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PROGRAMS IN PERIL: AN OVERVIEW OF THE GAO HIGH-RISK LIST—PART II

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

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

MARCH 15, 2006

Printed for the use of the Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

27–751 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
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PROGRAMS IN PERIL: AN OVERVIEW OF THE GAO HIGH-RISK LIST PART II

WEDNESDAY, MARCH 15, 2006

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

The Subcommittee met, pursuant to notice, at 2:05 p.m., in room SD–342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich, Akaka, and Carper.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The hearing will please come to order. I want to thank you for coming, and apologize that my colleagues are not here. The President of Liberia is speaking before a joint session of Congress.

Today the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, meets to conduct a mid-course review of the Government Accountability Office 2005 high-risk list. This hearing marks the sixth time our Subcommittee has met to examine the high-risk list this Congress.

For the past 16 years, the GAO high-risk list has outlined government-wide and agency specific programs that are susceptible to waste, fraud, abuse and mismanagement.

Comptroller General Walker, I commend GAO for its continued work on the high-risk list. I know how seriously you take it.

Each of the 25 programs listed in the current high-risk series impacts the daily lives of citizens across the country. Many of the programs are dysfunctional and fail to deliver the intended services to the taxpayer. In other instances, high-risk programs are wasting billions of dollars that could be better used for higher priority programs or cutting the deficit.

Two of the most egregious examples of mismanagement explained on the high-risk list can be found at the Department of Defense and within the Medicare program. For example, the Secretary of Defense stated that DOD could save 5 percent, or more than $20 billion of its budget, by improving its business practices, in other words, transforming what they are doing over there. In addition, the high-risk list notes that Medicare's improper payments for 2004 were calculated to an astounding $20 billion. For a program with a $297 billion in total spending, that is quite a bit.

Based on these examples, it is evident that the high-risk series provides an excellent road map for oversight and reform, and it should be taken seriously by Federal agencies, the Administration and Congress.

To this end, Senator Akaka and I have taken steps to highlight the high-risk list with our colleagues. In addition to our hearing schedule, Senator Akaka and I wrote letters to the Chairman and Ranking Members of each Senate authorizing committee, detailing high-risk areas within their jurisdiction. We are going to do it again. This is an important step, but I believe that real progress in the high-risk list areas will only happen when the Appropriation Subcommittees begin funding programs based on their performance. I know that the Office of Management and Budget is rating programs, and I think that is a good step forward.

Senator Akaka and I held our first hearings 13 months ago, and tremendous strides have been made in several high-risk areas.

I would like to recognize Clay Johnson for his steadfast determination to ensure that Federal agencies are taking the high-risk list seriously, and through his leadership and commitment to improving the management of our government, Mr. Johnson is having a positive impact on the performance of Federal programs.

Clay, I want to thank you for reinvigorating the management capacity of the Office of Management and Budget.

At the Subcommittee's hearing in February 2005, the Comptroller General's testimony outlined a bleak situation for several of the high-risk areas. Much of Mr. Walker's attention focused on the longstanding issues facing the Department of Defense. There was evidence that DOD lacked a dedicated strategic plan for each of the areas on that high-risk list. That is why four of our six high-risk hearings this last February examined programs in DOD. During the hearing on DOD business transformation in April 2005, Mr. Johnson noted that OMB was working with DOD on an overall supply chain management improvement plan. This plan, produced in collaboration with DOD, OMB and GAO was unveiled in July, and outlines key programmatic improvements to supply chain management practices and process.

In addition to the Subcommittee's hearings, a great deal of work is going on behind the scenes as my staff and Senator Akaka's staff has met with DOD, OMB and GAO on at least a dozen occasions to ensure that the goals and objectives of the supply chain management strategic plan are being met.

Although the Department is still developing the long-term metrics to measure success, I believe the plan is a positive step in the right direction. Hopefully, with continued collaboration between DOD, OMB and GAO, the Department will implement useful long-range measures to track improvements in the supply-chain management process.

In addition, the DOD supply chain plan has broader implications as well. I understand that OMB is using this plan as a template for the rest of the high-risk areas, and that plans have been developed for 19 of the 25 high-risk areas. I believe this is excellent progress. In fact, I was impressed with the Office of Personnel Management testimony before our Subcommittee last November, when they released their strategic plan to address the Federal Gov-

ernment's security clearance backlog, which at the time consisted of 232,000 pending cases.

I am interested in hearing from Mr. Johnson on his progress as well as General Walker's assessment of the Administration's effort to improve the performance of high-risk program areas.

Senator Akaka and I will continue our oversight into the supply chain management and personnel security clearance high-risk areas until they are removed from the list.

However, in some instances, improving the performance of the high-risk program area requires more than implementing sound business practices and oversight from Congress. That is why Senator Akaka and I have introduced two bills that would create chief management officers at the Department of Defense and Homeland Security. As indicated in the high-risk list, each of these Departments faces serious management challenges that are compounded by the unique importance of their mission. We believe creating a chief management officer at each Department would ensure that leadership continuity transcends changes in administration, thereby, fostering and sustaining a results-oriented culture and continuous improvement.

I know that General Walker is a staunch advocate of this and I have talked to Mr. Johnson about it on several occasions.

I am grateful that you are here today. We have a tradition of swearing in the witnesses. Do you swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. WALKER. I do.

Mr. JOHNSON. I do.

Senator VOINOVICH. We are happy to have General Walker's wife here with us.

Mr. WALKER. Yes, and I am happy that she is here too. Thank you, Mr. Chairman, for recognizing her.

Senator VOINOVICH. I want to thank you publicly for the sacrifice that you and your family make so that your husband can serve this country, as he has, in his capacity as Comptroller General. He has done a fantastic job, and we are grateful for everything he has done for this Subcommittee and for our country.

Mrs. WALKER. You are welcome, Senator. Thank you for your kind words.

Senator VOINOVICH. General Walker, please proceed.

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

Mr. WALKER. Thank you, Mr. Chairman. That is very kind of you.

It is a pleasure to be back before this Subcommittee to talk about GAO's high-risk list. I would respectfully request that my entire statement be included in the record.

Senator VOINOVICH. Without objection.

Mr. WALKER. I know you have a series of votes, and so I will hit the highlights.

[1] The prepared statement of Mr. Walker appears in the Appendix on page 23.

Senator VOINOVICH. It will not start until 3 o'clock, so we have a little time.

Mr. WALKER. I will hit the highlights, and that way you will have plenty of time for Q&A.

As you know, Mr. Chairman, our latest high-risk list was updated in January 2005, and we are scheduled to update it again in January 2007. I want to thank and commend you, Ranking Member Akaka, as well as this Subcommittee, for your dedication to looking at the high-risk areas. I am pleased to confirm that this is the sixth hearing that your Subcommittee has held since the list came out in January 2005. I am also pleased to note that according to my office, there have been over 60 hearings throughout the Senate and the House on GAO's high-risk list, covering at least 20 of the 25 high-risk areas since our list came out in January 2005.

Candidly, Mr. Chairman, that is particularly gratifying given the fact that, with a few exceptions, including this Subcommittee and the full Committee, there is not enough oversight going on right now in the Congress. So I really do appreciate this.

I would also like to confirm that this Administration has continued to take the management issue more seriously over time. I work with Deputy Director Johnson and others on a recurring basis. As you know, the President's Management Agenda was based in large part on GAO's high-risk list. There is a lot of synergy there, and I would also like to commend Deputy Director Johnson for his commitment to make sure that every one of the 25 high-risk areas has its own action plan for addressing and, hopefully, eventually getting off the high-risk list.

As you noted, the area that is the prototype for this is DOD's supply chain management. A number of others have been completed, although with varying degrees of quality and thoroughness.

We have had a high-risk list since the early 1990s. It commenced under the leadership of my predecessor, Chuck Bowsher. While for many years it was focused on how to fight fraud, waste, abuse, and mismanagement, under my tenure, the list has been broadened to also deal with a number of fundamental areas in need of transformation.

As you know, Mr. Chairman, we issued in February of last year, our 21st Century Challenges Report, re-examining the base of the Federal Government. That document includes over 200 illustrative questions of Federal programs, policies, functions and activities that are in need of re-examination, re-engineering, to meet 21st Century challenges and capitalize on related opportunities. Our high-risk list is but a subset of some of those areas.

I am pleased to say that over time we have removed 16 areas from the high-risk list since the beginning, 8 of which were among the original 14 programs, but there are still a number of programs that remain from the beginning, including many from the Department of Defense. The Department of Defense has, directly or indirectly, 14 of 25 high-risk areas.

As you know, the purpose of the high-risk list is to bring light to areas in need of attention, because with light comes heat, and with heat comes action.

Last, Mr. Chairman, I would note that because of recent events in the Gulf Coast dealing with the after effects of Hurricanes

Katrina and Rita and the related flooding that has occurred down there, the National Flood Insurance Program has incurred within the last 10- to 12-month period, about $23 billion in claims. During its entire existence it had only incurred $15 billion in claims, and now it has moved to the point where it has an unfunded obligation or an accumulated deficit of about $23 billion. As a result of this, and the importance of this program, not just to the Gulf Coast but also to other parts of our nation, we have decided to add the National Flood Insurance Program to our high-risk list, effective immediately, thereby bringing the list to 26. And just to reaffirm, we plan to issue a more comprehensive update in January 2007.

So thank you, Mr. Chairman, and thanks to Ranking Member Akaka, for your dedication in sticking with these issues. You are making a difference, and by continuing to work together, I am confident that more progress can and will be made in the future. Thank you.

Senator VOINOVICH. Thank you.

Senator Akaka, would you like to make a statement before we hear from Mr. Johnson?

Senator AKAKA. Thank you very much, Mr. Chairman. I just want to ask whether we are running tight on time?

Senator VOINOVICH. We have a vote, I think at 3 o'clock.

Senator AKAKA. Then, Mr. Chairman, let me welcome Mr. Walker and Mr. Johnson, and to ask that my statement be placed in the record.

Senator VOINOVICH. Without objection. Thank you, Senator.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT OF SENATOR AKAKA

Thank you, Chairman Voinovich. As always, it is a pleasure to work with you to increase government accountability. I look forward to today's hearing, and I join you in welcoming David Walker, the Comptroller General, and Clay Johnson, the Office of Management and Budget's (OMB) Deputy Director of Management, to examine the progress being made on Government Accountability Office's (GAO) high-risk list.

You noted that this mid-course review is our sixth hearing in 12 months to focus on high-risk government programs identified by GAO. The people of Ohio and the nation are fortunate to have you in the Senate, Mr. Chairman. Your continued leadership—and that of our distinguished witnesses—is improving government operations.

Reducing the number of programs susceptible to waste, fraud, abuse, or mismanagement will save the American taxpayers billions of dollars—improve Federal services—and help reestablish the trust we should have in government.

As the Rank Member of both this Subcommittee and the Armed Services Readiness Subcommittee, I am shocked that the Department of Defense (DOD) continues to have more programs on the high-risk list than any other Federal agency. Because of this outrageous imbalance, Senator Voinovich and I have focused our efforts on improving DOD's high-risk programs. One such area is supply chain management, which includes an inventory valued at $77 billion and an annual expenditure of over $7 billion on logistics operations. And yet, supply chain management has been on GAO's high-risk list since 1990—that's 16 years!

Ignoring the long-term, systemic problems associated with supply chain management harms our troops on the ground and is just plain wrong. However, I am optimistic that with the partnerships undertaken by DOD, OMB, and GAO, and with our continued oversight—we will be successful in strengthening supply chain management.

I am particularly interested in one change—the Joint Regional Material Management (JRIMM) which is operated by the Defense Logistics Agency. The JRIMM concept seeks to eliminate duplicative inventories and streamline the flow of material. After a successful pilot program with the Navy in San Diego, the concept has been expanded to the Island of Oahu and encompasses all military Services. Right now

the Services are testing the JRIMM concept by using the Defense Distribution Depot, Pearl Harbor, as the hub for inventory distribution throughout Oahu.

I wish DLA and JRIMM success in what I hope will be a state-of-the-art, centralized logistics supply center. GAO and OMB are working with DLA to ensure that this new system will have the needed metrics and controls in place to manage effectively DOD's supply chain system.

Yet, despite positive steps forward, we must remember that without sustained leadership, neither incremental changes nor wholesale transformation will be integrated into an agency's management culture. That's why I have sponsored legislation with Senator Voinovich and Senator Ensign to establish a deputy director for management at DOD. Our measure was introduced at the recommendation of the Comptroller General, and I thank him for his steadfast support of the chief management officer concept. Senator Voinovich and I have also introduced similar legislation for the Department of Homeland Security to help the new department avoid the same long-term management problems plaguing DOD.

Mr. Chairman, I look forward to our continued partnership in attacking waste and mismanagement of government programs. We must take this opportunity to instill sound management practices within Federal agencies so that the taxpayer's dollars are used most effectively. Thank you.

Senator VOINOVICH. Mr. Johnson.

TESTIMONY OF THE HON. CLAY JOHNSON, III,[1] DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. JOHNSON. Mr. Chairman, Ranking Member Akaka, thank you both, and congratulations to you both for your support and your passion about fiscal restraint, good management, thinking of and treating employees like professional public servants, not like bureaucrats, for focusing our spending on real needs and making sure we get what we pay for. In short, thank you for your passion and commitment and support for results.

General Walker and yourself have recognized, publicly and privately, to me the progress that this Administration has made on the high-risk list, the attention we pay, the priority we have given it, and I think those kudos are well deserved, if I do say so myself. I think a lot of attention is being paid to this, but there is more that can be done. I think the attention to the high-risk list exists in every area. It is inconsistent. It is high in probably half the areas, and it is not as high as it should be in probably the other half.

It is all about getting results. One way to think about this is the risk. The other way to think about it is we are spending a lot of money, what are we getting for that money? The President's Management Aagenda is about establishing habits and disciplines and having agencies adopting these habits and disciplines; so that they have the ability to spend our money more wisely to get results, where we were not able to get results before.

Senator Voinovich, you mentioned focusing more light on how programs work now. The website, Expectmore.gov, is something that we have spent a lot of time on this past year to develop. As David said, with light you get heat, and with heat you get action. We think it is important that the taxpayers know what they are getting for their money, what is working, what is not, and in every case, what we are doing about it.

We think the first big step in that direction, or a very important step in that direction is to bring a lot of transparency to what is

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 60.

working and what is not. OMB's role in this is pretty straightforward. We, both in the PMA and the high-risk list, see our primary role as helping agencies, helping programs find success. What are we trying to do? What is the definition of success? This has to be done to everybody's mutual satisfaction, has to be done to the agency's satisfaction, and to OMB's satisfaction. And with regard to the high-risk list, it has to be done to GAO's satisfaction as well. Let us agree together on what we are trying to do.

Our second role in all of this is to ensure that the agencies, with your oversight activities, are held accountable for doing what they say they are going to do. They have an action plan that calls for this to be done in the next 6 months, and this to be done in the next year, and so forth and so on, holding agencies accountable for doing what they said they are going to do.

I have done focus groups each of the last 2 years with Federal managers, SES and GS–14s and 15s, about management topics. And they talk about, "We always have had plans, we always have had goals. We are really great. We like to do them in four color and black and white, and paper and PowerPoint. We can really do those plans." The new news in the last few years is: "Somebody is actually holding us accountable for implementing the plans that we said we are going to implement." To me, that is the key in removing the risk from these high-risk items: Accountability causes programs to work and to spend money wisely. A lot of things go into it, but the level of accountability, I believe, has more to do with our success in spending the taxpayers' money than just about any other factor.

Again, thank you for inviting me up here. Thank you for those kind words at the beginning of the hearing, and I welcome your questions.

Senator VOINOVICH. Thank you, General Walker.

General Walker and Mr. Johnson, on October 7, DOD approved the establishment of the Business Transformation Agency. Now, this agency is responsible for centrally managing some of the Department's largest business systems. Do you believe that the Agency has enough visibility and leadership clout within the Department to affect the necessary changes in DOD's culture, or should these responsibilities be handled by a chief management officer?

Mr. WALKER. First, Mr. Chairman, let me say that I think that was a step in the right direction. It shows that the Deputy Secretary is taking this issue seriously. It also shows that he is trying to commit some resources to it, and the approach that they are taking with regard to business process engineering and related systems update is, clearly, I think, an approach that is preferable to the one that they had before, but the jury is out on whether or not it will be successful.

I continue to believe, Mr. Chairman, that in order for the Department of Defense to successfully address its eight individual high-risk areas, and the six others that it shares with other agencies across government, that one of the elements that it will ultimately need to do is to create a Level 2 senior official reporting directly to the Secretary, responsible for the overall business transformation effort. We are talking about a professional with a proven track record, who would have a term appointment, a performance

contract, and would be there long enough in order to place sustained attention that could last beyond indivudal administrations. I continue to believe that DOD will not be successful in addressing these areas in a reasonably timely manner unless they have that type of person there. I do not think there is a person on the planet, Gordon England included, who can be both Deputy Secretary for Policy, and alter ego to the Secretary, as well as place the time and attention necessary to deal with these many longstanding, deeply ingrained business transformation issues within the Department that have been there since 1947, in many cases.

Senator VOINOVICH. Mr. Johnson.

Mr. JOHNSON. I think Gordon England's answer to that question was he would like to look at it for 6 months or so and then get back to you, and I defer to him on that. OMB does not yet have an official position on that. My personal position is it can work, but there is nothing automatic about it. We have said in here, I have said in here before, and others have agreed, this is not a silver bullet. The key to transformation in the Department of Defense is whether the Secretary wants it to happen or not. If he really wants it to happen, it is going to happen, whether there is a chief management officer, whether the senior person driving this effort is the level person they appointed last November, whether it is a chief management officer, whether it is someone above that, less than that. If the Secretary does not want it to happen, it is not going to happen, whether the person is term or not, whether they are Level 2, Level 3, Level 4. So that is the key. There is nothing automatic about a termed position. A Secretary can make a termed person ineffective or highly effective if he or she so wants. So it is nothing magic about it.

But it can work. The key is that there has to be somebody, as I mentioned at the beginning, somebody held accountable for implementing the very clear aggressive action plan that has been laid out to everybody's mutual satisfaction, that if implemented, will achieve the desired goal. If there is somebody with the Secretary's endorsement, who can be held accountable, one person who can be held accountable for implementing that plan, it does not make any difference what level it is, in my opinion.

Mr. WALKER. Mr. Chairman, could I come back real quick?

Senator VOINOVICH. OK.

Mr. WALKER. We are doing work in this area to try to help this Subcommittee, as well as the Congress, understand the experiences of other countries in addressing these types of issues. I would agree with Deputy Director Johnson, that if the Secretary is not committed, one will not be successful. I would also, respectfully, suggest that that is not enough. There are a number of countries that have similar positions to what I am talking about, and they have made a real and lasting difference. Part of the problem is people are not in their jobs long enough to be able to make substantial and sustainable progress. I provided more information for the record before, and would be happy to respond to any other questions you might have.

Senator VOINOVICH. It is an issue that I think we really need to continue to pay attention to. I have written down a note to talk to Gordon England about it again.

Mr. JOHNSON. I think getting a more formal response at this point from Gordon would be a good idea.

Senator VOINOVICH. That is exactly what I intend to do.

General Walker, you have said there is a need for a comprehensive national threat and risk assessment in the planning for the 2010 census. Do you think the Administration is taking the necessary steps to address these broad-based challenges, to keep them from becoming high-risk areas?

Mr. WALKER. First, Mr. Chairman, with regard to the census, I would like to provide some more information for the record, but I will tell you that based upon information that I have been provided within the last couple of weeks, I am told that the census is ahead of schedule as compared to where they were for the last census at this point in time. So they are clearly ahead of where they were last time, and I would be happy to provide some more information for the record.

With regard to the need for a comprehensive national threat and risk assessment, more needs to be done in that regard, and this is an issue that not just applies to the Department of Homeland Security, but quite frankly, it applies to the Department of Defense and other agencies. I will tell you that personally I was very disappointed with the Quadrennial Defense Review, tough choices not made. The bottom line with that review was, for the most part, everything we wanted before and more, and we still are not taking enough of a threat and risk-based approach to determining our needs, and we are still not adequately considering the limitations on our resources that are very real, especially given our huge deficits.

So it is not just DOD. It is not just DHS, but I think we have a way to go in both those regards.

Senator VOINOVICH. I was at a meeting today with some of my colleagues, and we are talking about the borders, and the threat that is there. I kind of smiled because they were saying, "Well, we put $2 billion in today by unanimous consent for the borders." And then somebody said, "Well, if we are really going to do the job, we need to put in another $2 billion." I just smiled and said, "Where is the money going to come from?"

And in terms of the Defense Department, has anybody really looked at what they want to do, and then looked at the threat that is out there, and the change in the threat in terms of the fact that we have a non-traditional enemy? There is no question that the technology we have is helping us, but, is it the right technology and the right resources?

You have to step back and say, "Is that really needed?" So often the Defense Department comes back with recommendations in many areas, and does not recommend spending in these areas. Yet, Congress comes along and funds these programs anyway.

That brings me back to the threat assessment issue. If we do everything everyone wants us to do to protect this country, we will bankrupt it. The real weapon in this war on terror is good intelligence so it does not happen here.

Public diplomacy around the world, and perhaps spending money toward humanitarian efforts, goes a long way in creating a more peaceful world. That being said, has anybody really sat down and

looked at all of these resources and said, "We cannot do all this." The financial resources are just not there. The non-defense discretionary budget is being picked apart right now to the point where I think we are not going to be able to do the things that government should be doing.

I think it gets back into this threat assessment. Secretary Chertoff should come back to Congress and say, here is an honest portrayal of where we are, what we need to protect Americans. When Congress comes along and says, "We got to do this and we got to do that," somebody ought to say, "No, we do not. First, we do not have the money to do it, and second, because if we have good intelligence we do not have to worry about spending money on certain programs." If we keep going the way we are, we are in big trouble.

Enough preaching. Mr. Johnson.

Mr. JOHNSON. You talk in terms of whether there is threat assessment, and are we spending our money where the threats are the greatest? From the management side of OMB, we think in terms of: Are we getting anything for our money? When we talk about port security, there was a meeting this morning—we have a morning meeting every day at OMB—and they were talking about why Congress wants to do so much for port security, and someone says, "Well, a billion dollars is better than $700 million, or $4 billion is better than $2 billion," whatever. I am asking the question, "What are they going to do with this money?" "Well, they are going to secure the ports." Maybe you can really secure the ports for a billion dollars, or maybe the minimum is $10 billion. Has anybody figured out—are we just throwing a number out there and $4 billion is better than $2 billion? What is the goal? What are we trying to do here? There is not enough of that.

There is so much attention being paid to inputs, what we are spending, what kind of money, that there is a general mindset in Washington, Executive and Legislative Branch, that says, the more I am willing to commit to something, the more I care about it.

General Walker talked about the level of oversight that you all are trying to bring to this process, in particular, to this Subcommittee. There is not enough of it. What are we getting for our money is the question, and needs to be the question much more frequently than it is now. That is you all's perspective here, and we think that when we put the budget together at OMB, with the help of the agencies, we are making those kinds of calls, because what are our priorities? We cannot spend money on everything. What are our really important priorities? Let's spend it on that. Maybe it is not expressed in terms of what our risks are—well, it would be on national security—but the Defense Department wants to do things, we think it is a low risk, it is not as important as some other things. The same thing with Homeland Security. And we do not fund those low-risk, low probability kinds of things.

So there is attention being paid to debt, and I am almost certain that it is not as much as it could be or should be.

Senator VOINOVICH. Thank you. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I wanted to thank you again for all the work you have done, Mr. Chairman. This is our sixth hearing in a year on high-risk government programs. The people of Ohio, Mr. Chairman, and the Nation, are fortunate to have you in the Senate, and your continued leadership, and that of our distinguished witnesses, is improving government operations.

I want to commend our two witnesses, General Walker and Director Johnson, as you point out are trying to think this out. We need people in place who will stay and be accountable.

Reducing the number of programs susceptible to waste, fraud, abuse, or management will, no question, save the American taxpayers billions of dollars, improve Federal services and help reestablish the trust they should have in government.

Mr. Walker and Mr. Johnson, again, I want to thank you for working with us. I know this effort goes back several years. It is 16 years now that we have been working on high risks, and are still doing that. You folks have really been working on this with us, and I look forward to more of that.

I have a question for both of you that probably cuts through some of the problems we continue to see, especially in the area of contract management. Federal agencies have contract employees working side by side with Federal employees. Federal managers, who manage only Federal workers are evaluated on the performance of all employees, Federal and contract workers. In addition, Federal employees are subject to conflict of interest and ethics rules, while most contract workers are not legally bound by the same ethics rules.

As an example, the IRS will use private debt collectors to track down and collect unpaid Federal taxes, and yet, Federal IRS employees are subject to stringent rules, that if violated, could result in termination. My question to you is how would you reconcile the differences in laws and regulations for governing what is now being called the multi-sector workforce within the Federal Government, and how could this address some of the cost-cutting programs on the high-risk list? General Walker.

Mr. WALKER. First, Senator Akaka, as you know, there are a number of areas on GAO's high-risk list that deal with contract management, and there is a multiplicity of problems relating to contract management. In my view, if we are contracting for non-government workers to do work that otherwise the government is responsible for doing, then there should not be a substantive difference in the standards that apply to those individuals who are serving as an agent of the government. In other words, they should not be able to do things that a government employee would not be able to do.

Now, it is different with regard to financial disclosures and it is different with regard to certain other aspects that have to do with the fact that you are a government employee. My view is: one, we are contracting out, in some cases, too much, including oversight; two, we do not have enough people with the right kind of skills and knowledge to manage cost, quality and performance of contractors; three, our contracts are incredibly complex, they are not outcome

and results oriented enough, and even in circumstances where we try to engage in performance-based contracting arrangements, the culture in government is you end up paying out a vast majority of those award and incentive fees just for people showing up to do their work, and returning your telephone calls, rather than because they are meeting their commitments on cost, quality and performance.

We issued a report within the last year, noting that the Defense Department has spent billions of dollars in incentive and award fees in circumstances where the contractors were behind schedule, over budget, and/or not making related performance requirements.

This is an example of one of the fundamental transformation challenges that has to take place, just one of many in the Defense Department, but it is not solely confined to the Defense Department.

Senator AKAKA. Thank you. Director Johnson.

Mr. JOHNSON. On the specific IRS case that you talked about, I am only vaguely familiar with the history of that. I know that there were prohibitions placed on what IRS tax collectors could be required to do, what they could be held accountable for doing. Basically, as I understand it, the law is now that they cannot be held accountable for anything. The feeling was that they were being held accountable for collecting so much money, they would be too rough on the taxpayers and there would be a customer service problem and so forth. So as a result, they cannot be held accountable for their production levels of the quality of their work, or the quantity of their work.

Somehow or another, a bill was passed that allowed IRS to hire outside contractors to collect monies that IRS would never work on, no matter how much debt collection money they had in their budget, the hard to collect and so forth, and those people have been given, I think it is up to a 25-cent on a dollar commission. So it is a function of two things, the inability to hold IRS employees truly accountable, because of a law that was passed, and the legal opportunity to hire outside contractors because of a law that was passed, and the ability to hold those people accountable. It is nuts.

Colleen Kelly, of the National Treasury Employees Union (NTEU), thinks it is nuts, and it is like the right hand and the left hand not knowing what they are doing, but that is the law. So it is allowed. It does not seem like it should be that way, but it is. And Congress, in both cases, elected not to be able to hold these people accountable, and elected to allow outside contractors on a commission basis to collect these very hard to collect monies.

The way prospective spending is scored, as I understand it, if we are going to spend a quarter to get a dollar, like on debt collection or on working bad Social Security claims, or something, that scores money scores, expense scores this year and the revenue derived from that. We do not get an offset. It shows as an increase in the budget. That suggests that maybe some rethinking in how these kinds of spend-money-to-make-money kinds of efforts should be scored ought to be looked at. But it is a seemingly inconsistent, if not contradictory, approach to debt collection at the IRS.

Senator AKAKA. Thank you. Mr. Chairman, my time has expired.

Senator VOINOVICH. Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thank you, Mr. Chairman.

Gentlemen, it is great to see both of you here today. Thanks for coming before us again.

As General Walker knows, Senator Coburn and I have been holding a series of hearings on another Subcommittee of this Committee. Among the things we focused on are improper payments, and we are grateful to you and to the team that you lead, General Walker, for working with us there, and putting a spotlight on the agencies that are doing a good job reducing their improper payments, and putting another kind of spotlight on the agencies that could do better.

One department that I suspect probably makes a number of improper payments is the Department of Defense. I do not know if DOD actually has the financial systems in place that will actually talk to each other and will enable them to help us to identify some of the mistakes that are being made. I would ask, how far do you think we are from consolidating some of their systems, and maybe getting a better picture of the kind of shape they are really in?

Mr. WALKER. The last estimate that I heard, Senator Carper, was that the Defense Department had over 4,000 legacy and non-integrated information systems that contain financial and other key management information. I believe that one of the things that has to be done there is we need to employ a toughlove concept at the Defense Department, not just in this area but elsewhere, such that we understand which one of these systems are critical stay-in-business systems and which ones are not. If they are not critical stay-in-business systems, we kill them, we de-fund them. We take that money and we use it to invest in creating a more positive future that not only would help with regard to financial management but would help with regard to a whole range of high-risk areas.

If the Ministry of Defense in the U.K. can do it, if the Brazilian Government can do it on a consolidated basis, I don't see why the U.S. Defense Department can't do it.

Now, they have a new approach to trying to address their BMMP, or business systems modernization efforts now. It is better than the old approach. It is going to take many, many years of attention to really make meaningful and lasting progress here, which brings me back to the issue we started with, Mr. Chairman.

Senator CARPER. Well, that is not very encouraging. In terms of what we ought to be doing, can be doing to be helpful or embracing this toughlove approach, what would be your advice for us?

Mr. WALKER. Well, candidly, let me mention a couple of things based on what all three of you have said. As all of you know, I have been spending a lot of time lately talking about our large and growing budget deficits and long-range fiscal imbalance. Clay Johnson is correct in noting that the Administration is focused on results. One of the problems we as a country have, is that we do not have a set of key national indicators—safety, security, economic, social, environmental, and other outcome-based indicators to be able to inform strategic planning, enhance performance accountability reporting, and frame legislative actions, whether it is authorization, reauthorization, appropriations, or oversight activities.

As a result, what happens is when you have a problem the assumption is if you throw more money at it, you are going to get more results, or if you give more tax preferences, you are going to get more results. The fact is those assumptions may be totally false.

So one of the things that we need to start doing is we need to move towards developing some indicators, national and then local, that would be used as a basis to engage in planning activities. For example, before you end up giving money, let's understand what we are going to get for the money. Before we pass a new bill that creates a new program or a new policy, why are we doing it and what do we expect to get for it on an outcome basis?

We need to start thinking outside the box and do things fundamentally differently because the path that we are on right now is not only imprudent, it is unsustainable and it threatens our future.

Senator CARPER. Thank you. I agree.

Another question for you, General Walker. One item that I do not believe is on your agency's, GAO's high-risk list and maybe it ought to be is FEMA contracting and spending procedures during major disasters. And maybe that is not something we focused on a whole lot before last August. Mr. Johnson, how are GAO and OMB helping FEMA and Homeland Security to better prepare for—I guess from a financial management perspective—the next hurricane season, which is, I think, less than 3 months to go.

Mr. WALKER. We do not have the Department of Homeland Security's contract management area on the list at the present time by itself. We do have the implementation and transformation of the Department of Homeland Security as an entity on the list. As you know, Senator Carper, we have done and are doing a tremendous amount of work in the aftermath of Hurricanes Katrina and Rita. I have already testified a couple of times—and will be doing some more—making specific recommendations about what we think needs to be done in order to do better next time and to be better prepared.

There are major contracting problems with FEMA. We have a report that I just looked at this morning where we paid over $10 million more for an item than we should have. We paid $39 million for a particular contract which was at least $10 more than we could have based on the GSA schedule.

You will be seeing more coming out from GAO as well as the Inspector General of the Department of Homeland Security and others on this issue in the near future.

Senator CARPER. I have a follow-up question to that. Going beyond what you just said, what kind of steps might FEMA, or really the Congress, need to undertake to improve FEMA's financial controls? What do we need to be doing?

Mr. WALKER. I will give you some examples of areas where we are likely to have as recommendations. We have not issued the products yet, but these are things that we are working on.

We need to recognize that natural disasters happen. They have happened, and they will continue to happen, all throughout the history of this country. Certain types of natural disasters happen with recurring frequencies in particular regions of the country. One of

the things that we need to do with regard to contracting, is to understand what type of capabilities and resources we might need in the event of a disaster and to enter into contracting arrangements, well in advance of the disaster, that can be drawn upon if, and when, the disaster occurs, rather than being held hostage to the conditions and the urgency of the moment to be able to pay whatever price is necessary in situations, where the government has no leverage and is looking to get things as quickly as possible for whatever price is necessary.

And so advanced contracting: Incorporating a number of internal controls, which I won't go into the details here, in order to maximize the chance that we are getting value for money, and that only people who should be paid are getting paid. I would be happy to provide some more information for the record if you would like.

Senator CARPER. Good. Thank you. Thank you, Mr. Chairman.

Senator VOINOVICH. I was not going to raise this issue, but I am going to raise it because I think it is urgent. We have just been talking about FEMA and some of the things that need to be done in order to improve the agency. I guess the first question is: What do we have to do to make sure that FEMA is not put on the next high-risk list? That is the first issue. But, more importantly, the last time I looked, there were 12 management positions in FEMA; eight of them have temporary people filling them. They have lost over 500 people. Half their workforce is over 50. And from what I understand, we have a pretty demoralized group of people because they have been beaten down as an agency.

I would like to ask both of you if you think FEMA is hampered by being part of the Department of Homeland Security? As you know, we are approaching hurricane season. I am concerned that FEMA does not have the staff or resources necessary to be able to respond. We are running out of time. I want to ensure that DHS is giving FEMA the appropriate attention that it needs to be able to respond and to attract the individuals needed to get the job done. Is FEMA going to be ready for the upcoming hurricane season?

Mr. JOHNSON. I believe that FEMA is not hampered by being a part of the Department of Homeland Security. Staffing is the biggest problem they have right now. OMB had Homeland Security and FEMA outline what their plan was for dealing with the extra risks presented by Hurricane Katrina. Hurricane Katrina is a big risk of making an improper payment—a huge risk. What are the different kinds of risks and what extra preventions or extra resources are we going to apply against that extra risk to lower that risk to acceptable levels? They identified all the things they needed to do, the extra checks and balances and so forth. Just with regard to Katrina, they identified the need to hire—it is either 120 or 200 people in a combination of procurement and then in the financial world with regard to internal control.

Senator VOINOVICH. If I could just interrupt you a minute, the question I have is that if you have an agency that is beaten down, has a bad reputation, and you have people who, from what I understand, are going to leave if they get a chance, how in the world are you going to get the people that you need into the positions so that this thing will work the way we want it to?

Mr. JOHNSON. Right. What I am saying is—let me put some numbers on it. They wanted to hire—it was either 120 or 200 people. They have hired half those people. They have been working on it for 3 months, and they have had extra help from OPM, they have had extra expedites for this and that, and it is all the things you talked about. So it is a significant problem.

I believe it actually helps FEMA to be a part of Homeland Security in that you have Deputy Secretary Michael Jackson. I saw him on Sunday. He said he spends probably 80 percent of his time on FEMA matters. If FEMA was separate, they would be hard pressed to have somebody of Secretary Chertoff's caliber and Michael Jackson's caliber trying to help them get more strategically aligned. It is a problem. Hurricane Katrina and all the repercussions of that were unprecedented in its magnitude. And whether it was a part of Homeland Security or not, the people at FEMA would be worn out, ready to retire, ready to move on, ready to go into the ministry—whatever the next steps might be. And it is a problem that needs to be dealt with, and I do not believe their being a part of Homeland Security has any bearing on the quality or the expedited nature of the solution.

Mr. WALKER. Mr. Chairman, I would say two things.

First, the quality of the leadership. You need top-flight, capable, credible, and inspired leadership at FEMA, and if you do not have that, you have a big problem. One of the challenges that we are going to have now, I would respectfully suggest, is attracting somebody into that job under the current circumstances. I hope and pray that the Administration will be successful in attracting somebody that meets all these criteria.

Second, they are going to have to have adequate resources, and that means human resources as well as financial and other types of capabilities. As you know, Mr. Chairman, we do not put agencies on our high-risk list. We put programs, functions, and activities, and the reason being is it really would not be fair to an agency. It is not the entire agency that is the problem. Rather it is certain aspects of an agency that might be a problem. Therefore, by putting an entire agency on the list, it really tends to indict the entire agency. Every agency does some things well, and some things, quite frankly, are beyond their control and they need the Congress' help to be able to deal with them.

Senator VOINOVICH. You mentioned the National Flood Insurance Program (NFIP). That is a big part of it, right?

Mr. WALKER. Well, that is at DHS, and it does relate to FEMA, that is correct. We are putting the National Flood Insurance Program on our high-risk list as of today. As you will recall, Mr. Chairman, we put the Single Employer Insurance Program, which is the biggest part of the Pension Benefit Guaranty Corporation, on our high-risk list, off-cycle, several years ago when it had a similar financial condition.

I believe that whether or not FEMA will be successful does not have as much to do with whether or not it is in DHS. It will depend on the quality of its leadership and the adequacy of its resources. After all, the Coast Guard did a great job, in my opinion, based on everything we have seen, relating to Katrina and Rita,

and it is part of the Department of Homeland Security. And before that, it was part of the Department of Transportation.

It is leadership and resources that count the most. One last thing on this. We have talked about the CMO concept. I would respectfully suggest that one of the things that Congress needs to consider is: Are there certain positions in certain agencies that you ought to think about having statutory qualification requirements, thinking about getting a pro with a term appointment? Is FEMA one of those agencies? I raise that question.

For example, I look at the Internal Revenue Service. The Commissioner of Internal Revenue has a 5-year term appointment. The Commissioner of Social Security has a term appointment. There are certain positions that, given the nature of the position and the agency's mission, you want a pro and you want somebody who obviously is politically acceptable. A person with the right kind of qualifications but who hopefully knows they are going to be there for a certain amount of time, which I think can make all the difference. Frankly, if you ask some of the people who have been appointed to some of these term appointments, including Mark Everson at IRS, I think he would tell you it makes a difference having a term appointment.

Mr. JOHNSON. Senator, can I make one additional comment?

Senator VOINOVICH. Yes.

Mr. JOHNSON. I think the issue here is not whether the head of FEMA is termed or not. I think the issue is Hurricane Katrina. Before Katrina, Michael Brown was going to go into the Emergency Management Hall of Fame for the work that he and FEMA did in Florida when those five hurricanes went through there in 2004. FEMA's track record of response to natural disasters was more than satisfactory for many years leading up to Katrina. In FEMA, we have an agency that is demoralized. Lots of people are leaving. It did not perform well in Katrina. The main factor is Katrina. Think back—which nobody talks about—to how well regarded FEMA was in 2004 and 2003 and 2002 and 2001 and in 1999. There were no discussions about if we could get good leadership. There were no discussions about it needed to be a term appointment. We had a once-in-a-100-year or a once-in-a-200-year natural disaster that knocked the bejesus out of the United States of America, and we did not respond as well as we would have responded to a Category 3 or a Category 4 hurricane. And so we are going to learn from it and move on, but the issue is not looking back that Michael Brown was termed or not.

Senator VOINOVICH. Senator Akaka.

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

FEMA is an agency that we have been discussing throughout our 22 hearings on Katrina. At one of the hearings with the Inspector General sitting where you are sitting, Mr. Johnson—I asked him the question: Today, if there is a disaster, will FEMA be able to operate successfully? Without hesitating, his answer was no. And so that is scary. And for me, I wonder why we are continuing to pay all these salaries and having an organization that will not function.

For the past 3 weeks, as you know, parts of Hawaii have been hit by exceptionally hard and heavy rains, causing flooding, land-

slides, and just yesterday, a dam failed and it killed—well, they found one person, six are missing. And at this point in time, I don't know whether FEMA is going to be involved, but I thought I would just mention that. And I want to thank the Chairman for mentioning FEMA because this is something that we need to work on to help our country in case there are future disasters.

Mr. Walker, I would like to commend GAO for its evaluation of a fundamental element of DOD acquisition, contract award, and incentive fees. Given the DOD acquisition failures that I mentioned previously, I do not understand how DOD can continue to pay award fees, which amount to more than $8 billion, regardless of program outcomes. This precedent of awarding contractors for inadequate performance, no question, must change. The December 2005 GAO report you mentioned indicated that, in some cases, DOD evaluates contractors based on award fee criteria not directly linked to program success.

So my question is: What changes would you recommend that DOD make regarding award and incentive fee structures?

Mr. JOHNSON. Senator Akaka, we have made some, and I expect that we will make some additional ones as well. As you may know, the Senate Armed Services Committee—which you are a member of—has a hearing coming up on this, I believe, the first week in May.

One of the things that I think has to happen is to make it clear, ideally without legislation but, if necessary, with legislation, that the only way that one should be paid an award fee is if there are positive outcome-based results based on cost, quality and/or performance. It is as fundamental as that.

You would think just looking at Webster's Dictionary that you would be able to figure out that these types of criteria need to be met, but it is as fundamental as that.

Now, I will tell you that the Under Secretary for Acquisition, Technology and Logistics at the Defense Department has agreed with our findings and recommendations to date, and we are looking to see what type of concrete actions are taken to deal with them. I will tell you that one of the problems at the Defense Department is things, in form, look great. They have beautiful manuals. They will end up adopting a lot of recommendations on paper. But as we all know, there is a difference between plan and actual, and the real key is what actually happens on implementation, and that is where I think we have to wait and see whether or not adequate steps are taken or, if not, we may want to come back to Congress and recommend that you do something.

Senator AKAKA. Thank you. General Walker, do you believe that the Federal acquisition regulations should be altered to provide Federal agencies with discretion on the structuring and payment of award fees?

Mr. WALKER. Senator, I would like to talk to my staff and provide a response for the record on that, if it is OK with you.

Senator AKAKA. That is fine with me.

Mr. WALKER. Thank you.

Senator AKAKA. Mr. Walker, you testified that DOD weapons systems acquisitions has been a high-risk area for more than a decade. Within the past 12 months, we have seen at least three multi-

billion-dollar major defense acquisition programs exceed their baseline cost estimates by more than 25 percent, and yet DOD acquisition policies seem to include sound best practices.

Are the major problems we are seeing with DOD weapon systems acquisition related to insufficient policy? Or is this a case of failing to follow the existing policies?

Mr. WALKER. There are several issues with regard to acquisition policy. One, if you look at the total wants—and I consciously pick that word, "wants"—that all the services that they have at the Defense Department and the programs that they have in the pipeline at the present point in time, and if you compare those wants to realistic current and expected resource levels, there is a huge difference. That difference has not been reconciled. It needs to be reconciled. Unless, and until, it is, we are going to spend billions of dollars on wants that, when the budget crunch comes, we are not going to be able to have for the needs. So that is the first thing.

The second thing is that after the decision is made to fund a particular weapons systems acquisition based upon credible current and future threats and based upon needs rather than based upon wants, then it is critically important that the Pentagon nail down its requirements and follow commercial best practices on the design, the development, and the production of these systems, and that they have adequate maturity of technology before they move through the various stages. On paper, their policies say they are supposed to. In practice, they don't, all too frequently. And history has shown that if you don't do that, you are just asking for cost overruns, scheduled delays, and compromised performance standards.

There is a long-standing history, with a few exceptions—but it tends to be more the rule than the exception—of over-promising and under-delivering and that people are not held accountable. Contractors are not held accountable. DOD employees are not held accountable. I would respectfully suggest, that this is a problem not just for the Executive Branch but also for the Legislative Branch.

As you mentioned, Mr. Chairman, sometimes the DOD is forced to buy things that they say they do not need. However, because of interest in the Congress—the branch of government that I work for—it is forced on them. We need to have better incentives, more transparency, and clearly enhanced accountability in order to make real and sustainable progress here.

Senator AKAKA. Thank you. Let me follow up here. General Walker, in GAO's review of DOD weapons systems acquisition processes, has any evidence been found showing a linkage between threat assessment and acquisition decisions?

Mr. WALKER. In our view, Senator Akaka, there is an inadequate job done at the departmentwide level in looking at current and future credible threats and in reconciling those with the different wants of the various services. It is more of a problem in certain services than others, but I would respectfully suggest that after this latest QDR, which, again, is a bid document—it is not a formal policy or law—the delta that I talked about, the difference between wants, needs, affordability, and sustainability, is worse, not better, after that document. And that is a real disappointment, because I know there are a lot of people at the Defense Department—includ-

ing Secretary Rumsfeld, that recognizes this problem and they want to make more progress on it than they have been able to.

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

Senator VOINOVICH. Senator Carper.

Senator CARPER. I understand we have just a couple, maybe 5 minutes left in this vote, and so I will just ask one question of Mr. Johnson and one quick question of Mr. Walker.

Mr. Johnson, who is the Administration's point person that we should be working with as we go to conference on the postal reform bill? Do you know? Should we just work with you?

Mr. JOHNSON. It would be somebody in the White House on the Policy Council. I think it is Tevi Troy that is the senior-most person.

Senator CARPER. What is the name again?

Mr. JOHNSON. Tevi Troy.

Senator CARPER. OK. Who is the domestic policy adviser now?

Mr. JOHNSON. It is an open position.

Senator CARPER. OK, thank you. All right.

And a related question, if I could, Mr. Walker, for you. You mentioned transparency a couple times, actually, and we know that the Postal Service is going through a transformation process. I just alluded to it in my question of Mr. Johnson. I think the Postal Service has been on the high-risk list, at least its transformation process has been on the high-risk list for a while. And I think most observers would say there has been some improvement in the Postal Service in the last couple of years. I think they are doing a better job in terms of harnessing technology and being more productive. And I think any fair-minded person would say they have made some good progress.

What I want to ask is your views on whether or not the Postal Service has in place—I guess I would call it a transparent strategy to rationalize its facilities and its workforce. Do you think they have a strategy in place to rationalize its facilities on the one hand and its workforce on the other? And sort of an adjunct to that, what do you think the Postal Service needs to be doing in this regard?

Mr. WALKER. Well, first, Senator, let me say thank you for your leadership on postal reform, and your colleagues. Stay the course. They need it.

Senator CARPER. Good. I will.

Mr. WALKER. Second, I would agree with you that they have made considerable progress administratively in dealing with a number of challenging issues over the last several years, although I do believe that they need help through legislative reforms in certain key areas.

We have recommended for some time that the Postal Service have a comprehensive and more transparent rationalization and restructuring plan with regard to its infrastructure and its employees. I have not seen that plan to date, but I will talk to my staff as soon as I get back and find out if they may have seen something that I have not seen yet.

Senator CARPER. Well, would you just let me know on the record for the record, please?

Mr. WALKER. I will do that, Senator.

Senator CARPER. Thank you. Mr. Johnson.

Mr. JOHNSON. My understanding is that it is impossible to close one post office, and it is not because it is not in the plan. It is because Congress refuses to let them do it. And so it is very difficult, as I understand it, to rationalize the Postal Service's physical plant and workforce for a variety of reasons and only some of them are business related. A lot of them are political.

Mr. WALKER. Senator, my understanding—but I will check it for the record—is that there are certain legal restrictions, but they are not necessarily legal restrictions down to the individual post office level. There is, however, a considerable amount of cultural resistance—all the more reason why I think you need a comprehensive plan. I think you and most of your colleagues would be surprised if the post office did something as simply as do a graphic presentation of where the population of the United States is, and then overlay that where all the post offices are. It would be dramatic. And then to be able to compare that to how many post offices do we have per square mile, how many do we have per citizen, because what ends up happening is like most things in government. Once it is in the base, it stays, and then we keep on layering and layering and layering, and what we need to do is we have to rationalize the base, because with the $760 billion all-time record accrual-based deficit for fiscal year 2005, we have got to do some things differently.

Senator CARPER. Thank you both.

Senator VOINOVICH. We have to wrap this hearing up because we are about to have a vote. I want to thank you very much for being here today. I thought this was very fruitful. I have additional questions that I will submit for the record.

I look forward to continuing to work with you as we deal with the high-risk list.

Thank you very much.

[Whereupon, at 3:20 p.m., the Subcommittee was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

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

For Release on Delivery
Expected at 2:30 p.m. EST
Wednesday, March 15, 2006

GAO'S HIGH-RISK PROGRAM

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

GAO-06-497T

March 15, 2006

GAO'S HIGH-RISK PROGRAM

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-497T, a 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

Why GAO Did This Study

GAO 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 has identified high-risk areas that are in need of broad-based transformations to address major economy, efficiency, or effectiveness challenges. Since 1990 with each new Congress, GAO has reported on its high-risk list. GAO's most recent update, in January 2005, presented the 109th Congress with the latest status of existing and new high-risk areas warranting attention by both 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 our national government, and ensure the ability of government to deliver on its promises.

What GAO Recommends

GAO has made hundreds of recommendations related to areas it has designated as high risk. Perseverance by the administration in implementing GAO's recommended solutions and continued oversight and action by the Congress are essential.

www.gao.gov/cgi-bin/getrpt?GAO-06-497T.

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

What GAO Found

Our January 2005 high-risk update summarized progress to date in addressing high-risk problems, corrective actions under way, and additional actions needed. As part of that update, the high-risk designation was removed for three areas and four new areas were added to the high-risk list.

This administration has looked to our high-risk program on various initiatives such as the President's Management Agenda. Also, federal departments and agencies have shown a continuing commitment to addressing the root causes associated with high-risk challenges. Since GAO's last update, OMB has worked with agencies in getting action plans, with specific goals and milestones, in place for individual high-risk areas. This initiative offers potential for noteworthy progress, but implementing and sustaining the effort will be key to success. The Congress, too, continues to play an important role through its oversight and, where appropriate, legislative action targeted at the problems within high-risk areas. More than 60 hearings involving high-risk areas have taken place since our last update.

Today, GAO is designating a new high-risk area: the National Flood Insurance Program. The program, due to the unprecedented magnitude and severity of floods resulting from hurricanes in 2005, has incurred recent losses. These losses—estimated at $23 billion, more than the total claims paid in the history of the program—illustrate the risk associated with the federal government's exposure for claims coverage in catastrophic loss years.

This statement also addresses several ongoing high-risk issues:

- DOD cannot ensure that the more than $200 billion it spends annually is used wisely and results in weapon systems and capabilities delivered to the warfighter as originally promised, or that its business practices, such as the fees paid to its contractors, promote good acquisition outcomes.
- The Postal Service has made significant progress in addressing some challenges related to its transformation efforts and long-term outlook but continues to face significant challenges, such as declining First-Class Mail volumes and an unsustainable business model, that threaten its financial viability.
- Although DHS has made some progress in the department's transformation and implementation, it continues to face significant challenges in several key areas, such as strategic planning, information sharing, disaster management and partnering with others.
- Terminations of large underfunded pension plans have created a $23 billion deficit for PBGC's Single Employer Insurance Program and additional claims seem likely in the near future; legislation is pending to address various aspects of these problems.

GAO's High-Risk List

High-Risk Areas	Year designated high risk
Addressing Challenges In Broad-based Transformations	
• Strategic Human Capital Management[a]	2001
• U.S. Postal Service Transformation Efforts and Long-Term Outlook[a]	2001
• Managing Federal Real Property[a]	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[a]	2005
• DOD Business Systems Modernization	1995
• DOD Personnel Security Clearance Program	2005
• DOD Support Infrastructure Management	1997
• DOD Financial Management	1995
• DOD Supply Chain Management	1990
• DOD Weapon Systems Acquisition	1990
Managing Federal Contracting More Effectively	
• DOD Contract Management	1992
• DOE Contract Management	1990
• NASA Contract Management	1990
• Management of Interagency Contracting	2005
Assessing the Efficiency and Effectiveness of Tax Law Administration	
• Enforcement of Tax Laws[a]	1990
• IRS Business Systems Modernization	1995
Modernizing and Safeguarding Insurance and Benefit Programs	
• Modernizing Federal Disability Programs[a]	2003
• Pension Benefit Guaranty Corporation Single-Employer Insurance Program[a]	2003
• Medicare Program[a]	1990
• Medicaid Program[a]	2003
• HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
• National Flood Insurance Program	2006
Other	
• FAA Air Traffic Control Modernization	1995

Source: GAO.

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

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

Thank you for the opportunity to discuss GAO's work related to high-risk areas identified in our 2005 high-risk update. As you know, we are scheduled to provide our next full update in January 2007, at the beginning of the 110th Congress. Today, I will talk about continuing efforts to address problem areas that we have identified through our high-risk program, discuss several individual high-risk issues, as well as a range of emerging issues and longer range challenges facing our government. I am also today designating a new high-risk area, the National Flood Insurance Program.

I want to commend both of you and this Subcommittee in drawing needed attention to these important problems. Since our last update report in January 2005, the hearings you have held and follow-up you have done has been helpful, particularly for high-risk issues within the Department of Defense.

As you know, this administration has looked to our high-risk program to help shape various governmentwide initiatives such as the President's Management Agenda. Clay Johnson, OMB's Deputy Director for Management, has directed agencies to develop action plans, complete with goals and milestones for reducing risk in areas GAO has designated as high risk. This is very encouraging, although a sustained effort will be needed.

The "high-risk" program was begun in 1990 under the direction of my immediate predecessor, the Honorable Charles A. Bowsher. Since 1993, we have issued reports providing updates on the program 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 taxpayers billions of dollars each year.

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

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 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.

Overall, our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. Since our program began, the government has taken high-risk problems more seriously and has made long-needed progress toward correcting them. In some cases, progress has been sufficient for us to remove the high-risk designation.

For example, in our most recent update, Student Financial Aid Programs was one of the three areas for which we removed the high-risk designation. This area had been on the high-risk list since 1990, and provides an example of the importance and benefit of a strong management commitment and a sustained effort in addressing these often long-standing problems. In 1998, the Congress established the Department of Education's (Education) Office of Federal Student Aid as the government's first performance-based organization, thus giving it greater flexibility to better address long-standing management weaknesses with 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. Education continued to improve the financial management of student financial aid programs, taking additional steps to address our concerns about systems integration, reporting on defaulted loans, and human capital management, which led to the removal of the high-risk designation for this area last year.

In fact, 8 of the 16 areas removed from the list over the years were among the 14 programs and operations we included on our initial high-risk list in 1990 at the outset of our program. These results demonstrate that sustained attention and commitment by the Congress and agencies to resolving serious, long-standing high-risk problems have paid off, as root causes of the government's exposure for over half the areas on our original high-risk list have been successfully addressed.

To determine which federal government programs and functions should be designated high risk, we used our guidance document, *Determining Performance and Accountability Challenges and High Risks.*[1] In determining whether a government program or operation is high risk, we consider whether it involves national significance or a management function that is key to performance and accountability. We also consider whether the risk is

- an inherent problem, such as may arise when the nature of a program creates susceptibility to fraud, waste, and abuse, or
- a systemic problem, such as may arise when the programmatic; management support; or financial systems, policies, and procedures established by an agency to carry out a program are ineffective, creating a material weakness.

Further, we consider qualitative factors, such as whether the risk

- involves public health or safety, service delivery, national security, national defense, economic growth, or privacy or citizens' rights, or
- could result in significantly impaired service; program failure; injury or loss of life; or significantly reduced economy, efficiency, or effectiveness.

In addition, we also consider the exposure to loss in monetary or other quantitative terms. At a minimum, $1 billion must be at risk—major assets, revenue sources, and so on.

Before making a high-risk designation, we also consider the corrective measures an agency may have planned or under way to resolve a material control weakness and the status and effectiveness of these actions. When legislative and/or agency actions, including those in response to our recommendations, result in significant and sustainable progress toward resolving a high-risk problem, we remove the high-risk designation. Key determinants here include a demonstrated strong commitment to and top leadership support for addressing problems, the capacity to do so, a corrective action plan, and demonstrated progress in implementing

[1]GAO, *Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP (Washington, D.C.: November 2000).

corrective measures. These determinations are based on the independent and professional judgment of appropriate GAO personnel. Consistent with these criteria, we removed the high-risk designation for three areas and designated four new high-risk areas as part of our January 2005 update report.

Our objective for the high-risk list is to bring "light" to these areas as well as "heat" to prompt needed "actions."

Long-term Fiscal Challenge

The specific issues I will discuss today—indeed, the specific issues we discuss in the high-risk reports—all take place in the context of what is arguably our greatest risk: the long-term fiscal outlook. We are currently on an imprudent and unsustainable fiscal path. We are a debtor nation—and we are borrowing from abroad at record rates. And on the domestic fiscal front the miracle of compounding works against us. This will only get worse on our current path. Importantly, if we act before a crisis forces us to act, we can, over time, turn compounding from an enemy to potential ally.

GAO's high-risk series is part of our effort to assist the Congress in dealing with one of its important obligations—to exercise prudence and due care in connection with taxpayer funds. Even if we were operating in a time of surplus, no government should waste its taxpayers' money. Further, it is important for everyone to recognize that waste, fraud, abuse, and mismanagement are not victimless activities. Resources are not unlimited, and when they are diverted for inappropriate, illegal, inefficient, or ineffective purposes, both taxpayers and legitimate program beneficiaries are cheated. Both the administration and the Congress have an obligation to safeguard benefits for those who deserve them and avoid abuse of taxpayer funds by preventing diversions. Beyond preventing obvious abuse, the government also has an obligation to modernize its priorities, practices, and processes to meet the demands and needs of today's changing world.

While we should have zero tolerance for fraud and abuse, we must also recognize that we will never in fact achieve zero fraud and abuse. Acknowledging this is not giving in; rather, it means we recognize that safeguarding taxpayer funds will be an ongoing effort.

We should also have zero tolerance for waste—but here we must recognize that "waste" is a much more difficult concept than "fraud" or "abuse." The

term can be used for things we all would agree are waste—for example, paying too much for supplies or unnecessary redundancy or duplication of administrative functions. The term is also, however, sometimes used in the debate about government activities and priorities. One citizen may see a given program or initiative as wasteful while another sees it as an important governmental activity. This debate should be part of the reexamination of programs and activities. I would suggest that it is wasteful to allocate limited revenues based on wants versus needs versus a more threat-based, risk-based, or other targeted approach.

In previous testimonies, I have discussed oversight and stewardship of taxpayer funds on three levels:

- vulnerability to fraud, waste, and abuse;
- improving the economy, efficiency, and effectiveness of programs; and
- a fundamental reassessment of government programs and activities—whether designed as spending programs or tax preferences.

All three levels are important. While the high-risk series is heavily targeted to the first two of these, it provides information and insight into the third.

New High-Risk Area: National Flood Insurance Program

We will continue to use 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. Our list of issues continues to evolve over time. Our objective is to reflect important problem areas identified in our work, with a goal of identifying the root causes of vulnerabilities and actions needed on the part of the agencies involved and, if appropriate, the Congress. In this vein, I would like to call your attention to the National Flood Insurance Program (NFIP).

- It is highly unlikely that the NFIP will generate sufficient revenues to repay funds borrowed from the Treasury to cover claims for the unprecedented magnitude and severity of flood losses resulting from hurricanes in 2005, as well as any exposure for future claims coverage in catastrophic loss years.
- Over the last 15 years we have reported on a variety of issues that affect the program, including concerns related to the sufficiency of the

program's financial resources, compliance with mandatory purchase requirements, the costly impact of repetitive loss properties, and most recently our concerns about FEMA's billion dollar flood map modernization efforts and management and oversight of the NFIP.

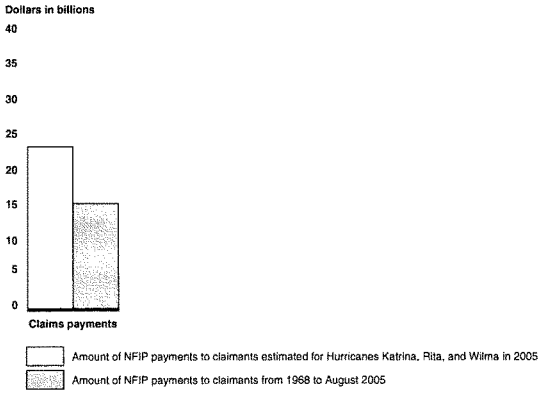
- FEMA has taken some steps to address these concerns, for example, by working to reduce the number of subsidized properties and repetitive loss properties insured by the NFIP, increase participation in the program, implement requirements of the Flood Insurance Reform Act of 2004[2] and improve its management and oversight of the program, and more strategically plan to update the nation's flood maps, the foundation of the NFIP. Nonetheless, the agency faces long-standing and complex challenges that make it likely that these issues will continue.

For these reasons, we are today designating a new high-risk area: the National Flood Insurance Program (NFIP).

The unprecedented magnitude and severity of flood losses resulting from hurricanes in 2005 illustrated the extent to which the federal government has exposure for flood claims coverage in catastrophic loss years and the decision for this designation. The nation's flood losses in 2005 created unprecedented challenges for the Federal Emergency Management Agency (FEMA) as the Department of Homeland Security (DHS) organization responsible for managing the NFIP. As shown in figure 1, FEMA estimates that Hurricanes Katrina, Rita, and Wilma are likely to generate claims and associated payments of about $23 billion–far surpassing the total of about $15 billion in claims paid in the entire history of the NFIP up to those events.

[2]Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004, Pub. L. No. 108-264, 118 Stat. 712 (2004).

Figure 1: NFIP Claims Payments from 1968 to August 2005 and Estimated Payments for Hurricanes Katrina, Rita, and Wilma



Source: GAO analysis of FEMA data.

About 90 percent of all natural disasters in the United States involve flooding. However, flooding is generally excluded from homeowner policies that typically cover damage from other losses, such as wind, fire, and theft. Because of the catastrophic nature of flooding and the inability to adequately predict flood risks, private insurance companies have largely been unwilling to underwrite and bear the risk of flood insurance. The NFIP, established in 1968, provides property owners with some insurance coverage for flood damage. From its inception in 1968 until August 2005, the NFIP paid about $15 billion in insurance claims, primarily from policyholder premiums that otherwise would have been paid through taxpayer-funded disaster relief or borne by home and business owners themselves.

During the 1990s, we reported concerns regarding the NFIP, particularly problems related to the sufficiency of the program's financial resources to meet future expected losses and compliance with mandatory purchase requirements. Our work has continued to focus on these issues since fiscal

year 2000, along with issues identified by our work regarding the challenges FEMA faces in implementing its $1.5 billion flood map modernization efforts and plans to address repetitive loss properties and enhance its management and oversight of the program.

To limit the federal government's exposure for claims coverage in catastrophic loss years, FEMA must continue to provide programs to help states, communities, and individuals plan and implement mitigation strategies to reduce damage to homes, schools, public buildings, and critical facilities from future floods and other hazards for example, by encouraging them to (1) adopt and enforce more stringent building codes for construction in areas at risk of flooding and stricter development regulations and zoning ordinances that steer development away from areas at risk of flooding and (2) use public funds to acquire damaged homes or businesses in flood-prone areas, demolish or relocate the structures, and use properties for open space, wetlands, or recreational uses. FEMA must also take effective action to address long-standing program issues and meet several major challenges facing the NFIP that we have identified in our prior work regarding the inherent solvency of the program, FEMA's management and oversight of the program, and modernizing the nation's flood maps to provide an accurate basis for the NFIP in the future.

The program's financial resources are insufficient to meet future expected losses, in part because policy subsidies and repetitive loss properties have contributed to continuing losses to the program. Specifically, the program is not actuarially sound because of the number of policies in force that are subsidized—about 29 percent at the time of our 2003 testimony on this issue.[3] As a result of these subsidies, some policyholders with dwellings that were built before flood plain management regulations were established in their communities pay premiums that represent about 35 to 40 percent of the true risk premium. In January 2006, FEMA estimated a shortfall in annual premium income because of policy subsidies at $750 million. Moreover, at the time of our 2004 testimony,[4] there were about 49,000 repetitive loss properties—those with two or more losses of $1,000 or more in a 10-year period—representing about 1 percent of the 4.4 million buildings insured under the program. From 1978 until March 2004, these

[3]GAO, *Flood Insurance: Challenges Facing the National Flood Insurance Program*, GAO-03-606T (Washington, D.C.: Apr. 1, 2003).

[4]GAO, *National Flood Insurance Program: Actions to Address Repetitive Loss Properties*, GAO-04-401T (Washington, D.C.: Mar. 11, 2004).

repetitive loss properties represented about $4.6 billion in claims payments.

The extent of participation in the program may also contribute to its financial insolvency. Specifically, the level of noncompliance with current mandatory purchase requirements by affected property owners is unknown and voluntary participation in the program is limited. Some in Congress have expressed interest in assessing the feasibility of expanding mandatory purchase requirements beyond current special high-risk flood hazard areas.

It is essential that FEMA provide effective management and oversight of NFIP operations because the agency largely relies on others to address these issues. FEMA's role for the NFIP is principally one of establishing policies and standards that others generally implement on a day-to-day basis and providing financial and management oversight of those who carry out those day-to-day responsibilities. For example, in our October 2005 report,[5] we said that FEMA faces a challenge in providing effective oversight of the 95 insurance companies and thousands of insurance agents and claims adjusters who are primarily responsible for the day-to-day process of selling and servicing flood insurance policies.

The unprecedented impact of Hurricane Katrina on hundreds of thousands of homeowners in the Gulf Coast has also highlighted the importance of FEMA's efforts to develop accurate, digital flood maps in implementing its $1.5 billion Flood Map Modernization program. Accurate, up-to-date flood maps are needed for builders and developers to make good decisions on where to build and to ensure that property owners have information on the flood risks they face in rebuilding entire communities devastated by the hurricanes. However, our work[6] and the work of the DHS Inspector General[7] has shown, among other things, that FEMA faces a major challenge in working with its contractor and state and local partners of varying technical capabilities and resources to produce accurate digital

[5]GAO, *Federal Emergency Management Agency: Improvements Needed to Enhance Oversight and Management of the National Flood Insurance Program*, GAO-06-119 (Washington, D.C.: Oct. 18, 2005).

[6]GAO, *Flood Map Modernization: Program Strategy Shows Promise, but Challenges Remain*, GAO-04-417 (Washington, D.C.: Mar. 31, 2004).

[7]Department of Homeland Security, Office of Inspector General, Office of Information Technology, *Challenges in FEMA's Flood Map Modernization Program*, OIG-05-44 (Washington, D.C.: September 2005).

flood maps. In developing those maps, we recommended that FEMA develop and implement data standards that will enable FEMA, its contractor, and its state and local partners to identify and use consistent data collection and analysis methods for developing maps for communities with similar flood risk. Some stakeholders have questioned the adequacy of FEMA's estimates of the cost and schedule for completing its map modernization efforts.

FEMA has taken some steps to address these concerns. Regarding its efforts to improve the solvency of the program, FEMA reported that the number of subsidized properties insured by the NFIP dropped from about 70 percent in 1978 to about 30 percent in 1999; however, this trend appears to have slowed in that since 1999 FEMA reports that the number of subsidized properties has only decreased by about 6 percent. Similarly, FEMA has made efforts to reduce the number of repetitive loss properties. However, FEMA has not yet implemented a pilot program authorized by the Flood Insurance Reform Act of 2004 specifically targeting the most severely repetitive loss properties, and, in any case, this program will only address a small number of these properties. Specifically, about 6,000 repetitive loss properties that have accounted for about $792 million in losses since 1978 could be considered for mitigation efforts funded through the pilot program.

FEMA also has efforts under way to increase participation in the NFIP by marketing flood insurance policies. However, as noted in a recent evaluation of mandatory compliance conducted for FEMA,[8] FEMA does not have a central role in implementing the mandatory purchase requirement. The evaluation recommended that FEMA should explore opportunities to exercise a leadership role in promoting compliance and in assisting the federal entities for lending regulation to meet their obligations related to the mandatory purchase of flood insurance.

Regarding FEMA's management and oversight of the program, the agency is implementing the Flood Insurance Reform Act (FIRA) of 2004. However,

[8]American Institutes for Research, *The National Flood Insurance Program's Mandatory Purchase Requirement: Policies, Processes, and Stakeholders* (Washington, D.C.: March 2005).

as we noted in our report,[9] FEMA's use of a sampling strategy for quality control purposes uses an approach that is not statistically valid, and thus does note provide management with the information needed to assess the overall performance of the private insurance companies who sell flood insurance. FEMA needs this information, including the overall accuracy of the underwriting of NFIP policies and the adjustment of claims, to have reasonable assurance that program objectives are being achieved. FEMA program officials did not agree with our recommendation stating that the agency's method of selecting samples for operational reviews was more appropriate than the random probability sample we recommended.

Regarding map modernization efforts, FEMA issued the Multi-Year Flood Hazard Identification Plan[10] that describes FEMA's strategy for updating flood maps used for NFIP purposes and addresses several of our recommendations. The current version of the plan (version 1.5, issued June 2005) updates FEMA's anticipated schedule and funding for flood map updates through fiscal year 2009. While the plan establishes levels of risk for determining the level of data definition and reliability used for flood maps, it does not define criteria (high population, high density, or high anticipated growth) or how the agency will apply them in assigning risk categories for flood maps to determine the level of data definition and reliability needed for future mapping projects. Echoing these concerns, the DHS Inspector General in reviewing the plan also concluded, among other things, that the plan should be revised to improve the sequencing and funding for mapping efforts in high-risk areas.[11] Finally, some have questioned the adequacy of FEMA's estimates of the cost and schedule for completing its map modernization efforts. For example, the FEMA Office of Inspector General reported on this issue in September 2000 noting that implementation would cost $750 million between 2001 and 2007. When we reported on the plan in March 2004, FEMA's estimated cost had increased to $1 billion for a 5-year program from 2003-2008. By September 2005, when the DHS Office of Inspector General reviewed the status of the program, the estimated budget was $1.5 billion for a 6 year program extending to

[9]GAO, *Federal Emergency Management Agency: Improvements Needed to Enhance Oversight and Management of the National Flood Insurance Program*, GAO-06-119 (Washington, D.C.: Oct. 18, 2005).

[10]Federal Emergency Management Agency, *Multi-Year Flood Hazard Identification Plan, Draft FY04-FY08, Version 1.0* (Washington, D.C.: November 2004).

[11]Department of Homeland Security, Office of Inspector General, Office of Information Technology, *Challenges in FEMA's Flood Map Modernization Program*.

2009. In testifying on the issue in July 2005, a representative of the Association of State Flood Plain Managers cited an analysis conducted by the Association in August 2005 which estimated that FEMA's map modernization program could cost as much as $2-3 billion.

The increasing frequency, severity, and economic impact of flood events on the nation place increasing pressure on FEMA and DHS to address these concerns and enhance the program's ability to provide an insurance alternative to disaster assistance and reduce future flood damage through floodplain management. Under my authority, we are currently reviewing the NFIP in light of the unprecedented demands and unique challenges the hurricanes of 2005 placed upon FEMA and Gulf Coast communities. As part of this effort, we are also reassessing many of the longstanding issues and concerns we and others have raised regarding the key aspects of the program I have discussed here today. In conducting our review, we have, and plan to continue to, coordinate our efforts with this subcommittee and other key Congressional stakeholders to ensure that you are informed and continue to have the opportunity to provide input to our ongoing efforts.

The complex and, in many cases, long-standing nature of the management challenges associated with the NFIP and the flood map modernization program (upon which the NFIP relies for producing accurate and readily accessible flood maps) will continue to increase the federal government's exposure to potentially billions of dollars of NFIP claims for coverage in future catastrophic loss years. This suggests the need for greater and sustained national focus and management attention by both FEMA and DHS. Just as flood insurance reform legislation in 1994[12] and 2004 mandated changes to improve the effectiveness of, and participation in the program, the Congress, too, will continue to play an important role through legislative actions needed to assist FEMA and DHS in addressing these challenges. Our objective in making this new high-risk designation today is to draw that needed attention and, in turn, action.

[12]National Flood Insurance Reform Act of 1994, Pub. L. No. 103-325, §§ 501-584, 108 Stat. 2160, 2255-87 (1994).

Status of Other Selected High-Risk Areas

For other areas on our 2005 high-risk list, efforts to address problems continue on several fronts, but major challenges remain. I want to touch on several current high-risk issues today.

DOD High-Risk Areas Persist

Given its size and mission, the Department of Defense (DOD) is one of the largest and most complex organizations to manage in the world. DOD spends billions of dollars each year to sustain key business operations that support our forces, including information systems and processes related to acquisition and contract management, financial management, supply chain management, business system modernization, and support infrastructure management. Recent and ongoing military operations in Iraq and Afghanistan 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. For years, GAO has reported on inefficiencies, such as the lack of sustained leadership, the lack of a strategic and integrated business transformation plan, and inadequate incentives. Moreover, the lack of adequate transparency and appropriate accountability across DOD's major business areas results in billions of dollars of wasted resources annually. To its credit, DOD has embarked on a series of efforts to reform its business operations, including modernizing underlying information technology (business) systems. However, serious challenges and inefficiencies remain. In fact, eight individual items on GAO's high-risk list and several government wide high-risk areas apply to DOD. At the highest levels, DOD's civilian and military leaders appear committed to reform; however, the department faces significant challenges in achieving its transformation goals. In addition, this overall transformation effort will take many years of sustained attention by leaders at all levels in order to succeed.

Management of DOD's Weapon Systems Acquisitions and Contractor Oversight

One area in particular that I would like to highlight today pertains to DOD's management of its major weapon systems acquisitions and its contractors. As the largest buyer in the federal government and as the agency entrusted with the nation's defense, DOD has an obligation to ensure that its funds are spent wisely and result in weapons systems and capabilities being delivered to the warfighter when needed. Over the last 5 years, DOD has doubled its planned investments in new weapon systems from about $700 billion in 2001 to nearly $1.4 trillion in 2006. Overall, DOD now spends more than $200 billion annually on goods and services. While DOD eventually fields the best weapon systems in the world, we have consistently reported

that the programs take significantly longer and cost significantly more money and deliver fewer quantities and capabilities than the business cases that supported the acquisitions originally promised. Similarly, we have reported that DOD is unable to assure that it is using sound business practices to acquire the goods and services needed to meet the warfighter's needs. DOD's policies may incorporate best practices, but its actual decisions and actions are not consistent therewith. Unfortunately, DOD has a track record of over promising and under delivering in connection with key acquisition and other business outcomes.

We have identified DOD's weapon systems and contract management as high-risk areas for more than a decade. While each has some unique issues that can be addressed on a case-by-case basis, there are other elements that need to be addressed from a broader acquisition context. In this regard, we testified earlier this month that the business case and business arrangements were key to the success of the Army's Future Combat System (FCS).[13] The FCS is a networked family of weapons and other systems in the forefront of efforts by the Army to become a lighter, more agile, and more capable combat force. In total, projected investment costs for the FCS are estimated to be about $200 billion. While we found a number of compelling aspects of the FCS program, the elements of a sound business case for such an acquisition program—firm requirements, mature technologies, a knowledge-based acquisition strategy, a realistic cost estimate, and sufficient funding—are not yet present. Similarly, we noted that just as important, DOD needed to ensure the FCS's business arrangements, primarily in the nature of the development contract and in the lead system integrator approach, preserved the government's ability to make informed business decisions in the future.

We looked at one element of a sound business arrangement—the award and incentives fees provided to the contractors to promote excellence in performance—in a report issued in December 2005.[14] In that report, we noted that DOD programs routinely engage in award-fee practices that do not hold contractors accountable for achieving desired outcomes and undermine efforts to motivate contractor performance, such as

[13]GAO, *Defense Acquisitions: Business Case and Business Arrangements Key for Future Combat System's Success*, GAO-06-478T (Washington, D.C.: Mar. 1, 2006).

[14]GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington, D.C.: Dec. 19, 2005).

- evaluating contractors on award-fee criteria that are not directly related to key acquisition outcomes (e.g., meeting cost and schedule goals and delivering desired capabilities to the warfighter);
- paying contractors a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance; and
- giving contractors at least a second opportunity to earn initially unearned or deferred fees.

As a result, DOD paid out an estimated $8 billion in award fees on contracts in GAO's study population, regardless of whether acquisition outcomes fell short of, met, or exceeded DOD's expectations.

We have identified numerous other examples in which DOD failed to execute its contracts properly, creating unnecessary risks and paying higher prices than justified. For example, in March 2005, we reported that deficiencies in DOD's oversight of service contractors placed DOD at risk of paying the contractors more than the value of the services they performed.[15] In other reports, we identified numerous issues in DOD's use of interagency contracting vehicles that contributed to poor acquisition outcomes.[16]

These issues, along with those we have identified in DOD's acquisition and business management processes, present a compelling case for change.[17] By implementing the recommendations we have made on individual issues, DOD can improve specific processes and activities. At the same time, by working more broadly to improve its acquisition practices, DOD can set the right conditions for becoming a smarter buyer, getting better acquisition outcomes, and making more efficient use of its resources in what is sure to be a more fiscally constrained environment. Then, assessments such as the

[15]GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, GAO-05-274 (Washington, D.C.: Mar.17, 2005).

[16]GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, GAO-05-201 (Washington, D.C.: Apr. 29, 2005), and *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD is Not Demonstrated*, GAO-05-456 (Washington, D.C.: July 29, 2005).

[17]GAO, *DOD Acquisition Outcomes: A Case for Change*, GAO-06-257T (Washington, D.C.: Nov.15, 2005).

Quadrennial Defense Review can be valuable. Unless changes are made, however, DOD will continue on a course where wants, needs, and affordability are mismatched, with predictably unsatisfactory results.

U.S. Postal Service Transformation Efforts and Long-term Outlook

In 2001, we placed the Postal Service's (the Service) transformation and long-term outlook on our high-risk list because it faced formidable financial, operational, and human capital challenges that threatened its long-term viability. We called for prompt, aggressive action by the Service in addressing these challenges and for a structural transformation that would modernize the Service's outdated business model. Since then, the Service has made significant progress in addressing some of the challenges we identified, such as cutting costs, improving productivity, downsizing its workforce, and improving its financial reporting. Much of the Service's recent financial success, however, was due to legislation passed in 2003 that reduced the Service's annual pension benefit payments, thus enabling the Service to achieve record net incomes, repay over $11 billion of outstanding debt, and delay rate increases until January 2006. Despite the temporary relief provided by the legislation, the Service continues to face many challenges that will increase pressure for rate increases both in the short term and over time. These challenges include

- generating sufficient revenues as First-Class Mail volume declines and the mail mix changes to volume growth in primarily lower contribution mail;
- controlling costs and improving productivity as growth in expenses continues to outpace revenues; compensation and benefit costs rise; workhour reductions become more difficult to realize and the number of delivery points continues to increase;
- addressing other financial issues, such as growing unfunded retiree health obligations, required multi-billion dollar escrow payments, and military service pension obligations;
- managing workforce changes related to retirements and network consolidations;
- providing reliable data to assess performance;
- maintaining high-quality universal services; and

- addressing external uncertainties, such as pending postal reform legislation, four vacancies on the Postal Service's Board of Governors, and potential security risks from biohazard and other threats.

Recently, the Service issued an updated Strategic Transformation Plan (Plan) that details its goals and strategies for the next 5 years. We support the intent of the Plan, including the Service's recent efforts to begin optimizing its operating network. However, as we recently reported, the success of the Service's optimization efforts will require enhanced transparency of its decision-making criteria, effective coordination with all key stakeholders, and a process for evaluating and measuring performance. Furthermore, we continue to believe that the Plan's incremental steps alone cannot remedy the major challenges facing the Service. Despite its efforts, the Service's underlying business model depends on growing mail volume to mitigate rate increases and cover its universal service costs. This model is unsustainable because it lacks the necessary incentives and flexibilities to achieve sufficient cost savings needed to offset growing personnel costs, declining mail volumes, and the continued expansion of the Service's delivery network. We continue to believe that comprehensive postal reform is urgently needed to modernize the Service's business model.

Recognizing that the future of postal services remains at risk, the House and Senate have each passed postal reform bills that now are pending conference deliberations. Both bills would give the Service additional flexibility in pricing and allow it to retain earnings, create incentives to reduce costs and increase efficiency, reduce the administrative burden of the rate-making process, enhance transparency and accountability, eliminate the escrow fund, transfer military service pension costs back to the Department of the Treasury (the Treasury), and begin prefunding retiree health benefits. The legislation aims to encourage cost cutting that could restrain future rate increases and also improves the fairness and balance of cost burdens for current and future ratepayers by beginning to prefund retiree health benefits. It is important that this legislation be enacted as soon as possible to begin the Service's overdue transition to a modernized business model. Although the legislation may result in short-term rate increases, these increases are likely to be more modest and predictable than the significant and frequent rate increases that would be needed if no action is taken to eliminate the escrow requirement, transfer military service pension costs back to the Treasury, and begin prefunding growing retiree health benefit obligations.

Implementing and Transforming DHS

We designated DHS's transformation as a high-risk area in 2003 because DHS had to transform 22 agencies into one department, DHS inherited a number of operational and management challenges from its component legacy components, and failure to effectively address its management challenges and program risks could have serious consequences for our national security. Overall, DHS has made some progress, but continues to face serious challenges in several key areas, such as strategic planning, management, programmatic areas, and forming effective partnerships to achieve desired outcomes.

- DHS's strategic plan does not detail the associated resources necessary to carry out its mission and achieve its strategic goals and to demonstrate the viability of the strategies and approaches presented for achieving its long-term goals. In addition, stakeholder involvement in the planning processes of DHS programs requiring stakeholder coordination to implement has been limited. Also, DHS has called for risk-based approaches to prioritize its resource investments for critical infrastructure. However, while some components of DHS have taken initial steps to apply elements of risk management to operations and decision making, DHS has not completed a comprehensive national threat and risk assessment for the department. Any risk-based approach must involve efforts from and commitment by DHS, the administration, and the Congress. Moreover, DHS continues to face challenges in sustained leadership.

- Further, key areas of management pose challenges for DHS leadership, including financial management, information technology, and human capital and acquisitions. For example, DHS continues to face significant financial reporting problems, as evidenced by the disclaimer opinion on its consolidated financial statements in fiscal years 2005 and 2004 and continuing financial reporting deficiencies at Immigration and Customs Enforcement and the Coast Guard. DHS has made progress in implementing key federal information security requirements, yet it continues to face challenges in fulfilling the requirements mandated by the Federal Information Security Management Act. The district court has partially enjoined DHS's implementation of its human capital management system, and the lack of clear accountability hampers DHS's efforts to integrate the acquisition functions of its numerous organizations into an effective whole

- Key challenges remain in DHS programmatic areas. A number of challenges that had been experienced by the Immigration and

Naturalization Service have continued in the new organizations now responsible for immigration enforcement functions. Several factors limit Customs and Border Protection's ability to successfully target containers to determine if they are high risk, including staffing imbalances. Although DHS has crafted a strategic plan to show how US-VISIT is aligned with DHS's mission goals and operations, the plan has yet to be approved, causing its integration with other departmentwide border security initiatives to remain unclear. In addition, delays by the Transportation Security Administration continue in deploying technologies at checkpoints to screen for explosives on the body.

- Finally, in the area of partnering, the response to Hurricane Katrina demonstrated that DHS also faces challenges when coordinating efforts across the federal government. During incidents of national significance, including Hurricane Katrina, the overall coordination of federal incident management activities is executed through the Secretary of Homeland Security. Other federal departments and agencies are to cooperate with the secretary in the secretary's domestic incident management role. Our initial field work on the response to Hurricane Katrina indicates that a lack of clarity in roles and responsibility resulted in disjointed efforts of many federal agencies involved in the response, a myriad of approaches and processes for requesting and providing assistance, and confusion about who should be advised of requests and what resources would be provided within specific time frames.

PBGC Single-Employer Insurance Program

We first designated the Pension Benefit Guaranty Corporation (PBGC)'s single-employer insurance program—a program that insures benefits for 34.2 million workers and retirees in about 28,800 defined benefit pension plans— for the high risk list in July 2003 because of concerns about its long-term financial viability. The program remains high risk as the program's financial condition has worsened from a $9.7 billion surplus in 2000 to nearly a $22.8 billion accumulated deficit as of the end of fiscal year 2005. Recent years have produced several terminations of large underfunded plans and the strong likelihood of additional terminations in the near future. While cyclical economic conditions have contributed to the program's financial troubles, it remains threatened by the results of globalization and deregulation or competitive restructuring of industries that have led to the bankruptcy of sponsors with large underfunded plans and a regulatory framework that has permitted sponsors to defer plan contributions. For example, total underfunding among insured single-

employer plans has exceeded $450 billion over the last two fiscal years; $108 billion of the underfunding is attributable to plans sponsored by companies whose credit quality is below investment grade.

Both the House and Senate recently passed comprehensive pension reform bills, each with different features that must be resolved in conference. The bills address many areas of concern that we previously highlighted, including the appropriate interest rates for liability valuation, more credible funding standards, increased premiums, addressing the funding of shutdown benefits, improving the timeliness of disclosures to participants, and clarifying the uncertain legal environment for hybrid pension plans. A consequence of even carefully crafted and well balanced reform is that some additional sponsors could choose to terminate their plans in a defined benefit system that has already seen declines in participation. However, such reform remains an important first step to maintaining a financially stable pension system that protects the retirement benefits of workers and retirees by providing employers reasonable funding flexibility in return for enhanced transparency and accountability for meeting the promises they make to their employees.

In many ways, the problems facing PBGC's single-employer program highlight the broader challenges confronting 21st century American retirement security. These challenges, including the long term financial weakness of Social Security and Medicare, the decline of the private defined benefit pension system, and our poor personal saving rate (which was negative in 2005), are severe and structural in nature. Unaddressed, these problems will not only erode the retirement safety net that was painstakingly built over several generations but threaten our nation's future economic security and thus the basic living standards of the American people.

Emerging Issues

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 of these involves the use of risk management, a strategy for helping policymakers make investment and other decisions by assessing risks, evaluating alternatives, and taking actions under conditions of uncertainty. Risk management has applications for deliberate acts of terror as well as natural disasters, such as hurricanes and earthquakes. We have recently advocated using a risk management framework for making investment decisions to develop capabilities and the expertise to use them to respond to catastrophic disasters, such as

Hurricane Katrina.[18] Such a strategy has been endorsed by the Congress and the President as a way to strengthen the nation against possible terrorist attacks. In this regard, DHS has been charged with establishing a risk management framework across the federal government to protect the nation's critical infrastructure and key resources. DHS's work is done in a setting where substantial gaps in security remain, but resources for closing these gaps are limited. Within this context, in January of last year, we noted that DHS had not completed risk assessments to set priorities on where scarce resources were most needed. Our December 2005 report examined the risk management efforts of DHS and found that while a great amount of effort has been expended, there is a long way to go in implementing risk management in a way that helps inform decisions on programs and resource allocation.[19] The most progress has been made in assessing risks of individual assets, such as port facilities and oil refineries. However, translating this information into comparisons and priorities across assets and infrastructure sectors remains a major challenge. DHS is unable to provide adequate assurance to the Congress or the country that the federal government is in a position to effectively manage risk in national security efforts.

DHS has much more to do to more effectively manage risk as part of its homeland security responsibilities within current and expected resource levels. In the short term, progress depends heavily on continuing to improve policies and procedures for assessing risks, evaluating alternatives, and integrating these efforts into the annual cycle of program and budget review. An area that DHS believes needs further attention is working with intelligence communities to develop improved analysis and data on the relative probability of various threat scenarios. Efforts to strengthen data, methodology, and policy would help inform decisions on setting relative priorities and on making spending decisions. In the longer term, progress will rest heavily on how well DHS coordinates the homeland security risk management effort. Currently, various risk assessment approaches are being used, and in many ways, these approaches are neither consistent nor comparable. DHS has been challenged in establishing uniform policies, approaches, guidelines, and methodologies

[18]GAO, *Hurricane Katrina: GAO's Preliminary Observations Regarding Preparedness, Response, and Recovery*, GAO-06-442T (Washington D.C.: March 2006).

[19]GAO, *Risk Management: Further Refinements Needed to Assess Risks and Prioritize Protective Measures at Ports and Other Critical Infrastructure*, GAO-06-91 (Washington D.C.: Dec. 15, 2005).

for infrastructure protection and risk management activities within and across sectors. In addition, integrating disparate systems, such as risk management with program and budget management, remains a long-term challenge. Shifting organizations toward this nexus of using risk-based data as part of annual management review cycles will take time, attention, and leadership. The Secretary of DHS has said that operations and budgets of its agencies will be reviewed through the prism of risk, but doing this is made difficult by the level of guidance and coordination that has been provided so far.

DOD introduced its version of a risk management framework in 2001 to enable the department's senior leadership to better balance near-term demands against preparations for the future. However, in November 2005, we similarly found that additional steps are needed before this framework is fully implemented and DOD can demonstrate real and sustainable progress in using a risk-based and results-oriented approach to strategically allocate resources across the spectrum of its investment priorities within current and expected resource levels.[20] We reported that while DOD has established four risk areas—force management, operational, future challenges, and institutional—as well as certain performance goals and measures, DOD's risk management framework's measures (1) do not clearly demonstrate results, (2) do not provide a well-rounded depiction of performance across the department, and (3) are not being systemically monitored across all quadrants. In addition, the framework's performance goals and measures are not clearly linked to DOD's current strategic plan and strategic goals.

Without better measures, clear linkages, and greater transparency, DOD will be unable to fully measure progress in achieving strategic goals or demonstrate to the Congress and others how it considered risks and made trade-off decisions, balancing needs and costs for weapon system programs and other investment priorities. DOD faces four key challenges that affect its ability to fully implement the risk management framework, or a similar risk-based and results-oriented management approach: (1) overcoming cultural resistance to the transformational change represented by such an approach in a department as massive, complex, and decentralized as DOD; (2) maintaining sustained leadership and clear accountability for this cultural transformation; (3) providing

[20]GAO, *Defense Management: Additional Actions Needed to Enhance DOD's Risk-Based Approach for Making Resource Decisions*, GAO-06-13 (Washington, D.C.: Nov. 15, 2005).

implementation goals and timelines to gauge progress in transforming the culture; and (4) integrating the risk management framework with decision support processes and related reform initiatives into a coherent, unified management approach for the department. DOD recently stated in its Quadrennial Defense Review (QDR) Report, issued last month, that it is now taking advantage of lessons learned from the initial implementation phase to refine and develop a more robust framework to enable decision making. Unfortunately, our preliminary review of the QDR suggests that little progress has been made in choosing between wants, needs, affordability, and sustainability in connection with major Defense programs and acquisitions. Furthermore, more emphasis needs to be placed on the Department's overall business transformation efforts. We will continue to monitor DOD's efforts in these areas.

We will also continue to monitor other management challenges identified through our work. While not high risk at this time, these areas warrant continued attention. For example, at the U.S. Census Bureau (Bureau), a number of operational and managerial challenges loom large as the Bureau approaches its biggest enumeration challenge yet, the 2010 Census. The 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 the Bureau's program to assist the Congress in its oversight and the Bureau in its decision making.

Both the Executive Branch and the Congress Have Important Roles

Continued focus by both the executive branch and the Congress is needed in implementing our recommended solutions for addressing these high-risk areas.

Top administration officials have expressed their commitment to maintaining momentum in seeing that high-risk areas receive adequate attention and oversight. In fact, the current administration has looked to our high-risk program in shaping such major governmentwide initiatives as the President's Management Agenda (PMA), which has at its base many of the areas we had previously designated as high risk. For example, in 2001, the PMA identified human capital management, an area which we designated as a governmentwide high-risk issue earlier that year, as a top priority. Following our January 2003 update, in which we designated management of federal real property a governmentwide high-risk area, the administration added a Federal Asset Management Initiative to the PMA and the President signed an executive order aimed at addressing long-standing federal real property management issues.

More recently, the Office of Management and Budget (OMB) has led an initiative to prompt agencies to develop detailed action plans for each area on our high-risk list. These plans are to identify specific goals and milestones to address and reduce the risks identified by us within each high-risk area. Further, OMB has encouraged agencies to consult with us regarding the problems our past work has identified, and the many recommendations for corrective actions they have made. For example, in cooperation with OMB, DOD has developed a plan to show progress toward the long-term goal of resolving problems and removing supply chain management from our list of high-risk areas within the department. DOD issued the first iteration of the plan in July 2005 and, since then, has regularly updated it. Based on our review of the plan, we believe it is a good first step toward improving supply chain management in support of the warfighter although the department faces challenges and risks in successfully implementing its proposed changes across the department and measuring progress. Since our October 2005 testimony before you, we have held monthly meetings with DOD and OMB officials to receive updates on the plan and gain a greater understanding of the initiatives DOD proposes to implement. Progress to date on other individual plans has varied, but this initiative offers the potential for helping to foster progress on long-needed improvements. Such concerted efforts by agencies and ongoing attention by OMB are critical; our experience over the past 15 years has shown that persistence and 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 various legislative actions, particularly in addressing challenges in broad-based transformations. As I have repeatedly noted, the creation of a COO/CMO position in select agencies, especially the Department of Defense, could help to elevate attention on management issues and transformational change, integrate various key management and transformation efforts, and institutionalize accountability in leading these changes. I am pleased that you have both endorsed this concept by introducing legislation to create deputy secretary for management positions for the Departments of Defense and Homeland

Security.[21] I continue to believe that there is a strong need for such a senior leadership position to provide the continued focus and integrated approach required to address the significant and long-standing transformation and management challenges facing these departments.

Over the past 13 months, your subcommittee alone has held 5 hearings relating to our high-risk areas, covering the list in total as well as individual areas in DOD, including personnel security clearances, supply chain management, as well as business systems modernization and overall business transformation. Together, committees and subcommittees in both houses have held more than 60 hearings since our last high-risk update report, involving 20 of the 25 areas on GAO's January 2005 high-risk list. I have personally testified in many of these hearings. This level of oversight, coupled with related legislation, where appropriate, is very instrumental to making real and sustainable progress in these areas.

Forward-looking Focus Needed

Addressing the important problems identified by our high-risk program will in many cases encompass the need for transformation and, for some challenges, require action by both the executive branch and the Congress. However, if we are going to meet the long-term fiscal challenge and other emerging challenges confronting the nation, we must also engage in a fundamental reexamination of what government does and how it does it, who does it, and how it gets financed.

Although prompted by fiscal necessity, such a fundamental review of major program and policy areas can also serve the vital function of updating the federal government's programs and priorities to meet current and future challenges. While we should be striving to maintain a government that is free of waste, fraud, abuse, and mismanagement, it should also remain effective and relevant to a changing society—a government that is as free as possible of outmoded, duplicative, and ineffective commitments and operations. Many current federal programs and policies, in fact, were designed decades ago to respond to trends and challenges that existed at

[21]Senators Ensign, Akaka, and Voinovich introduced S. 780 on April 14, 2005, to create a Deputy Secretary of Defense for Management, who would report to the Secretary of Defense and serve for a term of 7 years with an annual performance agreement. Senators Akaka and Voinovich introduced S. 1712 on September 15, 2005, to create a Deputy Secretary of Homeland Security for Management, who would report to the Secretary of Homeland Security and serve for a term of 5 years with an annual performance agreement.

the time of their creation, and may no longer be well suited, designed, or targeted to address current national priorities.

Our recent entry into a new century has helped to remind us of how much has changed in the past several decades—rapid shifts in the aging of our population, globalization of economic transactions, significant advances in technology, and changing security threats. If government is to effectively address these trends, it cannot accept its existing programs, policies, and activities as "givens." Outmoded, duplicative, and effective commitments and operations are an unnecessary burden on the present and future that can erode the capacity of our nation to better align its government with the needs and demands of a changing world and society.

Last year, we pulled together our insights and previous work for the Congress in another report, entitled *21st Century Challenges: Reexamining the Base of the Federal Government* (GAO-05-325SP). That report provides policymakers with a comprehensive compendium of those areas throughout government that could be considered ripe for reexamination and review. It includes a number of illustrative questions for the Congress and other policymakers 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.

Answering these questions and addressing the challenges raised in the 21st century challenges report will invariably entail difficult political choices between competing programs that promise benefits to many Americans but are collectively unaffordable in the long run at current and expected revenue levels. We recognize that this kind of examination and the hard choices necessary to mitigate the risks inherent in conducting "business as usual" may take a generation to address. But the potential disruption from related changes can be lessened, and the options policymakers can consider will be greater, if the necessary policy changes are made sooner rather than later. However, in the final analysis, as you well know, only elected officials can decide whether, when, and how best to proceed to address these important issues.

We hope that our reports on our high-risk program, as well as our report on 21st century challenges, along with the follow-up work we are committed to doing for the Congress, will continue to be used by various congressional committees, such as yours, as you consider which areas of government to examine and act on.

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

Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

April 7, 2006

The Honorable George V. Voinovich
Chairman
The Honorable Daniel K. Akaka
Ranking Minority Member
Subcommittee on Oversight of Government Management,
the Federal Workforce and, the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

At the March 15, 2006, hearing held by your subcommittee on GAO's high-risk program, I indicated that we would get back to you with certain additional information related to issues raised during the question and answer session. That information follows.

Does GAO think that the Postal Service has a transparent strategy regarding the realignment of its infrastructure and workforce?

Recently, the Postal Service (Service) has provided more public information about the key elements of its strategy for realigning its mail processing and transportation networks, but that does not yet amount to a transparent strategy or plan. For example, the Service has developed a plan for communicating with stakeholders who may be impacted by the Service's realignment decisions. However, most of the publicly available information about the Service's realignment activities is being provided piecemeal through an ongoing regulatory proceeding.[1] In this proceeding, the Service has provided an overview of its realignment goals and strategy, analysis that will be used to make decisions, communication responsibilities, and procedures and principles that will guide the implementation of numerous incremental network changes it expects to make over the next several years. The Service has also provided some detailed information on the analysis related to 10 consolidation decisions that have been completed and has identified about 40 additional consolidation feasibility studies that are currently in process. However, the Service has stated that the results of these 10 consolidations may not be typical or representative of other proposed consolidations, as it conducts a system-wide review of its mail processing and transportation operations over the next several years.

[1] The regulatory proceeding was initiated by the Service on February 14, 2006, to obtain an advisory opinion by the Postal Rate Commission on whether anticipated changes to some specific service areas as a consequence of network operational and transportation changes are consistent with the policies of current law.

Thus, while the Service has clarified its realignment goals—to reduce excess capacity in its mail processing network, eliminate redundant operations and transportation, and reduce postal costs—it is not clear from the information provided in the regulatory proceeding the extent to which the Service will achieve these goals. Questions remain about how the incremental decisions being made by the Service on a facility-by-facility basis will impact the overall network design, efficiency, effectiveness, and costs, as well as, what results are expected on an annual basis. Further, little information has been provided on how the Service's workforce and customers may be impacted by consolidation decisions. Of particular concern by many stakeholders is the potential impact of these network changes on delivery services. The Service stated that the overall magnitude and scope of potential service standard upgrades and downgrades for any particular mail class cannot be known until the numerous facility reviews have been conducted and operational changes are implemented over the next several years, but that most mail classes are likely to experience varying levels of changes in service.

We believe that a more comprehensive approach, similar to that used by the Service in planning and implementing its long-term automation strategy, would help stakeholders better understand how the Service's incremental decisions are integrated into a comprehensive network plan. In the early 1990s, the Service developed a corporate automation plan to guide its strategies, decisions, milestones, and actions related to achieving long-term corporate automation goals. This plan has been publicly available and periodically updated in collaboration with the mailing industry, including its most recent update issued in May 2004. Recognizing that network and workforce realignment is also a long-term effort, a publicly available comprehensive plan that pulls together the Service's overall goals, strategies, and expected results, along with regular updates that include results to date, would be useful in helping stakeholders better understand the Service's expected and actual achievements, such as, what, when, how, at what cost, and for what benefits.

Do you believe that the Federal Acquisition Regulation (FAR) should be altered to provide federal agencies with discretion on the structuring and payment of award fees?

In our opinion, the FAR currently provides sufficient flexibility. The problems we have identified are not the result of deficiencies in the FAR, but rather result from the way these incentives have been implemented. Specifically, the FAR allows for the use of award fees with both fixed-price and cost-reimbursable type contracts and provides guidance on their use.

In terms of fixed-price contracts, the FAR specifies that an award fee may be paid when the government wishes to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively. In these cases, it provides that a fixed price (including normal profit) be established that will be paid for satisfactory performance. The award fee is paid in addition to that fixed price. In terms of cost reimbursement contracts, the FAR provides for a base fee amount fixed at the inception of the contract and an award amount that the contractor can earn for excellent performance.

As we reported, the use of fees as an incentive for excellence is undermined when: (1) fees are paid regardless of outcomes, (2) substantial portions of fees are paid for satisfactory rather than excellent performance, and (3) contractors are given second and third chances to earn previously unearned fees by rolling them into subsequent award periods. In our opinion, DOD can improve the effectiveness of fees as motivators by moving toward more outcome-based award fee criteria, using award fees to reward positive, outcome-based performance and by restricting the practice of allowing contractors a second and third chance to earn fees by rolling unearned fees into subsequent periods.

Is enough being done to keep the 2010 Census from being designated by GAO as a high-risk area?

Challenges are to be expected in an endeavor as vast and complex as the decennial census. Moreover, shortcomings with prior censuses call for the U.S. Census Bureau (Bureau) to consider bold initiatives for the 2010 Census that entail some risk. To date, the Bureau is farther along in planning the 2010 Census compared to a similar point in time during the 2000 Census cycle. At the same time, it is important for the Bureau to resolve issues that pose a risk to a successful census, such as improving the reliability of the hand held mobile computing devices the Bureau plans to use for collecting field data. The Bureau is holding a test census in the central portion of Travis County, Texas, and at the Cheyenne River American Indian Reservation and Tribal Trust Lands in South Dakota, where it is evaluating key operations and equipment, such as the mobile computing devices, it plans to employ for the full enumeration in 2010. These tests will shed light on the effectiveness of the Bureau's efforts to resolve past problems. Census Day for these tests was April 1, 2006. After this, the Bureau will only have one more opportunity to assess its census-taking procedures—a dress rehearsal scheduled for 2008.

Thus, while not high-risk at this time, as the planning and testing phases of the 2010 Census are carried out, to assist the Congress in its oversight and the Bureau in its decision making, we will continue to monitor the Bureau's progress in (1) identifying and diagnosing problems, (2) devising cost-effective solutions, and (3) integrating refinements and fixes in time to be evaluated during the Dress Rehearsal in 2008.

In discussing the challenges associated with responding to natural disasters, reference was made to an upcoming GAO product that covered contracting issues in FEMA and mentioned internal controls and the use of advance contracting as examples of steps that can be taken to better insure that we are getting value for money and that only people that should be paid are getting paid. Also, Senator Voinovich asked what needs to be done to keep FEMA contracting off of the high-risk list in the next update by GAO.

On March 16, 2006, we issued correspondence transmitting a recent briefing we provided to several congressional committees on our review of various contracting issues related to Gulf Coast hurricanes (GAO-06-461R). We looked at how three agencies—the General Services Administration, the Federal Emergency and Management Agency (FEMA), and the U.S. Army Corps of Engineers—planned for

and conducted oversight of key contractors in support of Katrina and Rita response and recovery efforts. In short, we found that the response efforts suffered from

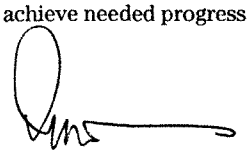
- inadequate planning and preparation to anticipate requirements for needed goods and services,
- lack of clearly communicated responsibilities across agencies and jurisdictions, and
- Insufficient numbers and inadequate deployment of personnel to provide for effective contractor oversight.

Our briefing noted that, for any acquisition, agencies need sound acquisition plans, processes to make and communicate good business decisions, and a capable acquisition workforce to monitor contractor performance. Such elements are critical to successfully managing contracts in any environment—including a contingency situation such as that presented by Hurricanes Katrina and Rita. We noted that having these capabilities requires preparation, such as having pre-arranged contacts in place in advance of a disaster or other contingency. Enclosed is a copy of that correspondence and the briefing.

We also soon will complete another study focused on Hurricane Katrina contracting. That study has focused on how FEMA assigned to the U.S. Army Corps of Engineers the task of buying portable classrooms after Hurricane Katrina and the steps taken by the Corps related to the pricing of the order used to acquire the classrooms.

As you know, our high-risk list currently includes Implementing and Transforming the Department of Homeland Security. In discussing this issue in our January 2005 high-risk report (GAO-05-207), we noted that among the Department's many challenges was the need to address systemic problems in its acquisition systems. We have not specifically identified the contracting function at any constituent organization within DHS as a high-risk area, but we continue to review this issue at a number of agencies within the Department, including FEMA. Based on our review of FEMA's acquisition operations in the context of the hurricanes, it is clear the agency faces challenges in at least three important areas—acquisition planning, interagency communications, and human capital.

Again, I thank you both for your dedication in pursuing actions needed to address areas that GAO has designated as high risk. We look forward to continuing to work with you and your offices, as well as, with the Office of Management and Budget to achieve needed progress in these important areas.



David M. Walker
Comptroller General
of the United States

Comptroller General
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United States Government Accountability Office
Washington, DC 20548

May 2, 2006

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government Management,
the Federal Workforce and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Post Hearing Questions Related to GAO's High-Risk Program*

Dear Mr. Chairman:

On March 15, 2006, I testified before your subcommittee at a hearing on GAO's High-Risk Program. This letter responds to your request that I provide answers to follow-up questions from the hearing. The questions, along with my responses, follow.

Questions from Senator Voinovich

1. **Mr. Walker, do you think there is adequate follow-up between OMB and the agencies to sustain these efforts and see improvements in the high-risk areas?**

As indicated in my formal statement, a continuing focus by both the executive branch and the Congress is critical to addressing high-risk areas. We view the Office of Management and Budget (OMB) initiative to foster detailed action plans by agencies for each high-risk area as positive and one holding significant potential for furthering progress on long-needed improvements. Persistent OMB follow-up, as well as management commitment and dedicated resources on the part of agencies, will be key determinants of success over time. While OMB has reported that progress on individual plans has varied, our experience over the past 15 years has shown that persistence and perseverance is required to fully resolve high-risk issues. This is particularly true in connection with the Department of Defense (DOD) and OMB needs to remain engaged in DOD high-risk areas. We have committed to continue our consulting efforts to assist agencies in dealing with problems we have identified and implementing the many recommendations we have made.

2. **Mr. Walker, as you know, Senator Akaka and I have worked hard to enact legislation to improve human capital management within the federal government. During my time in the Senate, nine of my human capital reform bills have become law, either in whole or in part. Given the continued oversight by this Committee and the multiple pieces of legislation enacted, why is human capital management still on the high-risk list? Do agencies need more flexibility to get the job done? What has to be done to have human capital management removed from the high-risk list?**

Strategic human capital management remains on the high-risk list because, despite the progress that Congress and the agencies have made revising and redesigning human capital policies, processes, and systems in the last several years, overall federal human capital strategies are still not appropriately constituted to meet current and emerging challenges or drive the transformations necessary for agencies to meet these challenges. The strategic management of human capital is vital to achieving agencies' performance goals and ensuring accountability, especially in light of the long-term federal fiscal challenges.

Congress has provided several agencies increased authorities to reform their human capital management systems. These authorities have not, however, been provided to all major federal agencies. Congress also sought to elevate human capital issues within federal agencies in part by creating the Chief Human Capital Officer positions and a Council to advise and assist agency leaders in their human capital efforts. However, the challenges of implementing reform are just beginning to be identified and addressed. Effectively designing and implementing these more contemporary human capital management systems will be of critical importance not just for these agencies but for overall civil service reform. Agencies will also need to demonstrate that they have adequate resources in terms of the right numbers and correct skill mix of employees and that they can strategically manage their staffs.

In terms of flexibilities agencies need to get the job done, Congress in the short term should consider selected and targeted authorities such as allowing agencies to include employee cash bonuses in employees' basic pay for purposes of calculating retirement benefits and making contributions to the thrift savings plan. Another authority to consider is allowing agency heads to make a limited number of term appointments noncompetitively. In the longer term, a first step towards governmentwide human capital reform would be governmentwide pay and performance management reforms. Proposed legislation such as the "Working for America Act" could be a step towards moving in that direction; however, such reforms should take a phased approach that meets a "show me" test. Each agency should be authorized to implement a reform only after it has shown it has met certain conditions, including an assessment of its related institutional infrastructure and an independent certification by OPM that such infrastructure meets specified statutory standards. Finally, results matter. Therefore, agencies must be able to demonstrate the progress they have achieved.

Questions from Senator Akaka

1. **The Department of Defense (DoD) plans to use its Enterprise Transition Plan for both business and organizational transformation. Do you believe the Plan provides the framework to guide organizational transformation, and what changes or additions do you recommend to accomplish this goal?**

The enterprise transition plan represents DOD's first ever transition plan for business system investments, and thus constitutes progress. The plan includes elements of an acquisition strategy for new systems and describes a high-level approach for modernizing the department's business operations and systems. This approach is driven by a set of priorities and a targeted set of business capabilities that are to be provided through the implementation of key programs. It also includes detailed information, such as budget information and milestones, on about 60 business systems (ongoing programs) that are to be part of the "To Be" architectural environment, as well as, an acquisition strategy for each system. In addition, it shows some of the legacy systems that are to be replaced by ongoing programs as well as provides a list of systems that will be modified to provide capabilities associated with the target architecture environment and identifies key milestone dates for the 60 systems identified and performance metrics for some of the systems.

However, the plan is not based on a top-down capability gap analysis between the "As Is" and "To Be" architectures that describes capability and performance shortfall and clearly identifies which system investments (such as the 60 identified programs) are to address these shortfalls. This is important because a transition plan is to be an acquisition strategy that recognizes timing and technological dependencies among planned systems investments, as well as, such other considerations as market trends and return on investment. Further, although the plan includes performance metrics for some systems, it does not include for each system measures and metrics, focused on benefits or mission outcomes that can be linked to the plan's strategic goals.

The plan provides a good foundation upon which to build; however it is still not of sufficient scope and content to effectively and efficiently manage the disposition of the department's existing inventory of systems or to sequence the introduction of modernized business operations and supporting systems.

While the development of an enterprise transition plan is a positive step, its primary focus, however, appears to be on business systems modernization. The Secretary of Defense, Deputy Secretary of Defense, and other senior leaders have clearly shown commitment to business transformation and addressing deficiencies in the Department's business operations, such as publishing the business enterprise transition plan. Clearly, maintaining effective and modern business systems is a key enabler to transformation. However, business transformation is much broader and encompasses not only the supporting systems, but also the planning, management, organizational structures, and processes related to all DOD's major business areas. Such areas include support infrastructure management, human capital management,

financial management, weapon systems acquisition, contract management, planning and budgeting, and supply chain management. For DOD to successfully transform its overall business operations, it will also need, among other things, a comprehensive and integrated business transformation plan that covers all of its key business functions; 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.

We understand that the Department considers the enterprise transition plan to be the beginnings of a strategic plan, and recently issued an update to the transition plan in March 2006. GAO will be evaluating this update to assess its utility in guiding business systems modernization and overall business transformation.

2. **For fiscal year 2006, DoD received over $72 billion for research, development, test, and evaluation—money used for weapon systems acquisition. The potential waste because of the problems identified by GAO is too great for the Department to delay taking corrective action. What immediate action should DoD take to correct these acquisition problems, and what can Congress do to facilitate improvements?**

First, DOD needs to make sure programs being presented for funding abide by its own acquisition policies. For example, one of DOD's stated policies is that programs are to demonstrate that all critical technologies are mature at the milestone B decision. In fact, only 10 percent of over 50 programs we have reviewed in the past year satisfied that policy. Another example is evolutionary acquisitions. While DOD policy states a preference for the evolutionary approach to acquisitions, the programs that are presented for research and development funding tend to be revolutionary systems, such as Future Combat Systems, Missile Defense, Transformational Satellite, and the DD(X) destroyer. The combination of revolutionary programs and immature technologies results in programs that are not executable within reasonable resource expectations. This is a primary source of problems. Therefore, an immediate action DOD can take is to not approve programs that do not abide by its own policies.

Second, if programs are approved that do not abide by these policies, DOD must build in the extra time and cost into the programs' estimates to accommodate their higher risks. This can be made possible by (1) preparing cost estimates that are at the 80 percent confidence level, and (2) relying on independent cost estimates rather than program cost estimates. If DOD accommodated risk by accurately reflecting it in cost and schedule estimates, it would help alleviate the current situation of getting too many underestimated programs approved than can be accommodated by reasonable funding levels.

Third, it is important that the Congress reinforce desirable practices by its funding decisions. To the extent Congress approves funding for research and development programs that embody high risk and have optimistic cost and schedule estimates, then it implicitly encourages DOD to continue to propose programs that do not follow best practices and will contribute substantially to future budget problems.

Sincerely yours,

David M. Walker
Comptroller General
of the United States

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEPUTY DIRECTOR
FOR MANAGEMENT

Testimony of the Honorable Clay Johnson III

before the

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

March 15, 2006

As I have testified before this Committee in the past, solving the problems on GAO's High-Risk list is possible if agencies ensure key elements are in place:

- top management commitment to solving the problem
- a clear picture of what needs to be accomplished
- a clear, aggressive action plan for solving the problem, and
- a clear definition of who's responsible overall, and who's supposed to do what by when.

OMB is currently ensuring these elements are in place in the vast majority of areas on the High-Risk list. This hearing updates our progress since I testified before this Subcommittee last Fall, though our staffs have had numerous exchanges since then. Since we last met:

- The Department of Housing and Urban Development has expanded and strengthened its income verification program for the Public Housing/Rental Assistance program, reducing improper payments by more than $1.8 billion since 2000.
- The average time it takes to complete the security clearance process has been reduced by 6 percent, or 18 days, and plans are in place to meet the December

2006 performance goals laid out in the 2004 Intelligence Reform and Terrorism Prevention Act.

- The Internal Revenue Service has been working to better collect unpaid taxes.
  - Enforcement revenues have been increased by almost 10 percent to a record $47.3 billion;
  - Total individual returns audited increased by over 20 percent to 1.2 million from 1 million in 2004. The number completed is back to a level last achieved in 1998; and
  - Audits of individuals with incomes over $100,000 surpassed 219,000, the highest figure in 10 years, and well over double the 91,600 completed in fiscal year 2001. The coverage rate in this category is still too low, but at 1.6 percent is double what it was four years ago.
- The Department of Defense has created a Business Transformation Agency to be responsible for it business transformation and systems modernization.
- To address issues with Supply Chain Management, the Department of Defense approved a Joint Regional Inventory & Materials Management test at Oahu, Hawaii to reduce inventory levels and duplicative warehouse facilities and increase supply availability.
- To make sure that federal agencies are maintaining their real property inventories at the right size, cost, and condition, 12 of the 15 PMA Scorecard agencies have developed approved Asset Management Plans, and the first-ever Government-wide real property inventory has resulted in reporting on approximately 90% of the administrative real estate assets within the Federal inventory.
- The Federal Government's Information Systems are now 85 percent secure, up from 79% last year.

Although we are assuredly reducing these risks, I agree with GAO that more can be done to maintain, and in some areas, accelerate progress. Some areas are not where they should be and we are taking steps to change that. OMB will continue to help agencies clearly define success in each of these areas and ensure there is real accountability for, and progress toward, the desired, defined improvements.

I look forward to continued, productive work with this Committee and GAO on all these areas.

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

PROGRAMS IN PERIL: OVERVIEW OF THE GAO HIGH-RISK LIST PART II

March 15, 2006

QUESTIONS FOR THE RECORD

For The Honorable Clay Johnson

Deputy Director, Office of Management and Budget

Questions from Senator Voinovich

1. Mr. Johnson, during the Subcommittee's November 2005 hearing on the personnel security clearance process, GAO raised some concerns about the OPM personnel security clearance plan because it measured timelines and not quality of work. Therefore, what steps has OMB taken to address the concerns about the absence of quality-control measures in the improvement plan? In addition, what has OMB done to implement the memorandum issued in December on reciprocity of security clearances?

   Quality Control Measures
   OPM's Federal review staff, as well as contractor reviewers, assesses the quality of complete investigations to determine if the national investigative standards have been met, and that the issues raised in the investigation are fully developed to support the adjudication decision. There are actually three tiers of quality assessment:

   Tier 1) Companies under contract with OPM are required to have a Quality Control program that includes a summary review of completed investigations to identify deficiencies. OPM audits each contractor to confirm that this program is in place.

   Tier 2) OPM conducts random reviews of contractor cases to validate that their quality program is in place. We measure the contractors' quality by calculating the number of deficient investigations against the number reviewed (each contract has to meet specific quality standards).

   Tier 3) Agency Review: OPM relies on agencies to provide feedback on the quality of work produced and reopens any investigation determined to be deficient by the submitting agency. OPM's overall quality goal is to have no more than 1% of investigations returned by the adjudicating agency as deficient.

   Reciprocity
   The new reciprocity guidelines represent a major shift in the way the Federal government does business in the security clearance arena. To ensure that the policy is understood and followed we have begun a process of peer reviews of adjudication agencies. The

Department of Justice, the Army, and the National Security Agency were the first completed. We have also begun efforts to standardize training for adjudicators and find a way to assess the extent to which agencies are in compliance with the new reciprocity standards. We have surveyed our industry customers for their views on how it is working. We will continue our efforts until reciprocity is standard operating procedure within the Federal government.

2. Mr. Johnson, although vitally important to an efficient and effective federal government, management improvement initiatives and overall program performance often do not receive the attention or focus they deserve. As I have indicated to you before, I believe that the President's Management Agenda is one of the Bush Administration's most overlooked accomplishments. Therefore, what steps are you taking to communicate your successful high-risk strategy to your stakeholders, including Congress, the Executive Branch, the media, and public interest groups?

   Every agency on the High-Risk list has a plan to reduce risk in each area and consults with OMB and GAO periodically to report progress implementing those plans. Hearings bring attention to agency progress in each of the areas, but there is no coordinated strategy to publicize progress on the High-Risk list. It would be useful to develop a regular process by which agencies, GAO, and interested stakeholders in Congress meet to discuss progress on existing improvement plans and collaborate on ways to accelerate improvement.

3. Mr. Johnson, last month the Administration unveiled a website called ExpectMore.gov. This website makes information from the Administration's Program Assessment Rating Tool (PART) more transparent and accessible to a variety of stakeholders including the public, the press, Congress, and the Executive Branch. Can you please discuss what type of feedback you have received from the stakeholders? In addition, does this website provide information on the Administration's high-risk improvement strategy? If not, do you feel it would be appropriate to include this information on ExpectMore.gov?

   Most of the feedback on ExpectMore.gov has been technical in nature (e.g. suggestions to improve the search function on the site). OMB has received substantive feedback on program assessments, and is working with agencies to respond to that feedback, as appropriate. The Administration's overall high-risk improvement strategy is not highlighted on ExpectMore.gov, as the site is focused on individual program performance, rather than simply management. Results.gov, an administration site to provide agencies information about the President's Management Agenda, might be a better place to highlight this initiative.

4. Mr. Johnson, I am pleased with the progress that OMB has made in working with agencies to develop action plans to address their high-risk problems. I understand several areas, including Medicare and Medicaid, have been slow to respond to your request for action. Given the importance of these programs, what steps are you taking to address the lack of action from the Centers for Medicare and Medicaid Services?

The Centers for Medicare and Medicaid Services have plans to reduce risk in the Medicare and Medicaid programs. OMB is working to improve communication about progress implementing those plans between GAO and HHS.

Questions from Senator Akaka

1. OMB oversees federal information security policy. The General Accountability Office (GAO) and quite a few agency Inspectors General continue to report significant deficiencies with information security controls. I am concerned that these weaknesses place a broad range of federal information technology assets, and thereby some critical government operations, at risk because of misuse or disruption. What steps are being taken to address the deficiencies with information security controls raised by the Inspectors General and GAO?

   In the annual FISMA report to OMB, we ask all agency Inspector's General to respond to several questions regarding the agency's information security program. Currently, the PMA E-government scorecard metrics for a "green" rating include input from the agencies' Inspector's General, based on responses in the annual FISMA reports and subsequent quarterly updates. Specifically, we track Inspector's Generals responses regarding the quality of agency certification and accreditation (C&A) programs, and the quality of the agency plan of action and milestones (POA&M) processes. The use of the PMA scorecard ensures that the senior management within an agency is aware of and held accountable for the activities within the agency's IT security program.

   Measurement of the quality of these two processes (C&A and POA&M) allows for a holistic approach to implementing risk-based, cost-effective security measures, and a process to identify and track remediation of security control weaknesses. By improving the overall quality of agency processes, and by prioritizing remediation by systems with the highest level of risk impact, the risk of misuse of federal information technology assets or disruption to critical government operations is mitigated to the extent possible.

2. The President's budget proposal for the past fiscal year, FY06, was submitted almost a year before the development of the Department of Defense (DoD) Enterprise Transition Plan, which serves as a roadmap for transforming DoD business operations. As such, DoD's resources for business transformation in FY06 were not guided by the plan. Does the fiscal year 2007 budget reflect DoD's business transformation efforts and provide the necessary resources to execute the Enterprise Transition Plan?

   Adjustments to the FY07 budget were made to align the majority of the Enterprise-level efforts to the newly established Defense Business Transformation Agency. In addition, DoD will review any reprogramming actions that may be needed to support the business enterprise plan.

   How will OMB resolve shortfalls and address requested investments not specified in the Plan?

OMB will consider requests to realign resources within the DoD budget. For example, the FY07 budget for the Defense Integrated Military Human Resources System (DIMHRS) will require adjustments to appropriately fund the rebaselined program.

Has OMB reviewed the on-going, business transformation-related programs to ensure that the funds being expended by DoD will achieve the desired business transformation?

Yes. OMB and the Department's business transformation leadership have maintained a continual dialog throughout the redirection of DoD's business transformation efforts. This includes governance, investment management oversight (IRBs/DBSMC), architecture development, Enterprise Transition Planning and the establishment of the Business Transformation Agency (BTA). OMB reviewed the business transformation efforts as part of the regular budget process and continually monitors the progress through the quarterly E-gov scorecard reviews. In addition, the Government Accountability Office has designated both DoD Business Systems Modernization and DoD Approach to Business Transformation as areas of high risk. We have worked closely with the department and GAO to respond to these issues. OMB supports both the strategic redirection of DoD business transformation efforts and its results to date.

3. The government uses risk assessments as a decision-making tool for diverse applications including the award of homeland security grants and development of vaccination policy. As such, I was interested in OMB's proposed bulletin on risk assessment, issued January 2006. Given that the comment period on the Bulletin is open until June, what feedback have you received from the federal agencies? Does OMB plan to use the agency produced risk assessments to make budget or policy decisions? Would these risk assessments be made available to Congress?

   We will be considering agency comments as well as those from the public after the comment period closes on June 15th. We will also continue to work with the Federal agencies throughout the National Academies (NAS) review process and after we have a peer review report from the NAS. At the NAS public meeting on Monday, May 22nd, Federal agencies will be providing introductory comments to the NAS. Agencies have been using risk assessments for many years to provide information to policy makers. The goal of the proposed Risk Assessment bulletin is to help improve the quality and transparency of the risk assessments developed and used by the agencies.

4. I am very concerned about the cost overruns associated with the acquisition of DoD weapon systems. I would hope that given the magnitude of these cost overruns that OMB is actively engaged with the Department to resolve the problem. What steps is OMB taking to resolve DoD weapon systems acquisition problems, and what do you believe are the underlying causes of the problems DoD is experiencing?

   DoD is developing an improvement plan for weapons acquisition to address many of the issues raised by the GAO and other external reviews. In late 2005, the Department

conducted major reviews of their acquisition processes in the Quadrennial Defense Review and an independent Defense Acquisition Processes Assessment (DAPA) study. DoD is now assessing the various recommendations of these efforts and will incorporate them into a comprehensive acquisition improvement plan. As part of this assessment, DoD is considering comments and recommendations received in consultation with OMB and other interested parties in the Executive Branch to address the challenges GAO has noted. OMB agrees with GAO that DoD's acquisition problems are the result of multiple factors including unrealistic program cost and schedule estimates, lack of clearly defined and stable requirements, and failure to solidify design and manufacturing processes at appropriate junctures in development. DoD will consult with OMB, interested Members of Congress and GAO before the acquisition improvement plan is made final.

5. Comptroller General Walker testified that federal agencies should link threat assessments to resource requests to ensure that obligated funds are being expended on the highest priority programs. Does OMB agree that threat assessments should drive resource requests? What action is OMB taking to ensure federal agencies develop and utilize these threat assessments?

   Threat assessments are used to identify risks and needs. However, not all federal programs need to link threat assessments to resource requests. Where appropriate, OMB uses threat assessments as a factor to assess budget requests or program priorities for federal agencies. For instance, threat assessments have been used to evaluate funding requests for law enforcement or homeland security programs. Threat assessments are also used by grant programs that have the flexibility to direct funding such as urban area grants, to target funds towards high-threat areas. Threat assessments are also used to direct the program activities ranging from border security to aviation security to infrastructure protection. While every federal agency need not produce its own threat assessment, to the extent possible, this information should be used to ensure that obligated funds are being expended on the highest priority programs.

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