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TRANSFORMING THE DEPARTMENT OF HOMELAND SECURITY THROUGH MISSION-BASED BUDGETING

HEARING

BEFORE THE

SUBCOMMITTEE ON MANAGEMENT, INTEGRATION, AND OVERSIGHT

OF THE

COMMITTEE ON HOMELAND SECURITY HOUSE OF REPRESENTATIVES

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TRANSFORMING THE DEPARTMENT OF HOMELAND SECURITY THROUGH MISSION-BASED BUGETING

Wednesday, June 29, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON HOMELAND SECURITY,
SUBCOMMITTEE ON MANAGEMENT,
INTEGRATION, AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to call, at 3 p.m., in room 210, Cannon House Office Building, Hon. Mike Rogers [chairman of the subcommittee] presiding.

Present: Representatives Rogers, Linder, Dent, Meek, and Christensen.

Mr. ROGERS. [Presiding.] This meeting of the Subcommittee on Management, Integration, and Oversight will come to order.

I would first like to thank the Comptroller General of the United States as well as our other distinguished witnesses for taking time out of their busy schedules to join us here today.

The hearing will focus on the use of mission-based budgeting as a way to help transform and strengthen the Department of Homeland Security. Under the Homeland Security Act of 2002, several core mission areas were established for the Department's management effort.

These missions include preventing terrorist attacks, reducing the vulnerability of the United States to terrorism, and minimizing the damage from terrorist attacks and assisting in recovery efforts.

As an agency that began life as a hodgepodge of 22 separate components, DHS would benefit greatly from mission-based budgeting. This tool would help focus the Department's scarce resources on activities in these mission areas.

It would also help transform the agency into an integrated organization focused on its core mission of homeland security. And finally, it would help ensure one of the Federal Government's largest and most important agencies is spending limited tax dollars wisely.

We are pleased to have with us today witnesses to discuss the Department's current spending methods and priorities. Our first panel will include Hon. David Walker, Comptroller General of the United States.

Mr. Walker has over 20 years of experience working with the budget process, and I hope he will shed some light on the best ways of prioritizing spending. He also plans to discuss the Depart-

ment's resource management and comment on ways to improve overall accountability.

Our second panel includes several experts on Federal budgeting from the private and non-profit sectors. These experts will bring to the table lessons learned by other Federal departments that could be applied to DHS.

And, of course, we will look forward to hearing from this panel how the Department can transform and integrate itself through mission-based budgeting. Once again, I would like to thank the witnesses for joining us today, and I look forward to their testimony on an important topic.

And I now yield to my friend and colleague from Florida, the ranking member, Mr. Meek.

Mr. MEEK. Thank you, Mr. Chairman. I am excited about being here once again on our subcommittee that we have here dealing with the department that I think is one of the most vital agencies and departments of the Federal Government.

And it goes toward the homeland. It also goes toward the—of making sure that we protect the homeland for future generations.

Mr. Chairman, I must add that every time we have a subcommittee hearing I think it is important that the Department of Homeland Security is present, and I know that they are going through their 90-day review, and the second phase of the review, and I understand Secretary Chertoff is going to be making some announcements pretty soon about his review.

But I think it is important that we continue to do the things that we are doing, Mr. Chairman, getting the facts and lining it up so when the Department of Homeland Security is ready to start answering some of the tough questions before this committee—not in the way of saying they are not doing their job, but just saying that they are about finding answers to some of the problems that we are actually unveiling, not only within other governmental agencies but also as it relates to the private sector that has come forth and shared new ideas and concerns.

And I know that you are in concert in making sure that we make this department as tight as possible, especially when we start talking about the taxpayers' money.

I also have to point out the fact that we have some good people over at the Department of Homeland Security. We know that it has its problems—22 legacy agencies that had their issues as it relates to management from the forefront and from the beginning.

But I think, Mr. Comptroller, I am so glad to have you here today because, as you are aware, the GAO has designated DHS as a high-risk agency, an agency that—noting that DHS faces a number of management challenges to improve its ability to be able to carry out its duty as it relates to homeland security agency.

Amongst those challenges are the need to provide a focus for management efforts and the need to improve strategic planning. The GAO also went on to note that DHS's failure to effectively address its management challenges and program risks could have serious consequences for our nation's security. And that is serious business, when we start talking about protecting the homeland.

Also, as it relates to our second panel, I, too, join in with the chairman and thank you for taking time out of your schedule to

come and share best practices that have already been effective in other Federal agencies.

We have a lot to do and a short time to do it. And your testimony today is going to be very, very helpful to us, especially after Secretary Chertoff completes his second phase of his review, and start coming up with a plan of action so that we can legislate in a way that will protect not only the homeland but also protect it for future generations to come.

Mr. Chairman, I look forward to hearing fruitful and thoughtful testimony. Thank you for having this hearing.

Mr. ROGERS. I thank the gentleman. I would like to remind our witness that your entire statement will be put into the record, so if you could limit your oral statement to 5 minutes that would give us more time for question and answer interaction.

I call the first panel and recognize Hon. David Walker, Comptroller General of the United States, for your statement.

STATEMENT OF THE HONORABLE DAVID WALKER

Mr. WALKER. Thank you, Mr. Chairman, Mr. Meek. It is a pleasure to be before this subcommittee to talk about the Department of Homeland Security and how it can use performance budgeting and risk management principles in order to maximize program performance in an environment of increasing fiscal constraints.

If I can, Mr. Chairman, let me offer a proposed definition for mission-based budgeting. I think it is important to not just focus on what we call it but what we are trying to achieve. I would offer a mission-focused, results-oriented and outcome-based budgeting approach that is designed to maximize value and mitigate risk within current and expected resource levels.

I think all of those dimensions are important. In that regard, as you and Mr. Meek know, our nation currently faces serious long-range structural deficits that ultimately we are going to have to address.

While we have been adding additional resources to homeland security for understandable reasons, it is unrealistic to expect that we are going to be able to continue to add resources at the rate of increase that we have in recent years.

Therefore, it is very, very important that we properly allocate those resources to achieve the most positive results and mitigate the most risk, recognizing that there is no such thing as zero risk in today's world, and yet at the same point in time there are finite limits as to how much resources that we have to commit.

We have done quite a bit of work dealing with the Department of Homeland Security in a variety of areas. Mr. Meek is correct in saying that we put the Department of Homeland Security's transformation effort on our high-risk list. However, it is not the entire department.

It is the effort to combine 22 different agencies, many of which did not have homeland security as their central mission before September 11, 2001. This involves making sure that they are operating as a cohesive and effective whole, consistent with the principle that I talked about before.

Our view is that while the Department of Homeland Security has made some progress with regard to strategic planning, and while

it is starting to use risk-based concepts and performance-based approaches to a greater extent than it did prior to the creation of the Department, more needs to be done, especially in light of the environment that we are in at the present point in time.

We believe that, as our latest high-risk series notes, additional emphasis has to be taken to employ risk management principles in determining how resources will be allocated and to try to achieve more specifically defined results or outcomes consistent with the missions that are laid out in the statute.

There are some agencies that are using risk management concepts to a greater extent—for example, the Coast Guard, the Customs and Border Protection Service, TSA, as well as the Customs Enforcement Office of Investigations. They have taken some initial steps to try to use some of these concepts, but we think much more needs to be done.

Furthermore, I think it is fair to say, Mr. Chairman, that Congress has a critically important role to play, not only with regard to the oversight process—and I commend this committee and subcommittee for discharging its related responsibilities—but also with regard to the authorizing and appropriations functions.

As my statement notes approximately 40 percent of the $5.1 billion in statewide homeland security grant funds that were awarded for fiscal years 2002 through 2005 were shared equally among the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and certain U.S. territories.

The remaining amount was distributed according to state populations. Therefore, by definition, during this period of time we were not employing a risk-based approach to resource allocation.

I think it is very important to look for not only ways that the Department of Homeland Security can take a more strategic, performance-oriented and risk-based approach to discharging its responsibilities, consistent with the statutory requirements, but I think that Congress also has to think about whether and to what extent it should be employing different approaches in how those funds are allocated in order to achieve the best results, and mitigate the most risk with available resources. After all, the crunch is coming from a budget standpoint.

Thank you, Mr. Chairman.

[The statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony

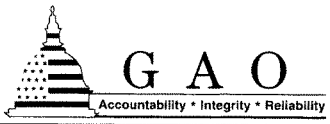
Before the Subcommittee on Management, Integration, and Oversight, Committee on Homeland Security, House of Representatives

For Release on Delivery
Expected at 3:00 p.m. EST
Wednesday, June 29, 2005

STRATEGIC BUDGETING

Risk Management Principles Can Help DHS Allocate Resources To Highest Priorities

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



GAO-05-824T

June 29, 2005

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Highlights

Highlights of GAO-05-824T, a testimony before the Subcommittee on Management, Integration, and Oversight, House Committee on Homeland Security

STRATEGIC BUDGETING

Risk Management Principles Can Help DHS Allocate Resources to Highest Priorities

Why GAO Did This Study

Previous GAO work has outlined the nation's growing fiscal imbalance and called for a fundamental reexamination of the base of the federal government. The significant resources directed to the Department of Homeland Security (DHS) indicate that a robust homeland security program is viewed as critical to the protection and prosperity of Americans. This testimony addresses the need for a fundamental reexamination of the base of government, the role that performance budgeting tools can play in helping inform agency activities, and DHS's use of performance budgeting and risk management concepts. It also includes examples from GAO work on homeland security issues that highlight DHS attempts to define an acceptable and achievable level of risk.

www.gao.gov/cgi-bin/getrpt?GAO-05-824T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Norman Rabkin at (202) 512-8777 or rabkinn@gao.gov.

What GAO Found

The nation faces a long-term fiscal imbalance, and the role of the federal government is being reshaped by many forces, such as evolving defense and homeland security policies and new organizational and institutional arrangements for carrying out public activities. Given these circumstances, there is a critical need for the federal government to reexamine the base of its programs, policies, functions, and activities. A periodic reexamination of major federal spending and tax policies offers the prospect for the American government to eliminate outmoded operations and better align its operations with the demands of a changing world. The management and performance reforms enacted by Congress in the past 15 years have provided new tools to support this kind of reexamination. However, these new tools must be implemented by agencies and used by the Congress in its decision making in order to be effective.

Performance budgeting can help policymakers address important questions about whether and how programs contribute to their stated goals. It can help enhance the government's capacity to assess competing claims for federal dollars by arming decision makers with better information on the results of individual programs, as well as on various federal policies and programs addressing common goals. Performance budgeting, however, cannot provide answers to every resource question—particularly where allocation is a function of competing values and interests that depend on factors other than program performance.

Congress and the President have agreed on DHS's mission, and DHS has established strategic objectives for achieving its mission. However, DHS's strategic plan does not detail the associated resources necessary to carry out its mission and achieve its strategic goals. DHS has called for using risk-based approaches to prioritize its resource investments regarding critical infrastructure, and for developing plans and allocating resources in a way that balance security and freedom. It must carefully weigh the benefit of homeland security endeavors and allocate resources where the benefit of reducing risk is worth the additional cost. A comprehensive risk management framework—which includes an assessment of risk through threat, vulnerability, and criticality assessments—should be applied to guide these decisions. DHS has not completed a comprehensive national threat and risk assessment. However, some components of DHS have taken initial steps to apply elements of risk management to its operations and decision making. For example, the Coast Guard has taken actions to assess and mitigate vulnerabilities in order to enhance maritime security, and the Transportation Security Administration has conducted vulnerability assessments at selected general aviation airports. Congress and agencies have a shared responsibility for ensuring that performance budgeting and risk management approaches are both useful and used.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss how the Department of Homeland Security (DHS) can use performance budgeting and risk management principles to maximize program performance in an environment of increasing fiscal constraints.[1]

Today I will touch on the need for a fundamental reexamination of the base of government, given our current, imprudent, and unsustainable fiscal path. Then I will turn to and discuss the important role that performance budgeting and risk management principles can play in setting priorities for the department's homeland security activities. Finally, I will draw upon our work in DHS on homeland security issues to highlight examples of where the department has attempted to define an acceptable and achievable level of risk.

The significant resources directed to homeland security and to DHS in particular indicate that a robust homeland security program is viewed as critical to the nation's protection and prosperity. It is clear that before the events of September 11, 2001, it was difficult to anticipate the array of new and challenging demands on federal programs, and to envision the claims on future budgets for homeland security concerns. Given current trends and challenges facing the nation—including the long-term fiscal imbalance–it is critical that the federal government reexamine the base of federal spending and tax programs, at the same time holding all programs accountable for spending wisely and achieving real results.

By using performance budgeting tools and the priorities outlined in the National Strategy for Homeland Security, the department will be in a better position to respond to changing circumstances. The Government Performance and Results Act of 1993 (GPRA)[2] and various assessment efforts, such as the Administration's Program Assessment Rating Tool (PART), can provide a foundation for a baseline review of existing policies, programs, functions, and activities in the department. In addition, they have the potential to help decision makers assess competing claims

[1]In this testimony, the term *performance budgeting* refers to any linkage between budgeting and expected or actual evidence-based performance and results-based information.

[2]Pub. L. No. 103-62, 107 Stat. 285 (1993).

by providing better information on the results of individual programs, and on policies and programs designed to address common goals.

Just as we know that the threat of terrorism will persist well into the 21st century, we also know it is unrealistic to expect future funding increases for homeland security efforts to occur at the same rate as in the recent past. Given the reality that no amount of money can make us completely safe from a terrorist attack, the National Strategy for Homeland Security provides guidance for considering how to make the best use of available funds to mitigate the most serious risks, while also assuring that the reduction in risk is worth the amount of additional cost. Since we cannot afford to protect everything against all threats, GAO has advocated that DHS make clear the link between the choices made about protection priorities and the allocation of available resources. Proposals to reduce risk must be evaluated on numerous dimensions – their dollar cost and their impact on other goals and values. Decisions on the level of resources, the allocation of those resources, and how to balance security against other societal goals and values also need to be considered.

Our recent work at DHS suggests that developing and using a risk-based approach for making resource investment decisions will not be easy. Decision makers may not have complete or current information on threats, vulnerabilities, consequences, alternatives, and costs. Nevertheless, we see benefits in continuing to develop the approach, and are prepared to work with the department and others in the Administration to make it happen.

This testimony is based on our wide-ranging work on GPRA, federal budget and performance integration, and 21st century challenges; as well as our work on homeland security and risk management. We conducted our work in accordance with generally accepted government auditing standards.

The Long-Term Fiscal Challenge Drives the Fiscal Future and the Need for Reexamination

Known demographic trends, rising health care costs, and lower federal revenues as a percentage of the economy are the major drivers of the nation's large and growing structural deficits. The nation cannot ignore this fiscal large and growing fiscal imbalance—it is not a matter of whether the nation deals with the fiscal gap, but how and when. GAO's long-term budget simulations illustrate the magnitude of this fiscal challenge. Figures 1 and 2 show these simulations under two different sets of assumptions. Figure 1 uses the Congressional Budget Office's (CBO) January 2005 baseline through 2015. As required by law, that baseline assumes no changes in current law, that discretionary spending grows

with inflation through 2015, and that all tax cuts currently scheduled to expire actually do expire. In Figure 2, two assumptions about that first 10 years are changed: (1) discretionary spending grows with the economy rather than with inflation, and (2) all tax cuts currently scheduled to expire are made permanent. In both simulations discretionary spending is assumed to grow with the economy after 2015 and revenue is held constant as a share of gross domestic product (GDP) at the 2015 level. Also in both simulations, long-term Social Security and Medicare spending are based on the 2005 trustees' intermediate projections, and we assume that benefits continue to be paid in full after the trust funds are exhausted. Long-term Medicaid spending is based on CBO's December 2003 long-term projections under their midrange assumptions.

Figure 1

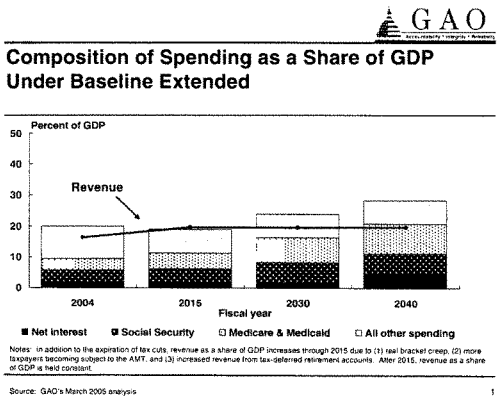
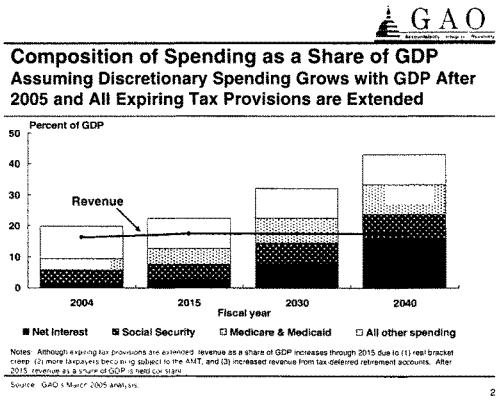


Figure 2



As these simulations illustrate, absent policy changes on the spending and/or revenue side of the budget, the growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Indeed, when we assume that recent tax reductions are made permanent and discretionary spending keeps pace with the economy, our long-term simulations suggest that by 2040 federal revenues may be adequate to pay little more than interest on the federal debt. Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although federal tax policies will likely be part of any debate about our fiscal future, making no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of federal taxes in the future—and that seems both unrealistic and inappropriate.

Demographic shifts and rising health care costs are not the only forces at work that require the federal government to rethink its entire approach to program performance, policy design, public priorities, and management practices. Other important forces are working to reshape American

society, our place in the world, and the role of the federal government. These include evolving defense and homeland security policies, increasing global interdependence, and advances in science and technology. In addition, the federal government increasingly relies on new networks and partnerships to develop public policy and achieve positive results, often including multiple federal agencies, domestic and international non- or quasi-government organizations, for-profit and not-for-profit contractors, and state and local governments.

If government is effectively to address these trends, it cannot treat all of its existing programs, policies, and activities as givens. Outmoded commitments and operations constitute an encumbrance on the future that can and does erode the capacity of the nation to better align its government with the needs and demands of a changing world and society. Accordingly, reexamining the base of all major existing federal spending and tax programs, policies, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in the process of assuring fiscal responsibility and facilitating national renewal.[3]

A periodic reexamination offers the prospect of addressing emerging needs by weeding out programs and policies that are redundant, outdated, or ineffective. Those programs and policies that remain relevant could be updated and modernized by improving their targeting and efficiency through such actions as redesigning allocation and cost-sharing provisions, consolidating facilities and programs, and streamlining and reengineering operations and processes. The tax policies and programs financing the federal budget can also be reviewed with an eye toward both the overall level of revenues that should be raised as well as the mix of taxes that are used.

Reexamining the base offers compelling opportunities to both redress our current and projected fiscal imbalance while better positioning government to meet the new challenges and opportunities of the 21st century. In this regard, the management and performance reforms enacted by Congress in the past 15 years have provided new tools to gain insight into the financial, program, and management performance of federal

[3]For more information on reexamination of federal programs, see GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

agencies and activities. The information being produced as a result can provide a strong basis to support the much needed and long overdue review, reassessment, and reprioritization process.

Performance Budgeting Holds Promise for Reassessment and Priority Setting

With GPRA as their centerpiece, these reforms also laid the foundation for performance budgeting by establishing infrastructures in the agencies to improve the supply of information on planning, performance and costs. GPRA is designed to inform congressional and executive decision making by providing objective performance and cost information on the effectiveness and efficiency of federal programs and spending. A key purpose of GPRA is to create closer and clearer links between the process of allocating scarce resources and the expected results to be achieved with those resources.[4] Importantly, GPRA requires both a connection to the structures used in congressional budget presentations and consultation between the executive and legislative branches on agency strategic plans.[5] Because these requirements are grounded in statute, Congress has an oversight stake in GPRA's success. Over a decade after its enactment, GPRA has succeeded in expanding the supply of performance information and institutionalizing a culture of performance as well as providing a solid foundation for more recent budget and performance initiatives.[6]

Building on GPRA, the current administration has made the integration of performance and budget information one of five top governmentwide management priorities. Under the President's Management Agenda (PMA), agencies are expected to implement integrated financial and performance management systems that routinely produce information that is (1) timely—to measure and affect performance, (2) useful—to make more informed operational and investing decisions, and (3) reliable—to ensure consistent and comparable trend analysis over time and to facilitate better performance measurement and decision making. It is critical that budgetary investments in this area be viewed as part of a broader initiative to improve the accountability and management capacity of federal

[4]See Pub. L. No. 103-62, Sec. 2, 107 Stat. at 285 (1993).

[5]5 U.S.C. Sec. 306 and 31 U.S.C. Secs. 1115-1116.

[6]GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: March 10, 2004).

agencies and programs. Over the longer term, failing to discover and correct performance problems will be much more costly.

The Program Assessment and Rating Tool (PART) is a questionnaire that is designed to provide a systematic approach to assessing the strengths and weaknesses of a program. PART asks, for example, whether a program's long-term goals are specific, ambitious, and focused on outcomes, and whether annual goals demonstrate progress toward achieving the long-term goals. It is intended to be evidence-based, drawing on a wide array of information, including authorizing legislation, GPRA strategic plans and performance plans and reports, financial statements, inspector general and GAO reports, and independent program evaluations.[7] Importantly, PART can be used to identify gaps in information. The fact that a program's PART score suffers from the absence of information provides added impetus for agencies to enhance their evaluation and information-gathering capabilities.[8]

PART's program-by-program approach fits with OMB's agency-by-agency budget reviews, but it is not well suited to addressing crosscutting issues or to looking at broad program areas in which several programs address a common goal. It is often critical to understand how each program fits with a broader portfolio of tools and strategies—such as regulations, direct loans, and tax expenditures—to accomplish federal missions and performance goals.

The credibility of performance information, including related cost data, and the ability of federal agencies to produce credible evaluations of their programs' effectiveness are key to the success of performance budgeting. As I have testified before, this type of information is critical for effective

[7]The Office of Management and Budget (OMB) has used PART to assess the performance of 32 programs in DHS reported in the President's budgets for fiscal years 2004-2006. The assessment consisted of programs operated by the Coast Guard, Transportation and Security Administration, Immigration and Customs Enforcement, Customs and Border Protection, Office for Domestic Preparedness, Science and Technology, and the Federal Emergency Management Agency, among others. On the basis of answers to 25 questions relating to a program's purpose, planning, management, results and accountability, OMB concluded performance was effective for 4 programs, moderately effective for 6 programs, and adequate for 6 programs. OMB found that results were not demonstrated for the remaining 16 programs.

[8]For a detailed examination of PART, see GAO, *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, GAO-04-174 (Washington, D.C.: January 30, 2004).

performance measurement to support decisions in areas ranging from program efficiency and effectiveness to sourcing and contract management.[9] To be effective, this information must be not only timely and reliable, but also both useful and used.

Federal performance and accountability reforms have given much attention to increasing the supply of performance information over the past several decades. However, improving the supply of performance information is in and of itself insufficient to achieve and sustain results-based performance budgeting and management approaches. Rather, it needs to be accompanied by a demand for and use of that information by congressional decision makers and executive managers alike. The history of performance budgeting suggests that congressional support and use of this information is critical to sustain reforms over time. Congress has a number of opportunities to provide its perspective on performance issues and performance goals, such as when it establishes or reauthorizes a new program, during the annual appropriations process, and in its oversight of federal policies and programs.

Performance budgeting can do a great deal to help policy makers address important questions, such as whether programs are contributing to their stated goals, are well-coordinated with related initiatives at the federal level or elsewhere, and are targeted to the intended beneficiaries. However, it should not be expected to provide the answers to all resource allocation questions in some automatic or formula-driven process. Performance problems may well prompt budget cuts, program consolidations, or eliminations. Alternatively, as in the case of homeland security, programs that existed before September 11 may now be deemed to be of sufficiently high priority to the nation that they inspire enhanced investments and reforms in program design and management. Conversely, even a program that is found to be exceeding its performance expectations can be a candidate for budgetary cuts if it is a lower priority than other competing claims in the process. The determination of priorities is a function of competing values and interests that may be informed by performance information but also reflects other factors, such as the overall budget situation, the state of the economy, security needs, equity considerations, unmet societal needs, and the appropriate role of the federal government in addressing any such needs.

[9]GAO, *Management Reform: Assessing the President's Management Agenda*, GAO-05-574T (Washington, D.C.: April 21, 2005).

Planning and Risk Management Key to Overall Approach for Allocating Homeland Security Resources

As reflected in the Homeland Security Act of 2002[10] (enacted in November 2002) and the National Strategy for Homeland Security (issued in July 2002), both Congress and the President have agreed that DHS should be focused on preventing terrorist attacks, reducing the country's vulnerability to terrorism, and minimizing the damage and recovering from any attacks that may occur. The President's national strategy also notes that the United States "must carefully weigh the benefit of each homeland security endeavor and only allocate resources where the benefit of reducing risk is worth the amount of additional cost." It recognizes that the need for homeland security is not tied solely to the current terrorist threat but to enduring vulnerability from a range of potential threats that could include weapons of mass destruction and bioterrorism.

Using the national strategy and the act as foundations, the department issued its first departmentwide strategic plan in February 2004. The strategic plan sets out the following strategic objectives for achieving DHS's mission:

- *Awareness*—Identify and understand threats, assess vulnerabilities, determine potential impacts, and disseminate timely information to our homeland security partners and the American public.
- *Prevention*—Detect, deter, and mitigate threats to our homeland.
- *Protection*—Safeguard our people and their freedoms, and critical infrastructure, property and the economy of our nation from acts of terrorism, natural disasters, or other emergencies.
- *Response*—Lead, manage, and coordinate the national response to acts of terrorism, natural disasters, or other emergencies.
- *Recovery*—Lead national, state, local, and private sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters, or other emergencies.
- *Service*—Serve the public effectively by facilitating lawful trade, travel and immigration.
- *Organizational excellence*—Value our most important resource, our people. Create a culture that promotes a common identity, innovation,

[10]Pub. L. No. 107-296, 116 Stat. 2135 (2002).

mutual respect, accountability and teamwork to achieve efficiencies, effectiveness, and operational synergies.

In a report earlier this year to the House Government Reform Subcommittee on National Security, Emerging Threats and International Relations, we pointed out that while DHS has made considerable progress in its planning efforts, its strategic plan did not address the relationship between annual and long-term goals.[11] This linkage is critical for determining whether DHS has a clear sense of how it will assess progress toward achieving the intended results for its long-term goals. In addition, the plan does not include specific budgetary, human capital, or other resources needed to achieve the long-term goals.

Although the strategic plan did not detail the resources DHS believes it needs to carry out its mission and achieve its strategic goals, DHS has presented some of this information as part of its annual budget materials. Congress has required OMB to present a crosscutting perspective on homeland security spending as part of the President's Budget. The discussion of homeland security spending by strategic goal across all federal agencies is an example of the impact that congressional oversight can have on budget presentations and analysis. As we have previously noted, the structure of appropriations accounts and congressional justifications also reflects choices about how resource allocation choices are framed and the types of controls and incentives considered most important. Given Congress's role in setting national priorities and allocating resources to achieve them, Congressional comfort with the structure of and analyses in budget justifications is critical. The department should work with its congressional committees to assure that the information it provides is useful to Congress in achieving its legislative, oversight, appropriations, and control objectives.

Risk Management

The national strategy and DHS's strategic plan called for the use of risk-based decisions to prioritize DHS's resource investments regarding homeland security related programs. In addition, Homeland Security Presidential Directive/HSPD-7, issued in December 2003, charged DHS with integrating the use of risk management into homeland security

[11]GAO, *Results-Oriented Government: Improvements to DHS' Planning Process Would Enhance Usefulness and Accountability*, GAO-05-300 (Washington, D.C.: March 31, 2005).

activities related to the protection of critical infrastructure. The directive called on the department to develop policies, guidelines, criteria, and metrics for this effort. The new DHS Secretary testified on June 9, 2005, to the need for managing risk at the homeland security level by developing plans and allocating resources in a way that balance security and freedom. He noted the importance of assessing the full spectrum of threats and vulnerabilities, conducting risk management, and setting realistic priorities in guiding decisions about how to best organize to prevent, respond to, and recover from an attack.

Armed with better planning and performance information, the department needs to develop a more formal and disciplined approach to risk management. Answering questions such as "What is an acceptable level of risk to guide homeland security strategies and investments?" and "What criteria should be used to target federal funding for homeland security to maximize results and mitigate risk within available resource levels?" will not be easy. Yet these kinds of questions may also provide a window of opportunity to rethink approaches to long-standing problems and concerns.

A risk management framework for making homeland security and counterterrorism investment decisions consists of a number of components. Assessing risk is a critical component of a risk management approach, and it should be reflective of current and future likely threats, which should be informed but not driven by past actions. Assessing risk involves three key elements—threats, vulnerabilities, and criticality (or consequences)—that provide input into the decision-making process. A threat assessment identifies and evaluates potential threats on the basis of factors such as capabilities, intentions, and past activities. Threats might be present at the global, national, or local level, and their sources include terrorists and criminal enterprises. Threat information emanates from "open" sources and intelligence (both strategic and tactical). However, we will never know if we have identified every threat or event and may not have complete information about the threats we have identified. Consequently, two other elements of the approach, vulnerability and criticality assessments, are essential to better prepare against threats. A vulnerability assessment identifies weaknesses that may be exploited by identified threats and suggests options to address those weaknesses. A criticality assessment evaluates and prioritizes assets and functions in terms of specific criteria, such as their importance to public safety and the economy, as a basis for identifying which structures or processes are relatively more important to protect from attack. Information from these

three assessments can lead to a risk characterization, such as high, medium, or low, and provides input for prioritizing security initiatives.[12]

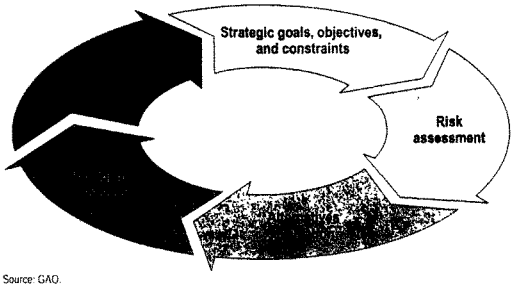
For example, an airport that is determined to be a critical asset, vulnerable to attack, and a likely target would be at high risk and, therefore, would be a higher priority for funding than an airport that is less vulnerable to an attack. In this vein, aviation security measures shown to reduce the risk to the most critical assets would provide the greatest protection for the cost.

Figure 3 depicts a risk management cycle representing a series of analytical and managerial steps, basically sequential, that can be used to assess risk, assess alternatives for reducing risks, choose among those alternatives, implement the alternatives, monitor their implementation, and continually use new information to adjust and revise the assessments and actions, as needed. Adoption of a risk management framework such as this can aid in assessing risk by determining which vulnerabilities should be addressed in what ways within available resources.[13]

[12]GAO, *Transportation Security: Systematic Planning Needed to Optimize Resources*, GAO-05-357T (Washington, D.C.: February 15, 2005).

[13]GAO, *Protection of Chemical and Water Infrastructure: Federal Requirements, Actions of Sected Facilities, and Remaining Challenges*, GAO-05-327 (Washington, D.C.: March 28, 2005).

Figure 3: Risk Management Framework



Source: GAO.

In addition to being dynamic, the approach may be applied at various organizational levels, from multiagency or sectoral down to individual investments or projects. Some adaptation of the framework may be expected—for instance, risk management choices available to site managers may entail departmental or statutory constraints.

In our latest high-risk series, released in January 2005, we noted that an area of increasing concern involves the need for the completion of comprehensive national threat and risk assessments in a variety of areas, including homeland security.[14] As GAO reported in its review of DHS's first strategic plan, stakeholder involvement was limited. Stakeholder involvement in the planning process is important to ensure that DHS's efforts and resources are aligned with other federal and nonfederal partners with shared responsibilities for homeland security and that they are targeted at the highest priorities. At the same time, this threat/risk assessment concept can be applied to a broad range of existing federal government programs, functions, and activities.

A viable risk management approach would also affect outcomes beyond the federal sector. The choice and design of policy tools, such as grants, regulations, and tax incentives, can enhance the capacity of all levels of government to target areas of highest risk and greatest need, promote

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

shared responsibilities by all parties, and track and assess progress toward achieving national preparedness goals. For example, in order to promote a stronger federal, state, local, and regional partnership to improve homeland security, Congress needs to determine how to concentrate federal grant funds in the places with the highest risks. Given the significant needs and limited federal resources, it will be important to target areas of greatest need. Congressional proposals to alter the formula for allocating homeland security funds to states reflect attention to this issue. We have noted that the formula for federal grant distribution should be based on several considerations, including relative threats and vulnerabilities faced by states and communities as well as the state or local government's capacity to respond to a disaster.[15]

Some Elements of Risk Management Being Used at DHS

Several DHS component agencies have taken some initial steps toward risk management. For example, agencies such as the Coast Guard and Customs and Border Protection (CBP) have taken actions to try to mitigate vulnerabilities and enhance maritime security. Security plans for seaports, facilities, and vessels have been developed based on assessments that identify their vulnerabilities. In addition, the Coast Guard is using a Port Security Risk Assessment Tool, which is designed to prioritize risk according to a combination of possible threat, consequence, and vulnerability. Under this approach, seaport infrastructure that is determined to be both a critical asset and a likely and vulnerable target would be a high priority for security enhancements or funding. By comparison, infrastructure that is vulnerable to attack but not as critical or infrastructure that is very critical but already well protected would be lower in priority. We are currently conducting a detailed review of the use of risk management for maritime security.

In the transportation area, the Transportation Security Administration (TSA) has conducted limited vulnerability assessments at selected general aviation airports based on specific security concerns or requests by airport officials. Agency officials told us that conducting assessments was costly and, therefore, impractical to do for the 19,000 general aviation airports nationwide, or even the approximately 4,800 public-use general aviation airports. TSA intended to implement a risk management approach to better assess threats and vulnerabilities of general aviation aircraft and

[15]GAO, *Homeland Security: Reforming Federal Grants to Better Meet Outstanding Needs*, GAO-03-1146T (Washington, D.C.: September 3, 2003).

airports and, as part of this approach, was developing an online vulnerability self-assessment tool to be completed by individual airport managers. However, we noted limitations to the use of the self-assessment tool, and TSA had not developed a plan with specific milestones to implement the assessment, thereby making it difficult to monitor the progress of its efforts. Also, TSA had not conducted an overall systematic assessment of threats to, or vulnerabilities of, general aviation to determine how to better prepare against terrorist threats.

Immigration and Customs Enforcement's Office of Investigations (OI) has taken some initial steps to base future budget requests on threat assessments. To develop its budget request and workforce plans for fiscal year 2007 and beyond, OI field offices conducted baseline threat assessments on a regional basis using scenarios such as the presence of a business that transports biological materials and may employ terrorists. Related performance measures have been developed, but are not yet in use.

CBP had taken some steps to address the risks posed by terrorist smuggling of weapons in oceangoing cargo containers. Although CBP's strategy incorporated some elements of risk management, we reported that CBP had not performed a comprehensive set of threat, criticality, vulnerability, and risk assessments that experts said are vital for determining levels of risk for each container.[16]

With respect to the allocation of homeland security funds to states, approximately 40 percent of the $5.1 billion in statewide grant funds awarded in fiscal years 2002 through 2005 were shared equally among the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and U.S. territories. The remaining amount was distributed according to state population. Therefore, this formula for allocating money is not risk-based. Several congressional proposals have been advanced to alter the statewide funding formula to base it more directly on risk considerations. This seems to be both appropriate and necessary given current and projected deficits. One proposal would largely maintain the portion of funds shared equally by the states but would base the distribution of the remaining funds on a risk-based formula similar to the one currently used for urban area grants. Another proposal (from this committee) would reduce the minimum

[16]GAO, *Homeland Security: Summary of Challenges Faced in Targeting Ocean Going Cargo Containers for Inspection*, GAO-04-557T (Washington, D.C.: March 31, 2004)

amount of funding shared equally by states to approximately 14 percent of total funding and establish a board to allocate the remaining funds through an evaluation of threat, vulnerability, and the potential consequences of a terrorist attack.

Concluding observations

As the nation faces a long-term fiscal imbalance, and the role of the federal government is being reshaped, there is a critical need for the federal government to reexamine the base of its programs, policies, functions, and activities. Performance budgeting can help enhance the government's capacity to assess competing claims for federal dollars by providing decision makers with better information on the results of individual programs, as well as on various federal policies and programs addressing common goals.

In this context, the importance of DHS' mission cannot be overstated. While absolute security for the U.S. homeland is impossible, seeking to minimize vulnerability must remain a goal. Much is at stake when decisions are made about how to allocate limited resources across a large number of programs in multiple DHS agencies. GAO has consistently advocated implementation of a risk management approach for prioritizing efforts and focusing resources. This kind of approach is especially important since we seek to address threats that are seemingly limitless with resources that are limited. It is necessary to prioritize both risks and the actions taken to reduce risks. Where can resources do the most good? How should they be allocated across risks and across risk-reducing activities? Risk-based, priority-driven decisions can help inform decision makers in allocating finite resources to the areas of greatest need. Congress and agencies have a shared responsibility for ensuring that performance budgeting and risk management approaches are both useful and used. Congress can play an important role by using the resulting information in the authorization, appropriations, and oversight process. Further, to the extent that Congress wants to instill a risk-based approach, it is important to recognize that agencies need to have some flexibility in implementing it.

As the Congress and DHS move to rebalance resource priorities to address the relative risks facing the nation, it is important to reexamine major existing programs and activities based on their relative contribution to reducing the areas of greatest vulnerability. This will require making tough choices to identify those activities with the greatest potential net benefit for the nation as a whole, while reassessing the need for other programs with more limited or less nationwide scale and importance. Going

forward, we need to rethink certain traditional funding strategies, such as per capita based formulas and earmarks to determine whether they are consistent with a risk based approach.

We should not expect this effort to be easy or the path forward to be smooth. Risk assessment is difficult in many government areas. It is especially so in the area of homeland security in which initial probabilities and consequences and the effectiveness of countermeasures are unusually difficult to determine. Getting relevant, reliable, and timely information for risk assessment is also quite difficult. Nevertheless, the effort should be made. A comprehensive approach should be developed and maintained. The state of the art for risk management will take time to mature. This will require sustained management commitment—and continued involvement, support, and oversight by Congress.

This completes my prepared statement. I would be pleased to respond to any questions you or other members of the subcommittee may have.

For future information on this testimony, please contact Norman J. Rabkin at 202-512-8777. Other key contributors included Denise Fantone, Kimberly Gianopoulos, Susan Irving, Jacqueline Nowicki, Evi Rezmovic, and Jonathan Tumin.

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Mr. ROGERS. I thank the gentleman.

At the conclusion of your remarks, you said Congress needs to do more. Specifically give me a couple of examples.

Mr. WALKER. As you know, Mr. Chairman, there is a lot of money that is allocated to homeland security, most of which relates to the Department of Homeland Security, but not all of it does.

The example that I include in my testimony on page 15 talks about during the period 2002 to 2005, there were certain statewide homeland security grant funds, and those funds were not allocated based upon any risk-based approach.

It was more of an equitable distribution of those funds to make sure that we spread the money broadly rather than taking a more risk-based approach for determining how the money should be allocated. We also need to understand how the money was used and whether or not it resulted in mitigation of risk and a positive outcome.

Mr. ROGERS. So when you say we should do more, are you first and foremost recommending that we go completely to risk-based distribution? We made a successive approximation this year with our authorizing legislation, but you want to see it be 100 percent?

Mr. WALKER. I think you should do as much as you believe you can comfortably achieve, given the fact that the Congress ultimately has to be able to achieve enough consensus to pass the bill.

As we all know, under the Constitution, every state gets two senators and has a representative number of members in this House, and so you may need to have some amount of funds that end up getting allocated to each state. However, I think you should maximize the amount of funding that can be allocated based upon risk, especially given the fact that funding is likely to become more difficult in the years ahead.

Mr. ROGERS. I understand that the CIA currently uses mission-based budgeting. Do you know of any other Federal agencies you could offer us as good examples of how it works?

Mr. WALKER. None that I can think of off the top of my head that meets the definition that I just said, other than GAO.

I would also note that we have not done work in the CIA for a long time. While they may assert that they use mission-based budgeting, I am not sure that, in reality, if you looked at it closely, that would be the case. I can't say one way or the other.

Mr. ROGERS. You made reference a little while ago about how mission-based budgeting could help make sure that we spread scarce resources more effectively, and you talked about being able to look at the results.

Is analyzing the results an essential component of mission-based budgeting, or is mission-based budgeting going to be primarily beneficial by allowing to conceptually know where we are putting our resources? Or do you have to have this results component as well?

Mr. WALKER. I would respectfully suggest, Mr. Chairman, that we need all of the components that I laid out in my proposed definition. I can briefly restate that—I think it needs to be mission-focused, results-oriented, and outcome-based, that is designed to maximize value and mitigate risk within current and expected resource levels.

Those all involve tradeoffs. The Government as a whole has a lot of very capable people doing a lot of very good work, but in the final analysis we have to be able to demonstrate what type of results are being achieved with the resources—both financial, human, technological, and others—that are being given, especially given increasing budget pressures.

Mr. ROGERS. If you were to tell somebody in a nutshell—you are in rural Alabama, you stop at a gas station, and you are trying to tell Joe Blow why mission-based budgeting is beneficial. What would be the simple answer as to why we should do it?

Mr. WALKER. Of course, I was born in Alabama, and I may have stopped at that gas station at some point in time, Mr. Chairman.

Mr. ROGERS. I knew—

Mr. WALKER. But I think the reason that we need to achieve the definition that I stated is because we face large and growing structural deficits. We have unlimited demands but limited resources.

We need to make sure that we are doing everything that we can to mitigate as much risk as possible while maintaining economic growth—

Mr. ROGERS. What do you mean—

Mr. WALKER. —and minimizing tax burden.

Mr. ROGERS. —when you say mitigate resources?

Mr. WALKER. Mitigate risk.

Mr. ROGERS. OK.

Mr. WALKER. Mitigate risk. There is no such thing as zero risk in today's world. You could allocate whatever amount of money you decided to allocate. We will always have risk.

Yet at the same point in time, given resource constraints, we need to use whatever money that we have in a very targeted fashion, and we need to understand what difference is being made with those funds.

Mr. ROGERS. I thank the gentleman. My time is expired.

I now yield to my friend and colleague from Florida, Mr. Meek, for any questions he may have.

Mr. MEEK. Mr. Chairman, you were marching down the street that most Americans are trying to figure out what we are talking about, and what does this really mean.

And I am glad in your testimony that—most of it you entered for the record, but you tried to address some of the finer points of the reason why we are having this hearing today.

And I know that it will even get more crystal when we move to the second panel about exactly the benefits of having the Department of Homeland Security being the agency that is responsible for prevention and also protection and response.

It is very difficult to be able to foresee some of the issues that the department will be facing. And if they are facing it, then America would be facing it.

I have a question for you—actually, the question prior to our meeting—that I just need an answer to. And we know the department has basically three primary issues here. That is prevention, prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism and minimize the damage from potential attacks and natural disasters, I must add.

Is it fair to say that a comprehensive plan or a strategy that is designed to fulfill the mission of each of the prongs of the agency as relates to its mission statement, or the reasons why they are in business in the first place, before we can arrive at what you may call a mission-based budget framework—basically, the question is what is the relationship between mission-based budgeting and the department's ability to craft a strategic plan and carry this mission out?

I am trying to figure out how can we actually get the department up to a B or a C-plus as it relates to mission-based budgeting. And I am asking a question on top of a question—more of a statement, because I believe it is a good lead-in.

When you look at this, and you start looking at the deficit, and you start looking, like you say, at future years, the way I see it now, as a member of Congress—also, a member of the Armed Services Committee—this is fighting terrorism, the early years.

And I believe the department is going to continue to grow funding-wise. I think that there is a movement here in Congress to make the department more of an assistance to local government and state government versus just being a big grant operation and continuing to, you know, roll down that avenue, and that is going to be very expensive.

How can we bring it under control as it relates to those mission statements that I mentioned, and not knowing what the future may hold?

Mr. WALKER. Well, Mr. Meek, first, I think we have to keep in mind that there are several different definitions of mission for the Department of Homeland Security. You have several in the statute. The three that you mentioned are clearly in the statute.

There are a number of other areas that are mentioned in the statute as well, because the statute also says that the Department of Homeland Security is supposed to continue to discharge the responsibilities that the various 22 agencies were discharging prior to its creation.

Therefore, while you might expect that a disproportionate amount of their time and attention and resources would be focused to the three critical objectives that you talked about, they also need to make sure that they define what objectives they are trying to achieve with regard to their other missions that existed prior to September 11th.

There is the Homeland Security Act and the National Homeland Security Strategy, which covers those three. There is also the DHS strategic plan which needs to cover everything that is in the Homeland Security Strategy as well as the Act of 2002.

As you know, GPRA, the Government Performance and Results Act, which was passed in the early 1990's, provides a framework for moving forward here. It provides for strategic planning. It also provides for annual performance and plans. It also provides for annual performance and accountability reports.

In addition to using those existing statutory mechanisms as a way to try to bring this alive, I also think we have to look at the appropriations process, what type of budgets are being submitted as part of the appropriations process, and how we can help assure that it is a supplement to, not a substitute for, the information that

the appropriators are used to getting. They need to get appropriate information along the lines of what I am talking about to help them make more informed decisions in resource allocation and to help them understand what is working and what is not working.

We also have to keep in mind that we should not just look within the Department of Homeland Security, but there are other players on the field dealing with homeland security, and we can't forget about that. We also need to understand what other players are doing to try to achieve these overall objectives, even though they may not be within the Department of Homeland Security.

Mr. MEEK. Just one last question for you, because I know we have to get to another member and the second panel. It is going to be a serious balancing act. And as we educate ourselves, not only as a subcommittee but a committee in general, when you are looking at Department of Homeland Security, you have to look at not only the issue of performance but priority, but also politics.

And all of that comes together, and when it comes together, it is really something to deal with, because nine times out of 10 what we are trying to avoid is being in shock mode, like we were on 9/11 without the Department of Homeland Security, looking at the needs of the country, looking at making sure that we can be able to draft legislation that will be able to have a department that can be responsive, not only in a time of emergency and prevention but also fiscally responsible in how it deals with its programming and also monitor making sure that the people of the United States of America is getting its money's worth, because the confidence of the department is at stake not only within but without, outside with Americans, how they feel about the department as it goes to protect the homeland, which is its primary mission.

Mr. WALKER. I think a key point here, real quickly, Mr. Meek, is you have got to have a plan. You have got to set priorities. You have got to target resources where you think you are going to have the maximum positive effect and mitigate the most risk.

They need to have results-based outcomes that they are focusing on, because otherwise if you don't have that approach, the assumption is that if you give more money, you are going to get more results. That is false. That is not necessarily true.

We have many Federal Government programs and tax policies where we assume that if we do more, we are going to get better results, when in reality we don't even know what results we are getting with what we have right now.

Mr. ROGERS. I thank the gentleman.

The chair now recognizes the gentleman from Georgia, Mr. Linder, for any questions he may have.

Mr. LINDER. You said early on that the risk in this Department, or the difficulties in this Department, is not the Department itself but the effort to combine 22 agencies. Isn't that the Department?

Mr. WALKER. That is clearly one of the risks. One of the reasons that it is on the high-risk list is because it is an amalgamation of 22 different entities, with different systems, different cultures, et cetera, many if not most of which—in fact, were not primarily focused on protecting the homeland before the creation of this Department.

So, yes, that is the Department, and they are a key player. But my only point is there are some things that go well in the Department. I hate to put a department on the high-risk list, because that indicts anything and everybody associated with the department. I would rather put a program, a function or activity rather than a department.

Mr. LINDER. Have you done any analysis of any parts of the Department yet?

Mr. WALKER. Oh, we have, Mr. Linder. We are doing work at the request of this committee and others all the time with regard to homeland security.

Mr. LINDER. Have you done any analysis of TSA?

Mr. WALKER. The Transportation Security Administration? Yes, we have. We have done quite a bit of work on TSA.

Mr. LINDER. You constantly talk about measuring risk versus reward, and I am very familiar with your doomsday scenario for 35 years from now.

If you have 690 million passenger trips in 2004 on the airlines, you spend $5 billion taking away their fingernail clippers, and you have nine billion passenger trips on the railroads, and we spend $200 million there, is that proportional risk, do you think?

Mr. WALKER. No, and, frankly, Mr. Linder, as you may or may not know, my wife used to be in the airline industry. She is a retiree from Delta Airlines. She was a flight attendant. I think one of the things that we need to think about in Government is what is the most realistic current and future risk.

Frankly, a lot of things that we are doing with regard to TSA are to prevent past risks rather than necessarily what the most likely current and future risks are.

And by that, I mean, if I can, quickly, what happened on September 11th, to a great extent, was that the terrorists exploited not only our system but how pilots and flight attendants had been trained. They were trained to be acquiescent. They were trained to be able to do whatever the hijacker said, and so were the passengers.

Fundamental changes have occurred such that the likelihood that that would happen again I think is extremely remote, irrespective of what TSA does.

Mr. LINDER. I agree, and I think Pennsylvania proved that to us. What bothers me is we are always fighting the last war, and I think it is highly unlikely that airlines will be used in the next push. I think it is more likely that it will be something from the biological or nuclear area—get a huge, huge bang for the buck.

And we spend about less than 2 percent of the budget on intelligence to find out if there are people out there looking for this stuff, and we spend virtually nothing on biological, which is, frankly, quite, I think, more difficult than nuclear. Is that measuring the risks appropriately?

Mr. WALKER. I think we need to be analyzing current and future likely threats and risk. We should be informed by what has happened in the past but not driven by what has happened in the past.

Quite frankly, Mr. Linder, I believe that many times Washington is a lag indicator. Washington tends to respond to what has already

happened and does not do enough to try to anticipate what might happen and to allocate time and resources accordingly.

I believe that any comprehensive threat and risk-based approach must do what you are talking about. Let's look at today and tomorrow—what do we need to do, what resources do we need, who needs to do what—rather than necessarily looking backward.

Mr. LINDER. Thank you.

Thank you, Mr. Chairman.

Mr. ROGERS. I thank the gentleman.

The gentleman from Pennsylvania, Mr. Dent, is recognized.

Mr. DENT. Thanks, Mr. Chairman.

I apologize for coming a little late, Mr. Walker, to hear your testimony. Describe for me the difference between performance-based budgeting and mission-based budgeting, and what is the difference?

Mr. WALKER. There is a lot of terminology that is being used, and I proposed a definition, Mr. Dent. Call it performance-budgeting and mission budgeting. I think what we need to try to achieve is the following.

We need to have a mission-focused, results-oriented and outcome-based budgeting approach that is designed to maximize value and mitigate risk within current and expected resource levels. That means results-oriented and risk-based. That is what is important, I believe.

Mr. DENT. And it is my understanding that the CIA uses mission-based budgeting, and what other Federal agencies that you are aware of utilize it?

Mr. WALKER. Other than GAO, I am not aware of any. I will say that I have heard, as the chairman mentioned, that CIA asserts that they do. I don't know if they do or not. I cannot attest to that because we are not doing work in the Agency, in general, much less in this area.

Mr. DENT. Would the Homeland Security Department—you see there would be significant benefits just—is it more beneficial in the homeland security area, intelligence area, than perhaps other areas of government, mission-based budgeting, or—

Mr. WALKER. My personal view is this ought to be applied throughout Government. I think obviously to the extent that you are talking about self-preservation, to the extent that you are talking about safety and security in the hierarchy of needs, that is most fundamental.

It is particularly important to the extent that you are talking about security and intelligence activities designed to protect our national and homeland security. But I think it is a concept that ought to apply broadly, including within the Defense Department.

Mr. DENT. How would this type of budgeting affect the management of DHS, for example? What would be your thoughts on that?

Mr. WALKER. I think it would help them to focus on trying to achieve more demonstrable and positive outcomes given the limitations in resources and other authorities that they have.

As I mentioned before, I think the Congress has a role to play here, too, because the Congress has to think about—to the extent that the Congress is appropriating resources to DHS—if you want them to employ a risk-based approach, then the resources need to

be overwhelmingly allocated in a way that allows them to allocate those resources based upon risk rather than per state, per capita, or those types of approaches.

It may be difficult, but that is inherently contrary to a risk-based approach.

Mr. DENT. Thank you.

Mr. ROGERS. The chair now recognizes the gentlelady from the Virgin Islands, Ms. Christensen.

Mrs. CHRISTENSEN. Good afternoon. I apologize for being late. The time kind of got away from me.

And if you have answered this question before, I apologize, and maybe you might want to elaborate if you started it, but could you tell me how mission-based budgeting is one of several tools that could be used in creating a budget plan, one of a multifaceted number of tools that—how is it one of those tools that should be used in creating a budget plan?

Mr. WALKER. I think that mission-based budgeting is something that needs to be used in concert with a number of other things that agencies should be doing now under the Government Performance and Results Act.

For example, have a strategic plan, align the organization to that plan, have an annual performance plan, have an annual performance and accountability report. I think that mission-based budgeting has to be informed by those elements and should be used as a supplement to, rather than a substitute for, the type of information that the appropriators are accustomed to getting in making their annual decisions.

I know there have been some concerns expressed in the appropriations committees that if they are going to have this kind of information, they would like to have it as a supplement to, not a substitute for, what they are accustomed to getting. They are used to dealing with information they have been getting in the past.

Mrs. CHRISTENSEN. Do you see the new secretary moving in this direction? I mean, he talks about redesigning the Department and allocating funds according to risks and catastrophic risks rather than what you consider more minor events. Do you see him moving in this direction?

Mr. WALKER. Based upon some of his recent statements, he seems to conceptually be moving in this direction. But as was mentioned before, he is supposed to be reporting back in the near future as to what the results of his initial due diligence are and what specific proposals he has for the way forward for the Department of Homeland Security.

I look forward to receiving those, as I am sure you do as well.

Mrs. CHRISTENSEN. Yes. You talked about GPRA and the strategic planning process. How important is it for the Department to create an auditable financial statement?

Mr. WALKER. My personal view is that given the amount of money involved, which is tens of billions of dollars, the taxpayers have a right to have accountability over those funds.

I don't believe that audited financial statements are an end in and of themselves. I think the taxpayers have a right to that. I also believe that it is very, very important that the Department have

a plan, because if you don't have a plan, you are going nowhere fast—

Mrs. CHRISTENSEN. Right.

Mr. WALKER. —that that plan has to be prepared consistent with the principles that I laid out before. That is of primary importance.

Mrs. CHRISTENSEN. Thank you.

Mr. ROGERS. There are a couple of things I want to know. First of all, why do you think more agencies don't use mission-based budgeting?

Mr. WALKER. Number one, they are not necessarily familiar with the concept. Number two, it is not something that Congress, frankly, has either demanded or, in some cases, even desired.

I think it is going to take a behavioral change both within the executive branch, as well as an openness on behalf of the Congress, to use this type of information in order to make resource allocation decisions, in considering reauthorization of programs as well as in connection with oversight-related activities.

Mr. ROGERS. Is it your belief there would be institutional reluctance to embrace mission-based budgeting?

Mr. WALKER. As you know, Mr. Chairman, there is a lot that has to be done right now with regard to preparing the strategic plan, the annual performance plan, the annual performance accountability report, the annual budget that has to be presented.

I think a lot of people are looking at this as this is an incremental burden. It may make a lot of sense, but I want to make sure that somebody is actually going to use it and it is actually going to be meaningful and make a difference with regard to resource allocations.

That is why I say I think it is not only changing the culture and the mindset in the executive branch, I think it is, frankly, to a certain extent, changing the culture and the mindset on Capitol Hill.

Mr. ROGERS. One of my big frustrations, as I have been working on this subcommittee and trying to get information from DHS about their expenditures, is that it seems apparent to me—and I think the recent Inspector General's audit demonstrated this—that they don't really seem to know why they are asking for the numbers they are asking for, for particular projects. They can't justify them.

And my question is, would mission-based budgeting in any way remedy that, or is that a separate area?

Mr. WALKER. It would help to address that issue.

Mr. ROGERS. How? How would it—

Mr. WALKER. It would help to address the issue because basically it gets you to focus on why are we here, why do we exist, what are we trying to accomplish, what do we need to do in order to try to achieve the desired goals and objectives—meaning in an outcome-based approach—how much in resources do we need in order to try to get that done, meaning human resources, financial resources, technological capabilities, et cetera, who do we need to partner with, both within Government, outside of Government, as a way to try to be able to maximize the chance of success.

I think it is very complementary and very intellectually consistent to trying to achieve and to move in the direction that you are talking about.

Mr. ROGERS. Great. In January 2003 the GAO first listed DHS on its high-risk list. In that assessment, the GAO identified the following issues: DHS's annual goals and time frames were vague or altogether absent; DHS's capacity to achieve the stated goals was uncertain; and third, DHS's performance measures and plans to monitor, assess, and independently evaluate the effectiveness of corrective measures has not been fully developed.

And my question is, have you observed that DHS is making any progress in remedying these shortcomings?

Mr. WALKER. They are making progress, but they have a ways to go before they will be off the high-risk list. In addition to—

Mr. ROGERS. By ways to go, do you mean months, years?

Mr. WALKER. Well, we update it, as you know, Mr. Chairman, every 2 years. While we may end up putting a new area on the high-risk list off cycle if it is a particularly acute and large problem, generally speaking we make decisions to put items on every 2 years and to take them off every 2 years.

So the earliest that we would be able to consider taking them off would be in January of 2007 since we just published our list in January of 2005. It is unlikely that they will meet the criteria necessary in order to come off in January of 2007.

What is important is that they have a plan and be able to break it down into key milestones, and to be able to demonstrate that they are making significant progress toward getting to where they need to be, and some of the concepts we are talking about here are integral to that, I think.

Mr. ROGERS. OK. Why do you think it is unlikely that in 2 years they couldn't right the wrongs that you outlined? They seem pretty fundamental.

Mr. WALKER. I think they can make significant progress within 2 years, but I think there is a couple of dimensions. One dimension is what are they trying to do to achieve their mission as it relates to strategic planning, organizational alignment, performance-based budgeting concepts, et cetera.

The second thing is what are they doing to try to integrate and transform the 22 different departments and agencies that now comprise the Department of Homeland Security. So they really have two massive undertakings that they need to undertake, and they need to do it in a coordinated, and hopefully, an integrated manner.

I think the likelihood that they will be able to get there between now and January of 2007 is not great, but not impossible.

Mr. ROGERS. Great. Thank you. My time is up.

I yield to the gentleman from Florida, Mr. Meek, for any questions he may have.

Mr. MEEK. Mr. Walker, I noticed earlier you said that Customs and Border Protection and also TSA—and reading the report on the 14th page is also mentioning the Coast Guard—have practiced what we are talking about here on a limited basis within the Department of Homeland Security.

I have to go further down the last paragraph on page 14 where TSA—they took very limited vulnerability assessments of a selected general aviation airports based on specific security concerns, a request by the airport officials at that time.

And they said it was quite costly and also impractical, and due to the fact that we have 19,000 general aviation airports nationwide and approximately 4,800 public use general aviation airports, I am trying to figure out, especially when you come down to the meat of the matter—I don't know if that is an excuse, saying we just don't want to do this, or is that an accurate statement by TSA, or assessment of what—

Mr. WALKER. I think this comes back to the issue that we talked about before. One of the things that needs to happen is there needs to be a comprehensive threat and risk assessment based upon current and future likely threats, what do we think they are, and therefore how do we need to spend our time and allocate our resources.

For example, to what extent do 19,000 general aviation airports, where there is a limit, in general, as to what type of aircraft can use those airports—to what extent do they represent the same risk as a major commercial airport where you have, a lot bigger aircraft that could do a lot more damage, if you will? I mean, those are some of the concepts that we need to be thinking about.

I think we also have to be thinking about how might it be used. Is it as a weapon like it was on 9/11, or is it a delivery device to deliver some other type of weapon of mass destruction that may not be very large?

This is part of the thinking that has to be done to be able to say well, we don't automatically want to go out and look at all 19,000 general aviation airports—we need to see how that fits in within the overall context of what the most likely threat is, and how do we end up allocating our resources.

You might pick a sample to go to rather than all of them. You might have a rotating scheme. Lots of concepts I think should be explored.

Mr. MEEK. You know, Mr. Walker, that goes back to the regional planning security group that is there to make these—to rank the threat levels not only at the Department of Homeland Security but also local law enforcement agencies.

There is a first responder component to this, too. Just as a last question—and I can't believe that I have so many questions for you, because we are all trying to really understand. I am used to performance-based budgeting.

What is the difference between performance-based budgeting and mission-based budgeting? You mentioned—I guess it is all the same, I say "tomato," you say "tomato," kind of thing.

Mr. WALKER. To be honest with you, Mr. Meek, I am used to performance-based budgeting, too. The mission-based budgeting is a relatively new concept to me. To me, in substance, we need to achieve what I talked about before, the elements.

I think when you are talking about performance-based, you are talking about results, trying to achieve results. Obviously, you want to achieve results consistent with what your mission is. I mean, and so to me they are not mutually exclusive. You know, they are complementary.

Mr. MEEK. Okay. That is it for me, Mr. Chairman. It is a component—it is an element of the mission-based budgeting, and I think that the members and also those that we want to carry out this

new concept should understand that it is just adding more on to performance-based, because the unknown is there, so there has to be a mission.

And we may not accomplish that mission within the time line, especially when you start looking at annual budgets. Thank you very much for coming before us.

Mr. WALKER. Thank you. I would respectfully suggest that whether it is a strategic plan, whether it is a performance plan, whether it is the budget, mission is fundamental. Why are we here? What are we trying to achieve?

But again, the performance part is focusing on results, focusing on outcomes—not just efforts, but outcomes and, again, targeting resources to where you are likely to do the most good and mitigate the most risk. Those are the concepts.

Mr. ROGERS. I thank the gentleman.

Ms. Christensen, did you have some additional questions?

Mrs. CHRISTENSEN. Basically, it is two parts to one question. One of the things that we have seen in the department is the inability, even after these few years, for the different agencies that have been brought together to merge their missions.

It would seem to me that mission-based budgeting would force some of what we have not been able to accomplish in the department to happen. That is one side of it. I wonder if you would comment on that.

But the other side of it is that many of the agencies have functions within them that are not related to homeland security, and I was wondering how mission-based budgeting would affect those agencies that have split missions.

Mr. WALKER. I think it is important to recognize that while the three areas that Mr. Meek mentioned before, which were the primary areas under the National Homeland Security Strategy, or the things that people normally talk about as being the top priorities for the Department of Homeland Security, the statute that created the Department of Homeland Security includes a number of other elements, mission-oriented elements, including the fact that it was expected that they would not diminish their efforts with regard to the many other activities that they were engaged in prior to 9/11. The Coast Guard, for example, had boating safety and maritime rescue operations that they were focused on.

My view is that mission-based budgeting could help cross the silos. To the extent that you have many different entities—and there are 22 entities just within the Department of Homeland Security.

To the extent that you are focusing on a mission, it could help you to cross those silos. What different role and responsibility do each of these silos have to try and accomplish the mission? How do we allocate resources and authorities across those silos?

I think it also is a concept that should apply in every major department and agency and across departments and agencies as well.

By the way, the United States does not have a strategic plan. The United States does not have an annual performance plan. Each department and agency does, but the United States does not. And I would respectfully suggest we ought to think about changing that.

Mrs. CHRISTENSEN. Could it adversely impact the other missions, like—I guess the Coast Guard would be one, because they also have rescue and, you know, the other—

Mr. WALKER. Right, search and rescue, and boating safety and—

Mrs. CHRISTENSEN. Right.

Mr. WALKER. Navigation, and—

Mrs. CHRISTENSEN. You can do both, do the mission-based budgeting within homeland security and—it doesn't have to adversely affect the other—

Mr. WALKER. No, it doesn't.

Mrs. CHRISTENSEN. —responsibilities.

Mr. WALKER. It doesn't. But on the other hand, choices have to be made. Whatever amount of resources and authorities that Congress decides to give the Department of Homeland Security, it is going to have to make tough choices in collaboration with the Congress on how to allocate those resources.

Mrs. CHRISTENSEN. Right. But if the country had a plan, it would be easier to do it.

Mr. WALKER. Plans normally help.

Mrs. CHRISTENSEN. Yes. Thank you.

Mr. ROGERS. I would remind the witness that several members may have questions that weren't here today and they may submit them to you. We will leave the record open for 10 days for you to make any written replies to any questions that may be tendered.

And I want to thank you for your time, Mr. Walker. It has been very beneficial to have you here, and you are excused.

Mr. WALKER. Thank you, Mr. Chairman, very much. It is good to be here.

Mr. ROGERS. Thank you.

And I now call up the second panel.

I want to thank you gentlemen for your time. It is very helpful to us. I know you are busy, and I appreciate you being here.

The chair now recognizes Hon. Maurice McTigue, Distinguished Visiting Fellow and Director of the Government Accountability Project at the George Mason University's Mercatus Center, for any statement you may have.

STATEMENT OF THE HONORABLE MAURICE P. McTIGUE

Mr. MCTIGUE. Thank you, Mr. Chairman, and thank you, members, for the invitation to be here.

I want to start by making a comment on some of the discussion that I heard that preceded the second panel, and that is about how you might define mission-based budgeting.

And I think that I agree very much with what Mr. Walker said. But in my view, if you were to apply that to the Department of Homeland Security, it would read something like spending money first on those things that will do most to accomplish an improvement in the security of the homeland.

And that is really what you are talking about, concentrating first on those things that will make the biggest difference, and then later on on the things that make a lesser difference.

Also, I think when you look at this issue you have to look at here is an organization that technically was a merger of a number of other organizations that really did have quite disparate functions.

There is a requirement that they carry out those traditional functions as well as accomplish the new function of making the homeland of the United States more safe.

I think that you need to look at those as two different missions for some of those organizations. The Coast Guard has to accomplish its traditional mission of search and rescue and protection of the coast at the same time that it has to also accomplish its mission of protecting the homeland.

What that really requires, in my view, is that the organizations that comprise the conglomerate of the Department of Homeland Security have to take collective responsibility for the security of the homeland, also have to accept that resources are going to go to those functions that would have the greatest impact on improving the security of the homeland and that they would have to go to those functions first.

So it is not all bad news, in my view. The Department of Homeland Security is very new, and if you looked at the private sector, mergers take a long time for them to start to really assimilate the two cultures—because normally it is only two, and here we are looking at 22—assimilate those cultures and start to concentrate collectively on what the mission of the new organization is.

The thing that gives me encouragement about the Department of Homeland Security is that I like some of the things that they have written into their strategic plaintiff, because, as Mr. Walker said, this is looking forward, not looking at the experiences of the past.

And if I were to put the proposal to somebody hypothetically about what would you do if you were asked to take responsibility for improving the safety of the homeland, the first thing that you would do is that you would identify the threat. And homeland security calls that awareness.

The second thing that you would do is that you would look to defuse that threat, and they call that prevention. The third thing you would do is that you would make it harder for people to hurt America and American things. And that is protection.

The fourth, you would stop or diminish the damage whenever an attack was to occur. And that is called response. It might mean things like shooting down a plane that is over a protected area or looks like it is going to try and commit a terrorist act.

All of these things—and then you have to think about what would we do in the case of an attack. And that means putting people's lives back together, and they call that recovery.

All of these things have to be accomplished at the same time as not damaging the American way of life and the life and liberty of Americans to go about their normal business. They call that service.

And finally, you need to have the capability to accomplish all of these tasks, and that is called organizational excellence. So if you thought about those things—awareness, prevention, protection, response, recovery, service and organizational excellence—immediately you start to have a framework that says there are some of these things we should invest in first and some of them we should invest in later.

While recovery is very important, if you put all of the investment in recovery and you didn't do enough in awareness, what you have

done is increased the risk that an act will be successful, damage will occur, but you are going to be good at recovery.

See, in my view, to the American public, success at the Department of Homeland Security is measured in terms of nothing happening. It is very difficult to measure what caused nothing to happen. So at that level, I think that it is good.

What is not yet good is being able to identify which actions are going to give us the greatest benefit in awareness, which actions are going to give us the greatest benefit in terms of prevention.

And as those start to be identified, then I think the role of Congress in being able to say we should target money at these things first will become more apparent and easier.

Thank you, Mr. Chairman.

[The statement of Mr. McTigue follows:]

PREPARED STATEMENT OF HON. MAURICE P. MCTIGUE

Mr. Chairman, I am honored to have been invited to testify before you on consideration of the use of prioritization when determining funding allocations for the Department of Homeland Security (DHS.) However, as I ponder the title of this hearing "mission-based budgeting", I come to the conclusion that the title really poses the question of whether the budget process can help guarantee the mission of DHS. My considered opinion on that question is that a "mission-based budget" can do a great deal to move the department towards a central, collective focus of improved security for Americans at home. My experience in examining organizational performance also tells me that those organizations with a tight focus on their mission are more likely to be successful in achieving their mission.

Any consideration of performance at DHS must acknowledge some fundamental truths. The Department of Homeland Security, created by Executive Order signed by the President in January of 2003 is the biggest merger in the history of United States government. However, the merger was conducted in a time of urgency and the normal organizational preparation that would precede such a merger in the private sector did not occur in the creation of DHS. Instead, 23 significant existing organizations with very disparate activities and cultures were dropped into one single corporate body with instructions to sort it out, to make the homeland safe, and continue to do all of the things currently done by each merging organization. In all normal circumstances, it would take years for this huge organization to develop a common culture with collective responsibility for protecting the homeland and an internal acceptance that resources go first to those functions that will make the greatest contribution to diminishing the risk to the homeland.

I would now like to expand on those comments by saying that unless the right internal incentives are created then no progress towards a common culture with a priority mission of protecting the homeland will be made. In fact, absent the right incentives it is probable that in 10 years DHS will still be 23 independent organizations living under the same umbrella with no shared focus on improved security for the homeland. The strongest incentives leading to changed culture in organizations are those that determine the basis for the allocation of resources. The initiative of the committee to give consideration to "mission-based budgeting" is very timely and appropriate.

While it is reasonably easy to accept intellectually and practically that a move towards "mission-based budgeting" is the right thing to do, pondering how to accomplish this initiative is a major challenge, but not impossible. When considering this challenge, it is necessary to recognize that each of the component parts of the department have two roles: improving the security of the homeland and accomplishing their historic service to the American public. The purpose here is to give priority to those functions that will contribute most to the improved security of the homeland while not jeopardizing the traditional services provided.

In my view, the best way to approach this challenge is to separate the two roles and identify improving security of the homeland as the primary role of the Department of Homeland Security (DHS) with traditional services being the responsibility of the component parts of DHS. This requires a vision of DHS that resembles a conglomerate with collective responsibility for improving the security of the homeland and individual responsibility for accomplishing its traditional functions. Under this vision, it is possible to imagine a scenario in which DHS purchased improved security from the various components of the department according to how much im-

provement each purchase brings to security of the homeland. The above structure would help to create the environment for growing a collective responsibility across the department for improved security for the homeland without jeopardizing the other traditional functions.

The next issue is addressing the question of whether this is workable. The key to achieving a universally shared commitment across all the components of DHS is to articulate goals that spell out a strategy for improved security and can be adopted and supported by each organization yet are unique to the role of the collective department. In my view, the department in its current strategic plan has significantly captured this concept. What is now needed is the physical manifestation that the goals laid out in the strategic plan will indeed be the basis for management decision-making and will lead to improved security for Americans at home. A major reinforcement of those goals would result if Congress were to link its funding priorities to the same goals.

Considering whether this is a viable proposition requires that we look at those strategic plan goals. (Note: currently this strategic plan is under review by the new Director but at time of writing I am unaware of whether he has completed that review and released his findings.) (Note: the comments in italics are mine and reflect my interpretation of these goals.)

Awareness:
Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public.
"Timely knowledge of potential threats."

Prevention:
Detect, deter and mitigate threats to our homeland.
Eliminating the threat."

Protection:
Safeguard our people and their freedoms, critical infrastructure, property and the economy of our Nation from acts of terrorism, natural disasters, or other emergencies.
"Making it harder to do damage to Americans, or to America."

Response:
Lead, manage and coordinate the national response to acts of terrorism, natural disasters, or other emergencies.
"Capability and readiness to eliminate mitigate or diminish the impact of acts of terrorism."

Recovery:
Lead national, state, local and private sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters, or other emergencies.
"Rebuilding the lives of Americans and their communities after terrorist acts."

Service:
Serve the public effectively by facilitating lawful trade, travel and immigration.
"In the face of threat to allow America to enjoy the American way of life."

Organizational Excellence:
Value our most important resource, our people. Create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.
"Having the capability to get the job done."

While in most organizations I would really consider this to be mainly a values statement, in the case of DHS these things can be considered outcomes. It is also possible to see that there is a logical progression to these goals. Plus, it is possible to determine an order of priorities. For example, it would make little sense to have high levels of excellence on recovery if that was achieved at the expense of Awareness, Prevention or Protection. It is also possible to assess which parts of DHS make the greatest contributions to Awareness, Prevention, or Protection. However, if it were not possible to prevent an attack, it would be strategically irresponsible to consume all the resources for Awareness, Prevention and Protection and then not have the capacity to recover from an attack. So what would be necessary would be a strategically weighted approach to investing in improved homeland security that gave the greatest weight to those goals that would prevent a terrorist event but also have appropriate backup if the primary strategy were to fail for whatever reasons. (Note:

I would recommend separating the goals of Homeland Security from the traditional tasks of the component organizations of DHS.)

Given the above, it is also possible to see a developing culture at DHS that would have a collective responsibility for improving the security of the homeland while at the same time maintaining individual responsibilities for traditional functions. It is also possible to foresee an environment where Congress could clearly indicate its priorities by its budget allocations and be able to exercise clear accountability from DHS for those priorities. What I am envisioning here is a two-tier system of budget allocations. One tier of allocations would specify the improvements expected in each of the goal areas in DHS's strategic plan. A second tier would be organization-specific and would provide for the traditional activities of organizations like FEMA and the Coast Guard. While I accept that such an approach is theoretically possible, I also recognize that there will be considerable difficulty in physical implementation.

One of the greatest challenges facing DHS is the difficulty of measuring improved security. For example, how do you measure something that did not happen when the public expectation of success is that no terrorist events occur on the homeland? However, there are many relevant factors that can be measured to allow constructive analysis to determine whether there has been an improvement in the security of the homeland. Some of this information would, by its very nature, have to remain classified, but improvements in the state of knowledge about terrorist activities would certainly be a measure of success against the Awareness Goal. The success of actions taken or strategies implemented that defused that risk would also be appropriate measures of success against the Prevention goal. The strategic actions taken to protect information, venues, assets and other potential targets can be measured as improvements against the Protection goal. Response is about readiness and the military have long specialized in measuring their readiness. That knowledge would provide the basis for measuring improvements against the Response goal. FEMA has widespread experience in assessing the recovery times and costs from disasters which would form the basis of the measures against the Recovery Goal.

Such information allows qualified people to competently advise Congress about the existence of strengths and weaknesses in the protection of the homeland, and allows for the advisement on where strategic investment by Congress would give the greatest gains in security.

Conclusion:

The question posed by this hearing is, "Can the security of the American Homeland be improved by taking a strategic approach to funding the department of Homeland Security based upon linking funding to advancing the mission of the department?" My answer is emphatically, yes! In fact, to do otherwise would be irresponsible and would invoke an avoidable risk that could be eliminated by "mission-based budgeting". However, implementation will not be easy and will require a high level of commitment to mission by senior managers at DES over the sectional interests of their own organization.

Mr. ROGERS. I thank the gentleman.

The chair now recognizes Mr. Jonathan Breul, Partner, IBM Business Consulting Services, and Senior Fellow of the IBM Center for the Business of Government, for any statement he may have.

STATEMENT OF JONATHAN B. BREUL, PARTNER, IBM BUSINESS CONSULTING SERVICES, SENIOR FELLOW, IBM CENTER FOR THE BUSINESS OF GOVERNMENT

Mr. BREUL. Thank you, Mr. Chairman.

According to research that we sponsored, there is ample opportunity to use mission and performance information at each stage of the budget process.

Until recently, performance of most public programs and their managers have been judged almost exclusively on inputs and activity. Quoting Jonathan Walters, who is one of the folks who has done research for us, in a book called "Measuring Up," he says, "Governments have always been really good at measuring one thing: spending. What government has been really lousy at is

measuring what was accomplished through the spending and its action."

With a mission orientation, budgeting can provide much more information to the resource allocation process so that funds are allocated where they are most likely to maximize the achievement of mission outcome.

At the same time, I want to add some caution to that, which is that you clearly would not want to establish a mechanistic link between mission outcomes and budget. That is neither possible nor desirable.

The department has been making significant progress in developing its strategic plan and its annual performance accountability report. And both of those include specific performance measures to assess the results of its activities.

However, at the moment, there is very little basis for assessing the contribution of the budget toward the overall mission goals. You won't find that in the budget submission.

And as a further example, if you look at the Department's efforts to comply with the Office of Management and Budget's measurement system linking budgets and performance, something called the PART, the Program Assessment Rating Tool, the Department has only had limited success, because most of its performance is tied to subgoals, activities two or three levels below the mission and thus unable to give you an assessment of budget and mission in a helpful fashion.

Many other organizations have attempted to implement mission-driven budgeting. Those that have, indicate that it is much more challenging than they had anticipated and that actual implementation is uneven, particularly to start.

The reasons for those are several. A mission orientation requires a much more fundamental approach to thinking and managing. It requires thinking about the budget and the management across all of the functions of the activity of the organization, not just specific pieces. And organizational change of that kind is not easy.

Second, mission outcomes are much broader in nature than the outputs of specific programs. They tend to be much more difficult to quantify, even when that is possible and meaningful to do so.

Nonetheless, there is substantial evidence from many sources that it is possible to focus on mission and that it is possible to assess the extent to which mission has been accomplished.

Mission-oriented budgeting will not be the answer to the vexing resource tradeoffs involving political choice, but it does, however, offer the promise to modify and inform the policy decisions and the resource allocation decision by shifting the focus of the debate much more from input, to the question of overall mission accomplishment, which are the crucial questions that are crucial to the Department's success and to the nation's security.

[The statement of Mr. Breul follows:]

PREPARED STATEMENT OF JONATHAN D. BREUL

Mr. Chairman and Members of the Committee, thank you for the opportunity to discuss transforming the Department of Homeland Security (DHS) through mission-based budgeting.

I am a Partner in IBM Business Consulting Services and a Senior Fellow with the IBM Center for The Business of Government. The IBM Center for The Business

of Government is dedicated to stimulating research and facilitating discussion of new approaches to improving the effectiveness of government at all levels in the United States and around the world.

Mission Budgeting

Good government advocates have called for mission-oriented budgeting for decades. The 1949 Hoover Commission called for a shift in budget focus away from the inputs of government to its function, activities, costs and accomplishments. According to an October 2003 report from the IBM Center for The Business of Government, there is ample opportunity to use mission and performance information at each stage of the budget process—that is, not only in the Office of Management and Budget (OMB) and the Congress, but in the agencies and by the audit community as well. The report, *Performance Budgeting: Opportunities in the Federal Budget Process*, by Philip G. Joyce, associate professor of public administration at The George Washington University, presents a comprehensive view of how performance information can be used at various stages and provides a number of specific recommendations designed to sustain progress to date and to further the use of performance information in the federal budget.

DHS is not alone

All governments are under increasing pressure to produce—and to demonstrate—results in terms of their mission. Over the last decade, countries around the world have undertaken reforms with the aim of improving the relevance and effectiveness of public services and the quality of public sector management. A key aspect of most reform strategies has been a focus on mission results and outcomes.

Yet, until recently, the performance of most public programs, and of their managers, has been judged largely on inputs and activities, in particular, how they have spent their allocated budget, and perhaps, on activities undertaken and outputs produced. Government too often is preoccupied with process and with following the rules, without adequate focus on the benefits that actually arise from public sector expenditure and activities. Measures of effectiveness across organizations and functions remains a major challenge not only within DHS, but throughout the public sector. As Jonathan Walters notes in *Measuring Up: "Governments have always been really good at measuring one thing: spending. . .What government has been really lousy at is measuring what was accomplished through that spending and action."*

What is mission-budgeting?

With a mission orientation, information about mission (not programs, process or activities) can inform the policy debate and help determine the agenda. In this way, questions of outcomes, and what forms or approaches are likely to be effective or not, would be taken into consideration in the allocation of resources.

Organizational performance can be tied to mission attainment and communicated agency-wide. Performance can be directly linked with the overall mission. Goals, objectives, outputs and outcomes can be tracked at every level so that there can be continual assessment and reassessment of the allocation of resources in relation to those elements in as close to real time as possible.

Finally, mission-based budgeting can provide more information to the resource allocation process, so that funds are allocated where they are most likely to maximize the achievement of mission outcomes. At a minimum, linking missions to budgeting can illustrate what benefits arise from expenditures. However a mechanistic link between mission outcomes and budget allocations is neither possible nor desirable. Nonetheless, information about mission can play a significant role in the overall budget process.

The Department of Homeland Security

The terrorist attacks on September 11 drove home the immediate and enduring requirement for significant changes in US national security. Asymmetric threats, growing dependence (and vulnerability) on information systems, and the need for faster cycle-time response put the nation at great risk.

Three years ago, Congress and the President took on the enormous undertaking of creating a new Department whose central mission would be to secure the homeland. Section 101 of the Homeland Security Act set forth prevention of terrorist attacks, vulnerability reduction, and response to and recovery from terrorist attacks as the main missions of DHS, along with its inherited non-homeland security-related functions. Currently, however, neither the Department nor Congress can tell from budget submissions how much is being allocated for these main mission areas.

To address this challenge the Department should take steps to measure performance and budget with more of a mission-oriented focus. Only when the Department allocates its limited resources based on mission area (prevention, vulnerability reduction, recovery/response, and non-homeland security related functions) will it be

transformed into an integrated, new operation to meet its homeland security missions.

Current situation

The Department has made significant progress developing a strategic plan and an annual performance and accountability report with specific program performance measures to assess results of DHS activities in achieving its goals. However, there is little basis at present for assessing the contribution of the budget toward the mission goals. Further, nearly a third of the Department's budget goes to non-homeland security functions.

The Department's efforts to comply with OMB's measurement system for linking budgets to performance (the Program Assessment Rating Tool, or PART) have met with limited success, since DHS ties performance to sub-goals that lie two or three levels below these overarching objectives. Congress has fared little better in assessing performance. DHS appears to provide the new Homeland Security appropriations subcommittees with less budget justification detail than other agencies provide their subcommittees.

Implemention

Mission-based budgeting requires a top-down approach. Initially, it can present a major challenge, but the potential rewards are great. The move toward mission-based budgeting can begin with any number of actions, including defining, prioritizing and selecting mission outcomes, evaluating the strengths and weaknesses of current programs using standardized measures and describing the outcomes of competing mission strategies and engaging stakeholders to evaluate them.

This blueprint would reflect a rigorous annual program and budget process to prioritize operational funding and long term investments in terms of mission as well as to ensure that they reflect the Secretary?s priorities and those of the President. This could provide an ongoing mechanism to monitor and adjust the implementation as well. Finally, it could be a powerful way for the Secretary to flag key issues and influence funding decisions and tradeoffs earlier rather than later in the budget process.

There is little point in engaging in such an effort, however, unless it is going to be used in some way. Indeed, if staff do not see how a mission-oriented budget can be used, this is likely to breed cynicism that can make further efforts to focus on mission more difficult. This is why it is absolutely critical to generate buy-in and commitment at all levels of the Department, as well as key congressional committees and staff. This can result in change that can represent the most enduring—and the most significant—form of use, namely in terms of actual day-to-day decision-making and management.

Challenges

Implementing a mission or outcome-oriented approach has proved deceptively difficult. Countries that have attempted this approach indicate that it has proved to be more challenging than they had anticipated, with actual implementation uneven, at least initially. Why has an outcome focus proved to be so difficult?

First, a mission orientation represents a fundamentally different way of thinking and of managing, across *all* aspects of an organization, including how it relates to citizens and major stakeholders. In order to be effective, mission-oriented thinking needs to be incorporated into the organizational culture at all levels. Organizational change of this kind is rarely easy, it always takes time to put into place and to sustain, it is certain to encounter at least some intiial resistance, and it requires an array of approaches and supports.

Second, mission outcomes are longer term in nature than outputs and activities. Typically, they are influenced by a variety of factors in addition to the program intervention in question. They tend to be far more difficult to quantify than activities and outputs, where it is even possible or meaningful to do so. Given the achievement of the mission usually depends in part upon factors beyond the direct control of Departmental programs or their managers, a different approach to attribution may be required than with inputs or outputs. This can imply the need for to changes to exisiting accountability and reward mechanisms such as the new pay for performance system.

There is, nonetheless, substantial evidence from many sources that it is possible to provide for a focus on mission and that it is possible to assess the extent to which the mission has been achieved.

Advantages of mission-based budgeting

There are many positive effects that can occur as a result of a more direct linkage between mission and the allocation of resources. First, it can lead to a more efficient use of resources, since questions about the success of mission activities are tied to

the allocation of resources. Second, such a linkage can help inform key stakeholders, including the Congress, whether taxpayers are receiving sufficient "value for money." Third, when either additions or deletions from the Department's budget need to be made, these can be targeted in a way to optimize mission performance.

Each of these three effects is important primarily because the resources are scarce; therefore the way in which these resources are allocated is crucial to the Department's effectiveness.

Conclusion

The Department of Homeland Security is dealing with very real and immediate threats and operational responsibilities. Mission-oriented budgeting will not be the answer to the vexing resource trade-offs involving political choice. It does, however, have the promise to modify and inform policy decisions and resource allocation by shifting the focus of debates from inputs to the mission outcomes and results which are crucial to the Department?s success and to the nation?s security.

Thank you again for the opportunity to testify. I look forward to answering your questions.

Mr. ROGERS. Thank you, Mr. Breul.

The chair now recognizes Mr. Carl J. Metzger, director of the Government Results Center, for any statement he may have.

STATEMENT OF CARL METZGER, DIRECTOR, GOVERNMENT RESULTS CENTER

Mr. METZGER. I thank you so much for the honor to testify before you, Mr. Chairman and members. I direct an independent non-profit center that for the last 11 years has been helping agencies to share the lessons learned and the better practices in managing for results.

The comments that I am going to make are based upon really exposure to those departments and agencies sharing about what they are trying to do. I reach roughly 10,000 government officials. We hold monthly meetings that bring together easily anywhere from 80 to 200 of those people, planners, budgeters, et cetera.

What we have seen is that from that sharing there are some important things that would apply to what the Homeland Security Department is trying to do, and all the details of what I have said, of course, are in my written statement. I would particularly like to emphasize a couple of them.

First of all, the extraordinary importance of leadership. We have seen that where you have top leaders like the deputy secretary or an assistant secretary who truly understand the workings of the department and how to motivate their people, who understand Government's process to manage for results, those results are achieved. Cultures are being transformed.

I especially have been impressed by the work of Deputy Secretary Designate Lynn Scarlett at Interior for that purpose and Assistant Secretary for Administration and Management Patrick Pizzella at the Labor Department. Those two people understand what is going on. They motivate their employees. And they get the work done.

Second, the governance process. I think it should be as adaptable as possible to the changes going on. At a department such as homeland security, changes, be they politically changes with priority changes and all that, may be potentially cataclysmic, as we saw a few years ago.

People have to be expecting that they have to apply those principles of performance budgeting, which I think are really similar in

principle to the mission-based budgeting that you are interested in applying here. To us, it seems that the mission budgeting is a simplification of the performance budgeting.

But the principles for performance-based budgeting are the same as described in OMB's Circular A–11. What is important is that the leadership makes the governance process effective and working toward results. It is helpful to have an exemplary department component that you can apply some of these foundational important aspects to.

For example, total costing. Congress has been interested in total costing and especially comparing it with results that might occur as a result of some incremental change in the resource allocation.

Departments where there is a model agency trying to develop total costing as a foundation for the managing for results, such as the Interior Department's Fish and Wildlife Service, are picking up people understanding what they are doing, and they like to apply it department-wide. That is helpful.

Real involvement of stakeholders and partners for the Homeland Security Department is struggling from so much newness and complexity. To become an entity toward these three missions, it is particularly critical to involve key stakeholders and partners in major transformations.

I think Congress in particular should be viewed more as a partner than a stakeholder, because an effective working relationship to adjust quickly to the environment has to happen here. The missing elements often in agencies are fully understanding stakeholder needs, adjusting to those needs, and successfully communicating an agency's achieved measured outcomes.

At present, most legislators and their staffers have concluded that aligned budget and performance structures work only if performance cost information is credible, compelling, accepted and directly useful for their objectives.

Supplementing rather than replacing key information used by appropriations committees should be the guide. Closing that gap can be realized by truly involving Congress early and continuously in the dialogue. I believe what you are trying to do here—to simplify in the face of all this complexity—is an admirable thrust toward helping the American public to understand, at least in tune with preventing vulnerability reduction and recovery response.

If we can at least understand our costs, our results, according to those three things, and somehow develop a crosswalk toward the seven strategic goals in the current homeland security strategic plan, this will help. And I hope that we can see the result of Secretary Chertoff's second review to see how we can make changes that will apply the interests that you have.

Thank you.

[The statement of Mr. Metzger follows:]

PREPARED STATEMENT OF CARL J. METZGER

Mr. Chairman and Members of the Subcommittee:

Thank you. It is an honor to testify about our views on Mission-Based Budgeting as a mechanism to transform the Department of Homeland Security (DHS). We are reasonably familiar with the Department's historical origins of assimilated disparate agencies, legislative foundations, and subsequent Planning, Operations and Reporting. Particularly striking are the monumental management challenges to the new

leadership team of Secretary Michael Chertoff, Deputy Secretary Michael Jackson, and Under Secretary for Management Janet Hale and how this new team is wisely addressing those challenges initially. The Secretary's "second-stage review" to take a close look at the missions, goal achievement, and gaps between where DHS is and wants to be is completing this month. He has clearly articulated that DHS leadership must act jointly to: integrate intelligence, policy and operations across the department so each component is directed from an enterprise-wide perspective with a clear focus on prescribed DHS outcomes. Bureaucratic stovepipes must be eliminated and information shared effectively.

The Department identified in its FY 2004 Performance and Accountability Report notable performance highlights in achieving its seventh strategic goal of Organizational Excellence, such as reducing nineteen financial management centers to ten, consolidating contracting offices, formulating its first enterprise architecture, and establishing a Network Operations Center and an enterprise-wide intranet.

The motivation of this Subcommittee, as Stakeholders, is to accelerate this improvement process by reforming the way the Department allocates its limited resources based on the three mission areas of prevention, vulnerability reduction, and recovery/response plus non-homeland security-related functions. DHS submissions in the future will clearly reflect budget, cost, performance and results but will be simplified by mission segment. Other than a "mission" orientation, mission-based budgeting is not unlike performance-based budgeting that is mandated for all federal agencies by OMB in Circular A–11. DHS would develop recommendations that would specify (a) institutional, financial, and productivity goals and (b) funding for department-wide priorities. Once approved and implemented, I agree that, first, Departmental leadership would be better able to hold DHS entities accountable for achieving and complying with performance expectations and guidelines and, second, that American citizens would better understand resource allocation priorities and results by the tri-partite mission segmentation of prevention, vulnerability reduction, and response/recovery.

The non-profit Government Results Center which I direct has for more than eleven years assisted government agencies share lessons learned in performance management, reaching approximately 10,000 officials via e-mails and upwards of 200 government personnel monthly in free meetings that feature reports by Department Leaders and practitioners on various cost, performance, results and integration management efforts in the federal government. My comments and suggestions to the Subcommittee are based upon our learning about those departments? and agencies? better practices toward managing for results. The remarks will be according to the following categories:

- The Extraordinary Importance of Leadership
- An Adaptable Governance Process
- Development of an Exemplary Departmental Component
- Strategically-Aligned, Continuously Improving Culture
- Benchmark Before DHS Application
- Real Involvement of Stakeholders and Partners

THE EXTRAORDINARY IMPORTANCE OF LEADERSHIP

The Interior Department proclaims it is critical to have leadership direction, ownership and support. "Direction" to Interior means both substantive strategic direction on the Agency's future courses of action, and direction in terms of how the performance (mission)-budget process will be managed, and who is responsible. "Ownership" means that senior leadership actually uses the system to make crucial resource decisions, and they personally identify with its successes and failures—meaning that they have an active hand in designing and tailoring the system to suit their needs. . .and not totally delegate to staff. ?Support? means paying more than lip service to the system, but truly providing adequate funds and the appropriate intellectual capital. This suggests an ongoing learning process in which decision-makers too should be trained to understand and use the system. Managers in the Interior Department do not hesitate to commend the Deputy Secretary (Designate), Lynn Scarlett, for her in-depth knowledge of the planning, financial and program management, bureau operations, support functions, reporting, and success in motivating employees. Every day Ms. Scarlett is personally leading the cultural transformation by demonstrating how supervisors must manage strategically, involving subordinates and communicating how an individual employee's work actually aligns with Interior's strategic goals.

Similarly, Patrick Pizzella, Assistant Secretary for Administration and Management, exerts extraordinary leadership at the Department of Labor. Because of his centralized oversight through his OASAM staff, Mr. Pizzella successfully deploys cultural transformation and excellence into Labor's Administrations. Ten years ago

Labor was not evaluated as a leading Department in results-based management. Today Labor IS a recognized leader as judged by OMB and other external reviewers. Both Interior and Labor have leaders at the Deputy Secretary or Assistant Secretary level who have accepted top responsibility for performance management integration and the cultural transformation process.

AN ADAPTABLE GOVERNANCE PROCESS

Governance is critical to transformation in that it provides a clear, transparent decision-making process that fosters consistent behavior linked to the missions and senior management vision. The goal of governance should be consistent and effective oversight for initiatives throughout all phases of their lifecycles. A governance system is necessary to establish enterprise-wide standards for senior leadership, program managers, business sponsors, and support functions. Breeding and nurturing an accountability culture takes time and top leadership insistence. Operating divisions must be actively involved in design, implementation and evaluation. Leadership must insist on their organization's responsiveness to OMB and Congress, working with both as effectively as possible to understand and adjust. Anecdotes abound of agencies? dialogue with OMB examiners where initial PART scores for programs were very low but through program managers? communications of proven results, scores rose dramatically. Listening, understanding, and adjustment are powerful to gain satisfaction of stakeholders and partners.

At the Department of Labor, a management review board shares department-wide responsibility for long-term, outcome-oriented results. There is a cross-cutting emphasis by the Board. They focus on goals important to the Department as a whole, but provide a framework which maps the cascading responsibilities down to every level within the Department. Every SESer, non-SES manager and supervisor has managerial and programmatic performance standards to be achieved in a cost-effective manner. There is at least one efficiency measure for every program. A performance-cost model recognizes the importance of both total cost and marginal cost associated with performance improvements.

NASA has developed a well-integrated system of strategic goals and performance goals with total and marginal costs. They relate those goals to the three mission areas of Understand & Protect, Explore, and Inspire. An interesting feature of NASA's system is that they keep their performance, cost and accountability system tightly linked to their evolving vision, mission and themes. In that sense, they provide an excellent example of an adjustable, mission-based budgeting structure. NASA adjusts to political and priority changes. They have adjusted by streamlining goals, redesigning and simplifying their budget structure, and reducing the number of program areas—with every area relating back to the goals and forward to performance measures. They reduced the number of performance measures in order to focus on the critical few that drive the success of their mission. They have allocated all costs and budgets to the new structure. Their Integrated Budget and Performance Document aspires to be understandable to the public and used as a key tool in managing the agency.

DEVELOPMENT OF AN EXEMPLARY DEPARTMENTAL COMPONENT

Many departments have selected one component agency to develop an exemplary target process and system. The Fish and Wildlife Service at Interior is one example of cost and performance integration. The bureau tracks its costs through activity-based costing methodology and through cause-and-effect relationships assigns those activity costs to what they term "critical success factors". Critical success factors are tied to the bureau's operational goals. These operational goals are subsequently aligned with the Department's end outcome measures. The two key elements in this structure are: (1) proper alignment to Departmental goals in order to support the Department in viewing the costs of its strategic objectives; and (2) cause-and-effect relationships to enable the bureau to analyze marginal costs and understand how changes in outcome targets/measures impact the resources required to achieve them. The initiative is promising for establishing a results and accountability culture that is complete with shared values and practices for a department-wide application.

In the mid-1990's we saw how the pilot Marine Safety and Security Program provided a planning and reporting model for the entire Coast Guard to emulate. In turn, Transportation incorporated many of the Coast Guard's processes and system for a department-wide application, and DOT became recognized as a leader to study and benchmark.

STRATEGICALLY-ALIGNED, CONTINUOUSLY IMPROVING CULTURE

Mission-based budgeting is an approach used to allocate an organization's resources in a cost-effective manner to the primary components of the organization's mission. Do a better job of making wise resource investments based on evaluating

how these investments contribute to the Agency's mission. These contributions need to be spelled out in terms of concrete, measurable outcomes that make a difference to the taxpayer, and to America.

The challenges many observe in achieving "results-oriented, accountable government" are similar, in many respects, to those encountered in implementing mission-based budgeting. These challenges can be grouped into three categories: (1) the measurement challenge; (2) the management challenge; and (3) the cultural challenge. The measurement challenge concerns the difficulty of accurately determining how dollars drive performance. Measuring the cost of inputs, activities, outputs and ultimately outcomes related to missions becomes progressively more complex. As one proceeds along this continuum, a larger number of people and institutions contribute to the results, and it becomes harder to attribute given results to any single source of effort or dollars. The management challenge is how to allocate dollars to missions in the absence of analytically rigorous evidence. Various allocation mechanisms are available, including professional judgment, politically-driven motives, or pro rata assignments. But any of these approaches are on shaky analytical footing and can be called into question by internal and external stakeholders. Thus, Agency administrators must carefully design planning processes that accommodate the views of stakeholders.

The cultural challenge associated with mission-based budgeting or performance-budgeting relates both (a) to the organizational culture of the Agency initiating this effort and (b) to the Agency's Congressional oversight, authorizing and appropriations committees. Agency cultures will need to overcome the 'stovepipe' mentality that has traditionally dictated that funding is allocated to line organizations based on capabilities and input needs. In such traditional organizations, budget linkage to missions or outcomes is accomplished through budgetary, strategic plan or performance plan narrative that declares the relationship to exist. True allocation of resources to missions or outcomes based on demonstrated performance connections is much rarer. However, some Departments, such as Interior and Labor, have demonstrated top leadership commitment to breaking down the stovepipes and not only backing, but actively guiding and participating in a strategically-aligned, continuously improving process that analytically allocates dollars to performance outcomes in successively more rigorous ways.

BENCHMARK BEFORE DHS APPLICATION

Since DHS is looking anew at its organizational and budget structure in accord with its missions, it would be prudent to identify lessons learned and better practices, at least in other federal departments. The DHS-wide eMerge2 solution has begun but is temporarily halted. In addition to the better practices in departments and agencies cited above, benchmarking to glean lessons from the Defense Department's enterprise-wide initiatives makes sense. The DHS at this juncture, is probably more complicated to run, even in comparison with DOD. However, DOD is working to evolve an effective bureaucratic discipline to run their enterprise-wide systems.

Benchmarking that DOD evolution as well as financial management, integration and budget restructuring efforts in other departments should be helpful to DHS. A strong DHS-wide, performance and cost-based management information and decision support system will accelerate the acceptance and use of mission-based budgeting as a legitimate management tool.

REAL INVOLVEMENT OF STAKEHOLDERS AND PARTNERS

For the DHS who is struggling with so much newness and complexity to become an entity united toward three missions, it is particularly crucial to involve key stakeholders and partners in major transformations. Congress in particular must be viewed as more than a stakeholder. Congress must be a partner to work together with DHS on developing an effective working relationship that is capable of adjusting quickly in an environment that is changeable and potentially cataclysmic. In the absence of such a partnership, challenges to mission-based budgeting will be exacerbated. The Government Accountability Office recently observed that planning and budget structures serve different purposes, and any effort to achieve meaningful connections between them highlights tensions between their differing objectives. Appropriations staffers, for example, have a concern that all of this new performance-based budget information will replace some of the workload and output categories for which they currently get cost breakdowns. Staffers need that kind of information to satisfy their constituents. Restructuring can only take root once support exists for the underlying performance goals and metrics. In due course, once the goals and underlying information become more compelling and are used by Congress, budget restructuring may become a more useful tool to advance both mission-based budgeting and performance budgeting. The budget structure will more likely reflect—

rather than drive—the use of performance and cost information in budget decisions. The missing elements regularly in agencies are fully understanding stakeholder needs, adjusting to those needs and successfully communicating an agency's achieved, measured outcomes.

At present most legislators and their staffers have concluded that aligned budget and performance structures work only if performance-cost information is credible, compelling, accepted, and directly useful for their objectives. Many, as in most States, use outcome measures as input to policy decisions, but rely on workload and output measures to make funding decisions. Supplementing, rather than replacing, key information used by appropriations committees should be the guide. Closing that gap can be realized by truly involving Congress early in the dialogue.

Thank you, Mr. Chairman. I hope this testimony will be helpful to the Subcommittee in your deliberations on the most effective way to evaluate, monitor and allocate resources for our homeland security.

Mr. ROGERS. Thank you.

I would like to start off with a few questions.

Mr. McTigue, you outlined some goals and talked about awareness and prevention being first among those. But then you went on to make the point that the desired result is for nothing to happen, but that is difficult to measure.

How do you reconcile going to mission-based budgeting when you need results as a component, a measurable result, when you can't measure what didn't happen?

Mr. MCTIGUE. I don't accept that you can't actually measure it, Mr. Chairman. The military, for example, are very, very good at doing threat assessments, and they can tell you whether the threat assessment is escalating or diminishing.

The insurance industry is extremely good at looking at demographics and deciding how risk is changing. The banking industry is very good at doing the same.

And within homeland security, I think that it is possible to gradually acquire the skill to be able to say we can see an escalation in the threat from this particular quarter or from this possible facility, and we need to do something about it.

So over time, I think that skill can be built. That would then tell you that we need to be putting more resources into awareness, so that we become aware of that and we can take action before anything happens. We need to be putting more resources into prevention, because with the knowledge we have to be able to actually do something to try and defuse the situation.

Now, it seems to me that those two things are critical to preventing anything from happening. The others sort of cascade down as the event becomes more likely. These are your second, third, fourth, and fifth sort of stops to the terrorist act and helping with the recovery.

So, yes, I think that is possible. And I would just add this, Mr. Chairman, and that is that if you think about mission-based budgeting and you think about performance-based budgeting, here is a comparison.

If you took the issue of hunger, you could have performance-based budgeting for all of these programs that help to feed hungry people. And you might measure them, and you might decide that we have been highly successful. But you have done nothing to diminish hunger, because all you have done is you have concentrated on programs that feed hungry people rather than looking at what caused that hunger and how can we remove the hunger.

With mission-based budgeting, you would focus on what is going to gradually eliminate the hunger rather than what is going to most effectively feed people. I think that is good.

I think it is axiomatic in performance-based budgeting that you are going to focus on the mission. But there would be a possibility that people didn't, that they just focused on whether or not this was going to give you a better performance from this activity.

Mr. ROGERS. Great.

Mr. Breul, in your statement, you indicate that neither the Department of Homeland Security nor Congress can tell from the current budget submissions how much is being allocated for the budgetary mission areas of prevention of terrorism, vulnerability reduction and response to and recovery from terrorist attacks.

Could you elaborate on this statement and explain why it is important to have this information?

Mr. BREUL. [inaudible]

Mr. ROGERS. Did you agree with Mr. McTigue's assessment of the measurability of these?

Mr. BREUL. [inaudible]

Mr. ROGERS. My time has expired. I now yield to the ranking member, Mr. Meek, for any questions he may have.

Mr. MEEK. Thank you, Mr. Chairman.

Mr. McTigue, you mentioned an issue of a normal merger in your testimony, and you said that it takes time. And I think the reason why a number of members of Congress and also the American people, and even some of you in academia—you know, when it comes down to protecting the homeland, patience is not necessarily one of the great values that we hold.

How long do you think it will take for us to—as Mr. Breul mentioned just a minute ago, for us to become one? Because we have a department that was put together by the Congress, there are a lot of kingdoms within the agency we have now.

How do we get down—have you seen any proposals or have there been writings on how we can streamline not only management in the Department—and maybe Secretary Chertoff may answer many of these questions in the coming days, because I am pretty sure that he has some thoughts on this—to be able to get us toward mission-based budgeting, because we have the whole issue of attrition, which is just out of control in the Department?

No one stays long enough to be able to even buy into a concept on what we should be doing as it relates to mission-based budgeting, leave alone the other missions that we have.

Mr. MCTIGUE. Congressman, my response to you would be given no change, in 10 years you might be looking at a department that looks very much the same as it does today, particularly if the allocation of resources are done as Mr. Breul suggested on a component-by-component basis.

You could change that if you were to start to think about funding the Department of Homeland Security on—we purchase the traditional functions from each of those component agencies, so the Coast Guard does its traditional job and so does the Customs do its traditional job, and the Secret Service protects the important personages, but at the same time you thought about now we also

have to protect the homeland, and these are going to be the most important components.

We want to increase our capability of detecting threats, so we are going to charge the homeland with increasing that capability and give it some more resources to do that. We are going to increase its capability to prevent—in other words, find ways of defusing a threat when that exists.

And as you do that, then I believe that you will tie the Department together, because the incentives created by people having to work together will tend to produce a culture that works together. While you allow them to work as separate functions, then they will never develop a common culture, in my view.

Mr. MEEK. Thank you.

This is a question for the entire panel, whoever wishes to respond to it. When you start looking at the Department of Homeland Security and mission-based budgeting—and I asked this, a pretty much similar question, I asked the Comptroller—how do you balance not only the policy but also the influence from Congress and other Governmental figures here in the capital city here in Washington, D.C., and politics that goes along with that that can very well disrupt mission-based budgeting?

And, Mr. Breul—am I pronouncing your name correctly, sir?

Mr. BREUL. Yes.

Mr. MEEK. Okay. You mention in your statement on page five, where you list the advantages of mission-based budgeting—you mention first there are many positive effects that incur as a result of a more direct link between mission and allocation of resources, which makes perfect sense, you know, reading it.

Also, you go on—I am going to go further. second, such a link can help inform stakeholders, including Congress, whether taxpayers are receiving sufficient value for their money. Third, you go on to say when either additions or deletions from the Department's budget needs to be made, these can be targeted in a way to optimize the mission performance.

I am going to tell you, I mean, just from a layperson—let's just take off the congressional hat—that makes perfect sense, but how we get there is the hard part, and, you know, it is almost like I love sausage, but I don't want to see it made.

And it is kind of hard to get there, and I know that there is some thinking—and I am pretty sure all of you would like for us to take our political hat off and do what we have to do on behalf of the country, but that is not necessarily the issue here.

One of my constituents met me once and said—and he was sharing something with me, Mr. Chairman, and he kept going on and on and on, and then he said well, you are going to get a chance to say something in a minute.

I am just going to say this before I close, because I would like for anyone that wishes to answer the question. This committee was put together by House speaker and also the Democratic leader and other members of Congress that cared about this subject.

It is the first time in the history of the country that we have really focused enough to learn about what we need to know to be able to lead in this area. So this is groundbreaking.

I know this subcommittee is not full right now, but it is going into the record. Staff is being educated. We are also being educated on what we are supposed to do. We are the stewards of responsibility, I believe.

And we are going to have to be the interpreters on the floor and in other committees about our responsibility, so that means that we have to resist certain things just because we can. We can do something. We have to resist. And that is a difficult balancing act for us.

And so I am asking those of you that are focusing on the seriousness of the matter to just dive into politics for a minute and talk about exactly what you feel that we should do as responsible policymakers to make sure that we can deal with this mission-based budgeting, because I am understanding it clearer now as not only I read but I am hearing what you are saying, because I believe that we cannot afford to continue to give, give, give, give, give money to the Department of Homeland Security thinking that that is the be-all and the end-all, because it is not.

And so we have to get to some sort of targeting. When you start talking about sending the resources to the place where it needs to be, that means there is going to be a U.S. senator or congressperson that is going to have to explain why they are not getting the homeland security dollars in their district, because no one wants to, I guess, blow up an empty field. I don't know.

Mr. BREUL. Let me try to give you an answer to that. I think the simple answer—and it was suggested by Comptroller General David Walker—there is a need for a game plan, which is the strategic plan for the Department.

The strategic plan will lay out just how the mission is to be achieved, and the mission, again, in terms of the Department as a whole, so that as you go about making that sausage there is a recipe, there is a plan, and you are not just doing a little of this and a little that and making it up as you go along.

The strategic plan—and it is a statutorily required item at this point, based on the Government Performance and Results Act—is something the Department and the Secretary are charged with developing. It must be updated every 3 years.

And importantly, those departmental strategic plans are to be developed in discussion with stakeholders, but importantly, from your standpoint, in consultation with Congress.

They are supposed to engage the Congress in a dialogue as to what the pieces and elements might be so that all of the elements that comprise the mission of that department—those stipulated, the three primary ones in the Homeland Security Act, as well as the other functions—are accommodated and expressed in a mission format that makes sense, so that then they can go about executing and you can go about allocating resources in a way that maximizes the achievement of that stated mission.

So there is a means to do it. I think the strategic plan is the main tool to do it.

Mr. MCTIGUE. Congressman Meek, if I could just make a comment as well, before I came to the United States I used to be a member of parliament in New Zealand, so I have experience from the side of the political battles, which I had to get into to get deci-

sions through. I was also a member of cabinet, so I had some experience from that side.

The chairman asked me earlier on whether or not you could measure if the risk was getting greater or less, and I said the answer was yes. Also, as Jonathan Breul said, you can measure whether or not your capability of being able to respond to that risk has improved or deteriorated.

What you can also say, using that same kind of analogy, is that if we starve this particular issue from resources, then the risk to the American people has gone up by 5 percent, 7 percent, or 10 percent. Mr. Senator, do you want to be responsible for that?

And certainly, as a member of parliament, I didn't want to be responsible for those things. So I think that you can start to identify the consequence of not putting the money in the high priority issues. There is a consequence, and it is that the risk to Americans gets greater.

Mr. MEEK. I am sorry.

Mr. METZGER. Yes, I would like to comment about what an agency is doing. On page three of my written testimony, I referred to NASA. They have developed a well integrated system of strategic goals and performance goals with total and marginal cost.

I pick up on Mr. Breul's comment about the importance of the planning. I pick up on my earlier comment about the importance of the governance process, because the agency relates those goals to their three mission areas of understand and protect, explore and inspire.

Besides those three mission areas, which have subordinate goals under them, they have three enabling goals that they spell out. So they keep their performance, cost, and accountability system tightly linked to their evolving vision, mission, and themes, as they call them.

In that sense, they provide an excellent example of an adjustable mission-based budgeting structure. They adjust to political and priority changes. They adjust by streamlining goals, redesigning and simplifying their budget structure, and reducing the number of program areas with every area relating back to the goals and forward to performance measures, reduced number of performance measures they do in order to focus on the critical few that drive the success of the missions.

They allocate all costs and budgets to the new structure. They have an integrated budget and performance document that aspires to be understandable to the public and, importantly, used as a key tool in everyday managing of the agency.

Mr. MEEK. Well, Mr. Chairman, I just want to—I know we are into a close now—thank our panel, and I will definitely save your information, so if I need further information—I am glad that you mentioned the issue of the homeland security strategic plan.

I will tell you personally I have been paying close attention to the statutory language. We have put components there—that is when they came out with the major components that the Department of Homeland Security has to follow.

Of course, there are about four more than what I have actually talked about. But I think that is important, Mr. Chairman, as we move on. I know that Mr. Chertoff, due to the age of the Depart-

ment—that will be coming back around again, to write a new strategic plan, and I think it is important, and I know that Congress will take part in that.

I don't know what level of input we will have, but within, that is important. But thank you, gentlemen, for your time.

Mr. ROGERS. I would like to ask Mr. Metzger, in your statement, you indicate under a mission-based approach DHS would develop recommendations that would specify, A institutional, financial, and productivity goals and, B funding for department-wide priorities.

In your view, would this make DHS more accountable?

Mr. METZGER. Yes. Could you say which particular page that is in the notes?

Mr. ROGERS. No, I don't—

Mr. METZGER. OK. Yes. I think the important thing is that through the governance process imposed upon by insisting top leadership that the flow downward through to the levels of the managers of the entities, the managers of the programs, the managers of the functions, even individual employees, which is what Interior does, they will accomplish the alignment—

Mr. ROGERS. Does Interior have mission-based budgeting?

Mr. METZGER. No. They have performance-based budgeting and they have strategic goals, of course, which are the overarching, and their annual plan calls for performance goals that are aligned with that.

Mr. ROGERS. What do you think is going to be the institutional reaction to this push for mission-based budgeting?

Mr. METZGER. Well, I think it will be hard in the homeland security case, of course, because they all have their stovepipes that they have been accustomed to. This is a major challenge that the Department has, to break those down.

The only way you are going to get around that, I think, is by having the top leaders—and those, of course, would be the secretary, the deputy secretary and the assistant or the under secretary—for management to understand what is going on.

What is impressive at Interior is that the leaders really understand, have an in-depth knowledge of what is going on. This is very hard in a department with 180,000 employees and 22 legacy agencies. But the only way it is going to get done, is if you accelerate the process that is of such great interest to the Congress.

The dialogue between the agency and the Congress, especially at this juncture, I think is the most important thing to shortening the time frame to have results that are more transparent to the public, accepted by the public, accepted by the appropriators, so they understand what is going on, too.

Dialogue, communications—that is the most important thing that the executive agencies can do in getting the sense of ownership, involvement, of the stakeholders.

And in the DHS case I think they have got to be considered having Congress considered as real partners in all of this and not just stakeholders somewhat up here, but really involved, thinking through the problems.

Mr. ROGERS. I would ask you the same question I asked Mr. Walker. Why do you think more agencies haven't already adopted

mission-based budgeting? And I would ask any one of you to take that one.

Mr. METZGER. Well, I would say offhand that homeland security is in especially dire need of having simplicity, because of all this complexity going on.

Mr. ROGERS. Organizationally.

Mr. METZGER. Organizationally. The mission structure would help, hopefully, to accelerate the process of change—

Mr. ROGERS. But again, why don't you think more agencies or departments have this? Nobody else has it other than GAO, and we think CIA might. Why do the other agencies not have—

Mr. METZGER. NASA does, as I said.

Mr. ROGERS. NASA does.

Mr. METZGER. At least they did when I last checked a year ago. But it can be done as in their case. They have a matrix on a single page that shows how it does relate the mission, the goals, and the themes spread across the top. It is a very impressive one.

Mr. ROGERS. Mr. Breul?

Mr. BREUL. Let me venture a guess for you. I mean, part of it is that this is tough stuff. Most of the agencies have not wrestled with the question of strategic plans and performance missions but only in the last 2 years.

This is a relatively new phenomena and taking it up to the level of looking at the mission as a whole is harder to grasp. Frankly, the Congress and the appropriations process focuses on the pieces. Appropriation breaks down into program and subaccounts and the rest, so the process tends to look at the pieces rather than the whole.

But a number of departments are working in this direction. The Labor Department is a notable one. I would also point out the Department of Transportation where Deputy Secretary Jackson comes from—DOT has four major missions that it poses and imposes on all the functions and activities in the department.

They look to safety, mobility, economic growth and security, and they see those as the overarching mission of that department. And they have all the program departments look toward those as the animating way of moving forward with their mission.

And I think you will see that department and a few others working in this direction fairly soon.

Mr. ROGERS. I want to thank all of you for your time. It has been very helpful to us as members as well as our staff.

I would point out to you, the same way I did to Mr. Walker, that we have several members who aren't here that may have questions they will submit to you. We are going to leave the record open for 10 days. If you could make a written response to inquiries they might have, that would be helpful.

And thank you again for your time. And with that, this committee stands adjourned.

[Whereupon, at 4:34 p.m., the subcommittee was adjourned.]

APPENDIX

ADDITIONAL QUESTIONS AND RESPONSES

QUESTIONS FROM HON. KENDRICK MEEK FOR JONATHAN D. BREUL RESPONSES

Question 1.: The inability of the financial systems to interact is the kind of problem that was anticipated when 22 different legacy agencies were merged together, each with its own budgetary and accounting systems. What role should DHS' Chief Financial Officer (CFO) play in making sure that the agency can make the changes that would be required by mission based budgeting?

The Chief Financial Officers Act of 1990 which created the position of a CFO at the major departments and agencies sets forth specific authority and details the responsibilities of the major federal agency CFO offices (31 V.S.C. 902). These statutory duties include development and maintenance of systems that provide complete, accurate and timely reporting of financial information.

The Department's CFO is also tasked with budget formulation, budget execution and performance management functions. For these reasons, the CFO should be involved through out the lifecycle of nearly every departmental initiative, from budgeting and funding at the front end through cost management during execution to the final accounting and reporting of expenditures. Working with other departmental officials, the CFO should play a major role in making changes required by mission-based budgeting.

Question: 2. Because of the non-mission based work that DHS does like that of handling natural disasters through Federal Emergency Management Agency (FEMA) is it even possible to successfully do mission-based budgeting?

Yes, it should be possible to successfully do mission-based budgeting. The Government Performance and Results Act of 1993 (GPRA) requires the department to develop a strategic plan, as well an annual performance plan and report. The strategic plan should define both the department's mission and a set of long-range goals and objectives for *all* of the department's major programs and functions.

The strategic plan consists of several elements, including a mission statement and a set of long-term goals. The mission statement describes the purpose of the agency, its *raison détre.* The long-term goals (called general goals and objectives) not only describe how an agency will carry out its mission, but also must cover *all* the major programs and functions of the agency.

Question: 3. In the federal government, the Director of Central Intelligence, and now the Director of National Intelligence (DNI) have used mission-based budgeting to plan budgets and track the assignment and spending of resources among the various intelligence agencies based on its missions for about the last ten years. How easy or hard is it for DHS to do this given that unlike the DNI whose primary responsibility is intelligence, DHS has a wide range of duties?

The strategic plan required under the Government Performance and Results Act is a means to forge a link between the mission and *all* of the other major functions and activities of the department. GPRA requires agencies to plan and measure performance using the same structures which form the basis for their budget request: program activities. This critical design element of GPRA aims at assuring a simple, straightforward link among plans, budgets and performance information and the related congressional oversight and resource allocation process.

Implementing a mission or outcome-oriented approach can nevertheless be difficult. There are a number of reasons why. First, a mission orientation represents a fundamentally different way of thinking and of managing, across all aspects of an organization, including how it relates to citizens and major stakeholders. Organiza-

tional change of this kind is rarely easy. It always takes time to put into place and to sustain, it is certain to encounter at least some initial resistance, and it requires an array of approaches and supports. Second, mission outcomes are longer term in nature than outputs and activities. They tend to be far more difficult to quantify than activities and outputs, where it is even possible or meaningful to do so.

There is, nonetheless, substantial evidence from many sources that it is possible to provide for a focus on mission and that it *is* possible to assess the extent to which the mission has been achieved.

QUESTIONS FROM HON. KENDRICK MEEK FOR HON. MAURICE P. MCTIGUE RESPONSES

Question 1.: The inability of the financial systems to interact is the kind of problem that was anticipated when 22 legacy agencies merged each with its own budgetary and accounting systems. **What role should DHS's Chief Financial Officer (CFPP play in making sure that the agency can make the changes that would be required by mission budgeting?**

Mr. McTigue's Response The merger that created the Department of Homeland Security (DHS) did not create the problem that the Federal Government has with its accounting systems. The problem already existed. The merger placed more urgency on finding a solution to the fact that it was impossible for policy makers to compare the cost and efficiency of different activities from different organizations because used different systems for recording cost, if indeed cost was identified at all.

The goal should not merely be to integrate the department's different financial accounting systems for the sake of integration. The goal should be to have a single system that actually produces the financial information Congress needs. Thus, it is imperative the effort start by defining what information the system is supposed to produce, rather than simply starting with or more existing systems and asking how they could be combined with the least trouble.

Question 2.: Because of non-mission based work that DHS does like that of handling natural disasters through the Federal Emergency Agency (FEMA) is it even possible to successfully mission-based funding?

Mr. McTigue's Response: The answer to the question is yes, but mission-based budgeting requires that funding for the disparate missions of each agency be allocated separately and that the expected results under each mission be made explicit.

In order to manage multiple missions of DHS as a result of merging 22 major of government, it is necessary to think of DHS as a conglomerate that has an overarching responsibility for the security of the homeland. For the overarching mission, the department can purchase specific services from each its agencies that will produce specific results, measured in increased security for the homeland. At the same time, each of these organizations will also be funded separately for their other mission responsibilities.

FEMA, for example, has a disaster response and recovery capability that can be employed in response to natural disasters or terrorist such as 9—11. It makes more sense to develop and deploy such capabilities in multiple missions than to develop separate organizations that would handle response and recovery from natural and terrorist-induced disasters. When allocating funding at FEMA, the agency's multiple missions should be identified and separate funding tied to each.

The budgetary process should separate the multiple missions of each agency and apply a different funding formula for each or goal. To do otherwise will only lead to confusion for Congress when trying to determine if the organizations are achieving the expectations mission by mission that Congress set for them.

Question 3: In the Federal Government, the Director of the Central Intelligence Agency, and now the Director of National Intelligence (DNI) have used mission-based budgeting to plan budgets and track the assignment and spending of resources among the various intelligence agencies based on its missions for about ten years. **How easy or hard is it for DHS to do this given that, unlike the DNI whose primary responsibility is intelligence, DHS has a wide range of duties?**

Response; In my view this is no more difficult for DHS than for any other agency, provided Congress makes its intent clear in the appropriation process. Of course that would require a change to the way in which Congress makes appropriation decisions. To begin with, it would Congress to fund outputs instead of inputs and to identify the expected result and a linkage to the that occurred in the outcome at the time of appropriation. All of these things are possible.

To address Congress' needs, it is first necessary to reach a common understanding of the purpose of "mission-based budgeting". My definition is: "Mission-based budg-

eting is a process focuses budget decision making on actions necessary to accomplish the mission and directs funding to those actions based on a system of prioritization."

In order to achieve such a mission-based budgeting system, certain information must be known and transparent:

1. If the mission is to make the homeland more secure, there should be a process that measures increases or decreases in the safety of the homeland. To the best of my knowledge, this measure does yet exist. So, the first task is to develop a credible way to measure such increases or decreases.
2. Funding will go first to activities that will make quickest and greatest contribution to increased security homeland. This presumes that the knowledge exists to what are the greatest threats what are the greatest in the security arrangements. As this may well be information that would quite properly to keep not aware if that information exists.
3. The department should know the costs and benefits—in terms of improved security—for each of its activities. I am reasonably certain that this information currently does not exist. In order to be able to evaluate this, the department must have a financial system that gives a fully attributed cost to all activities and is able to link the cost results of each activity expressed in terms of increased security.

Therefore, the role of a CFO would be to construct department wide systems that produce financial information in the form expressed above that is consistent and allows credible comparisons across all units inside DHS. Because this information is useless it can be linked into specific improvements in the security of the homeland, this task reaches beyond the spectrum of the CFO and requires input and cooperation from the entire management team.

Finally, Congress should be able to expect a budget request that details each activity seeking funding completely on a cost-to-output basis and assesses how much the funding of that activity will increase security of the homeland in terms of a percentage across the entire analysis. For example: the funding of this activity at this level will decrease the risk to the homeland by one percentage point.

With this information, Congress can then very clearly direct funding to those activities that will produce the greatest gains and delay or terminate funding to activities that do not make an acceptable contribution to improved security of the homeland.

However, even if Congress does not change the way in which it makes appropriations, it is still possible to implement mission-based funding at the agency level. This would require the vesting in the Secretary of Homeland Security the authority to identify and prioritize the threats to the homeland, to design appropriate responses, and to allocate funds accordingly.

The same process could be used by the Secretary to allocate the resources required to fund the historic missions of the other organizations inside DHS (for example, natural disaster relief at FEMA). This process would only be possible if Congress granted the Secretary significant flexibility regarding the allocation of funds. Much of this prioritizing could indeed be done before the appropriation was finalized by Congress so that Congress could see how the allocation would be structured and the Secretary would only have to make adjustments for variations in the final funding level for the department after the appropriation was finalized.

QUESTIONS FROM HON. KENDRICK MEEK FOR CARL J. METZGER RESPONSES

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to reply to your constructive and excellent questions of August 17th. It is an honor to enlarge upon my previous testimony of 29 June on Mission-Based Budgeting as a mechanism to transform the Department of Homeland Security (DHS). I will address your questions in order:

1. The Role of the Chief Financial Officer (CFO)
2. Federal Emergency Management Agency (FEMA)
3. Comparison of the Department of Homeland Security (DHS) and the Director of National Intelligence (DNI)

My comments reflect continuous review since June 29th of published information, including the July 14th report by your Committee's Democrats, *Protecting America Against Terrorists: The Case for a Comprehensive Reorganization of the Department of Homeland Security;* Mr. Chertoff's congressional testimonies and public speeches; articles on the Second Stage Review (2SR) that involved over 250 DHS personnel and subsequent DHS organizational and policy changes reported in daily, weekly and monthly periodicals; Government Accountability Office (GAO) publications on the DHS; press reports of the DHS response to acts of terrorism (London) and natural disasters (Hurricane Katrina); and re-reading of the December 13th, 2004 joint

study by the Center on Strategic and International Studies (CSIS) and the Heritage Foundation on DHS organization. My comments further are my own and not necessarily those of the Government Results Center's partner or sponsoring organizations. The Government Results Center is a non-profit, independent research and communications organization; our mission is to serve public servants by assisting federal agencies share lessons learned and better practices in improving government performance and results.

1. The Role of the Chief Financial Officer

While the survey and consensus-building methodology of the 2SR and DHS consequent leadership decisions on the relative authorities of the DHS Management Directorate compared with other directorates was a laudable decision-making process, I have been persuaded by the DHS Inspector General and GAO studies on shortfalls in DHS financial, information and procurement management practices. I am also aware that Mr. Chertoff believes his oversight of the CFO through the Under Secretary for Management is practical and preferable (statement of July 25). However, I agree with the Committee Democrats study that the authority of the Chief Financial Officer (CFO), Chief Information Officer, and Chief Procurement Officer (CPO) should be elevated to a level above the other directorates.

It made sense for DHS initially to bring together carefully but somewhat loosely the disparate 22 agencies into one Department with the broad, yet singular mission of preparing for and responding to terrorism acts or disasters by assuring no major disruption of their traditional individual services to the public. Certainly chaos has been successfully avoided. However, at this second stage for planning DHS should increase the authority of especially important Department-level management functions over the various directorates. Both financial management and information technology and sharing management deserve such immediate attention for purposes of accountability reporting and program management. Given the size of the DHS budget and extensive use of contractor services, better department-wide procurement management too should be considered. More central management controls will accelerate effective performance and results management. It is not advisable to permit audit able financial statements to take the DHS five to seven years to develop as forecast in the IG report. Corrective action over internal controls should be accelerated; activity-based or some form of total costing for performance or mission-based budgeting should be implemented DHS-wide as soon as practical. For that goal it is important that the CFO and CIO offices work together with coordinating oversight of their counter-parts in the directorates.

I make these comments based upon my fifty years of experience in ninety countries, particularly in program management with major manufacturing corporations in the oil and chemical industries and general management with management consulting firms serving U.S. federal and foreign governments.

2. Federal Emergency Management Agency (FEMA)

This second question suggests handling natural disasters is "non-mission based", that DHS is pre-dominantly concerned with homeland security to counter terrorism and to allocate its limited resources based on the three mission areas of prevention, vulnerability reduction, and response/recovery. In my opinion future government organization will march toward organizing toward effective plans and operations controls over similar and compatible missions and goals. Congress has been hinting at that orientation when discussing efficiency and effectiveness improvements in cross-cutting programs such as job training or food safety in recent years.

The point is that it makes sense for a "non-mission" entity such as FEMA to be an integral part of DHS resource utilization and funding because FEMA and other parts of DHS have similar management objectives. Does FEMA not have the same tri-partite concern of prevention, vulnerability reduction, and response/recovery that DHS has for its mission segments? Does FEMA management not, such as with Hurricane Katrina in the last few days, engage a multitude of DHS, other federal, state and local government agencies and private sector organizations to serve the public urgently? Are not terrorist acts as unpredictable as natural disasters? Or their resultant costs unpredictable? FEMA management in principle faces the same event occurrence, costs and resource utilization uncertainties as all DHS faces.

The Coast Guard has successfully for years used scenario planning to assist them in developing reasonable strategic plans and performance budgets. Similarly DOD's Quadrennial Defense Reviews and management are based upon a four-part sequence of plan, brief, do and review. Reviews are especially useful and often neglected in agencies, but they are important to the Army (called "after-action reviews") and Air Force (dubbed "de-briefs") as explained in two recent books. DOD like DHS is beset by uncertainty but manages to plan, secure funding, execute, and review to improve. I believe FEMA may readily fit into a DHS sequence of planning,

briefing, doing and review within a mission-based budgeting context, or for that matter, within an adjusted strategic goal structure in keeping with the Secretary's six point agenda.

3. Comparison of the Department of Homeland Security (DHS) and the Director of National Intelligence (DNI)

The Director of Central Intelligence/DNI's use of mission-based budgeting to plan budgets and track the assignment and spending of resources among the various intelligence agencies based on its missions over these last ten years has been notable. Similarly the Office of National Drug Control Policy (ONDCP) over approximately the same time frame has been monitoring goals, strategies and results of over fifty law enforcement agencies in drug control. ONDCP has been helpful to the Executive Office of the President (EOP) and Congress in that analytical and tracking process for drug control. Managing neither intelligence nor drug control has been easy, especially in today's environment of addressing freedom of information or privacy issues within such a free society as ours. There are so many obstacles, checks and balances placed on our American government. Harry S. Truman said it best in 1958, "Whenever you have an efficient government, you have a dictatorship". We have to operate openly and by consensus, paying attention to a myriad of internal and external voices, often in conflict.

The formation of the DHS in itself from an assortment of 22 agencies was tremendously ambitious, but it *was* and *is* necessary to focus properly on the threats against us. Convincing taxpayers and our Congress of the need and allocation of precious resources is difficult. There is a decided tendency to be reactive rather than proactive with insight into relative degrees of risk according to three variables: threat, vulnerability, and consequences. Secretary Chertoff recognizes the importance of risk-based planning in the recently-released *National Preparedness Goals.* In the same document he expresses the need for state and local partners to receive grants to "build the right capabilities in the right places at the right level". Partnerships are deemed truly necessary. Scarcely a week goes by without reading of DHS progress or attention in the press: plain-language radio rules, smart ID cards for first responders, consolidation of 250 DHS aircraft and 500 pilots into the Customs and Border Protection bureau, the DHS IG report on the IT systems? weak access controls and a lack of contingency planning, creation of a new DHS Operations Coordination Division, and new DHS assistance to the New York mass transit system and selected ports, The GAO is trying to assist DHS through its congressionally-requested analyses and recommendations.

Secretary Chertoff in his public appearances stresses the importance of DHS being results-oriented, to measure success in terms of the outcomes produced—to be network-focused, that is, building teams with partners in all other agencies and the private sector. He emphasizes being flexible - to be prepared and to react quickly since the enemy reacts rapidly to change. Rigid structures and procedures cannot be the way we define our thinking, he says. His approach is managerially sound. He has enlisted people and managers in the 2SR, then briefed internally, in Congress, and the public. As an experienced general manager, I would give the Secretary latitude in implementing his re-organization and monitor as constructively as possible in the weeks and months ahead. His is a "hard" job. To the extent that a simpler, mission-based budgeting framework could be developed to assist him makes management sense to me.

Thank you, Mr. Chairman. I hope my answers to your new questions will be helpful to the Subcommittee in your deliberations on the most effective way to evaluate, monitor and allocate resources for our homeland security.

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