

**PROGRAMS IN PERIL: AN OVERVIEW OF THE  
GAO HIGH-RISK LIST**

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**HEARING**

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,  
THE FEDERAL WORKFORCE, AND THE DISTRICT  
OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON  
HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

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# **PROGRAMS IN PERIL: AN OVERVIEW OF THE GAO HIGH-RISK LIST**

**THURSDAY, FEBRUARY 17, 2005**

U.S. SENATE,  
OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL  
WORKFORCE, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,  
OF THE COMMITTEE ON HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:07 a.m., in room SD-342 Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich, Stevens, Akaka, and Lautenberg.

## **OPENING STATEMENT OF SENATOR VOINOVICH**

Senator VOINOVICH. The Committee will please come to order. I want to thank you all for coming.

Today, the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia meets to discuss the Government Accountability Office's 2005 high-risk series, and I am very pleased that Comptroller General David Walker and the Office of Management and Budget's Deputy Director for Management Clay Johnson are with us today. Thank you for being here. They are both leaders in improving the management and efficiency of Federal Government operations.

Just yesterday, the Comptroller General testified before the Committee on Homeland Security and Governmental Affairs to discuss GAO's comprehensive examination of the Federal Government's structural base, including programs, policies and long-term financial outlook. This review dovetails well with GAO's work on the High-Risk List, and I commend Comptroller General Walker for initiating this report.

Fifteen years ago, GAO first issued its High-Risk Series to examine Federal programs that are especially vulnerable to waste, fraud, abuse and mismanagement. Over time, GAO expanded their biannual High-Risk Series to include areas of broad transformation in the hopes of improving the effectiveness, accountability and sustainability of government programs and operations.

Each of the 25 programs listed in this year's High-Risk Series impact the daily lives of citizens across the country. Many programs are dysfunctional and fail to deliver the intended services to the taxpayer; for example, last year, I chaired a field hearing in Cleveland to examine the Social Security disability process, which has been on the High-Risk List since 2003. I was impressed with

Social Security Commissioner Joanne Barnhart's commitment to resolving this issue; however, based on the letters I receive from my constituents in Ohio, it appears that progress has been slow if not at all.

In other instances, high-risk programs are wasting billions of dollars that could be better used for higher-priority programs or cutting the deficit. Needless to say, the High-Risk Series provides a road map for oversight and reform, and it should be taken seriously by Federal agencies, the Administration and Congress. For instance, in 2001, GAO designated strategic human capital management as high risk. Senator Akaka and I are very familiar with the Comptroller General's expertise on this issue, and together, we have dedicated time and energy in order to facilitate government-wide human capital improvements.

In fact, during my tenure of this Subcommittee, we have held 16 hearings to examine the Federal Government's human capital challenges. Furthermore, over the past 2 years, seven human capital reform bills in whole or part have become law. This significant accomplishment does not include the human capital reforms enacted specifically for the Departments of Defense and Homeland Security. Clearly, the interest of the Congress and the GAO designation of human capital management coupled with the prominence of this issue in the President's management agenda, and I want to underscore this, the prominence of human capital in the President's management agenda, created a confluence of ideas and synergy which led to the most dramatic civil service reform since 1978.

I believe strongly that this level of scrutiny should be focused on each of the high-risk areas. Unfortunately, this Subcommittee cannot do it alone. We would need the help of the authorization and appropriations committees in other areas. I would also suggest that human capital oversight on the legislative model could be replicated for other high-risk areas. Understanding that this Subcommittee cannot focus on each high-risk area, we are going to urge our colleagues on the authorizing and appropriations committees to examine ways to improve the performance of these programs and activities within their jurisdictions.

Of course, the problem around this place is that we spend all our time on the budget and on appropriations, about 60 percent of it, and we do not have 2-year budgets, so there is very little Congressional oversight. Too often, people come in to talk with Members of Congress about a problem area. They make a pledge to fix it and walk out of the room knowing that little follow-up will be conducted. So there is no serious real oversight here, and it bothers me substantially. In addition, this Subcommittee will focus on a few additional high-risk areas during the next couple of years.

Looking more closely at this year's report, we find that GAO designated four new high-risk areas. One, establishing appropriate and effective information sharing mechanisms to improve homeland security, and we know how important that is, because we saw after September 11 how that kind of information was not being shared; two, DOD's approach to business transformation; three, DOD's personnel security clearance program, and four, management of interagency contracting.

While it is troubling when GAO adds new programs to the list, it does not mean that high-risk designation lasts indefinitely. Fortunately, this year, GAO found sufficient progress to remove the high-risk designation for three specific programs, including the Student Financial Aid program, FAA financial management, and the Forest Service Financial Management System. Mr. Johnson, I applaud the Administration's work on this effort, because if you had not done it, they would not have gone off the list.

However, some programs simply cannot break free from their high-risk albatross. In fact, six high-risk areas in this report have been on the list for 15 years. Clearly, this is not an anniversary worth celebrating. These programs are DOD's supply chain management, DOD's weapons system acquisition, DOE's contract management, NASA's contract management, the Medicare program and collection of unpaid taxes.

And fixing the ones at the Department of Defense could save billions and billions of dollars by instituting the change mechanisms that have been suggested by GAO. I am extremely interested in hearing from Mr. Walker why these programs have been on the list so long and even more importantly learning from Mr. Johnson what steps has the Administration taken in improving them?

And one of the benefits of having the President reelected is you got started with a whole bunch of reforms in the first term, and now, you have an opportunity to spend the next 4 years really making necessary changes. And I know, Mr. Johnson, that you are as concerned about that as I am, maybe even more concerned, and the real issue here is to pick the ones that we can make the biggest impact and then just zero in on it and stay on it so that 4 years from now, you can say we really did make a big difference, and that would be one of the most significant contributions that this administration could make to the American people.

Effective Congressional oversight and a commitment from the Administration are imperative to enhance the performance of and instill accountability in the areas designated. As Chairman of the Government Management Subcommittee, I want our witnesses to know that this is the first of a series of high-risk hearings that I will be chairing with the Congress. I have talked this over with the Chairman of the Committee, Senator Collins, and we are going to have the opportunity to add a couple more staff people, and we are going to stay on top of this and try to work harder and smarter, to make a difference on these issues.

I thank our witnesses, David Walker and Clay Johnson. I look forward to an in-depth discussion about this year's High-Risk List. I now yield to the Ranking Member of the Subcommittee, my good friend, Senator Akaka.

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you very much, Mr. Chairman.

As you mentioned, today's hearing will review the GAO's High-Risk List with our friend Comptroller General Walker and the OMB Deputy Director for Management, Mr. Johnson. Mr. Chairman, I cannot think of two more fitting witnesses than the ones we have before us today to discuss how we can strengthen critical Federal programs. The oversight of government programs is the legacy

of this Subcommittee, and as such, we have tremendous latitude to investigate a wide range of issues relating to government efficiency and accountability of taxpayers' dollars.

Since 1990, the Government Accountability Office has identified high-risk programs in need of urgent attention either through transformation, as with the Postal Service, or significant modernization, such as the business systems at the Department of Defense. Transparency and accountability are the underpinnings of good government. Too often, the focus is on funding levels and policy decisions without considering the internal structure of an agency.

The attention by GAO on high-risk areas sharpens the debate by highlighting fundamental management weaknesses such as inadequate financial and contract management. Unfortunately, it has become routine for agencies to make decisions without having sound business cases for change or without taking into account agency mission. I believe the high-risk list provides all agencies with an opportunity to undertake a critical review of their operations and implement best practices.

I am disappointed that so many areas within the Department of Defense remain on the updated High-Risk List. As the Ranking Member and former Chairman of the Armed Services Readiness Subcommittee, I have worked hard to improve the efficiency of DOD programs and operations. We built on our past efforts to require improved management of the \$50 billion DOD spends annually on services by establishing specific goals for the use of competitive contracts and performance-based contracting. We also have required DOD to develop a comprehensive financial management enterprise architecture because DOD has been unable to produce reliable financial information or clean financial statements.

However, as the GAO update shows, there continues to be fundamental deficiencies within DOD despite our longstanding efforts. Take, for example, human capital management within the Department of Defense. It is hard to think of any one function that cuts across all of DOD more than human capital management. Despite the issuance of proposed regulations for its new personnel system, DOD does not have in place a strategic human capital plan. No document identifies DOD recruitment and retention strategy or goes for its future workforce.

For some time, the Comptroller General has recommended that DOD have a chief management officer who would be accountable for agency-wide management just as the Deputy Director for Management at OMB is responsible for government-wide management. I plan to use my position as Ranking Member on the Readiness Subcommittee to work towards this objective.

Chairman Voinovich, your willingness to take on some of the very issues that we confront on the Armed Services Committee is welcomed, and I look forward to working with you on this effort. The bottom line is we need sound management practices in place so that Federal agencies can spend taxpayer money wisely. We need sound financial systems in place so that taxpayer dollars can be tracked, and we need the right people and the right skills in place so that agencies can carry out their missions successfully.

I look forward to the testimony of our distinguished panelists today, Comptroller General Walker and OMB Deputy Director Johnson. Mr. Chairman, I look forward, as I always do, to working with you and tackling the inefficiencies spotlighted by GAO. I look forward to the months ahead as we continue hearings like this issue.

Thank you very much, Mr. Chairman.

Senator VOINOVICH. Thank you very much, Senator Akaka.

Senator Lautenberg.

#### **OPENING STATEMENT OF SENATOR LAUTENBERG**

Senator LAUTENBERG. Yes, thank you very much Mr. Chairman. It looks like Comptroller General Walker is a regular visitor to our hearing room, and we welcome him, and we will keep on giving him challenges to respond to, and we do look forward to hearing from him today.

And we are going to be looking at 25 specific programs identified by GAO at high-risk waste, fraud, abuse, or mismanagement. And I noted with interest that you had relieved—if I can call it that—a bit of a stigma from several areas—three of them specifically, and I will make reference to them when we have a chance after we hear your statement to talk about them.

I want to focus on a couple of things. One of them is DOD and their contract management—I have had a continuing interest in the area—and the modernization of FAA and its air traffic control operation. Now, I see that they were commended somewhat for their financial management side of things, and for \$11.7 billion in property accounting. These are mindblowing numbers, and the fact that they got better at it is really encouraging, and I hope that will enable us to examine the possibility of privatization of air traffic controllers more clearly, more deeply.

DOD is the largest government purchaser, with \$200 billion spent on goods and services each year, but GAO is critical of DOD's contracting procedures, especially with regard to contracts being awarded in Iraq, and we continue to stumble across information that is discouraging, Mr. Chairman, about funds that were appropriated, delivered, but not appropriately used. And I quote GAO's report here: "DOD's extensive use of military logistical support contracts in Iraq and elsewhere require strengthened oversight."

That is terrible news to hear, because when we see the effort of our service people—beyond description in many cases—if we do not make sure that everything they need is properly delivered, it is a worrisome thing. And I think DOD has been negligent in several instances. The personnel waive competition requirements for nearly half of the task orders reviewed in your report, Mr. Walker. DOD lacks safeguards to ensure that waivers were granted only under appropriate circumstances.

Each one of these things, nowhere were they encouraging, Mr. Chairman, to see as we try to finance this; we want to provide whatever support we can for our troops and our mission, but any waste or abuse, and I hesitate to call it fraud, because it is still under examination, is unacceptable. Over the past couple of years, on four separate occasions, I have made written requests to the full Committee to hold hearings on DOD contracting abuses. Now, we

are not able to hold such hearings, and now that GAO bolsters the case, it seems to me that we are seriously abdicating our oversight responsibility and putting our men and women in uniform in some greater danger.

Another thing, Mr. Chairman, that I want to focus on is the air traffic control system. Since 1995, GAO has designated FAA's air traffic control modernization project at high risk. Now, I come out of the computer business, and I sat in my years in the Senate looking at failed plans that were initiated and dropped, paid for, by the way, to some of the best companies in America. I know one thing from my personal experience, and that is when you have an assignment of the magnitude like this one that you cannot do the whole thing in one exercise, that it has to be segmented; it has to be brought down to bite-sized pieces, to use the expression, and we have seen it with plans for Medicare and other things as well. You have to work on those things where you can see the change taking place.

Another thing, and I will not get into much of a discussion about this, but, Mr. Chairman, you have got a very respectable record in public service, and I commend you for it, and you continue the service that you brought to Ohio into the Senate, and it is excellent. But we know that when you have turnover at the highest level of a department or an organization, that it is always tough to recapture the starting place where you left off, and I am convinced that the FAA Chairman ought to not be simply a political appointment, but it ought to be a term of office and given a chance to be there to see programs through instead of turned over as the political mainstream changes as well. And this is Republican or Democrat; I do not care. I think it is the kind of assignment that needs a chairperson to do this and to be able to follow through on the details, but we will save that lecture for another day.

FAA's failures are largely technical. They bring into question the agency's ability to simultaneously undertake a risky plan to privatize certain ATC functions. Because of their poor record on overseeing contract work on ATC modernization, I think it is clear that privatizing other ATC operations poses an unacceptable safety risk to all travelers. And I use as the classic example what happened with the screeners at the airports. When they were in private hands, they did a terrible job. When they were in government hands, work improved immeasurably, and now, we want to go back there to the old way of doing it.

As usual, Mr. Walker, GAO has done an outstanding job identifying problems that we should address, and we look forward to your testimony once again and yours, Mr. Johnson, as well.

Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you, Senator Lautenberg.

As is the custom here in this Subcommittee, if you would both rise so we can swear you in.

[Witnesses sworn.]

Senator VOINOVICH. Let the record show that the witnesses answered in the affirmative. Mr. Walker.

**TESTIMONY OF HON. DAVID M. WALKER,<sup>1</sup> COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. WALKER. Thank you, Mr. Chairman, Senator Akaka, and Senator Lautenberg. I appreciate the opportunity to be back before this very important Subcommittee of the Senate to address our 2005 High-Risk List. I also appreciate the opportunity to be here with my friend Clay Johnson from the Office of Management and Budget who I can say at the outset takes this subject very seriously.

I would respectfully request that my entire statement be included in the record, Mr. Chairman, so I can just summarize the highlights for you.

Senator VOINOVICH. It will be taken into the record along with yours, Mr. Johnson.

Mr. WALKER. Thank you very much.

With regard to the highlights, first, as you know, GAO started the High-Risk List under the tenure of my predecessor, Chuck Bowser, in 1990. Every 2 years commencing in 1993, we have published a new High-Risk List at the beginning of each Congress. In our view, these are not policy issues as much as they are just sound management issues that need to have continuous focus over time.

In doing that, there has been progress made over the years. It is possible to come off the High-Risk List, and it is important to note that we have clearly defined criteria that were circulated for comment by the various agencies early in my tenure as Comptroller General as to what it takes to get on the High-Risk List and what it takes to get off the High-Risk List, and that is very important. In fact, one of the things that Deputy Director Clay Johnson did early in his tenure was to assign particular individuals within the Executive Branch responsibility for every high-risk area as we did at GAO with the idea that you want to make sure there is effective communication about what is it going to take to get off the high-risk list in order to make progress and ultimately achieve that objective. He has recently recommitted to me that he intends to do the same thing based on this new High-Risk List to try to make as much progress over the next 4 years as possible, and I am absolutely confident that he is serious about that.

As you know, the purpose of the High-Risk List is to bring light to areas, because with light comes heat, and with heat normally comes action. And while the High-Risk List started out primarily as a list dealing with areas susceptible to higher degrees of fraud, waste, abuse and mismanagement, and yes, there are a number of those items still on the list. During my tenure, we have modified the High-Risk List to not just focus on areas of higher risk of fraud, waste, abuse and mismanagement but also to recognize areas that are in need of fundamental transformation. The human capital issue was the first in January 2001. At that time, we also began to note issues that might require concerted effort not only by the Executive Branch but also by the Congress, such as authorizing legislation.

<sup>1</sup>The prepared statement of Mr. Walker appears in the Appendix on page 27.

I would like to commend this Subcommittee and full Committee for the tremendous work that has been done in the area of human capital, because I agree that more has been done in the last 3 years than the last 30 years, and yet, I am confident that more will be accomplished in the next 3 years than has been accomplished in the last 3 years.

If I can, let me summarize what the results of the latest High-Risk List are. As you noted, there are three areas that have been removed from the High-Risk List as a result of the latest update.

Senator VOINOVICH. Could you take those charts and bring them around just a little bit so I can see them better?<sup>1</sup>

Mr. WALKER. Face the Senators?

Senator VOINOVICH. Thank you.

Mr. WALKER. Student Financial Aid programs, FAA financial management, and Forest Service financial management made sufficient progress according to our criteria to be removed from the High-Risk List, and I would like to commend the departments and agencies and personnel involved in achieving that objective. That does not mean that these areas are perfect. Nobody is ever perfect, nor will anybody ever be, but they have made significant progress and enough to be able to come off the list, and we commend them for that.

There are four new areas that have been added to the High-Risk List as a result of our January 2005 update: Establishing appropriate and effective information sharing mechanisms to improve homeland security, the Department of Defense's approach to business transformation, the Department of Defense's personnel security clearance program; and the management of interagency contracting.

If I can, let me touch briefly on DOD's business transformation item, and I would imagine that we will get into that in a little more detail in the Q and A session. Unfortunately, the Department of Defense now has 14 of 25 high-risk areas, when you count the fact that they have 8 on their own, and they also share 6 government-wide. That is up 2 from 2 years ago. The numbers are moving in the wrong direction.

Our military is unparalleled in its capabilities, but the Department of Defense is a D, poor graded on a curve, on economy, efficiency, transparency and accountability. We have become convinced at GAO that DOD will not be successful in their business transformation effort unless they have a person with a proven track record at the right level focused full-time and over a sustained period of time for making business transformation happen.

If you go to the Defense Department right now, there is no one person that you could point to to say who is responsible and accountable for making the business transformation effort happen. Now, some would say Secretary Rumsfeld. With all due respect, while he is ultimately responsible and accountable because he is Secretary, he does not have enough time to work on this. Some would say Deputy Secretary Wolfowitz. Quite frankly, he has got his hands full as well.

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<sup>1</sup>The charts referred to appears in the Appendix on page 57.

And there are a lot of players below that level that are very involved and very dedicated and are trying to do their best, but there is not a comprehensive plan and there is not a point person. We do not have the appropriate milestones and accountability mechanisms in place. And this is nothing to do with politics, partisanship or policy. This is basic good government, basic management that is necessary irrespective of who the President of the United States is, who the Secretary of Defense is, or otherwise.

So it is absolutely critical, because I can assure you: Billions and billions are wasted every year, and it is getting worse, not better. I will be happy to answer questions on that.

We revised four high-risk areas by consolidating four into two dealing with the Internal Revenue Service. The two new areas are enforcement of tax laws. It is much broader than Earned Income Tax Credit and overdue taxes. There is also a need to focus more time, attention and resources on enforcement, and I note within the President's budget, he is proposing additional resources for enforcement. We also consolidated the financial management with the business systems modernization, because significant progress has been made on the financial management area at the IRS. The biggest remaining challenge has to do with the business systems modernization, including the financial elements of that.

And last, as noted in the report, while this area did not rise to the level of being deemed to be high risk yet, it is noteworthy. Specifically, there is a need, not only in the Department of Defense but also in the Department of Homeland Security as well as other departments to take a more strategic, a more comprehensive threat and risk-based approach in determining how best to allocate their resources to generate maximum results with whatever level of resources might be available, which level of resources are going to come under increasing constraints based upon our long range fiscal imbalances.

Next chart, please. As you can see, since the beginning in 1990, our original list had 14.

Senator LAUTENBERG. Mr. Chairman, if you could give me a moment, is there a distribution of these charts?

Mr. WALKER. I believe it is in my testimony, Senator, and we will get you copies of these boards as well.

Fourteen was the original list in 1990. During the past 15 years, we have added 29. We have removed 18 and consolidated some such that the balance is 25.

And last, on my left, is the current list, the entire list, which is in the testimony. The last thing I would like to share with you, Senators, is something that came up yesterday in the hearing in which we released the new 21st Century Challenges report. As you know, the high-risk report looks like this, which came out at the end of January; I believe all of you have a copy of it.

I would really commend this report to you, because this is a very strategic document. It is a document that among other things has three basic bottom line points: First, we face large and growing structural deficits in the future due primarily to known demographic trends, rising health care costs. Second, we are not going to grow our way out of this problem. It is going to require tough choices. Third, a significant majority of the Federal Government's

policies, programs, functions, and activities are based upon conditions that existed in the 1950's and 1960's. Furthermore, they have not been subject to fundamental review or reexamination since then, whether it is discretionary spending, mandatory spending on entitlement programs, or tax policies. As a result, we are going to need to engage in such a fundamental review, reassessment, reprioritization, in some cases, reengineering of the base of the Federal Government that will take the balance of my tenure as Comptroller General, 8-plus years and beyond.

There are over 200 questions raised in this report that illustrate areas that need to be reviewed and reconsidered, and we stand ready to help this Subcommittee, the full Committee, as well as others in trying to engage in this fundamental review and examination in the coming years.

One of the compelling reasons we need to do so is illustrated on the next chart. Based on GAO's latest budget simulation, if you take CBO's baseline assumptions, if you assume that discretionary spending grows by the rate of the economy beyond the 10-year horizon, which includes national security, homeland security, the judicial system, transportation, education, etc., if you assume that the Social Security and Medicare trustees are correct in their good faith estimate of what the cost of those programs are going to be over the next 35 years and if you assume that all tax cuts are made permanent, this is our fiscal future.

Under the scenario we will not be able to do much more than pay interest on the debt in 2040. Now, there are other simulations that we have run that obviously are not as bad as this, but even the ones that have optimistic assumptions show that we face large and growing structural deficits that are going to require tough choices.

The High-Risk List is the place to start. There is no question about it. But I think we are also going to have to get into the questions raised in our 21st Century Challenges report, as well. Hopefully, we will have an opportunity to do that at some point.

Thank you.

Senator VOINOVICH. Thank you, Mr. Walker. Mr. Johnson.

**TESTIMONY OF HON. CLAY JOHNSON III,<sup>1</sup> DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET**

Mr. JOHNSON. Mr. Chairman, Senators, thank you for inviting me up here today to speak with David Walker.

The GAO High-Risk List, like the President's Management Agenda, brings very clear attention to the areas in the Federal Government that are not working like we want them to, where there is great opportunity for the taxpayers' money being spent unwisely. Three areas this past year came off the High-Risk List: Federal Student Aid, Financial Management at the Federal Aviation Administration (FAA), and the Forest Service. They came off because top management was committed to solving those management deficiencies. They had a very detailed action plan. They had a clear definition of success, and they had clear accountability for who is supposed to do which one of those individual actions by when, with, or to whom. And they set their mind to it, and they did it.

<sup>1</sup>The prepared statement of Mr. Johnson appears in the Appendix on page 61.

This is the key to any item coming off this high-risk list. It is the key to any change being realized in management in the Federal Government, and it is also the key to making sure that there is a continued focus on these high-risk areas and other areas of management opportunity as administration changes and as agency and department leadership changes. If there is a detailed action plan, a detailed definition of success, detailed dates, detailed accountability that you and the Executive Branch agree on, we should be held accountable for implementing that plan, no matter who the President is, no matter who the Secretary is, no matter who the relevant assistant secretary is.

The big opportunity here is for the thing that we need to do better as a government and the things that OMB needs to do even better than it has been doing is that we need to make sure for each one of these 20-some-odd high-risk items, there is a very clear definition of success. We have a clearer definition of success with some of them than with others. We need to make sure that all of those definitions of success are equally acceptable to you. We need to make sure there are detailed action plans that are all equally acceptable to you.

We need to make sure there is clear accountability for accomplishing those different milestones. My recommendation is that you charge us to come back to you and suggest a timetable, within months not years or weeks, to engage the agencies, develop those detailed action plans, detailed definitions of success and come back to you and tell you here is how we anticipate, how the agencies anticipate tackling the risks that GAO and others have identified as being unacceptable.

This is a role that OMB can play. We can make sure that proper attention over and above what the High-Risk List itself brings to these matters, that the agencies understand that this is important. In addition to the items that they are focusing on through the President's Management Agenda, they are focused on these high-risk areas, and they are giving it appropriate attention, and they are working to define with the proper level of clarity what we are trying to do, how we are trying to do it, and who is responsible for getting it done. Thank you.

Senator VOINOVICH. Thank you, Mr. Johnson.

I appreciate the testimony of the witnesses here today. The President has submitted his budget to the Congress, and I applaud the fact that he is looking at entitlement spending and is looking at the discretionary part of the budget.

But when you look at the fact of that discretionary budget, half of it is going to defense, and the other half of it is going to domestic spending, and when you look at the flat funding in many programs that are so important to the American people, and then to be at this hearing and to hear Mr. Walker say there is no plan, no person, no milestone, no transparency, it is getting worse and not getting better in the Defense Department is outrageous.

It is outrageous, and I want you to know that this Subcommittee is going to get on that, because that is where we can get the biggest bang for our effort, just as I did on human capital reform, we are going to keep monitoring that to make sure it gets done, but we are going to take this issue on. It is outrageous: Billions of dol-

lars being wasted, and you are cutting the CDBG program, billions of dollars being wasted, and cutting other programs.

And I am a hawk, but I want to know, Mr. Johnson, what in the world is going on over there? What kind of plans have you received from Secretary Rumsfeld? Have they given you a written plan of what they are doing and who the people are who are going to implement it and what progress is being made on it? I would like you to answer that.

Mr. JOHNSON. As I said a minute ago, sir, we will come back to you with detailed plans. Tina Jonas, the chief financial officer there, understands the problem, understands the opportunity. There is not the clear assignment of accountability that Mr. Walker talked about. I think they would be hard pressed to present these plans to address these high-risk areas at DOD to you now, but I will offer to you that we will come back to you in months with their recommended plans for how those will be attacked.

Mr. WALKER. Senator, can I come back on that, please?

Senator VOINOVICH. Yes, I would, because even though we have a separation of powers between the Legislative and Executive Branches of government. I would get Mr. Walker in and sit down with your people over in Defense, look at the plans, get the best information that you can out of what he has to say and then start to implement it.

Now, look: I know we are at war. I understand that we have challenges. But somebody has to be at home working on management. Now, when I was governor, I had a chief of staff, and he had all kinds of issues to deal with. He was always putting out fires, but I put a team together where I had somebody who got up every morning and went to bed late at night and who worked on the management programs, and they ground away at it and ground away at it and held people responsible, and we got results. And it does not seem like that is happening in the Defense Department.

Mr. WALKER. Senator, can I put this in context? I think it is important.

First, there is no doubt in my mind that Secretary Rumsfeld and a lot of other top officials at the Defense Department are committed to business transformation. However, you have to have a plan. You have to have a point person. You have to have effective accountability mechanisms. The difficulty is, as you know, that on September 10, 2001, Rumsfeld gave a speech declaring war on the bureaucracy at DOD and announcing that he wanted to make great progress on business transformation. We all know what happened on September 11th.

I come back to one of the things that I included in my testimony in the High-Risk Report: We need a pro at the top, a Deputy Secretary for Management with a proven track record of success, with some government experience and private sector experience, to get in there who is responsible and accountable for developing a plan, for making sure that we are taking an integrated approach, because many of these areas are interrelated, and you have to deal with business transformation in a comprehensive, strategic and integrated fashion over a sustained period of time.

Ideally, that person should have a term appointment. Coming back to what Senator Lautenberg said, ideally, that person should

not be a political person, although they may be a political appointee. They should be a professional person with a 7-year term appointment, because it is going to take longer than that to deal with these problems. But we need somebody who is going to be there long enough to achieve some sustainable progress.

Senator VOINOVICH. I have run out of my time, but why do you not just follow up on that?

Mr. JOHNSON. Just one comment on that: Dave and I have talked before about whether there should be a termed person at every agency, particularly at DOD, who focuses on management, and there are pros and cons with that. Personally, I do not believe that a termed person focused on management solves the problem. If the Secretary of Defense and the Deputy Secretary of Defense are not themselves committed in thought, word and deed to the management of the Department, no term, no level of competency in this management person is going to get the job done.

So there is no way you can wall off the focus on management from the leadership of the Department. It is ultimately their responsibility to see that it has happened. Whether the person is termed or not, individual people with clear accountability need to be defined. Whether they are termed or not is a minor part of the opportunity to do it better, in my opinion.

Senator VOINOVICH. OK; but we have a Secretary of Defense who has said that he is declaring war on inefficiency. The fact of the matter is that he does not have anybody there that has the clout and stature to get the job done. And what happens so often, it takes 7 or 8 years. I know this. I was a mayor for 10 years. I was a governor for 8 years. When I was mayor, I did not see some of the efficiencies take place until the sixth or seventh year. As governor, it was some of it in my last year, and some of it happened after I left office.

And you must have some continuity there, especially if you have a situation that is as bad as it is in the Defense Department, and it is eating up billions of dollars that could either be directed toward reducing the deficit or putting the money in some other areas where we have great needs for the American people.

Given all that is going on at the Defense Department, I don't think the rigors of the Secretary's position allow that individual to focus the needed attention on managing the Department. Somebody has to be back homeworking on managing the Department.

Mr. JOHNSON. What needs to be brought forward to you and OMB and others are the plans of DOD and the other agencies on the High-Risk List to reduce the list to acceptable levels. What is the definition of success? What are the milestones, the actions test to be taken, and who is responsible for taking them and on what date? That is what is owed to you.

Senator VOINOVICH. Well, I am glad that you believe that you owe it to us because we expect it, and we are going to start off with those hearings, and I am going to ask Mr. Walker to look at it so that the plan that we have in place is one everybody agrees on that really is going to make a difference, and the next issue is how do we get the people in there to get the job done? And it is tough. I understand from the grapevine this morning from my colleagues in

the Senate that Ambassador Negroponte is rumored to be the head of the new national intelligence director.

We need to get some more people in government, because if he gets the job, who is going to go over there to Iraq and be our ambassador? He seems to be doing a pretty good job in Iraq. So the American people have to understand that we are going to have some really good private sector employees who are going to have to step forward and come into government to help improve the Federal Government. We have to identify some brighter people in the mid level to move them up and take over managing agencies.

Mr. WALKER. One quick point, Mr. Chairman, if I can: First, I agree with Deputy Director Johnson that if the Secretary is not committed, no matter who that person is, you are not going to be successful. So I agree with that. Second, I do not believe that term appointments are appropriate for every agency in government. I do believe you have to have somebody responsible and accountable for the basic management issues, and I believe the current Deputy Secretary can get that done in certain departments and agencies, and in many cases, they are focused on that.

But I can tell you this: I would not bet a plug nickel on DOD solving its business transformation challenges unless you have somebody at the right level focused on this full-time for a sustained period of time. You don't need it everywhere, but you absolutely, positively need it within DOD.

Senator LAUTENBERG. Absolutely right.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman.

I do not think I can be as forceful as you are in the volume of your voice, but this is very serious. I just want to take the time to tell you what I tried to do when I was Chairman of the Readiness Committee to deal with this and to be specific, I will use names. We brought on Mr. Zakheim as the Comptroller, primarily to do what you are talking about in DOD. And before we confirmed him, I had a good chat with him about what needs to be done, which is what we are talking about now. And he said he would do it.

After 2 years, Mr. Zakheim resigned. When he came in to say farewell to me, we talked again. And I asked him what happened? And he said, and I must tell you, he made some difference there, and he improved some. But the message he left with me was that there are so many systems in DOD and to try to work with these systems is impossible. And so, he was trying to bring this whole thing together.

And so, as a result, Tina Jonas came in and was confirmed in his position. But that is an example of how difficult this job is. But I agree with you that this position must be on a higher level than it is. It should be on a Secretary level for it to make any difference. But we must do it, because as you pointed out, we are wasting billions of dollars. It is slipping by because people just do not know what is happening. And it is because there are so many systems in DOD, and it is very difficult to bring them together to get information that is needed.

Mr. Johnson, as Senator Voinovich said, DOD spends almost \$20 billion annually on its business systems. However, these invest-

ments have failed to resolve the serious problems that exist at DOD. The Readiness Subcommittee, as I said, did find problems there and tried to work on some of these systems. We found things stovepiped, and DOD has not made agency-wide improvements.

Mr. Johnson, and this is a comment to you, I urge you to get back to us as soon as possible on this because we must make a dent in this problem.

Mr. Walker, some programs have been on the High-Risk List since its inception, as you noted. A good example is contract management at DOE, the Department of Energy. DOE is the largest nondefense contracting agency in the Federal Government and approximately 90 percent of its annual budget is spent on contracts.

In your opinion, General Walker, why has DOE been unable to establish more effective oversight in this area?

Mr. WALKER. Well, DOE has a problem, Senator, as does DOD and many other departments and agencies in the Federal Government to differing extents. While they do a lot of contracting, they do not necessarily have enough people within the respective departments with the requisite skills and knowledge in order to be able to effectively manage cost, quality and performance and to engage in effective oversight on an ongoing basis.

There are a lot of things that you can, and in many cases should, contract out, because it might be more cost-effective or market forces may dictate that result. However, you should not contract out the ultimate responsibility and accountability for managing cost, quality and performance. We need to do more in that area. And if I can quickly come back to your comment, on DOD, there are good people there who are trying to do the right thing, and who are committed.

But quite frankly, there are too many layers, too many players, too many systems, and too many hardened silos within DOD. In order to get this job done, you have to have somebody who rises above that, who reports directly to the Secretary, who can deal with the Under Secretaries and the Service Secretaries.

No matter who the Comptroller is, they are not at the right level. Plus, as you properly pointed out, they are not there long enough. And by the way, that is a problem in the acquisitions area at DOD, too. They typically turn people over every 2 to 3 years on weapons systems that cost tens or hundreds of billions of dollars, and that is a major accountability problem, as well.

Senator AKAKA. Well, I thank you for your statement and your comments. As I said earlier, we are here to discuss how we can strengthen critical Federal programs, and thanks for your message. I really appreciate it, Mr. Chairman.

Senator VOINOVICH. Senator Lautenberg.

Senator LAUTENBERG. Yes, Mr. Chairman, unfortunately, I have got another meeting to go to, but there are a couple of things that I would like to put out on the table; first of all, I thank Mr. Walker for your forthright statement of what you see, because I think in your commentary, you have hit the nail on the head as I see it.

It is one thing to manage a military operation. It is another thing to manage and administer the business side of things. And I think that one day this whole thing is going to be looked at and divided in such a way that it is not simply another part of the military

management. It is business management, pure and simple, and you can, in the military, tell someone to jump and not come down until you say so, but you cannot do that on the other side of things.

And I look at, for instance, the question with Halliburton and the KBR subsidy, they were given full payment for cost-plus logcap task orders in Iraq, even though the Defense Department orders ruled that Halliburton had not provided the proper accounting. Are you aware of that?

Mr. WALKER. I am aware of some of the problems with contracting in Iraq, Senator.

Senator LAUTENBERG. We had an opportunity to talk to someone who was willing to speak out, a person named Bunny Greenhouse, and she was a top contracting officer for the Army Corps of Engineers. She came forward, because her conscience bothered her so much on abuses surrounding the no-bid contract awarded to Halliburton that cost the taxpayers \$2.5 billion. And not to pay attention to that and say, listen, something was terribly wrong here, we tried to get hearings in the Committee to review that and were never able to do so, but I think that is an area that is just rife with mistakes and waste, and I think that we are not going to have that happen again. No big contracts should be awarded by the military. As a matter of fact, much of the contracting ought to be done outside of the periphery or the perimeter of the military operation.

The military is a wonderful group. We have terrific people who are serving on the line. When I hear people who are severely wounded say they would want to go back and help further, it is a remarkable human endeavor.

Last, Mr. Walker, the FAA performance on the modernization program, what kind of faith can we put in the FAA ability to effectively move some of the ATC operation, the private contractors, and still maintain safety standards? There is not a lot of encouragement there that that can happen.

Mr. WALKER. Well, as you know, the FAA air traffic control modernization is on our High-Risk List. It is also illustrative of problems that many major systems efforts have in the Federal Government. Namely, if you do not adequately determine the system requirements up front and nail them down and make sure that you have an appropriate project plan with key milestones and accountability mechanisms, along with effective oversight, you will get into trouble over time.

And so, the item that is on the High-Risk List, Senator Lautenberg, is really more the issue of the systems modernization rather than the safety issues that you are raising. I would be happy to get back with you and your staff on some of those issues, if you would like.

Senator LAUTENBERG. Well, you have been assigned kind of the task of Paul Revere here of sounding the alarm, and you have done it appropriately. And for us to have been discussing the same problems for over so many years and knowing that the cost for these problems is so enormous; the Chairman described it as outrageous; it is outrageous. I mean, here, we sit, and we drum up the verbiage to go along with our indignation, but there we are: next year or 2 years from now, we will be discussing the same problem unless we make fundamental changes to the system.

Senator VOINOVICH. Thank you, Senator Lautenberg. We are joined by Senator Stevens.

**OPENING STATEMENT OF SENATOR STEVENS**

Senator STEVENS. Thank you, Mr. Chairman. I am sorry to be late. I have been in another committee.

I am glad to see you here, Mr. Walker and Mr. Johnson.

I want to ask questions probably beyond the scope of the hearing. You two have comparable jobs, but OMB has come up with a list now that the President has approved of 150 programs that ought to be terminated. You have come up with a list of programs that are at high risk. What is the difference?

Mr. WALKER. Well, one, I can tell you, Senator, is with regard to our High-Risk List, we have certain criteria that have to be met in order to determine whether or not something is high risk, and one of those is it has to be something of national significance, and it has to involve large amounts of money. So there are many programs that the President may end up having on his proposed termination list that may not meet the criteria of being high risk, because they may not be national in scope, or they may not involve enough money.

Senator STEVENS. But do you determine that they should be saved before you work on what the risks are? Are you sure the programs should continue when you make your study of what the risks are and how to save them?

Mr. WALKER. Oh, absolutely not, Senator. In fact, one of the important points is since I have been Comptroller General, in addition to focusing on fraud, waste, abuse, and mismanagement and trying to fight that and minimize that, we have also noted on the High-Risk List that there are a number of items that are in fundamental need of transformation. You need to reexamine whether or not they should continue.

Senator STEVENS. But you made a determination that they should be saved, if they should be transformed. Have you made any determination they should be terminated?

Mr. WALKER. With regard to the High-Risk List itself, no. I would, however, respectfully suggest—

Senator STEVENS. No, I mean with regard to the programs you review. You must review a whole series of programs to determine which ones are high risk.

Mr. WALKER. Senator, you should have a copy; I sent one to your office, we released this report, which is called 21st Century Challenges. It raises over 200 questions about existing Federal Government policies, programs and functions and activities that I think it is appropriate to review and determine whether or not they ought to be continued, and if so, in what size and in what manner.

Senator STEVENS. Have you reviewed that, Mr. Johnson?

Mr. JOHNSON. This report? No, I just got it this morning.

Senator STEVENS. Do you do a similar function? How do you make a determination and recommend to the President what 150 programs should be terminated?

Mr. JOHNSON. OMB is 3 years into a 5-year process of evaluating all the 1,200 programs in the Federal Government, and our going in approach is we want programs to work. But you cannot figure

out what you need to do to make them work the best unless you have assessed whether they are working or not, unless you have a very specific, measurable outcome; you have an efficiency goal, and you have an assessment of management and an assessment of what is keeping you from having the best-performing program possible.

So our going in approach to your question is we want the program to work. The 150 programs that have been recommended for elimination or for significant reductions are programs that we assess are not high priority, have accomplished their stated purpose, or do not work. We have made attempts to fix them. There are other programs that deal with the same issue, and continued spending in these areas are not warranted. The return on that investment is less than the investment itself.

Senator STEVENS. That was going to be my next question to Mr. Walker.

As you go through these high risks, what we see in the private sector entities that both are going to fail, and they find a way to come together and merge, and they survive. Now, do you make such a suggestion to us as to how some of these high-risk things could be merged?

Mr. WALKER. Senator, I am happy to take a look at that and get back to you on it. I do think that there are opportunities, to take a look, for example, at the budget categories and determine how many departments and agencies have similar programs and activities that they are engaging in in a particular area.

For example, there are 44 programs dealing with job training that cross over 20 agencies. There are 22 agencies that are involved in financial literacy. And the question is why? The simple fact of understanding that and whether there is duplication of effort or redundancy or inefficiency is something that I think it is prudent to go forward on.

Senator STEVENS. Well, they estimate that you have to have 79 applications to various Federal agencies to drill a well for oil in Alaska. Have you ever looked into the redundancy of the programs that demand these studies and studies and studies and applications and applications?

When I was in China this last summer, we literally saw a building go up in a week. And then, I said, well, how in the world can you do that? It would take 2 years to get one started in Alaska or anywhere else in the United States. And they said we only need one permit, one permit. We have never looked at trying to consolidate all these permit applications—at a tremendous cost, by the way, because all of these things have to be done.

And I am serious. It is 79 different things you have to have before you drill wells in Alaska. I would think that rather than look at it high risk from the point of view of government function we would look at the question of what are they doing for the society? Do we need all those applications? Have you ever looked at that? Is that a function of the GAO?

Mr. WALKER. That is something we could look at. To my knowledge, Senator, we have not looked at that specific example, but I think there are plenty of opportunities to do so.

Senator STEVENS. I do not mean to be abrupt, but you are the one, your predecessor or you decided that you have the right to make these studies. They are not mandated by Congress.

Mr. WALKER. You mean the high-risk list?

Senator STEVENS. Yes.

Mr. WALKER. That is correct; we have done it since 1990.

Senator STEVENS. But you have never looked at the question of should they survive, nor should they merge, nor are they required in the beginning.

Mr. WALKER. Well, Senator, I will tell you: I think this document, which I would really commend to you—

Senator STEVENS. I will take it with me on the trip that I am going on tomorrow.

Mr. WALKER. It gets to some of those issues, because let me give you an example, Senator: Based upon our work, our high risk work and other work that we do for the Congress, which, as you know, 90 percent of the work that we do is requested or mandated by Congress, so we are very focused on serving the Congress. But based upon that work—

Senator STEVENS. You are an arm of Congress. You are not independent of Congress.

Mr. WALKER. I understand that we are in the Legislative Branch. I understand that, Senator. But my point to you is that I think this makes a pretty clear and compelling case that there is a need to look at the base of government. There is a need to look at potential redundancies, and there is also a need to be able to ask questions like: Why did we create this program? What were the conditions that existed then? Do they still exist today? Is this program successful? If so, on what basis?

I think we need to do that, and we look forward to working with this Subcommittee and others in doing that, because we find a serious situation.

Senator STEVENS. Well, I commend the Administration, because I think they are finally looking at the question of whether Federal lands should be used to try and find ways to really ameliorate the shortage of energy in this country, but I was just told the other day that even with the new policy of saying let us look at these Federal lands, those lands will not be available for really exploration for 4 years, maybe 5 years, because of all the things a person has to do to get a permit to go into those lands and to explore for and drill for, if necessary, for oil or gas.

I do think, Clay, you ought to take a look at that, too. These two agencies together ought to find some way to cut through the red tape is what I am really saying.

Mr. JOHNSON. There are different ways to think about the Federal Government. One of them is as a huge service organization. Let us define all the different areas where we serve. We serve drillers; we serve retirees; we serve many others; and take the most important ones where the most money is involved or the most number of people involved and make sure we have a clear definition of success of high level service.

And so, in the case of drillers, the definition of success would include whether they get their rigs out on the field in a reasonable period of time and start looking for oil. Whether they can build a

building in a reasonable period of time. Let us define that and then hold those people accountable for achieving those levels of success. We tend to focus on the outcome we are producing, but looking at it from a service standpoint is probably something we should do at the same time.

Senator STEVENS. Perhaps I am too impatient, because we obtained approval of Congress proceeding with the Alaska Gas Pipeline in the last Congress. I was told yesterday that the earliest we can expect the beginning of that construction is 2009. And it is because of the procedures that are in existing law, redundant procedures that have to be pursued between now and then and at the same time came the study that said by 2014, we will be importing 40 percent of our natural gas.

Why? Because we have this gap now in supply and demand, and the cost is going to go up and up and up. By the time that the price gets high enough, people are going to start to bring in LNG. But we have enough natural gas in this country in areas that are known to be valuable for oil and gas, and if we just had the right to drill, we could bring it in before 2014, but again, it would take 4 or 5 years to start any one of those developments.

And I think, in this process that you are in, I would encourage you to see if we could not set off on a task how to reduce the delay. We are not against environmental review. We are not against economic review. We are not against project analysis. But there ought to be a way to do them and to do them in a compatible way and move them forward so that—well, in engineering, I learned about a critical path? There is no critical path available to deal with the Federal Government in terms of development of energy in this country today.

Mr. JOHNSON. Well, there is a general view, when you say the Federal Government, one image that comes to mind is a long line, a line to get into the country, a line to get a visa, a line to get a document, or a line to get a permit or whatever, and we need to get out of the long line business.

Senator STEVENS. Potential litigation all the way.

Mr. JOHNSON. Right.

Senator STEVENS. Potential litigation all the way, and that is part of the delay.

Well, I appreciate your time, Mr. Chairman. Glad to see you two here, and I am going to read that book on our trip coming up tomorrow. Thank you very much.

Mr. WALKER. Thank you, Senator.

Senator VOINOVICH. You ought to maybe get Senator Dominici involved in this right away.

Senator STEVENS. Yes. [Laughter.]

Senator VOINOVICH. There are several areas, Mr. Johnson, that I am concerned about in addition to the Defense Department. One of them is—

Mr. JOHNSON. I welcome your change of subject, sir. [Laughter.]

Senator VOINOVICH. We are looking for revenue, and the Internal Revenue, in terms of collecting unpaid taxes, has been on the list since 1990. And I know that many States have incorporated programs and have enhanced their collections measurably. And it is

frustrating that since 1990, it has been on the High-Risk List, and I wonder have you looked into that at all?

Mr. JOHNSON. I have not personally, but again, Mark Iverson, my predecessor is over there and is a very talented fellow and has all the ability in the world to focus on things, and we need to get back to you with how we are going to tackle that.

Senator VOINOVICH. You know, I would go back and talk to Mr. Bolton and say: We need more revenue, and here is an area that if we really get at it, we can bring some more money into the Treasury.

Mr. JOHNSON. The specific areas that I know that are being looked at that have revenue implications are, related to improper payments. We think there is a net, our improper payments are net \$35 billion higher than they need to be. If we are going to eliminate improper payments, we create \$35 billion that does not exist now.

Competitive sourcing addresses the incurred to commit to perform commercial activities; we think those are \$6 billion to \$7 billion higher than they need to be. Overall, it does not increase revenue, but reduces costs, with an overall focus on efficiency. A one percent improvement in efficiency across the Federal Government is tens of billions of dollars a year.

Those are basic mindset changes, procedural changes that we are effectively implementing today to create tens of billions of dollars in additional available revenue to be spent in the form of reduced costs. So there are a lot of things being looked at, and there are many more things still to be examined.

Senator VOINOVICH. Well, I think the question is why has it not happened, and what are you going to do to fix the problems at the Internal Revenue Service.

Last year, in April, I had CMS in here, and the title of the hearing was "Does CMS Have the Right Prescription in Implementing the Prescription Drug Program?" And we are going to have another hearing. I told Mark McClellan, who spent a lot of time in Ohio last year, that we are going to do it. But the Medicare program has been identified by the High-Risk Series since 1990. GAO identifies the recently-enacted Medicare Prescription Drug Improvement and Modernization Act as creating, "new challenges for administering the Medicare program."

The question is do we need legislative changes that will help deal with challenges faced by the Medicare Modernization Act, and the High-Risk Series identifies that only in some cases has GAO—or CMS is taking steps to do something. And the bottom line is this: We are going to implement this new prescription drug program next year. And I have to tell you as one who went to almost 40 meetings last year on this issue of this program that the card issuance was a disaster. You can talk to anybody about it. I mean, the Department worked, they had the numbers, but the system that was in place did not work.

And if we have the same problem with implementing the prescription drug program that we had with the card that was the transition to the new program, I think that this wonderful program that the President wanted and we wanted will be discredited and will cast a large shadow over anything that we intend to do in

terms of Social Security, because people will say if they failed, they will fail this too.

And so, I think somebody in the Administration ought to really get involved, look at what is going on over there, does he have enough people to get the job done, what is the system that we are going to use to cascade this out to the American people, are we going to let them make a choice, are we going to empower them to put them in a program and let them opt out? But unless that is looked at, this could be a disaster next year, and so, I bring that to your attention.

The other issue that is on the high risk, an emerging high-risk area, and this is another one that is really important in terms of spending money: The need for a comprehensive national risk and threat assessment, OK? If I were Osama bin Laden, I would be the happiest person in the world. That one individual has wreaked more havoc on the United States than any person, in over 200-year history in terms of changing the way we do things to respond to terrorism.

And one of the things that is of concern to me and I know of my colleagues, and you know, we are part of the Homeland Security Committee, is that everybody and his brother wants something done. If we do everything that everyone identifies that we must do, we will bankrupt the country.

And somehow, we need to have in place, and Mr. Walker, I would like you to comment; maybe I am off on the wrong track on this, but we must have some system to do a threat assessment and say these are the priorities and where are we to make a difference. The No. 1 thing is if we had—that is why we have the new Director of National Intelligence is that we do a great job with that, and we keep these people out; we are in good shape.

But last night, I watched on C-SPAN where they had a hearing—I think it was before one of the committees, and George Tenet—not Tenet, but who runs the FBI, Mueller?

Mr. WALKER. Mueller.

Senator VOINOVICH. Yes, Director Mueller was talking about all of the terrorist organizations that we have right now in the United States. Hamas is still in the United States and some other groups too.

So we do have that problem, but in terms of how do we respond to that, is anybody over there putting a chart in place and saying this is where we should allocate our monies to make the difference in terms of securing the homeland?

Mr. JOHNSON. You are asking me?

Senator VOINOVICH. Yes, I am.

Mr. JOHNSON. I do not know what form it takes, but I know they pay a lot of attention to where they think the vulnerabilities are where the bad guys think our vulnerabilities are; and therefore, where we should be most attentive to keep them from getting in the country or minimizing those vulnerabilities. But the exact form it takes, I do not know.

Senator VOINOVICH. Mr. Walker, would you comment on that, and then, I will wrap it up, because Senator Akaka has a speech to give on the floor.

Mr. WALKER. Sure, they need to develop a more comprehensive and integrated threat and risk assessment both within the Department of Homeland Security as well as other agencies, including the Department of Defense. I think it is important, as you pointed out, that there will never be such a thing as zero risk in today's world, but we need to end up allocating our resources to try to mitigate as much risk as possible.

Now, on that, Mr. Chairman, I would respectfully suggest that Congress is going to have a role to play, too, because one of the issues that is going to be there is after you end up conducting that comprehensive threat and risk assessment, and after the Congress ends up allocating resources, how much of those resources should be allocated on a per capita basis versus how much of those resources should be allocated in accordance with the comprehensive risk and threat assessment.

Senator VOINOVICH. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. Mr. Johnson, you recently announced the Administration's goal of expanding the personnel flexibilities granted to the Department of Homeland Security and the Department of Defense to the rest of the Federal Government.

My question to you is why do you believe it is appropriate to expand these flexibilities across government without Congress and the Administration having an opportunity to gauge the success or failure of these new personnel systems?

Mr. JOHNSON. Well, I think most everybody would agree that expanded flexibilities will be adopted government-wide. I do not think anybody disagrees about whether they will be adopted; the only question is "when?" David had a conference a year ago or so that he co-chaired with Paul Volcker, and there was representatives from all the different interested parties and a lot of discussion about this. I think the group was unanimous in their belief that we would change the flexibilities that management has to manage its people, and there was a question of should we do it piecemeal, or should we do it all at once with the rest of the Federal Government.

And the feeling was we should not do it piecemeal. The feeling was we should do it all at once, and so, the question was do we do it this next year or the year after that? We do not want to do anything that represents high risk, since that is the subject of today's hearing. We do not want to jump into a swimming pool full of sharks. We do not want to go where there are a lot of unknowns, and we do not know how to deal with those unknowns. I contend that almost all the risk associated with spreading new human resource flexibilities government-wide are in implementation.

The risks are not in what the regulations should be. The risks are on how are they implemented. How good are we at training managers? How good are we communicating and alleviating anxieties and fears with employees? For instance, the Department of Homeland Security has a 4-year plan for implementing their new system. The last group at Homeland Security that will adopt their new system in 2009. President Bush will not be President; I will not be here; a lot of us will not be here. So it is a very long system for the very purpose of managing risk to acceptable levels.

DOD has a long plan also to implement theirs. I do not know what the time frame is, but it is all about managing risk. So I believe that, one, we will not do this without Congress. I believe you all are still involved in this unless someone changed the Constitution. What I propose is that we commit to extend these government-wide and to deal with the most important ones, initially, which are the ones that do not involve labor relations, which are the most controversial, but with the least amount of value added to the improvement of the system.

Let us focus on the ones that are the least controversial, that have the greatest value added capability. Let us agree that we are going to do that, and let us agree on a reasonably long period of time for implementation that will allow us to manage the risks of implementation to you all's satisfaction and to ours and to the unions' and to the employees' satisfaction.

Senator AKAKA. Yes, well thank you for that statement. I know that the Chairman and I, and the Subcommittee have been very concerned about expanding these regulations immediately to the whole government.

Mr. JOHNSON. This is not a rush out there. No, we have to be prudent, because this is going to be and must be with great certainty very successful.

Senator AKAKA. And of course we have been concerned about the flexibilities.

Mr. JOHNSON. Yes.

Senator AKAKA. And we do not know what they are at this time.

Mr. JOHNSON. Excuse me; one of the things I talked to Senator Voinovich about was coming back to him and to Susan Collins and you, sir, and Congressman Davis about talking through where we think, and let us make sure we understand where the risks are, where the opportunities are. We hope to do this with you all, obviously, and seek your input on this. I think the opportunity is to commit now, so we can all get in the business of doing it and making these benefits available to the entire Federal Government.

Mr. WALKER. Senator, may I comment on this? I think it is important that certain concepts ultimately be applied government-wide. For example, right now, you have a circumstance where individuals who are not performing at an acceptable level, or, stated differently, unacceptable performers are guaranteed the across-the-board pay increase that Congress passes every year, and for many Executive Branch agencies, 85 percent of the pay increases that occur every year are directly tied to that and to length of service, neither of which have anything to do with performance.

Our current system for determining market-based compensation is fundamentally flawed. So I think over time, we need to move to a market-based and performance-oriented compensation system. At the same point in time, it is critically important to have adequate safeguards in place to prevent abuse of employees, and those safeguards need to be in place before you operationalize the authorities. So I think there is an opportunity to expand this, but you have to have certain principles that go across government, certain safeguards that should be in place before you operationalize the authority to maximize the chance of success and to minimize the possibility of problems.

Senator AKAKA. Thank you, Mr. Walker. My time has expired. I just want to say I certainly appreciate your statements, and for me they have been helpful.

Senator VOINOVICH. Yes, thank you, Senator Akaka.

On that issue, we are concerned that we must start to see some examples of how this is going to happen, and I think that there is a reluctance to make government-wide personnel reforms until we see how it works in several areas. Now, you have it working in the GAO, but we would like to see just how is this going to be cascaded throughout the government, and I think how that is done initially will have a lot to do with whether or not we are going to agree to do it on a government-wide basis. What is your plan, the plan of the agencies, what training will be provided to managers for filling out performance evaluations which is much easier said than done. I have done it, and I suspect you have. It is tough stuff. It takes time.

And I think also that we need to look at the concerns of the unions regarding collective bargaining. I think they are raising some legitimate issues. I think we need to look at them in terms of responding to some of their concerns, because their cooperation in all of this is very important. If they decide that they are just going to throw up roadblocks and discourage people from doing this, they can really bring this thing almost to a halt. Now I have made it very clear that they cannot afford to do that, because this is too important, particularly in the Department of Homeland Security, to the security of the United States of America, so the unions have to put aside some of those things.

On the other hand, I think that they have some legitimate complaints. One of the witnesses discussed the job losses in the agriculture inspection function. We are looking into his concerns, but he said about a third of the people who were serving as agriculture inspectors have left, and I am pulling together anecdotal stories from very professional employees. Some feel like they have been demeaned, and are thus leaving the government, and so, we have to look at that also.

We forget that this is, particularly in Homeland,—180,000 people that we are trying to bring together—is a very formidable management task. Sometimes, the public hears the government is going to do something, and you snap your fingers, and it is going to happen. Unfortunately, it does not work like that. It takes years to complete some of our tasks. So we need to work together on it, and we are open to it.

In terms of the high-risk area, we are going to share with you, Mr. Johnson, where we are going to put our effort, and I want to publicly say to you we are going to get into the DOD thing. I am one of those guys who I set out early on, and I talked to Mr. Walker, and he was very helpful. We are going to do something about human capital, and we are like a bulldog, and we hung onto it, and we made some success there.

Now, we must explore whether agencies are using the flexibilities that they have been given. But I will say this for both of you: It is working, because I have talked to one agency; I talked to Sean O'Keefe from NASA. He told me that NASA is already reaping the rewards of the personnel flexibilities granted by Congress. But the

thing is, we need to open this up government-wide and make sure agencies are using the flexibilities. Some of the agencies still have not utilized the new hiring program and not moved away from the rule of three.

So we are going to stay on top of that and kind of monitor that and do some oversight. But this Subcommittee is going to shift into oversight of the high-risk areas. I really believe that we can put our minds to it and spend the time, stay on top of this, we can help remove some DOD programs off the High-Risk List. It is important for efficient operation of the Department of Defense, and it is so very important now with the growing deficits, and we are trying to find money, and we have to do something to make a difference.

As I mentioned to you, Mr. Johnson, I find it difficult to tell certain programs, like health care, education, or childcare, that they are receiving funding cuts when the DOD wastes \$22 billion because of poor management practices. This simply is not fair.

So I thank you for being here, and I really appreciate the work both of you are doing for our Nation. You have been wonderful. You are friends, and I look forward to working with both of you.

Mr. JOHNSON. Thank you, sir.

Senator VOINOVICH. The Committee is adjourned.

[Whereupon, at 11:38 a.m., the Subcommittee adjourned.]

# A P P E N D I X

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**GAO**

United States Government Accountability Office

Testimony

Before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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## GAO'S 2005 HIGH-RISK UPDATE

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



GAO-05-350T

February 17, 2005

## GAO'S 2005 HIGH-RISK UPDATE



## Highlights

Highlights of GAO-05-350T, a testimony to the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

GAO's audits and evaluations identify federal programs and operations that, in some cases, are high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement. Increasingly, GAO also is identifying high-risk areas to focus on the need for broad-based transformations to address major economy, efficiency, or effectiveness challenges. Since 1990, GAO has periodically reported on government operations that it has designated as high risk. In this 2005 update for the 109th Congress, GAO presents the status of high-risk areas identified in 2003 and new high-risk areas warranting attention by the Congress and the administration. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of the federal government, and ensure the ability of government to deliver on its promises.

### What GAO Recommends

This testimony contains GAO's views on what remains to be done for each high-risk area to bring about lasting solutions. Persistence and perseverance by the administration in implementing GAO's recommended solutions and continued oversight and action by the Congress are both essential.

[www.gao.gov/cgi-bin/getrpt?GAO-05-350T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-350T)

To view the full product, click on the link above. For more information, contact George Stalcup at (202) 512-9490 or [stalcup@gao.gov](mailto:stalcup@gao.gov).

### What GAO Found

In January 2003, GAO identified 25 high-risk areas; in July 2003, a 26th high-risk area was added to the list. Since then, progress has been made in all areas, although the nature and significance of progress varies by area. Federal departments and agencies, as well as the Congress, have shown a continuing commitment to addressing high-risk challenges and have taken various steps to help correct several of the problems' root causes. GAO has determined that sufficient progress has been made to remove the high-risk designation from three areas: student financial aid programs, FAA financial management, and Forest Service financial management. Also, four areas related to IRS have been consolidated into two areas.

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

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

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

United States Government Accountability Office

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**GAO's 2005 High-Risk List**
**2005 High-Risk Areas****Addressing Challenges In Broad-based Transformations**

- Strategic Human Capital Management\*
- U.S. Postal Service Transformation Efforts and Long-Term Outlook\*
- Managing Federal Real Property\*
- Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
- Implementing and Transforming the Department of Homeland Security
- Establishing Appropriate And Effective Information-Sharing Mechanisms to Improve Homeland Security
- DOD Approach to Business Transformation\*
  - DOD Business Systems Modernization
  - DOD Personnel Security Clearance Program
  - DOD Support Infrastructure Management
  - DOD Financial Management
  - DOD Supply Chain Management (formerly Inventory Management)
  - DOD Weapon Systems Acquisition

**Managing Federal Contracting More Effectively**

- DOD Contract Management
- DOE Contract Management
- NASA Contract Management
- Management of Interagency Contracting

**Assessing the Efficiency and Effectiveness of Tax Law Administration**

- Enforcement of Tax Laws<sup>a, b</sup>
- IRS Business Systems Modernization<sup>c</sup>

**Modernizing and Safeguarding Insurance and Benefit Programs**

- Modernizing Federal Disability Programs<sup>a</sup>
- Pension Benefit Guaranty Corporation Single-Employer Insurance Program<sup>a</sup>
- Medicare Program<sup>a</sup>
- Medicaid Program<sup>a</sup>
- HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs

**Other**

- FAA Air Traffic Control Modernization

Source: GAO.

\*Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

<sup>a</sup>Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

<sup>c</sup>The IRS Financial Management high-risk area has been incorporated into this high-risk area.

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Mr. Chairman, Senator Akaka, Members of the Subcommittee:

Thank you for the opportunity to discuss GAO's 2005 high-risk update report. As you know, we periodically assemble our work for the Congress in ways we hope will help in its budget and programmatic deliberations, as well as oversight and legislative activities. The "high-risk" program was begun in 1990 under the direction of my immediate predecessor, the Honorable Charles A. Bowsher. Beginning in 1993, we have been updating this report at the onset of each new Congress. This effort, which is actively supported by your Subcommittee, as well as the full Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Government Reform, has brought a much needed focus to problems that are impeding effective government and costing the government billions of dollars each year. In fact, Chairman Voinovich and Senator Akaka, our 2005 high-risk update was issued on January 25, 2005, at a press briefing that the chairs and ranking members of our Senate and House oversight committees, as well as both of you, attended.

As this Subcommittee knows, we have made hundreds of recommendations to improve these high-risk operations. Moreover, our focus on high-risk problems contributed to the Congress's enacting a series of governmentwide reforms to address critical human capital challenges, strengthen financial management, improve information technology practices, and instill a more results-oriented government. Our high-risk status reports are provided at the start of each new Congress. This update should help you and other Members of Congress carry out your responsibilities while improving the federal government's performance and enhancing its accountability for the benefit of the American people.

During my tenure as Comptroller General, our high-risk program has increasingly focused on those major programs and operations that need urgent attention and transformation in order to ensure that our national government functions in the most economical, efficient, and effective manner possible. As in prior updates, federal programs and operations are also emphasized when they are at high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement.

Our report summarizes (1) progress made in correcting high-risk problems, (2) actions under way, and (3) further actions that we believe are needed. In this update, we determined that sufficient progress had been made to remove the high-risk designation from three areas, and we designated four

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new areas as high risk. In addition, several prior high-risk areas have been consolidated or modified.

Our objective for the high-risk list is to bring "light" to these areas as well as "heat" to prompt needed "actions." The Bush Administration has looked to our high-risk program to help shape various governmentwide initiatives such as the President's Management Agenda, which has at its base many of the areas we had previously designated as high risk. To its credit, the Office of Management and Budget (OMB) has worked closely with a number of agencies that have high-risk issues, in many cases establishing action plans and milestones for agencies to complete needed actions to address areas that we have designated as high risk. In this regard, Clay Johnson, OMB's Deputy Director for Management, recently reaffirmed the Bush Administration's desire to refocus on GAO's high-risk list in order to make as much progress as possible in the President's second term. This is very encouraging. However, continued oversight by the Congress will also be key, and in the case of some areas, legislative actions will be needed.

Just yesterday, we issued another report entitled *21<sup>st</sup> Century Challenges: Reexamining the Base of the Federal Government* (GAO-05-325SP), which presented a number of illustrative questions for the Congress and other policy makers to consider as they carry out their various constitutional responsibilities. These questions span a broad range of budget categories and federal operations, including discretionary and mandatory spending, and tax policies and programs. We hope that this new report, along with the high-risk report, will be used by various congressional committees as they consider which areas of government need particular attention and reconsideration. In the final analysis, only elected officials can decide whether, when, and how best to proceed to address these important issues.

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### High-Risk Designations Removed

For this 2005 high-risk update, we determined that three high-risk areas warranted removal from the list because of progress made. They are the Department of Education's (Education) Student Financial Aid Programs, Federal Aviation Administration (FAA) Financial Management, and the Department of Agriculture's (USDA) Forest Service Financial Management. We will, however, continue to monitor these programs, as appropriate, to ensure that the improvements we have noted are sustained.

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**Student Financial Aid Programs**

In 1990, we designated student financial aid programs as high risk. Since then, in intervening high-risk updates, we reported various problems, including poor financial management and weak internal controls, fragmented and inefficient information systems, and inadequate attention to program integrity as evidenced by high default rates and the numbers of ineligible students participating in the programs. In 1998, the Congress established Education's Office of Federal Student Aid (FSA) as the government's first performance-based organization, thus giving it greater flexibility to better address long-standing management weaknesses within student aid programs. In 2001, Education created a team of senior managers dedicated to addressing key financial and management problems throughout the agency, and in 2002, the Secretary of Education made removal from GAO's high-risk list a specific goal and listed it as a performance measure in Education's strategic plan. We reported in 2003 that Education had made important progress, but that it was too early to determine whether improvements would be sustained and that additional steps needed to be taken in several areas.

Since 2003, Education has sustained improvements in the financial management of student financial aid programs and taken additional steps to address our concerns about systems integration, reporting on defaulted loans, and human capital management. Furthermore, the agency has met many of our criteria for removing the high-risk designation. Education has demonstrated a strong commitment to addressing risks; developed and implemented corrective action plans; and, through its annual planning and reporting processes, monitored the effectiveness and sustainability of its corrective measures. Thus, while FSA needs to continue its progress and take additional steps to fully address some of our recommendations, we are removing the high-risk designation from student financial aid programs.

FSA has sustained improvements to address its financial management and internal control weaknesses. FSA received an unqualified, or "clean," opinion on its financial statements for fiscal years 2002, 2003, and 2004. In addition, the auditors indicated progress in addressing previously identified internal control weaknesses, with no material weaknesses<sup>1</sup>

<sup>1</sup> A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

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reported in FSA's fiscal year 2003 and 2004 audits. However, the auditors reported that FSA should continue to further strengthen these internal controls, which are related to the calculation and reporting of the loan liability activity and subsidy estimates, as well as its information systems controls. FSA has also established processes to address several previously reported internal control weaknesses that made FSA vulnerable to improper payments in its grant and loan programs. For example, FSA has taken steps to better ensure that grants are not awarded to ineligible students and has implemented a process to identify and investigate schools for possible fraudulent activities or eligibility-related violations. Further, FSA addressed concerns we raised about students who were underreporting family income, by working with OMB and the Department of the Treasury to draft legislation that would permit use of tax information to verify income reported on student aid applications.

FSA has taken further actions toward integrating its many disparate information systems. FSA has developed an integration strategy that focuses on achieving a seamless information exchange environment whereby users—students, educational institutions, and lenders—would benefit from simplified access to the agency's financial aid processes and more consistent and accurate data across its programs. FSA also has made progress toward establishing an enterprise architecture for guiding its systems integration efforts and has begun three efforts for reengineering its information-processing environment, which would consolidate and integrate most of its systems and move it closer to a seamless information exchange environment.

FSA also included action steps for achieving student loan default management goals in its annual plan and has taken steps to help reduce the default rate. In 2003, FSA created a work group that identified over 60 default prevention and management initiatives and established a new organizational unit to focus on mitigating and reducing the risk of loss to the taxpayer from student obligations. FSA added information to its exit counseling guide to help increase borrowers' awareness of the benefits of repaying their loans through electronic debiting accounts and prepayment options. In 2003, FSA reported a cohort default rate of 5.4 percent for 2001, and defaulted loans as a percentage of total outstanding loans declined from 9.4 percent in 2001 to 7.6 percent in 2003.

FSA is taking steps to address its human capital challenges. It developed a comprehensive human capital strategy that includes many of the practices of leading organizations and has addressed many of the issues we

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previously raised. For example, FSA identified challenges that it will likely face in coming years, such as likely retirements, and discussed recognized weaknesses, such as the need to develop the skills of staff and maintain the focus of the agency's leadership on human capital issues. FSA has also prepared a succession plan that addresses some of our concerns about the pending retirement of senior employees in key positions across the agency. Additionally, FSA has established several approaches to support staff development by revising its Skills Catalog, which should enable staff to independently plan their professional development; introducing online learning tools; offering a wide variety of internal courses; and providing funds for external courses.

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**FAA Financial Management**

We first designated FAA financial management as high risk in 1999 because the agency lacked accountability for billions of dollars in assets and expenditures due to serious weaknesses in its financial reporting, property, and cost accounting systems. These problems continued through fiscal year 2001, when FAA's financial management system required 850 adjustments totaling \$41 billion in order to prepare FAA's annual financial statements. In addition, at that time, FAA could not accurately and routinely account for property totaling a reported \$11.7 billion, and lacked the cost information necessary for decision making as well as to adequately account for its activities and major projects, such as the air traffic control modernization program. Also, while FAA received an unqualified audit opinion on its fiscal year 2001 financial statements, the auditor's report cited a material internal control weakness related to FAA's lack of accountability for its property and several other internal control weaknesses related to financial management issues.

At the time of our January 2003 high-risk report, FAA had made significant progress in addressing its financial management weaknesses, most importantly through ongoing efforts to develop a new financial management system called Delphi, including an integrated property accounting system, as well as initiatives to develop a new cost accounting system. However, these new systems were still under development and not yet operational. Therefore, it had yet to be seen whether the new systems would resolve the long-standing financial management issues that had resulted in our designation of FAA financial management as high risk. As a result, we retained FAA financial management as a high-risk area, while noting that significant progress was being made.

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FAA management has continued to make progress since our January 2003 high-risk report. Subsequent auditors' reports on FAA's financial statements for fiscal years 2002 and 2003 were unqualified, but continued to cite internal control weaknesses, although less severe than in prior years, related to FAA's then existing financial management systems. In fiscal year 2004, FAA implemented its new Delphi general ledger system, including an integrated property accounting system. FAA management was able to prepare financial statements for the fiscal year ended September 30, 2004, using these new systems, and FAA's auditors gave FAA an unqualified opinion on these financial statements. While the auditors reported several internal control weaknesses related to the implementation of the new financial management systems, none of these were considered to be material weaknesses, and FAA management, in responding to the auditor's report, indicated their full commitment to addressing these issues.

While the cost accounting system is still under development, progress has been made. The cost accounting interface with Delphi was completed in fiscal year 2004, and the labor distribution interface is expected to be completed in fiscal year 2005. For the first time, some cost accounting data, while not available on a monthly basis, were available shortly after fiscal-year end for the 12 months ended September 30, 2004. FAA management has demonstrated its commitment to the full implementation of this system, devoting significant planning and resources to its completion and the monitoring of its implementation progress.

While it is important that FAA management continue to place a high priority on the cost system and, more importantly, ultimately use cost information routinely in FAA decision making, FAA's progress in improving financial management overall since our January 2003 high-risk update has been sufficient for us to remove the high-risk designation for FAA financial management.

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#### Forest Service Financial Management

We first designated USDA's Forest Service financial management as high risk in 1999 because the agency lacked accountability over billions of dollars in its two major assets—fund balance with the Department of the Treasury (Treasury) and property, plant, and equipment. Since the Forest Service is a major component of USDA, the lack of accountability over these two major assets contributed to disclaimers of opinions on USDA's consolidated financial statements. In addition, the Forest Service continued to have material weaknesses in its accounting and reporting of accounts receivable and accounts payable. This precluded the agency from

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knowing costs it had incurred and amounts owed to others throughout the year. These problems were further exacerbated by problems with the Forest Service's partial implementation of its new financial accounting system. This system was unable to produce certain critical budgetary and accounting reports that track obligations, assets, liabilities, revenues, and costs. Thus, these financial reporting weaknesses hampered management's ability to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs.

The Forest Service's long-standing financial management deficiencies were also evident in the repeated negative opinions on its financial statements, including adverse opinions in fiscal years 1991, 1992, and 1995. Due to the severity of its accounting and reporting deficiencies, the Forest Service did not prepare financial statements for fiscal year 1996, but chose instead to focus on trying to resolve these problems. However, the Forest Service's pervasive material internal control weaknesses continued to plague the agency. In our 2001 high-risk update, we reported that the USDA Office of Inspector General was unable to determine the accuracy of the Forest Service's reported \$3.1 billion in net property, plant, and equipment, which represented 51 percent of the agency's assets. We also reported that the inspector general was unable to verify fund balances with Treasury totaling \$2.6 billion because the reconciliation of agency records with Treasury records had not been completed. Because of the severity of these and other deficiencies, the inspector general disclaimed from issuing opinions on the Forest Service's financial statements for fiscal years 1997 through 2001. In addition, we noted that the Forest Service's autonomous field structure hampered efforts to correct these accounting and financial reporting deficiencies. We also reported that the Forest Service had implemented its new accounting system agencywide. However, the system depended on and received data from feeder systems that were poorly documented, operationally complex, deficient in appropriate control processes, and costly to maintain.

In our 2003 high-risk report, while we highlighted that the Forest Service continued to have long-standing material control weaknesses, including weaknesses in its fund balance with Treasury and in property, plant, and equipment, we reported that the Forest Service had made progress toward achieving accountability by receiving its first unqualified opinion on its fiscal year 2002 financial statements. Although the Forest Service had reached an important milestone, it had not yet proved it could sustain this outcome, and had not reached the end goal of routinely producing timely,

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accurate, and useful financial information. As a result, we retained Forest Service financial management as a high-risk area.

In the past 2 years, the Forest Service has made additional progress, especially with respect to addressing several long-standing material internal control deficiencies. Based on our criteria for removing a high-risk designation, which includes a demonstrated strong commitment, corrective action plan, and progress in addressing deficiencies, we believe the Forest Service's overall improvement in financial management since our January 2003 high-risk update has been sufficient for us to remove Forest Service financial management from the high-risk list at this time. The Forest Service has resolved material deficiencies related to its fund balance with Treasury and in property, plant, and equipment, thus increasing accountability over its billions of dollars in assets, and USDA and the Forest Service received unqualified opinions on their fiscal year 2004 financial statements.

This does not mean that the Forest Service has no remaining challenges. For example, while we recognized its clean opinion for fiscal year 2002 in our last update, subsequently, in fiscal year 2003, these financial statements had to be restated to correct material errors. The Forest Service also received a clean opinion for fiscal year 2003, but these financial statements had to be restated in fiscal year 2004 to again correct material misstatements. Frequent restatements to correct errors can undermine public trust and confidence in both the entity and all responsible parties. Further, the Forest Service continues to have material internal control weaknesses related to financial reporting and information technology security, and its financial management systems do not yet substantially comply with the Federal Financial Management Improvement Act of 1996.

However, the Forest Service has demonstrated a strong commitment to efforts under way or planned, that, if effectively implemented, should help to resolve many of its remaining financial management problems and move it toward sustainable financial management business processes. These efforts are designed to address internal control and noncompliance issues identified in audit reports, as well as organizational issues. For example, during fiscal year 2004, the Forest Service began reengineering and consolidating its finance, accounting, and budget processes. We believe these efforts, if implemented effectively, will provide stronger financial management, sustain positive audit results, and ensure compliance with federal financial reporting standards. Yet, it is important that USDA and Forest Service officials continue to place a high priority on addressing the

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Forest Service's remaining financial management problems, and we will continue to monitor its progress.

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### New High-Risk Areas

Our use of the high-risk designation to draw attention to the challenges associated with the economy, efficiency, and effectiveness of government programs and operations in need of broad-based transformation has led to important progress. We will also continue to identify high-risk areas based on the more traditional focus on fraud, waste, abuse, and mismanagement. Overall, our focus will continue to be on identifying the root causes behind vulnerabilities, as well as actions needed on the part of the agencies involved and, if appropriate, the Congress. For 2005, we have designated the following four new areas as high risk: Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security, Department of Defense (DOD) Approach to Business Transformation, DOD Personnel Security Clearance Program, and Management of Interagency Contracting.

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### Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security

Information is a crucial tool in fighting terrorism, and the timely dissemination of that information to the appropriate government agency is absolutely critical to maintaining the security of our nation. The ability to share security-related information can unify the efforts of federal, state, and local government agencies, as well as the private sector as appropriate, in preventing or minimizing terrorist attacks.

The 9/11 terrorist attacks heightened the need for comprehensive information sharing. Prior to that time, the overall management of information-sharing activities among government agencies and between the public and private sectors lacked priority, proper organization, coordination, and facilitation. As a result, the existing national mechanisms for collecting threat information, conducting risk analyses, and disseminating warnings were at an inadequate state of development for protecting the United States from coordinated terrorist attacks.

Information sharing for securing the homeland is a governmentwide effort involving multiple federal agencies, including but not limited to the Office of Management and Budget (OMB); the Departments of Homeland Security (DHS), Justice, State, and Defense; and the Central Intelligence Agency. Over the past several years, GAO has identified potential information-sharing barriers, critical success factors, and other key management issues

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that should be considered, including the processes, procedures, and systems to facilitate information sharing among and between government entities and the private sector.

Establishing an effective two-way exchange of information to detect, prevent, and mitigate potential terrorist attacks requires an extraordinary level of cooperation and perseverance among federal, state, and local governments and the private sector to establish timely, effective, and useful communications. Since 1998, GAO has recommended the development of a comprehensive plan for information sharing to support critical infrastructure protection efforts. The key components of this recommendation can be applied to broader homeland security and intelligence-sharing efforts, including clearly delineating the roles and responsibilities of federal and nonfederal entities, defining interim objectives and milestones, setting time frames for achieving objectives, and establishing performance measures.

We have made numerous recommendations related to information sharing, particularly as they relate to fulfilling federal critical infrastructure protection responsibilities.<sup>3</sup> For example, we have reported on the practices of organizations that successfully share sensitive or time-critical information, including establishing trust relationships, developing information-sharing standards and protocols, establishing secure communications mechanisms, and disseminating sensitive information appropriately. Federal agencies have concurred with our recommendations that they develop appropriate strategies to address the many potential barriers to information sharing. However, many federal efforts remain in the planning or early implementation stages.

In the absence of comprehensive information-sharing plans, many aspects of homeland security information sharing remain ineffective and fragmented. Accordingly, we are designating information sharing for homeland security as a governmentwide high-risk area because this area, while receiving increased attention, still faces significant challenges. Since

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<sup>3</sup> GAO, *Homeland Security: Information Sharing Responsibilities, Challenges, and Key Management Issues*, GAO-03-1165T (Washington, D.C.: Sept. 17, 2003); and *Homeland Security: Information-Sharing Responsibilities, Challenges, and Key Management Issues*, GAO-03-715T (Washington, D.C.: May 8, 2003).

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2002, legislation,<sup>3</sup> various national strategies, and executive orders have specified actions to improve information sharing for homeland security.

Earlier this month, DHS released an Interim National Infrastructure Protection Plan (NIPP),<sup>4</sup> which addresses some of the key issues that GAO has previously identified. The DHS plan is intended to provide a consistent, unifying structure for integrating critical infrastructure protection (CIP) efforts into a national program. The interim NIPP identifies key stakeholders and participants in information sharing efforts related to public-private efforts to protect critical infrastructure. In addition, the plan recognizes that information sharing systems can be broadly defined as interactions of people, physical structures, information, and technologies that are designed to ensure that critical, high-quality, and productive knowledge is available to decision makers whenever and wherever it is needed. Further, the plan identifies key responsibilities for DHS, including the development, implementation, and expansion of information-sharing strategies to support infrastructure protection efforts.

The interim plan released by DHS is an important step toward improving information sharing for infrastructure protection efforts; however, extraordinary challenges remain. As the 9/11 Commission recognized, information sharing must be "guided by a set of practical policy guidelines that simultaneously empower and constrain officials, telling them clearly what is and is not permitted."<sup>5</sup> While the wide range of executive and legislative branch actions is encouraging, significant challenges remain in developing the required detailed policies, procedures, and plans for sharing homeland security-related information. For example, the Homeland Security Information Sharing Act required procedures for facilitating homeland security information sharing and established authorities to share different types of information, such as grand jury information; electronic, wire, and oral interception information; and foreign intelligence information. In July 2003, the President assigned these functions to the

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<sup>3</sup> *The Homeland Security Act of 2002* (P.L. 107-296); the *Intelligence Reform and Terrorism Prevention Act of 2004* (P.L. 108-458).

<sup>4</sup> U.S. Department of Homeland Security, *Interim National Infrastructure Protection Plan* (Washington D.C.: February 2005).

<sup>5</sup> National Commission on Terrorist Attacks, *The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks upon the United States* (Washington, D.C.: Government Printing Office, July 22, 2004).

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Secretary of Homeland Security,<sup>6</sup> but no deadline was established for developing information-sharing procedures. Without clear processes and procedures for rapidly sharing appropriate information, the ability of private sector entities to effectively design facility security systems and protocols can be impeded. In addition, the lack of sharing procedures can also limit the federal government's accurate assessment of nonfederal facilities' vulnerability to terrorist attacks.

In December 2004, the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458) required the establishment of (1) an information-sharing environment (ISE) as a means of facilitating the exchange of terrorism information among appropriate federal, state, local, and tribal entities, and the private sector; and (2) an information-sharing council to support the President and the ISE program manager with advice on developing policies, procedures, guidelines, roles, and standards necessary to implement and maintain the ISE. It will be important to ensure that the DHS information-sharing systems are coordinated with those required under the intelligence reform legislation.

Improving the standardization and consolidation of data can also promote better sharing. For example, in 2003 we found that goals, objectives, roles, responsibilities, and mechanisms for information sharing had not been consistently defined by the 9 federal agencies that maintain 12 key terrorist and criminal watch list systems. As a result, efforts to standardize and consolidate appropriate watch list data would be impeded by the existence of overlapping sets of data, inconsistent agency policies and procedures for the sharing of those data, and technical incompatibilities among the various watch list information systems. In addition, 2004 reports from the inspectors general at DHS and the Department of Justice highlight the challenges and slow pace of integrating and sharing information between fingerprint databases.<sup>7</sup>

A great deal of work remains to effectively implement the many actions called for to improve homeland security information sharing, including

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<sup>6</sup> Executive Order 13311: *Homeland Security Information Sharing* (Washington, D.C.: July 29, 2003).

<sup>7</sup> U.S. Department of Homeland Security, Office of Inspector General, *Major Management Challenges Facing the Department of Homeland Security*, OIG-05-06 (Washington D.C.: December 2004); and U.S. Department of Justice, Office of Inspector General, *Semiannual Report to the Congress: Top Management Challenges* (Washington, D.C.: Nov. 22, 2003).

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establishing clear goals, objectives, and expectations for the many participants in information-sharing efforts; and consolidating, standardizing, and enhancing federal structures, policies, and capabilities for the analysis and dissemination of information.

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**DOD Approach to Business Transformation**

DOD spends billions of dollars each year to sustain key business operations that support our forces, including, for example, systems and processes related to human capital policies and practices, acquisition and contract management, financial management, supply chain management, business systems modernization, and support infrastructure management—all of which appear on GAO's high-risk list. Recent and ongoing military operations in Afghanistan and Iraq and new homeland defense missions have led to newer and higher demands on our forces in a time of growing fiscal challenges for our nation. In an effort to better manage DOD's resources, the Secretary of Defense has appropriately placed a high priority on transforming force capabilities and key business processes.

For years, we have reported on inefficiencies and the lack of adequate transparency and appropriate accountability across DOD's major business areas, resulting in billions of dollars of wasted resources annually. Although the Secretary of Defense and senior leaders have shown commitment to business transformation, as evidenced by individual key initiatives related to acquisition reform, business modernization, and financial management, among others, little tangible evidence of actual improvement has been seen in DOD's business operations to date. Improvements have generally been limited to specific business process areas, such as DOD's purchase card program, and have resulted in the incorporation of many key elements of reform, such as increased management oversight and monitoring and results-oriented performance measures. However, DOD has not taken the steps it needs to take to achieve and sustain business reform on a broad, strategic, departmentwide, and integrated basis. Among other things, it has not established clear and specific management responsibility, accountability, and control over overall business transformation-related activities and applicable resources. In addition, DOD has not developed a clear strategic and integrated plan for business transformation with specific goals, measures, and accountability mechanisms to monitor progress, or a well-defined blueprint, commonly called an enterprise architecture, to guide and constrain implementation of such a plan. For these reasons, we, for the first time, are designating DOD's lack of an integrated strategic planning approach to business transformation as high risk.

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DOD's current and historical approach to business transformation has not proven effective in achieving meaningful and sustainable progress in a timely manner. As a result, change is necessary in order to expedite the effort and increase the likelihood of success. For DOD to successfully transform its business operations, it will need a comprehensive and integrated business transformation plan; people with needed skills, knowledge, experience, responsibility, and authority to implement the plan; an effective process and related tools; and results-oriented performance measures that link institutional, unit, and individual performance goals and expectations to promote accountability for results. Over the last 3 years, we have made several recommendations that, if implemented effectively, could help DOD move forward in establishing the means to successfully address the challenges it faces in transforming its business operations. For example, we believe that DOD needs a full-time chief management officer (CMO) position, created through legislation, with responsibility, authority, and accountability for DOD's overall business transformation efforts. This is a "good government" matter that should be addressed in a professional and nonpartisan manner. The CMO must be a person with significant authority and experience who would report directly to the Secretary of Defense. Given the nature and complexity of the overall business transformation effort, and the need for sustained attention over a significant period of time, this position should be a term appointment (e.g., 7 years), and the incumbent should be subject to a performance contract. DOD has agreed with many of our recommendations and launched efforts intended to implement many of them, but progress to date has been slow. In my view, it will take the sustained efforts of a CMO, as we have proposed, to make the needed progress in transforming DOD's business operations.

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**DOD Personnel Security Clearance Program**

Delays in completing hundreds of thousands of background investigations and adjudications (a review of investigative information to determine eligibility for a security clearance) have led us to add the DOD personnel security clearance program to our 2005 high-risk list. Personnel security clearances allow individuals to gain access to classified information that, in some cases, could reasonably be expected to cause exceptionally grave damage to national defense or foreign relations through unauthorized disclosure. Worldwide deployments, contact with sensitive equipment, and other security requirements have resulted in DOD's having approximately 2 million active clearances. Problems with DOD's personnel security clearance process can have repercussions throughout the government because DOD conducts personnel security investigations and adjudications

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for industry personnel from 22 other federal agencies, in addition to performing such functions for its own service members, federal civilian employees, and industry personnel. While our work on the clearance process has focused on DOD, clearance delays in other federal agencies suggest that similar impediments and their effects may extend beyond DOD.

Since at least the 1990s, we have documented problems with DOD's personnel security clearance process, particularly problems related to backlogs and the resulting delays in determining clearance eligibility. Since fiscal year 2000, DOD has declared its personnel security clearance investigations program to be a systemic weakness—a weakness that affects more than one DOD component and may jeopardize the department's operations—under the Federal Managers' Financial Integrity Act of 1982. An October 2002 House Committee on Government Reform report also recommended including DOD's adjudicative process as a material weakness. As of September 30, 2003 (the most recent data available), DOD could not estimate the full size of its backlog, but we identified over 350,000 cases exceeding established time frames for determining eligibility.

The negative effects of delays in determining security clearance eligibility are serious and vary depending on whether the clearance is being renewed or granted to an individual for the first time. Delays in renewing previously issued clearances can lead to heightened risk of national security breaches because the longer individuals hold a clearance, the more likely they are to be working with critical information and systems. Delays in issuing initial clearances can result in millions of dollars of additional costs to the federal government, longer periods of time needed to complete national security-related contracts, lost-opportunity costs if prospective employees decide to work elsewhere rather than wait to get a clearance, and diminished quality of the work because industrial contractors may be performing government contracts with personnel who have the necessary security clearances but are not the most experienced and best-qualified personnel for the positions involved.

DOD has taken steps—such as hiring more adjudicators and authorizing overtime for adjudicative staff—to address the backlog, but a significant shortage of trained federal and private-sector investigative personnel presents a major obstacle to timely completion of cases. Other impediments to eliminating the backlog include the absence of an integrated, comprehensive management plan for addressing a wide variety

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of problems identified by us and others. In addition to matching adjudicative staff to workloads and working with the Office of Personnel Management (OPM) to develop an overall management plan, DOD needs to develop and use new methods for forecasting clearance needs and monitoring backlogs, eliminate unnecessary limitations on reciprocity (the acceptance of a clearance and access granted by another department, agency, or military service), determine the feasibility of implementing initiatives that could decrease the backlog and delays, and provide better oversight for all aspects of its personnel security clearance process.

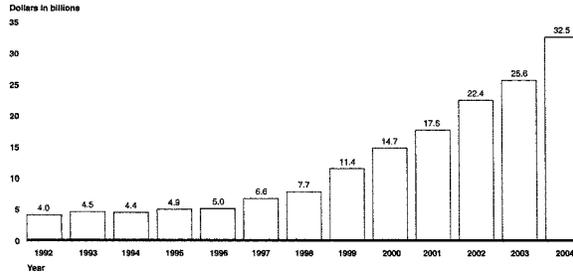
The National Defense Authorization Act for Fiscal Year 2004 authorized the transfer of DOD's personnel security investigative function and over 1,800 investigative employees to OPM. The transfer is scheduled to take place this month. While the transfer would eliminate DOD's responsibility for conducting the investigations, it would not eliminate the shortage of trained investigative personnel needed to address the backlog. Although DOD would retain the responsibility for adjudicating clearances, OPM would be accountable for ensuring that investigations are completed in a timely manner.

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#### Management of Interagency Contracting

In recent years, federal agencies have been making a major shift in the way they procure many goods and services. Rather than spending a great deal of time and resources contracting for goods and services themselves, they are making greater use of existing contracts already awarded by other agencies. These contracts are designed to leverage the government's aggregate buying power and provide a much-needed simplified method for procuring commonly used goods and services. Thus, their popularity is gaining quickly. The General Services Administration (GSA) alone, for example, has seen a nearly tenfold increase in interagency contract sales since 1992, pushing the total sales mark up to \$32 billion (see fig. 1). Other agencies, such as the Department of the Treasury and the National Institutes of Health, also sponsor interagency contracts.

Figure 1: Multiple Award Schedule Sales, Fiscal Years 1992 through 2004



Source: GSA data.

Note: Dollar amounts are then-year dollars.

These contract vehicles offer the benefits of improved efficiency and timeliness; however, they need to be effectively managed. If they are not properly managed, a number of factors can make these interagency contract vehicles high risk in certain circumstances: (1) they are attracting rapid growth of taxpayer dollars; (2) they are being administered and used by some agencies that have limited expertise with this contracting method; and (3) they contribute to a much more complex environment in which accountability has not always been clearly established. Use of these contracts, therefore, demands a higher degree of business acumen and flexibility on the part of the federal acquisition workforce than in the past. This risk is widely recognized, and the Congress and executive branch agencies have taken several steps to address it. However, the challenges associated with these contracts, recent problems related to their management, and the need to ensure that the government effectively implements measures to bolster oversight and control so that it is well positioned to realize the value of these contracts, warrants designation of interagency contracting as a new high-risk area.

Interagency contracts are awarded under various authorities and can take many forms. Typically, they are used to provide agencies with commonly used goods and services, such as office supplies or information technology services. Agencies that award and administer interagency contracts usually

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charge a fee to support their operations. These types of contracts have allowed customer agencies to meet the demands for goods and services at a time when they face growing workloads, declines in the acquisition workforce, and the need for new skill sets.

Our work, together with that of some agency inspectors general, has revealed instances of improper use of interagency contracts. For example, we recently reviewed contracts and task orders awarded by DOD and found some task orders under the GSA schedules that did not satisfy legal requirements for competition because the work was not within the scope of the underlying contracts.<sup>8</sup> Similarly, the inspector general for the Department of the Interior found that task orders for interrogators and other intelligence services in Iraq were improperly awarded under a GSA schedule contract for information technology services.<sup>9</sup> More broadly, the GSA inspector general conducted a comprehensive review of the contracting activities of GSA's Federal Technology Service (FTS), an entity that provides contracting services for agencies across the government, and reported that millions of dollars in fiscal year 2003 awards did not comply with laws and regulations.<sup>10</sup> Administration officials have acknowledged that the management of interagency contracting needs to be improved.

Interagency contracting is being used more in conjunction with purchases of services, which have increased significantly over the past several years and now represent over half of federal contract spending. Agencies also are buying more sophisticated or complex services, particularly in the areas of information technology and professional and management support. In many cases, interagency contracts provide agencies with easy access to these services, but purchases of services require different approaches in describing requirements, obtaining competition, and overseeing contractor performance than purchases of goods. In this regard, we and others have reported on the failure to follow prescribed procedures designed to ensure fair prices when using schedule contracts to acquire services. At DOD, the

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<sup>8</sup> GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605 (Washington, D.C.: June 1, 2004).

<sup>9</sup> U.S. Department of the Interior, Office of the Inspector General, *Review of 12 Procurements Placed Under General Services Administration Federal Supply Schedules 70 and 871 by the National Business Center* (Washington, D.C.: 2004).

<sup>10</sup> U.S. General Services Administration, Office of the Inspector General, *Compendium of Audits of the Federal Technology Service's Regional Client Support Centers* (Washington, D.C.: 2004).

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largest customer for interagency contracts, we found that competition requirements were waived for a significant percentage of supply schedule orders we reviewed, frequently based on an expressed preference to retain the services of incumbent contractors. DOD concurred with our recommendations to develop guidance for the conditions under which waivers of competition may be used, require documentation to support waivers, and establish approval authority based on the value of the orders.<sup>11</sup>

There are several causes of the deficiencies we and others have found in the use of interagency contracts, including the increasing demands on the acquisition workforce, insufficient training, and in some cases inadequate guidance. Two additional factors are worth noting. First, the fee-for-service arrangement creates an incentive to increase sales volume in order to support other programs of the agency that awards and administers an interagency contract. This may lead to an inordinate focus on meeting customer demands at the expense of complying with required ordering procedures. Second, it is not always clear where the responsibility lies for such critical functions as describing requirements, negotiating terms, and conducting oversight. Several parties—the requiring agency, the ordering agency, and in some cases the contractor—are involved with these functions. But, as the number of parties grows, so too does the need to ensure accountability.

The Congress and the administration have taken several steps to address the challenges of interagency contracting. In 2003, the Congress sought to improve contract oversight and execution by enacting the Services Acquisition Reform Act. The act created a new chief acquisition officer position in many agencies and enhanced workforce training and recruitment. More recently, the Congress responded to the misuse of interagency contracting by requiring more intensive oversight of purchases under these contracts. In July 2004, GSA launched "Get It Right," an oversight and education program, to ensure that its largest customer, DOD, and other federal agencies properly use GSA's interagency contracts and its acquisition assistance services. Through this effort, GSA seeks to demonstrate a strong commitment to customer agencies' compliance with federal contracting regulations and, among other things, improve processes to ensure competition, integrity, and transparency. Additionally, to address

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<sup>11</sup> GAO, *Contract Management: Guidance Needed to Promote Competition for Defense Task Orders*, GAO-04-874 (Washington, D.C.: July 30, 2004).

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workforce issues, OMB, GSA, and DOD officials have said they are developing new skills assessments, setting standards for the acquisition workforce, and coordinating training programs aimed at improving the capacity of the federal acquisition workforce to properly handle the growing and increasingly complex workload of service acquisitions.

These recent actions are positive steps toward improving management of interagency contracting, but, as with other areas, some of these actions are in their early stages and others are still under development. In addition, it is too early to tell whether all of the corrective actions will be effectively implemented, although a recent limited review by the GSA inspector general found some improvement at FTS from enhanced management controls. Our work on major management challenges indicates that specific and targeted approaches are also needed to address interagency contracting risks across the government. Ensuring the proper use of interagency contracts must be viewed as a shared responsibility of all parties involved. But this requires that specific responsibilities be more clearly defined. In particular, to facilitate effective purchasing through interagency contracts, and to help ensure the best value of goods and services, agencies must clarify roles and responsibilities and adopt clear, consistent, and enforceable policies and processes that balance the need for customer service against the requirements of contract regulations. Internal controls and appropriate performance measures help ensure that policies and processes are implemented and have the desired outcomes.

In addition, to be successful, efforts to improve the contracting function must be linked to agency strategic plans. As with other governmentwide high-risk areas, such as human capital and information security, effectively addressing interagency contract management challenges will require agency management to commit the necessary time, attention, and resources, as well as the executive branch and the Congress to enhance their oversight. Making these investments has the potential to improve the government's ability to acquire high-quality goods and services in an efficient and effective manner, resulting in reduced costs, improved service delivery, and strengthened public trust.

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### Emerging Areas

In addition to specific areas that we have designated as high risk, there are other important broad-based challenges facing our government that are serious and merit continuing close attention. One area of increasing concern involves the need for the completion of comprehensive national threat and risk assessments in a variety of areas. For example, emerging

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requirements from the changing security environment, coupled with increasingly limited fiscal resources across the federal government, emphasize the need for agencies to adopt a sound approach to establishing realistic goals, evaluating and setting priorities, and making difficult resource decisions. We have advocated a comprehensive threat and/or risk management approach as a framework for decision making that fully links strategic goals to plans and budgets, assesses values and risks of various courses of action as a tool for setting priorities and allocating resources, and provides for the use of performance measures to assess outcomes. Most prominently, two federal agencies with significant national security responsibilities—DHS and DOD—are still in the beginning stages of adopting a risk-based strategic framework for making important resource decisions involving billions of dollars annually. This lack of a strategic framework for investment decisions is one of the reasons that implementing and transforming DHS, and DOD's approach to business transformation, have been designated as high-risk areas. At the same time, this threat/risk assessment concept can be applied to a broad range of existing federal government programs, functions, and activities.

The relatively new DHS, with an annual budget of over \$40 billion, has not completed risk assessments mandated by the Homeland Security Act of 2002 to set priorities to help focus its resources where most needed. In performing its duties to protect the nation's critical infrastructure, DHS has not made clear the link between risk assessment and resource allocation, for example, what criteria it initially used to select assets of national importance and the basic strategy it uses to determine which assets warrant additional protective measures, and by how much these measures could reduce the risk to the nation. We have reviewed the work of several of DHS's component agencies that have taken some initial steps towards risk management, but much remains to be done. DHS's Immigration and Customs Enforcement (ICE), as a first step toward developing budget requests and workforce plans for fiscal year 2007 and beyond, has had its Office of Investigations field offices conduct baseline threat assessments to help identify risks. However, performance measures to assess how well a particular threat has been addressed were not used for workforce planning in ICE's fiscal year 2006 budget request. DHS's Customs and Border Protection (CBP) has taken steps to address the terrorism risks posed by oceangoing cargo containers. However, CBP has not performed a comprehensive set of assessments vital for determining the level of risk for oceangoing cargo containers and the types of responses necessary to mitigate that risk. The need to use a risk management approach has been a recurring theme in our previous work in transportation security. We

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reported in 2003 that DHS's Transportation Security Administration (TSA) planned to adopt a risk management approach. To date, including in our most recent work on general aviation security, we have found that TSA has not fully integrated this approach, which includes assessments of threat, vulnerability, and criticality, to help it prioritize its efforts. As a result, we have recommended that TSA continue its efforts to integrate a risk management approach into its processes.

DOD, with an annual budget of over \$400 billion, exclusive of supplemental funding, is in the process of transforming its force capabilities and business processes. We have reported on limitations in DOD's strategic planning and budgeting, including the use of overly optimistic assumptions in estimating funding needs, often resulting in a mismatch between programs and budgets. In its strategic plan—the September 2001 Quadrennial Defense Review—DOD outlined a new risk management framework consisting of four dimensions of risk—force management, operational, future challenges, and institutional—to use in considering trade-offs among defense objectives and resource constraints. According to DOD, these risk areas are to form the basis for DOD's annual performance goals. They will be used to track performance results and will be linked to planning and resource decisions. As of December 2004, DOD was still in the process of implementing this approach departmentwide. It also remains unclear how DOD will use this approach to measure progress in achieving business and force transformation.

We believe that instilling a disciplined approach to identifying and managing risk has broad applicability across a wide range of federal programs, operations, and functions throughout the federal government. This will be a continuing focus of our work in the future. More generally, we will also continue to monitor other management challenges identified through our work, including those discussed in our January 2003 *Performance and Accountability Series: Major Management Challenges and Program Risks* (GAO-03-95 through GAO-03-118). While not high risk at this time, these challenges warrant continued attention. For example, at the U.S. Census Bureau, a number of operational and managerial challenges loom large as the agency approaches its biggest enumeration challenge yet, the 2010 Census. The Census Bureau will undertake an important census test and make critical 2010 Census operational and design decisions in the coming months—and we will continue to closely monitor these challenges to assist the Congress in its oversight and the Census Bureau in its decision making.

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### Progress Being Made in Other High-Risk Areas

For other areas that remain on our 2005 high-risk list, there have been important but varying levels of progress, although not yet enough progress to remove these areas from the list. Top administration officials have expressed their commitment to maintaining momentum in seeing that high-risk areas receive adequate attention and oversight. Since our 2003 high-risk report, OMB has worked closely with a number of agencies that have high-risk issues, in many cases establishing action plans and milestones for agencies to complete needed actions to address areas that we have designated as high risk. Such a concerted effort by agencies and ongoing attention by OMB are critical; our experience over the past 15 years has shown that perseverance is required to fully resolve high-risk areas. The Congress, too, will continue to play an important role through its oversight and, where appropriate, through legislative action targeted at the problems and designed to address high-risk areas. Examples of areas where noticeable progress has been made include the following:

- **Strategic Human Capital Management.** Recognizing that federal agencies must transform their organizations to meet the new challenges of the 21st century and that their most important asset in this transformation is their people, we first added human capital management as a governmentwide high-risk issue in January 2001 to help focus attention and resources on the need for fundamental human capital reform requiring both administrative and legislative action. Since then, the Congress and the agencies have made more progress in revising and redesigning human capital policies, processes, and systems than in the previous quarter century. The Congress has called on agencies to do a better and faster job of hiring the right people with the right skills to meet their critical missions, such as protecting the homeland, and gave the agencies new flexibilities to meet this challenge. The Congress has also granted agencies, such as DOD and DHS, unprecedented flexibility to redesign their human capital systems, including designing new classification and compensation systems, which could serve as models for governmentwide change. Therefore, effectively designing and implementing any resulting human capital systems will be of critical importance not just for these agencies, but for overall civil service reform. As part of the President's Management Agenda, the administration has also made strategic human capital management one of its top five priorities and established a system for holding agencies accountable for achieving this change. Some agencies have begun to assess their future workforce needs and implement available flexibilities to meet those needs. As a result of the ongoing

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significant changes in how the federal workforce is managed, there is general recognition that there should be a framework to guide human capital reform built on a set of beliefs that entail fundamental principles and boundaries that include criteria and processes that establish checks and limitations when agencies seek and implement their authorities.

- **Federal Real Property.** Since January 2003, the administration has taken several key steps to address long-standing problems in managing federal real property. First, in an effort to provide a governmentwide focus on federal real property issues, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327 in February 2004. Under the order, agencies are to designate a senior real property officer to, among other things, identify and categorize owned and leased real property managed by the agency and develop agency asset management plans. Agencies such as DOD and the Department of Veterans Affairs (VA) have taken other actions—DOD is preparing for a round of base realignments and closures in 2005, and in May 2004, VA announced a wide range of asset realignment decisions. These and other efforts are positive steps, but it is too early to judge whether the administration's focus on this area will have a lasting impact. The underlying conditions and related obstacles that led to our high-risk designation continue to exist. Remaining obstacles include competing stakeholder interests in real property decisions; various legal and budget-related disincentives to optimal, businesslike, real property decisions; and the need for better capital planning among agencies.

Other areas in which improvements have been shown include the Postal Service's transformation efforts and long-term outlook, modernizing federal disability programs, the Medicaid program, HUD's Single-Family Mortgage Insurance and Rental Housing Assistance programs, and the implementation and transformation of DHS.

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## Consolidation of High-Risk Areas

### Collection of Unpaid Taxes and Earned Income Credit Noncompliance

We have combined our previous Collection of Unpaid Taxes and Earned Income Credit Noncompliance high-risk areas into an area titled Enforcement of Tax Laws. Collection of unpaid taxes was included in the first high-risk series report in 1990, with a focus on the backlog of uncollected debts owed by taxpayers. In 1995, we added Filing Fraud as a separate high-risk area, narrowing the focus of that high-risk area in 2001 to Earned Income Credit Noncompliance because of the particularly high incidence of fraud and other forms of noncompliance in that program. We expanded our concern about the Collection of Unpaid Taxes in our 2001 high-risk report to include not only unpaid taxes (including tax evasion and unintentional noncompliance) known to the Internal Revenue Service (IRS), but also the broader enforcement issue of unpaid taxes that IRS has not detected. We made this change because of declines in some key IRS collection actions as well as IRS's lack of information about whether those declines had affected voluntary compliance. Although the Congress dedicated a specific appropriation for Earned Income Credit compliance initiatives (both to curb noncompliance and encourage participation) in fiscal years 1998 through 2003, with the 2004 budget the Congress returned to appropriating a single amount for IRS to allocate among its various tax law enforcement efforts.

In recent years, the resources IRS has been able to dedicate to enforcing the tax laws have declined, while IRS's enforcement workload—measured by the number of taxpayer returns filed—has continually increased. As a result, nearly every indicator of IRS's coverage of its enforcement workload has declined in recent years. Although in some cases workload coverage has increased, overall IRS's coverage of known workload is considerably lower than it was just a few years ago. Although many suspect that these trends have eroded taxpayers' willingness to voluntarily comply—and survey evidence suggests this may be true—the cumulative effect of these trends is unknown because new research into the level of individual taxpayer compliance is only now being completed by IRS after a long hiatus. Based on this new research, in 2005, IRS intends to release a new estimate of noncompliance and begin to use this research to improve targeting of enforcement and other compliance resources.

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Further, IRS's workload has grown ever more complex as the tax code has grown more complex. Complexity creates a fertile ground for those intentionally seeking to evade taxes and often trips others into inadvertent noncompliance. IRS is challenged to administer and explain each new provision, thus absorbing resources that otherwise might be used to enforce the tax laws.

At the same time, other areas of particularly serious noncompliance have gained the attention of IRS and the Congress—such as abusive tax shelters and schemes employed by businesses and wealthy individuals that often involve complex transactions that may span national boundaries. Given the broad decline in IRS's enforcement workforce, the resulting decreased ability to follow up on suspected noncompliance, the emergence of sophisticated evasion concerns, and the unknown effect of these trends on voluntary compliance, IRS is challenged on virtually all fronts in attempting to ensure that taxpayers fulfill their obligations. IRS's success in overcoming these challenges becomes ever more important in light of the nation's large and growing fiscal pressures. Accordingly, we believe the focus of concern on the enforcement of tax laws is not confined to any one segment of the taxpaying population or any single tax provision. Our designation of the enforcement of tax laws as a high-risk area embodies this broad concern.

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**IRS Business Systems  
Modernization and IRS  
Financial Management**

IRS has long relied on obsolete automated systems for key operational and financial management functions, and its attempts to modernize these aging computer systems span several decades. This long history of continuing delays and design difficulties and their significant impact on IRS's operations led us to designate IRS's systems modernization activities and its financial management as high-risk areas in 1995. Since that time, IRS has made progress in improving its financial management, such as enhancing controls over hard copy tax receipts and data and budgetary activity, and improving the accuracy of property records. Additionally, for the past 5 years, IRS has received clean audit opinions on its annual financial statements and, for the past 3 years, has been able to achieve these opinions within 45 days of the end of the fiscal year. However, IRS still needs to replace its outdated financial management systems as part of its business systems modernization program. Accordingly, since the resolution of IRS's remaining most serious and intractable financial management problems largely depends upon the success of IRS's business systems modernization efforts, and since we have continuing concerns related to

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this program, we are combining our two previous high-risk areas into one IRS Business Systems Modernization high-risk area.

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**Major Management  
Challenges at Federal  
Agencies**

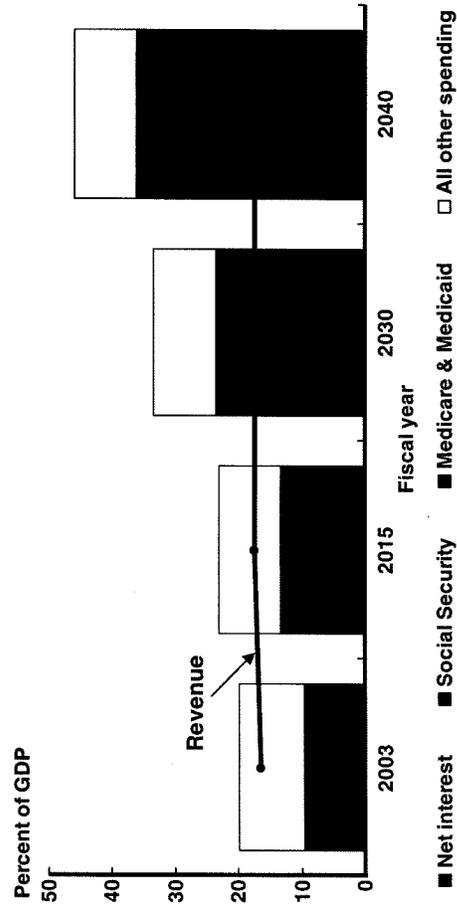
We recently compiled lists of products issued since January 2003 related to the major management challenges identified in the 2003 Performance and Accountability Series. These lists, accompanied by narratives describing the related major management challenges, are available on our Web site at [www.gao.gov/pas/2005](http://www.gao.gov/pas/2005). As always, GAO stands ready to assist the Congress as it develops its agenda and pursues these important high-risk issues.

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Mr. Chairman, Senator Akaka, and Members of the Subcommittee, this concludes my testimony. I would be happy to answer any questions you may have.



**Composition of Spending as a Share of GDP  
Assuming Discretionary Spending Grows with GDP After 2004 and All  
Expiring Tax Provisions are Extended**



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's September 2004 analysis.



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## 2005 GAO High-Risk List

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### High-Risk Designation Removed

Student Financial Aid Programs  
FAA Financial Management  
Forest Service Financial Management

### New High-Risk Areas

Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security  
DOD Approach to Business Transformation  
DOD Personnel Security Clearance Program  
Management of Interagency Contracting

### Revised High-Risk Areas

Enforcement of Tax Laws  
IRS Business Systems Modernization

### Emerging Area

Comprehensive Threat/Risk Assessments

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Source: GAO.



<b>2005 GAO High-Risk List</b>	<b>Year Designated High Risk</b>
<b>Addressing Challenges In Broad-based Transformations</b>	
• Strategic Human Capital Management <sup>a</sup>	2001
• U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>a</sup>	2001
• Managing Federal Real Property <sup>a</sup>	2003
• Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
• Implementing and Transforming the Department of Homeland Security	2003
• Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
• DOD Approach to Business Transformation <sup>a</sup>	2005
o DOD Business Systems Modernization	1995
o DOD Personnel Security Clearance Program	2005
o DOD Support Infrastructure Management	1997
o DOD Financial Management	1995
o DOD Supply Chain Management (formerly Inventory Management)	1990
o DOD Weapon Systems Acquisition	1990
<b>Managing Federal Contracting More Effectively</b>	
• DOD Contract Management	1992
• DOE Contract Management	1990
• NASA Contract Management	1990
• Management of Interagency Contracting	2005
<b>Assessing the Efficiency and Effectiveness of Tax Law Administration</b>	
• Enforcement of Tax Laws <sup>a,b</sup>	1990
• IRS Business Systems Modernization <sup>c</sup>	1995
<b>Modernizing and Safeguarding Insurance and Benefit Programs</b>	
• Modernizing Federal Disability Programs <sup>a</sup>	2003
• Pension Benefit Guaranty Corporation Single-Employer Insurance Program <sup>a</sup>	2003
• Medicare Program <sup>a</sup>	1990
• Medicaid Program <sup>a</sup>	2003
• HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
<b>Other</b>	
• FAA Air Traffic Control Modernization	1995

<sup>a</sup> Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

<sup>b</sup> Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

<sup>c</sup> The IRS Financial Management high-risk area has been incorporated into this high-risk area.

Source: GAO.



## Overall Changes to GAO's High-Risk List, 1990 to 2005

Changes 1990-2005	Number of areas
Original high-risk list in 1990	14
High-risk areas added since 1990	29
High-risk areas removed since 1990	18 <sup>a</sup>
High-risk list in 2005	25

<sup>a</sup> Includes consolidation of four IRS high-risk areas into two high-risk areas.

Source: GAO.

Testimony

The Honorable Clay Johnson III  
Deputy Director for Management  
Office of Management and Budget

before the

Subcommittee on Oversight of Government Management,  
the Federal Workforce, and the District of Columbia  
Committee on Governmental Affairs  
United States Senate

February 17, 2005

This Administration welcomes the Government Accountability Office's (GAO) recently released High-Risk list, those federal programs and operations that GAO believes are most vulnerable to fraud, waste, abuse, or mismanagement. The Administration uses the President's Management Agenda to drive improvements in government management and accountability. The High-Risk list is another way to spotlight areas in need of management attention or reform by Congress. Like with the President's Management Agenda, each of the areas on the high risk list presents opportunities where we can do better for the American people.

There will always be a "High-Risk list." The Federal Government is engaged in businesses that are not easy. If they were, someone else would be doing them. Medicare provides health care coverage to approximately 40 million Americans. The Internal Revenue Service processes more than 150 million tax returns and provides direct assistance to almost 100 million taxpayers. The Pension Benefit Guaranty Corporation insures the pensions of some 44 million Americans. The High-Risk list is one way to help Congress and the Administration see where our opportunities to improve are greatest. The High Risk list promotes the public interest – that agencies and the Administration perform their activities responsibly and the taxpayers' dollars are spent wisely.

The newest areas on the High-Risk list deserve to be there.

- Information-sharing -- Multiple agencies have responsibility for collecting, analyzing, and sharing terrorism information for the purpose of ensuring our homeland security.

- Defense business transformation – The Department of Defense is in the process of overhauling the systems of one of the largest and most complex organizations in the world and it is doing so while at war.
- Personnel security clearances – The Federal Government grants hundreds of thousands of security clearances each year.
- Interagency contracting – Agencies contract with each other for tens of billions of dollars in services annually.

Each of these areas will take sustained top level attention to address.

Like any management improvement effort, the keys to success are:

- Commitment to addressing the area at the highest level of management
- A clear picture of what is to be accomplished – solving the problem, not necessarily “getting off the High-Risk list”
- Aggressive timeline / milestones
- Clear responsibility for addressing the issues; who’s supposed to do what, with whom and by when.

These elements existed in each of the areas that came off the list this year: Student Financial Aid programs; Federal Aviation Administration Financial Management; and Forest Service Financial Management. Each of these programs defined a plan to improve and achieved it. They are to be congratulated. The taxpayers are being better served in each of these areas today as a result of this achievement.

The Administration has been committed to improving the areas on GAO’s High-Risk list. GAO acknowledged our efforts in its January 2005 report. For each of those areas on the list, we will renew the high-level commitment to address each of the areas on the list; arrive at a clear definition of success; define an action plan for fixing the problem; and identifying who will be held accountable for fixing it.

With these simple but important steps, we can improve each of the areas on the High-Risk list. I believe it is possible that we will address more than a few of these areas sufficiently to warrant their coming off the list by the time it is published again in 2007. In the interim, I will report regularly to GAO and the Congress, particularly this subcommittee, on our progress.



Comptroller General  
of the United States

**GAO Responses to Post-Hearing Questions for the Record  
Submitted by Senator Daniel K. Akaka  
Oversight of Government Management, the Federal Workforce, and the  
District of Columbia Hearing on GAO's 2005 High-Risk List  
February 17, 2005**

**Question 1:** *Mr. Walker, as you know, the Department of Homeland Security's (DHS) new secretary, Michael Chertoff, is taking over an agency where there has been a significant turnover of key political appointees and senior managers. Given the important mission of DHS, what impact does the lack of sustained leadership at the Department have on its ability to fulfill its mission, and do you believe there is a way to address these vacancies?*

**Response:**

Effective leadership will be key as DHS, as well as other major agencies across the federal government, including the Department of Defense (DOD), embark on large-scale organizational transformations to address their critical missions related to 21<sup>st</sup> century challenges, there is a compelling need to (1) elevate attention on management issues and transformational change (2) integrate various key management and transformational efforts; and (3) institutionalize accountability for addressing management issues and leading transformational change.<sup>1</sup> DHS's Inspector General reported, in December 2004, that integrating DHS's many separate components into a single, effective, efficient and economical department remains one of its biggest challenges.<sup>2</sup> Furthermore, DHS must continue to meet these daunting challenges, and achieve its important mission, while transitioning to new leadership.

As we have also reported, turnover at the top of organizations that are undergoing mergers and transformations is not unusual. According to one participant at a 2002 GAO forum on mergers and transformation, private sector experience suggests that over 40 percent of executives in acquired companies leave within the first year and 75 percent within the first 3 years.<sup>3</sup> While some turnover is to be expected and is

<sup>1</sup> On September 9, 2002, GAO convened a roundtable of government leaders and management experts to discuss the COO concept and how it might apply within selected federal departments and agencies. See U.S. GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

<sup>2</sup> DHS, *Major Management Challenges Facing the Department of Homeland Security*, OIG-05-06 (Washington, D.C.: Dec. 1, 2004).

<sup>3</sup> GAO *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

appropriate, the new organization must “re-recruit” its key talent to limit the loss of needed individuals. To address turnover in DHS’s senior management ranks, the department should also make every effort to maximize the use of existing human capital flexibilities. The insufficient and ineffective use of such flexibilities can significantly hinder the ability of agencies to recruit, hire, and retain their human capital, including individuals in senior-level positions. We have reported on various flexibilities frequently cited by agency and union officials as being most effective for managing their agencies’ workforces.<sup>4</sup> These flexibilities include work-life programs, such as alternative work schedules; monetary retention incentives, and incentive awards. Under current law, some of these flexibilities—such as retention bonuses—are not available to Presidentially-appointed, Senate confirmed positions, to noncareer SES, or to Schedule C employees in the department. Nonetheless, various other flexibilities cited as effective are indeed available to help retain senior managers across the department.

A Chief Operating Officer (COO) or Chief Management Officer (CMO) may effectively provide the continuing, focused attention essential to successfully completing these multiyear transformations in agencies like DOD and DHS. At DHS, we reported that the COO concept would provide the department with a single organizational focus for the key management functions involved in the business transformation of the department, such as human capital, financial management, information technology, acquisition management, and performance management, as well as for other organizational transformation initiatives.<sup>5</sup> We have also recently testified that a COO/CMO can effectively provide the continuing, focused attention essential to successfully complete the implementation of DHS’s new human capital system, a large-scale, multiyear change initiative.<sup>6</sup> Specifically, such a position would serve to elevate attention that is essential to overcome an organization’s resistance to change, integrate the human capital system with various management responsibilities so they are no longer stovepiped, and institutionalize accountability so that implementation of this critical human capital initiative can be sustained.

The specific implementation of such an approach, however, must be determined within the context of the particular facts, circumstances, challenges and opportunities of each individual agency. In addition, certain mechanisms can serve to augment the COO/CMO position, and thus further strengthen and integrate business transformation efforts. Large-scale change initiatives and organizational transformations require a long-term, concerted effort, and can take years to complete. Providing a COO/CMO with a term appointment of at least 5 to 7 years

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<sup>4</sup> GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

<sup>5</sup> U.S. GAO, *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R (Washington, D.C.: June 28, 2004).

<sup>6</sup> U.S. GAO, *Human Capital: Observations on Final DHS Human Capital Regulations*, GAO-05-391T (Washington, D.C.: March 2, 2005), and U.S.GAO, *Human Capital: Preliminary Observations on Final Department of Homeland Security Human Capital Regulations*, GAO-05-320T (Washington, D.C.: Feb. 10, 2005).

would be one way to help ensure that these long-term transformation initiatives are successfully completed. Finally, strong and continuing congressional oversight can help determine how best to elevate, integrate, and institutionalize key management and transformation responsibilities in federal agencies.

**Question 2:** *As you know, the increasing use of interagency contracts is on the High Risk List. Although these contracts may offer economic benefits by leveraging federal purchasing power, the benefits may come at a risk. One such risk is out-of-scope contracts which allow an agency to use an existing government contract for unrelated purchases. A well-known example is the contract for the interrogators at the Abu Ghraib prison. That contract was actually awarded under a Department of Interior contract for information technology. Would you please discuss some of the inherent risks of using interagency contracting, and how can we address these risks?*

**Response:**

Answer: Interagency contracts are awarded under various authorities and can take many forms, and clear guidance and lines of accountability for their use have not always been established. These contracts are widely available, and they can be used and administered by agencies that have limited expertise with this contracting method. These characteristics increase the complexity of establishing controls and oversight to effectively manage interagency contracts. In addition, because the agencies that award and administer these contracts generally charge a fee for their service, there is an incentive for these agencies to increase sales. This structure may lead to a focus on meeting customers' needs at the expense of complying with sound contracting practices. At the same time that these contracts have become increasingly available, we have seen rapid growth in their use, making it even more important to address these risks.

Ensuring proper use of interagency contracts requires a coordinated approach among all parties involved: the requiring agency, the agency awarding and administering the contracts, and the contractor community. The roles and responsibilities of each of these parties for key aspects of the interagency contracting process, such as describing requirements, negotiating terms, and conducting oversight, need to be clarified. Both the agencies making use of these contracts and the agencies administering these contracts need to establish clear, consistent, and enforceable policies and processes, including internal controls and appropriate performance measures to ensure that the requirements of contract regulations are met and sound practices are followed. DOD and GSA are in the process of implementing updated guidance under the Get It Right program initiated in July 2004. This implementation should include a process for monitoring and evaluating the effectiveness of the new policies and programs to demonstrate measurable results.

**Question 3:** *Financial management at the Department of Defense has been on the High Risk List for many years and remains the primary obstacle to the Government Accountability Office (GAO) rendering an opinion on the government-wide financial statements. Last year, Senator Fitzgerald and I successfully offered an amendment to*

*the Senate's intelligence reform that would have put the National Intelligence Authority (NIA) under the Chief Financial Officers Act (CFO). Our provision was dropped in conference. Do you support the inclusion of the NIA in the CFO Act, and if so, why, and if not, why?*

**Response:**

GAO has long supported legislation intended to strengthen financial management in the federal government, such as the Chief Financial Officer's Act (CFO Act) of 1990,<sup>7</sup> the Federal Financial Management Improvement Act (FFMIA) of 1996,<sup>8</sup> and the Accountability of Tax Dollars Act of 2002.<sup>9</sup> We generally support applying the CFO Act to new entities, especially those with large budgets, and would encourage that the NIA be subjected to the requirements of the CFO Act to the maximum extent possible, as such legislation provides solid, time-tested guidance as to key elements of a strong financial management environment that is more likely capable of producing reliable financial information that can be used in formulating budgets, managing program operations, and making difficult policy choices. However, we recognize the fact that subjecting the NIA to the requirements of the CFO Act would require that certain precautions must be taken to ensure that sensitive information is not inappropriately disseminated through the reporting requirements of this Act.

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<sup>7</sup>Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990) (as amended).

<sup>8</sup>Pub. L. No. 104-208, div. A, §101(f), title VIII, 110 stat. 3009-389 (Sept. 30, 1996). FFMIA requires the departments and agencies covered by the CFO Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level.

<sup>9</sup>Pub. L. No. 107-289, §2(a), 116 Stat. 2049 (Nov. 7, 2002).

**Post-hearing Questions for the Record  
Submitted by Senator Daniel K. Akaka  
Oversight of Government Management, the Federal Workforce,  
and the District of Columbia  
Hearing on the GAO High Risk List**

Questions for the Honorable Clay Johnson

1. **Mr. Johnson, financial management at the Department of Defense has been on the High Risk List for many years and remains the primary obstacle to the Office of Management and Budget (OMB) rendering an unqualified opinion on the Government-wide financial statements. Last year, Senator Fitzgerald and I successfully offered an amendment to the Senate's intelligence reform that would have put the National Intelligence Authority (NIA) under the Chief Financial Officers Act (CFO). Our provision was dropped in conference. Do you support the inclusion of the NIA in the CFO Act, and if so, why, and if not, why?**

**Response:** The Administration shares your interest in strong Federal financial management and financial reporting, as well as the goal of achieving an unqualified opinion on the Government-wide financial statement. It is important that all Federal agencies work to achieve unqualified audited opinions – whether required to prepare and submit financial statements pursuant to the Chief Financial Officers Act of 1990, the Accountability of Tax Dollars Act (ATDA) of 2002, or other relevant requirements.

With these objectives in mind, during the discussions leading up to the passage of the Intelligence Reform and Terrorism Prevention Act of 2004, the Administration supported a proposal to establish a Chief Financial Officer within the new agency that would be responsible for submitting a classified annual financial statement pursuant to the ATDA. This proposal, however, was not included in the final version of the intelligence reform bill, which created the Office of the Director for National Intelligence (ODNI). We expect the ODNI to appropriately follow all applicable laws and requirements related to Federal financial reporting and believe that these provide the appropriate levels of transparency and controls.

2. **Mr. Johnson, the Department of Energy (DOE) scored “green” on the Executive Branch Management Scorecard for December 2004, indicating that DOE had met the Office of Management and Budget's (OMB) standards for success. Yet, as was discussed at the hearing, DOE's contracting management program has been on the Government Accountability Office (GAO) High Risk List since 1990. Given the longstanding problems with DOE contracting, would you please explain how DOE achieved “green” on the scorecard?**

**Response:** The Management Scorecard measures an agency's success in addressing a focused set of management challenges that represent some of the greatest deficiencies facing our Government today. One of these areas is competitive sourcing, where the Administration

seeks to open the Government's commercial activities to the forces of competition whenever it makes sense and can offer the opportunity to lower costs and improve performance. Under the President's Management Agenda (PMA), the Department of Energy (DOE) became one of the first civilian agencies to use competitive sourcing in a reasoned and responsible manner to begin improving the efficiency of a wide array of its commercial activities, such as financial services, human resources training, and graphics. DOE has met all the standards for achieving green status on the scorecard, including establishment of a long range competition plan, timely completion of competitions, and positive projected savings. Through careful planning and dedicated management attention, DOE has carried out well-structured competitions that are projected to save more than \$70 million over the next 5 years. DOE's annual savings per FTE competed in FY 2004 of \$35,000 is well above the Government wide average of \$22,000.

While DOE has demonstrated impressive results from its *public-private* competitions tracked through the PMA, we appreciate that much more remains to be done to improve DOE's basic contracting capabilities for *private-private competitions*, which are used to acquire many billions of dollars in goods and services each year from the private sector. We will work with DOE management to ensure contracting is given the attention needed to mitigate and better manage risk. Effective administration will also be key for DOE to maintain its green status in competitive sourcing. The PMA standards were modified last Fall to require that DOE, and all agencies, ensure that the results of their competitions are implemented in a timely and effective manner and that estimated savings are being realized over time. (For a complete list of the standards, see [www.whitehouse.gov/results/agenda/standards.pdf](http://www.whitehouse.gov/results/agenda/standards.pdf).)

3. **GAO suggests that all Federal agencies, especially the Departments of Defense and Homeland Security, should use threat and risk assessments to establish goals and evaluate and set priorities when making difficult resource decisions. Do you believe the Federal Government should make spending decisions based on threat, and if so, how would such evaluations be incorporated into an agency's PART assessment?**

**Response:** GAO advocates "a threat and/or risk management approach as a framework for decision making that fully links strategic goals to plans and budgets, assesses values and risks of various courses of actions as a tool for setting priorities and allocating resources, and provides for the use of performance measures to assess outcomes." We should fund programs that best help us address the threats we face. For the Department of Defense (DoD) and the Department of Homeland Security (DHS), like at all other agencies, the President's Budget request seeks funding for those programs that help the agencies achieve their strategic goals. DoD and DHS, each with the strategic goal of ensuring our nation's security, assess the risks facing the nation, determine the capabilities needed to respond, propose funding for programs that build capabilities to address these risks, and assess whether those programs help achieve those goals. The Program Assessment Rating Tool (PART) can help assess not only whether the programs have the right goals, but also whether the programs achieved their intended goals. The PART can also assess, as it does now, whether the agency's performance-planning and budget-planning processes are integrated so that budget requests fund programs that achieve the desired outcome and whether the effects of funding and other policy changes on results are clear.

4. **I understand that OMB and the Office of Federal Procurement Policy are considering adding strategic sourcing to the President's Management Agenda (PMA). Would you please discuss how strategic sourcing works, and how OMB would ensure that small, disadvantaged, and/or minority owned businesses would not be adversely impacted if strategic sourcing became a part of the PMA?**

**Response:** Strategic sourcing is the organized and collaborative process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process can help agencies optimize performance, minimize price, increase small business participation, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each taxpayer dollar spent. Agencies often renegotiate contracts, re-engineer business processes, implement consolidated ordering systems, or make other improvements to the acquisition process by leveraging their buying power with suppliers and service providers.

The Office of Federal Procurement Policy (OFPP) chairs an interagency group that is looking at how agencies are implementing strategic sourcing. OFPP found that agency experience with this effort varies; several agencies have active programs in place while other agencies are just getting started. The Government Accountability Office (GAO), in its September 2004 report, "Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement" found that strategic sourcing has significant potential and encourages agencies to implement strong programs. OMB is considering asking agencies to take a more structured, more institutional approach to strategic sourcing to improve the business support of mission accomplishment.

OMB and OFPP are committed to increasing access to Federal contracting opportunities for small, disadvantaged, and/or minority owned businesses, and we will ensure that agency strategic sourcing programs do not adversely impact these businesses. In fact, the OFPP working group observed that some agencies increased small business opportunities - notably at the subcontracting level. For example, one agency found that their small business participation in prime contracts and subcontracts more than doubled once a solid strategic sourcing program was implemented.

Additionally, agencies often find opportunities to set aside more work for small businesses once they complete an analysis of what the agency is buying and from whom. This has significant potential for small businesses, and depending on the commodity, can increase competitive opportunities for small businesses. For example, if an agency has been purchasing a common supply or service using a variety of means - delivery orders, contracts, purchase orders, or purchase cards - the supplier base is likely to be large and varied. In some cases, this means that small businesses are missing out on opportunities that might otherwise be theirs. In a strategic sourcing environment, an agency will look critically at its supplier base and purchasing vehicles and make better decisions to focus purchasing to appropriate suppliers, such as small, disadvantaged, and/or minority owned businesses.

We look at this as an opportunity to improve the Government's relationships with vendors - both large and small.

5. **As you know, the increasing use of interagency contracts is on the GAO High Risk List. Although these contracts may offer economic benefits by leveraging Federal purchasing power, the benefits may come at a risk. One such risk is out-of-scope contracts which allow an agency to use an existing Government contract for unrelated purchases. A well-known example is the contract for the interrogators at the Abu Ghraib prison. That contract was actually awarded under a Department of Interior contract for information technology. How is OMB addressing the risks posed by the increasing use of interagency contracts?**

**Response:** OMB is taking several steps to improve oversight and promote sound inter-agency acquisition practices. One step we are taking is to ensure there is a clearer understanding of the roles and responsibilities between agencies that provide services and agencies that buy services from them. For example, we have required agencies who serve as OMB-designated executive agents of Government-wide acquisition contracts (GWACs) to take action as necessary to affirmatively determine that any order over \$100,000 placed under their GWAC falls within the scope of the GWAC. As another step, OMB is reviewing information furnished by fee-for-service operations (including GWACs and franchise funds) to assess the economy and efficiency with which services are provided to agencies.

In addition, we are working with the General Services Administration to ensure that the Federal Procurement Data System – Next Generation will have the capability to provide improved insight into the amount of interagency activity and the vehicles being used. We also are considering whether and how current regulatory and policy guidance dealing with interagency contracting may be improved. The Department of Defense (DOD), for example, recently issued a Department-wide memo and is in the process of developing a regulation to establish procedures for reviewing and approving the use of non-DoD contract vehicles. This type of guidance may serve as one model for improving oversight. Finally, we will be following the discussions of the recently created Services Acquisition Reform Act (SARA) advisory panel on acquisition. This panel, which was established by OMB's Office of Federal Procurement Policy pursuant to section 1423 of SARA, is required to make recommendations to OFPP and Congress regarding inter-agency contracting and other acquisition matters.