroller General has made a number of revisions and clarifications to the legislative proposal along with commitments to address concerns relating to the annual pay adjustment by issuing formal GAO policy to formally establish his intent to retain employees' earning power in implementing the authorities; by revising the performance management system; and by deferring implementation of pay changes until 2005.

Retention of Earning Power and Locality Pay Parity

Key among the commitments made by the Comptroller General is his assurance to explicitly consider factors such as cost-of-living and locality-

pay differentials among other factors, both items that were not in the preliminary proposal. In addition, the Comptroller General has said that employees who are performing adequately will be assured of some annual increase that maintains spending power. He outlined his assurance in GAO's weekly newsletter for June 30th that successful employees will not witness erosion in earning power and will receive an annual adjustment commensurate with locality-specific costs and salaries. According to the Comptroller General, pay protection commitments that are not included in the statute will be incorporated in the GAO orders required to implement the new authorities. This is consistent with the approach followed when GAO made similar pay protection commitments during the conversion to broad bands in the 1980s. To the extent that these steps are taken, overall employee opinion of the changes should improve because much of the concern has focused on making sure that staff who are performing adequately do not witness economic erosion in their pay.

Planned Revisions to Performance Management

In response to concerns regarding the performance management system and the related variable elements of annual pay increases raised by the EAC, employees, and senior managers, the Comptroller General has told employees that he will provide increased transparency in the area of ratings distributions, for example by releasing summary-level performance appraisal results. In addition, the Comptroller General has stated that he plans to take steps to improve the performance management system that could further reduce any disparities. Specifically, on June 26, the Comptroller General released a "Performance Management System Improvement Proposal for the FY 2003 Performance Cycle" that outlines proposed short-term improvements to the analyst performance management system that applies to the majority of GAO employees. These include additional training for staff and performance managers and a reduction in the number of pay categories from five to four. A number of longer-term improvements to the performance appraisal system requiring validation are also under consideration, including weighting competencies and modifying, adding, or eliminating competencies. For all employees to embrace any additional pay-for-performance efforts, it is vital that the Comptroller General take steps that will provide an increased level of confidence that the appraisal process is capable of accurately identifying high performers and fairly distinguishing between levels of performance.

Deferred Implementation of Pay Provisions

Finally, the Comptroller General has agreed to delay implementation of the pay-for-performance provisions of the proposal until October 1, 2005. This change should provide an opportunity to assess efforts to improve the annual assessment process and lessen any impact of changes in the permanent annual pay increase process for employees approaching retirement. It should also provide an opportunity to implement a number of measures designed to improve confidence in the annual assessment process.

Conclusion

In summary, as GAO employees we are proud of our work assisting the Congress and federal agencies to make government operations more efficient and effective. Although all of us would agree that our agency is not perfect, the EAC believes GAO is making a concerted effort to become a more effective organization. We will continue to work closely with management to improve GAO, particularly in efforts to implement and monitor any additional authorities granted to the Comptroller General. We believe that it is vital that we help to develop and implement innovative approaches to human capital management that will enable GAO to continue to meet the needs of the Congress; further improve the work environment to maximize the potential of our highly skilled, diverse, and dedicated workforce; and serve as a model for the rest of the federal government.

GAO's Response to Post-Hearing Questions for the Record Submitted to David M. Walker, Comptroller General of the United States, By Senator Fitzgerald of the Senate Committee on Governmental Affairs for its Oversight Hearing of September 16, 2003

Questions and Responses Relating to Homeland Security CFO

a) Mr. Walker, as the Comptroller General of the United States, do you believe the Department of Homeland Security should be included under the requirements of the CFO Act?

Response: Yes. As one of the largest and most important federal departments, which, among other things, includes as one of its components, FEMA, which was a CFO Act agency, the Department of Homeland Security should be included under the requirements of the CFO Act. The CFO Act is important because it establishes the following goals: (1) ensuring that Congress and agency decision makers have reliable financial, cost, and performance information both annually and, most important, as needed throughout the year to assist in managing programs and making difficult spending decisions, (2) dramatically improving financial management systems, controls, and operations to eliminate fraud, waste, abuse, and mismanagement and properly safeguard and manage the government's assets, and (3) establishing effective financial organizational structures to provide strong leadership. Achieving these goals is critical for establishing effective financial management.

b) Would you support enactment of legislation to accomplish this purpose?

Response: Yes, I would support enactment of legislation to include the Department of Homeland Security under the requirements of the CFO Act.

c) In light of GAO's listing of the Department of Homeland Security on the "high risk" list, do you believe that the Senate should take prompt action to ensure that the CFO Act applies to the Department, rather than waiting until next year to consider this legislation?

Response: Yes. We added implementation and transformation of the Department of Homeland Security (DHS) on our high risk list because (1) it represents an enormous undertaking that will take time to achieve in an effective and efficient manner, (2) components to be merged into the Department of Homeland Security already face a wide array of existing challenges, and (3) failure to effectively carry out its mission would expose the nation to potentially very serious consequences. The current CFO was subject to Senate confirmation in his prior post as CFO at the Department of Energy and is committed to preparing financial statements and obtaining a financial statement audit for DHS beginning in fiscal year 2003. In May of 2003, the DHS Office of Inspector General issued a

contract for an independent public accounting firm to perform the fiscal year 2003 audit, which will include a review of compliance with the Federal Financial Management Improvement Act, a key provision of the CFO Act. At the House hearing, the current DHS CFO explained that, although he reports to the Under Secretary for Management, he has unfettered access to the Secretary and does not feel any infringement upon his independence or his ability to speak his mind. As such, it appears that the current environment at DHS is operating within the spirit of the CFO Act. However, as discussed in the House hearing, institutionalizing the CFO Act requirements for future administrations is paramount. We therefore believe that the Senate should ensure that DHS is included under the requirements of the CFO Act as soon as practical.

d) During the House hearing last week, an official from the Office of Management and Budget suggested that the requirement for Senate confirmation of CFOs should be eliminated. However, Mr. Paul Light, a senior advisor to the Presidential Appointee Initiative at the Brookings Institution has stated, "The CFO holds one of the most important jobs in a department or agency. The person who occupies it should be subject to the fullest possible review." Mr. Walker, do you support the existing requirement that CFOs should be confirmed by the Senate? In your view, should the CFO of the Department of Homeland Security be confirmed by the Senate?

Response: Yes, The CFO Act requires that CFOs be well qualified, have a proven track record in financial management, and have oversight authority regarding financial management matters. Senate confirmation provides an additional level of scrutiny to ensure that CFO candidates meet all qualifications as defined by the CFO Act. At this time, we believe that Senate confirmation is necessary, but could be revisited if a Senate confirmed Chief Management Officer at the Deputy Secretary or Principal Undersecretary level with a longer-term appointment is established.

Questions and Responses Relating to Pensions

1a) Would you please explain in greater detail why the GAO included the PBGC single-employer insurance program on the high-risk list? Was it due only to the PBGC's deficit or were there other factors GAO considered?

Response: GAO placed PBGC's single-employer program on the high-risk list because of recent financial difficulties and because of other, long-term risks that threaten the program's financial viability. The program has experienced large recent losses that have eroded its financial position from a $9.7 billion surplus in 2000 to an estimated $5.4 billion deficit by April 2003. While short-term economic factors, such as the recent decline in the stock market and interest rates, have contributed to the program's deficit, broader trends also pose serious risks to the program. For example, retired workers make up an increasing percentage of

the program's participant base, and manufacturing, an industry with very little job growth, makes up almost half of the participant base. Further, PBGC estimates that financially weak firms with over $35 billion in unfunded pension benefits are at risk of terminating, indicating that the program's condition may worsen.

1b) What recommendations would you make to improve the financial performance of the PBGC and address this current situation? What developments must occur and what actions should the PBGC take to warrant GAO's removal of the PBGC from the high-risk list?

Response: In our September 4, 2003 testimony before the House Education and the Workforce Committee,[1] we discussed several types of pension reform that should be considered to help improve PBGC's long-term financial viability. These include strengthening plan minimum funding rules and raising full-funding limitations on tax-deductible contributions sponsors make to plans. Also, PBGC's benefit structure may be changed to phase-in guarantees for certain unfunded benefits or to expand restrictions on unfunded benefit increases. PBGC's premium structure could be amended as well to charge higher premiums to sponsors that present more of a risk to the pension system. Further, transparency could be increased by having plans disclose termination liability levels, plan investments, funding status, and PBGC guarantees to plan participants, shareholders, and regulators. Many of these policy options might require Congressional action to amend the Internal Revenue Code or the Employee Retirement and Income Security Act (ERISA) of 1974, rather than administrative action by PBGC or other agencies. We will continue to monitor the condition of the single-employer program and measures taken to strengthen it and reassess the program's placement on the GAO high-risk list.

In your testimony of September 4, 2003 to the House Committee on Education and the Workforce, you stated that there are indications that an improvement in PBGC's plan finances due to economic recovery may not address underlying weaknesses and risks.

2a) Would you please describe the weaknesses and risks you referred to at the hearing?

Response: Weaknesses include recent poor performance in the economy overall and restructuring efforts in certain industries. For many firms, poor economic conditions and increasing global competition can cause revenues to decline, making plan contributions more difficult and raising the likelihood that plan sponsors will go bankrupt. Firms in struggling industries represent significant exposure for PBGC because they face an uncertain economic future and have severely underfunded pension plans. Plan underfunding has been exacerbated by

[1] U.S. General Accounting Office, *Pension Benefit Guaranty Corporation: Single Employer Pension Insurance Program Faces Significant Long-Term Risks*, GAO 03-873t, (Washington D.C.: September 4, 2003).

low interest rates, which have raised plan liabilities, and falling stock prices, which have lowered plan assets. PBGC faces the risk that these economic conditions might persist or worsen, leading to further terminations of underfunded plans, and that PBGC may not receive sufficient revenue from premiums or investments to cover existing or future losses.

2b) What options are available to address these weaknesses and risks?

Response: While some of the risks to PBGC's single-employer program concern economic conditions that are outside the control of the agency or the Congress, there are options to strengthen several aspects of the program to better insure PBGC against cyclical economic change and to better safeguard the pension benefits of participants. As we describe in our answer to 1b) above, these include strengthening funding rules, restructuring program guarantees and premiums, and improving information transparency in the system. We will discuss these reforms further in our forthcoming report.

2c) In your view, what is the most appropriate response to the current situation that would maintain the long-term financial viability of the PBGC?

Response: We believe that passing comprehensive reforms that focus on PBGC's long-term viability, rather than concentrating only on short-term relief, would be the appropriate response to the defined-benefit pension system's current condition. Our forthcoming report will lay out options for strengthening funding rules, restructuring program guarantees and premiums, and improving transparency, each of which may play an important role in shoring up the long-term health of the defined-benefit pension system.

Yesterday, the Financial Accounting Standards Board (FASB) issued an exposure draft, *Employers' Disclosures about Pensions and other Post-Retirement Benefits.* This proposal requires companies to provide more details about their plan assets, benefit obligations, cash flows, benefit cost, and other relevant information. Additionally, these annual disclosures will be required to be reported on a quarterly basis.

3a) In your view, what impact will the disclosure of termination liability have on pension plan sponsors?

Response: The September 12, 2003, FASB exposure draft requires plan sponsors to disclose their plans' projected and accumulated benefit obligations, but does not require them to disclose their plan termination liabilities. According to the draft, FASB decided not to require disclosure of plan termination liabilities because they are relevant only if the plans will be terminated or partially terminated. Therefore, termination liability is not consistent with the concept of a going concern. Also according to the draft, because plan actuaries do not

routinely calculate termination liability, its disclosure would entail additional costs.

3b) How do you believe shareholders and companies will react to these additional disclosure requirements?

Response: The draft FASB pension disclosure standard contains a number of disclosure requirements and we have not performed the work necessary to comment on their potential impact. Our work has focused on the legal and regulatory funding and disclosure requirements contained in the Internal Revenue Code and the Employee Retirement and Income Security Act of 1974, as amended. However, according to the exposure draft, the proposed FASB standards are designed to provide the users of financial statements with information that would help them evaluate and assess a number of areas related to plan governance, including: management's stewardship over plan assets, the market risk associated with plan investment strategies, and the degree investment cash flows are aligned with benefit payments.

3c) In your view, will the requirement of additional disclosures on the plan status lead to better funding of pension plans? Why or why not?

Response: In general, we believe that improved transparency with respect to plan funding and investment practices may lead to improved plan funding. This could occur, for example, if companies perceived that plan funding is a factor considered by analysts and investors in making investment decisions. However, it is not clear to what extent the proposed FASB disclosure requirements will affect plan funding, and we have not performed the work necessary to comment on their potential impact.