

# **LEGISLATIVE BRANCH APPROPRIATIONS FOR FISCAL YEAR 2007**

**WEDNESDAY, APRIL 26, 2006**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 10:30 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Wayne Allard (chairman) presiding.  
Present: Senator Allard.

## **GOVERNMENT ACCOUNTABILITY OFFICE**

**STATEMENT OF DAVID M. WALKER, COMPTROLLER GENERAL OF THE  
UNITED STATES**

### **ACCOMPANIED BY:**

**GENE L. DODARO, CHIEF OPERATING OFFICER  
SALLYANNE HARPER, CHIEF ADMINISTRATIVE OFFICER  
GEORGE G. STRADER, CONTROLLER**

### **OPENING STATEMENT OF SENATOR WAYNE ALLARD**

Senator ALLARD. The hour of 10:30 having arrived and staying on schedule like we do, we're going to call the Subcommittee on the Legislative Branch to order. This is a hearing on the 2007 budget for the Government Accountability Office (GAO). We will meet today to take testimony on the fiscal year 2007 budget request for the Government Accountability Office, as well as review other GAO matters.

Welcoming our witnesses this morning, we have Mr. David Walker, Comptroller General; Gene Dodaro, Chief Operating Officer; Sallyanne Harper, Chief Administrative Officer; and George Strader, GAO's Controller. I look forward to hearing how you are implementing goal setting and tying that in with your budget figures and employee performance.

### **NEW YORK TIMES ARTICLE ON MISSILE DEFENSE PROGRAM**

Before we discuss GAO's fiscal 2007 budget request, I'd like to take a few moments to discuss an issue of deep concern to me. On April 2 of this year, the New York Times published a story alleging that the Government Accountability Office—and I quote, “ignored evidence that contractors doctored data, skewed test results, and made false claims,” close quote, in a 2002 report on missile defense. The article was based on information provided by Mr. Subrata Ghoshroy, a GAO analyst who is on loan to the Massachusetts Institute of Technology.

The information provided by Mr. Ghoshroy raises several troubling issues and calls into question the integrity of the GAO's investigative process. Even more disturbing are Mr. Ghoshroy's accusations that GAO personnel deliberately undermined this investigation and possibly altered documents to avoid investigating key items that might have lead to revelations of contractor fraud.

I am especially interested in knowing how GAO made a unilateral decision to alter the scope of the investigation without securing the concurrence of the members who requested the investigation.

Mr. Walker, I realize that some have used this issue to promote their own political agenda. In the context of this hearing, the policy does not interest me, really. I am interested in the process. And as the subcommittee responsible for overseeing the GAO, I believe we have an obligation to get to the bottom of the allegations. The GAO's reputation and credibility depends upon its ability to accurately investigate the executive branch on behalf of Congress. Accountability, integrity, and reliability are GAO's core tenets and I think we need to maintain those.

So Mr. Walker, please proceed with your statement.

Mr. WALKER. Sure. Would you like me to address that issue now.

Senator ALLARD. Yes.

And then, let's go ahead and move on to your budget.

#### MR. WALKER'S RESPONSE TO THE NEW YORK TIMES ARTICLE

Mr. WALKER. That'll be great. Thank you, Mr. Chairman. It's a pleasure to be back before you and I look forward to talking about the budget. But let me go ahead and address this issue, because I think it is important we try to put it to rest.

First, the allegations lack merit. Just because they are printed, doesn't mean they are true. I can tell you that we conducted three internal reviews on this matter. Any time that I received a complaint, from either Mr. Berman or Mr. Ghoshroy, I expeditiously took steps to try to review those. I commissioned three internal reviews and all of those reviews came out to say that the assertions lacked merit.

Furthermore, there was a prize winning investigative reporter from 1 of the top 10 papers in the United States—who spent months last year conducting an independent investigation of this. And after months, the reporter determined that it lacked merit and was not worthy of publication.

Furthermore, I think it's important for you to know, that this report was 1 of about 4,000 that we've issued in the last several years. It's also one of many that we've issued on national missile defense, and we take our quality control procedures very seriously. We want you to be able to rely upon our work and for the American people to be able to rely on our work. I think it's important for you to also know that last year we had two independent peer reviews conducted of GAO's quality assurance processes. One by KPMG on our financial audits. One by a multinational team lead by Canada, involving seven countries who looked at our quality control procedures and non-financial audit work. You can rely on our work.

## LESSONS LEARNED FROM MISSILE DEFENSE ENGAGEMENT

Now with regard to lessons learned. There are two important lessons learned from this engagement. Number one, we never should have accepted it from day one. We were asked to do work on a matter that, after further investigation, was pending in the Federal courts. In my view, there was an attempt to get GAO to intervene in private party litigation and to use GAO's work to further that private party litigation. That is wholly inappropriate, in my opinion.

So first, we made a mistake by accepting the engagement. But after it became clear, and after we had accepted to do some work, that we were being asked to do something relating to litigation that was pending, we made an attempt to modify the objectives of the engagement, in order to be able to do something without directly intervening in that litigation.

In doing that, we made a second mistake. And that is, when we communicated with the requestor's staff about the need to make a change and what our change would be, we did not communicate it in writing. That was a mistake. As a result, that led to an expectation gap between the requestor and us as well as I think, this particular employee who is on a leave of absence, who has dogged us ever since.

We have modified our procedures with regard to engagement acceptance. We have also modified our procedures with regard to modifying engagement objectives after we've accepted an engagement. We have not had any other instances like this occur, and I can assure you we'll do everything we can to make sure it doesn't reoccur. But I can also assure you, that you can rely upon our work including that report.

## BACKGROUND ON MISSILE DEFENSE ARTICLE

Senator ALLARD. Now, I'm just going to follow up with a question and we'll just get this off the table and move on with the budget. It's really unusual for a GAO employee to come forward like this. I can't recall any, and you indicated in your testimony that has never happened. In this particular instance, what caused your analyst to complain to the press, from your point of view?

Mr. WALKER. Mr. Chairman, to a certain extent, I would be speculating. I think the problem is, that the analyst wanted us to do the original work and when we modified the scope of the engagement to make sure that we did not interject GAO into ongoing litigation, I think the analyst had difficulty accepting that, even though it was very consistent with GAO's longstanding policy well before I was at GAO, that we won't interject ourselves into pending litigation.

I think the analyst also had difficulty in understanding that while every person's opinion counts at GAO, no matter what your position is, no matter what your level is, no matter what your classification is, in the final analysis while everybody needs to be heard and is heard, we make institutional decisions.

Senator ALLARD. And this was in a lawsuit that he had a personal interest in?

Mr. WALKER. To my knowledge, he didn't have a personal interest. But it's also my understanding; he may have known some of the parties who did have a personal interest in the litigation. That's something that we're following up on. Since the report appeared in the New York Times, I have received information from a party, not in government, but a very high ranking official who's aware of this situation, who believes that there may have been some relationships that need to be reviewed, and we are in the process of doing that. These are allegations. They may or may not be true. And unless and until we review it and investigate it, I would prefer not to go into more detail. But I would be more than happy to keep you apprised, as I promised Congressman Berman as well as Senator Grassley to keep them apprised.

Senator ALLARD. Well I would appreciate that. I'm glad that you feel that you've learned some things. We all make mistakes occasionally and we need to learn from those mistakes. But aside from that, do you think the review was taken in the most professional and unbiased manner possible?

Mr. WALKER. You can rely on that work, Mr. Chairman. The other thing that one has to keep in mind, is the Justice Department was already well aware of this matter.

Senator ALLARD. Yes.

Mr. WALKER. And so, this was not something new. This was not something where people were relying on GAO to be able to advise the Justice Department as to whether or not the Government's interest should be protected. In fact, the Justice Department conducted its own independent review, it's my understanding, to determine whether and to what extent they should intervene in this action. They decided not to intervene in this action.

I can tell you, Mr. Chairman, we have spent a tremendous amount of time institutionally, as well as myself individually, and we've spent a significant amount of taxpayer resources taking this matter very seriously. I'm just hoping we're to the point that we can move forward.

#### PRIOR DISCUSSIONS WITH THE CONGRESS ON MISSILE DEFENSE

Senator ALLARD. Yes. You've now talked to Mr. Berman and Senator Grassley about this misjudgment that you've made in taking on the case and subsequently had to change the scope. Even though it was after the fact, did they agree in light of the court case, that this is a change that needed to be made?

Mr. WALKER. They understand and they accept what we did and why we did it. I've spoken to Mr. Berman on several occasions over several years about this. In fact, I was very surprised when the article appeared in the New York Times, because there had been no attempt to communicate with me on this for almost 2 years. After all the efforts I had taken, and that we institutionally had taken on this, it was really a surprise to me. In fact, the letter that resulted in the New York Times article—the 41 page letter, dated December 19, 2005, was never provided to me or anybody else at GAO. We had to get it off of Mr. Berman's website the day after it appeared in the New York Times.

Senator ALLARD. I see.

Mr. WALKER. I will say for the record, that I had the professional courtesy to send Subrata Ghoshroy a copy of my response to his letter, which I think obviously, is appropriate.

GOVERNMENT ACCOUNTABILITY OFFICE'S POLICY ON ENGAGEMENTS  
PENDING LITIGATION

Senator ALLARD. Yes. Now your policy, prior to 2002, has not been to take on studies that might involve you in a court case. Is that the policy now?

Mr. WALKER. Our policy was and remains not to have GAO directly address issues that are pending before the Federal courts.

Senator ALLARD. Is it just Federal courts or is it local courts too?

Mr. WALKER. It's general—it's any court. But typically, its Federal courts when somebody would be involving us to do anything regarding Federal spending, programs or whatever else. We never should have accepted it. Once we did accept it, we endeavored to try to be able to modify the objectives to not directly intervene. But that created certain expectation gaps within our organization and outside our organization. In fact, I communicated with Mr. Berman about this within the last couple of weeks and I think we both agree, that rather than modify the objectives, we probably should have said, we're not going to do anything.

Senator ALLARD. Yes.

Mr. WALKER. Because it created certain expectation gaps. So, as you know, no good deed goes unpunished. I mean you're trying to provide some type of service. But we have learned lessons. In summary, you can rely on this report and we did take the complaints very seriously.

GOVERNMENT ACCOUNTABILITY OFFICE'S QUALITY CONTROL  
PROCEDURES

Senator ALLARD. Now how does GAO deal with concerns that are raised by analysts as to the direction the report is going in or the conclusions being drawn during the course of the job?

Mr. WALKER. Let me provide an overview of our quality control procedures, Mr. Chairman. I think it would help. As you can imagine, we receive 25 to 50 requests in a typical week from the Congress for us to do work. Every Monday afternoon, Gene Dodaro, our Chief Operating Officer, after getting input from me, chairs a meeting reviewing all of those requests involving the managing directors of all of our key teams, and we make a decision, typically within 10 days, on whether or not we're going to accept it. We also assign who is going to be the leader. We also identify, given the nature of the work, the complexity of the work, what we're being asked to do, and who the other key stakeholders are that need to be involved. For most of the work that we do, there are multiple key stakeholders, or multiple organizations, as was the case with this report. There are usually a number of key organizations that have to be involved to bring the right skills and knowledge together to do the best job and to mitigate related risk.

Then staff are assigned. We have an extensive quality control process that includes periodic status reports on each major engagement. We also have a quality control process that includes internal reviews of all draft reports. We have a quality control process that

includes providing an opportunity for any of the agencies that would be affected, to comment on the report before it is made final. If there are differences of opinion within our agency between key stakeholders, they are to buck it up the chain of command. If necessary, to my level, to get it resolved.

Interestingly with regard to this report, we have a policy where before we issue any report, every stakeholder that's assigned to the engagement has to sign off on the report. That was the case here, including the person who's complaining.

Senator ALLARD. So the person who's raising the complaint signed off on the report?

Mr. WALKER. He signed off on the report.

ENSURING THE GOVERNMENT ACCOUNTABILITY OFFICE REPORTS ARE  
IMPARTIAL

Senator ALLARD. Okay. Now, what steps do you take to ensure that your employees or consultants that you are working with don't have an over sympathetic relationship with individuals involved in your investigation, in a way that might distort the outcome of that report?

Mr. WALKER. As you know, Mr. Chairman, we have professional independence standards that relate to GAO. We also have supplemental internal policies and procedures. We set a very high bar on both institutional independence, as well as individual independence with regard to particular engagements. So when we're staffing, we're looking for that. The people have to let us know if they think they have any potential impairments that we need to be aware of. I would ask Gene Dodaro, our Chief Operating Officer, to comment in more detail.

Senator ALLARD. Mr. Dodaro.

Mr. DODARO. Good morning, Senator. We have several different safeguards in place. Annually, each employee is to sign a statement of independence, saying that they are free from any personal impairments. Every employee also files a financial disclosure statement that's reviewed by their supervisor, so we can tell if they have any financial interest that may be an issue.

Then, when individual engagements are staffed, every employee is reminded that they are to notify their manager if they have any personal or other conflicts with their assignment to that engagement. And then, they sign off on every individual engagement.

Now, we didn't have that particular procedure in place back when this engagement was conducted, but we've added it since then. We've always had the annual certification. We've always had the requirement that each employee notify managers if they have any conflicts of interest.

So the burden is on individual employees to notify managers. But we do have institutional safeguards and do some independent checking, as well.

Senator ALLARD. Okay. And just kind of a summary question here. Mr. Dodaro, you mentioned a couple lessons learned. Can we just get a summary of lessons learned and then actions that have been taken, so that doesn't happen again?

Mr. WALKER. Absolutely, Mr. Chairman. We'd be happy to provide that for the record.

Senator ALLARD. If you would, please.

Mr. WALKER. We will do it.

[The information follows:]

*Question.* How has GAO responded to the allegations about the February 2002 missile defense program report and what changes, if any, have you made to GAO's internal processes as a result?

*Answer.* We have taken these concerns very seriously. In total, I initiated three internal reviews to respond to the concerns and most recently, in April 2006, provided a detailed response to Senator Grassley and Representative Berman addressing questions about the report. In summary,

- The three internal reviews that have been conducted, including one by our Inspector General, found that our 2002 report was done in accordance with generally accepted government auditing standards and the allegations raised were not substantiated. In particular, these reviews determined that there was no credible evidence supporting the assertion of conflicts of interest by GAO personnel involved with the engagement nor was there any credible evidence that would raise questions regarding the integrity of our workpapers.
- The missile defense report's findings represent the consensus view of our most senior technical and professional staff. Differences of opinion during the course of the work were resolved by the time the report was issued, as evidenced by the signatures of all the "stakeholders" on the engagement, including the employee making the assertions. As a result, we continue to stand behind the report. While the employee who made the allegations, like all the other team members did play a role in this engagement, he was one of four technical people involved in the project. In addition, while all GAO employees' opinions are important and sought, the opinion of a single individual is not sufficient to create an institutional position.
- Importantly, the objective of our engagement was not to adjudicate whether false claims had or had not been made nor did we attempt to do so. In hindsight, we should not have accepted the original July 2000 request because of the then-ongoing litigation over the central issues involved in the sensor test. Once we identified the need to restructure the engagement in order to be consistent with long-standing GAO policy involving matters pending before the courts, we took corrective action to avoid directly inserting GAO into the issues that were the subject of the litigation. The Justice Department was already aware of allegations of false claims prior to GAO issuing its report. Furthermore, the Justice Department conducted its own review of this matter and decided not to pursue it. As I have noted in previous communications on this matter, we should have done a better job of communicating to the requester that we were revising our audit scope and objectives and documenting such revisions. Clearly this communication gap underlies the fundamental misunderstanding that is at the heart of this dispute both internally and externally, which has now consumed a significant amount of time and taxpayer resources over several years.
- GAO has a strong, clear, and consistent record of aggressively pursuing fraud, waste, abuse, and mismanagement within government, including the Defense Department, in general, and defense contracting and weapons acquisitions, in particular. In fact, eight individual DOD areas are on GAO's high risk list including weapons systems acquisition and several government wide high risk areas apply to DOD as well. Our reviews of missile defense issues have been an important part of this body of work.

In part as a result of the 2002 missile defense report, we have clarified our written policies and introduced new procedures pertaining to requests for work that deal with issues in litigation. Our written policies have been revised to emphasize that our Office of General Counsel should help identify and analyze any ongoing or anticipated litigation that could affect the engagement acceptance decision, and that this office should be consulted about such matters. In addition, the July 2004 update to our Congressional Protocols specifies that one of the factors that will be considered in determining whether to accept congressional requests is whether the matter is pending before administrative or judicial forums. We also have been giving greater attention to this issue at our weekly Engagement Acceptance Meeting, where all new congressional requests and mandates are discussed to determine, among other things, whether the work should be done and the appropriate level of Office of Comptroller General involvement. Known or potential issues involving litigation are discussed at the Engagement Acceptance Meeting as part of deciding whether GAO should accept the engagement. Lastly, we hold bi-weekly Engagement Review Meetings to discuss progress or issues on ongoing assignments that may require senior

GAO management attention, such as litigation that may have been initiated since an engagement was begun and that may impact the engagement's scope or objectives.

Regarding the issue of communicating changes in the scope of GAO work to requesters, once I became aware of the miscommunication on the missile defense engagement, we strengthened our internal policies and practices to protect against such communication problems in the future. Specifically, our practice is now to not only discuss significant changes in the scope of work, but also to document this discussion with a letter to the requester outlining the changes. Additional communication requirements in the protocols include holding discussions and sending documenting letters concerning our acceptance/declination of a request; and our agreement with the requester on the terms of the engagement. The practice of providing briefings and sending letters to the requester whenever there is a significant change in the objectives or scope of an engagement—coupled with the attention we give to these issues in Engagement Acceptance and Engagement Review Meetings—should help ensure solid communications with our congressional clients on these issues.

In regard to assuring the independence of GAO staff, at the start of each engagement, the engagement's Director discusses the need to maintain independence with the engagement team and asks if anyone has any independence issues. This discussion is documented. If an individual's personal impairment cannot be mitigated, the individual will not perform the audit. When the design of an engagement is completed and documented (referred to as a design matrix), all engagement staff and stakeholders certify on the design matrix that they are free of any impairments to their independence and that they will notify their supervisor if such impairments should arise.

Finally, it is our longstanding policy and practice that GAO's professional staff represent their independence by (1) signing an annual Statement of Independence stating that they have no personal or external impairments and understand the requirements for independence as stated in our professional standards (Generally Accepted Government Auditing Standards), (2) identifying financial interests and filing an annual Financial Disclosure report that is reviewed by Executive Committee members, Managing Directors, or designees; and (3) reporting to their Managing Director when they are seeking employment at the entity being audited and obtaining their Managing Director's approval to engage in outside activities.

*Question.* What policies and practices have you put in place to assure that (1) GAO does not accept requests for work on matters involving pending litigation, (2) changes in the scope of work are communicated to requesters, and (3) GAO staff are free of any impairments related to the subject or conduct of an engagement?

*Answer.* It has been our long-standing policy to generally avoid addressing any issue that is directly related to a matter pending in the Courts. In addition, we do not believe it is appropriate to use GAO as a means of advancing the interests or positions of private parties in pending litigation, whether intentionally or unintentionally. As a general rule, we will seek to avoid such engagements unless we believe we can structure our work to avoid influencing or directly interfering with pending litigation.

In part as a result of the 2002 missile defense report, we have clarified our written policies and introduced new procedures pertaining to requests for work that deal with issues in litigation. Our written policies have been revised to emphasize that our Office of General Counsel should help identify and analyze any ongoing or anticipated litigation that could affect the engagement acceptance decision, and that this office should be consulted about such matters. In addition, the July 2004 update to our Congressional Protocols specifies that one of the factors that will be considered in determining whether to accept congressional requests is whether the matter is pending before administrative or judicial forums. We also have been giving greater attention to this issue at our weekly Engagement Acceptance Meeting, where all new congressional requests and mandates are discussed to determine, among other things, whether the work should be done and the appropriate level of Office of Comptroller General involvement. Lastly, we hold bi-weekly Engagement Review Meetings to discuss progress or issues on ongoing assignments that may require senior GAO management attention, such as litigation that may have been initiated since an engagement was begun and that may impact the engagement's scope or objectives.

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#### GOVERNMENT ACCOUNTABILITY OFFICE'S FISCAL YEAR 2005 ACCOMPLISHMENTS

Senator ALLARD. Okay. Let's go ahead and proceed with your budget, and hear what you have to say in that regard.

Mr. WALKER. Thank you, Mr. Chairman. I appreciate that very much. I want to thank you for the opportunity to appear before you again, and I want to thank your subcommittee for your past support. Briefly, I'd like to touch on some of our accomplishments for last year, and then our budget request for 2007.

In the last fiscal year, ended September 30, 2005, as you know, GAO is trying to lead by example in transforming what we do and how we do business, focusing on positive results that benefit the Congress and the American people. Last year, we met or exceeded 10 of our 14 performance measures. We matched or set all time records for three of those performance measures. We achieved \$39.6 billion in financial benefits. That's an \$83 return for every \$1 invested in GAO. That's number one in the world. Nobody's even close. Nobody else is even in double digits. We had a 93 percent positive client feedback score and we set all time records on our employee feedback scores. So on all dimensions; it was a very good year.

We issued two strategic documents of critical importance to the Congress and the country. The first was our "High Risk Update" listing high risk programs, functions, and activities in the Federal Government. The second one was our "21st Century Challenges" document, which I know Mr. Chairman, you've seen. This document lays out a series of questions that need to be asked and answered in order to re-engineer the Government to address 21st century challenges and capitalize on related opportunities.

We strengthened various partnerships, both domestically and internationally. For example, we led the effort to develop the first ever strategic plan for auditors general around the world, modeled after GAO's plan. We also led the effort that resulted in the first

ever National Intergovernmental Audit Forum strategic plan which involves Federal, State, and local auditors. It's important that we partner for progress, because we all have limited resources, if we're going to achieve maximum results.

We successfully completed, as I mentioned before, two external peer reviews, providing assurance to the Congress and the American people in connection with our quality control processes. They resulted not only in clean opinions, but also a number of global good practices that were identified.

A couple of areas for continuous improvement were noted in the reports, and we are taking steps in light of those recommendations. We have implemented additional flexibilities provided by this Congress, dealing with our human capital classification and compensation systems. We now have market-based pay ranges for all GAO personnel. We now have a compensation system that pays based upon skills, knowledge, and performance. We also have extended pay banding to all of our administrative personnel. There are no GAO employees on the GS system. Not one.

We are a window to the future, Mr. Chairman, with regard to this area. We most recently—and this is in fiscal 2006, had to accomplish the most difficult thing we'll ever do internally and that is to make tough decisions for our so-called Band II, or mid-level senior auditors, investigators, analysts, and evaluators, to determine which ones should benefit from higher pay ranges that came out of the pay study and which ones should not.

We found when that pay study came out, that it was good news and bad news. The good news was, depending on a person's level of responsibilities and their performance; they should have the opportunity to earn up to \$10,000 more than under our old system. The bad news was that if some persons were not leading on a recurring basis or their performance did not justify, we were paying them too much. And so, we had to go through a system, on an individual by individual basis, which I am happy to answer questions on if you so desire, that resulted in decisions for applicable individuals, including some resulting from personal appeals that came to me.

In the final analysis, we've got only 1 percent of our Band II employees that have made independent appeals to our external review body. I think that is a minor miracle, and we obviously look forward to working with that body to resolve those appeals.

GOVERNMENT ACCOUNTABILITY OFFICE'S FISCAL YEAR 2007 BUDGET  
REQUEST

As far as 2007, as has been the case, we are trying to be modest with regard to our budget requests. We know the country is in a deficit situation. We're asking for about a 5-percent increase relating directly and overwhelmingly to mandatory and uncontrollable increases.

I would respectfully suggest, Mr. Chairman that you not just consider what our increase is for this year, but also how we've been treated over the last several years. For example, since fiscal 2000, GAO's budget has increased 10 percent in constant dollars. The average legislative branch constant dollar increase during the same period is 36 percent. So I would respectfully suggest that you not

just look at what we're asking for now, but how we've been treated in the past and what results we're generating for the Congress and the American people, making the tough decisions that you're going to have to make, with regard to limited resource allocations.

We're asking for 50 additional full-time equivalents (FTEs). The reason we're asking for them, is that we're facing increasing supply and demand imbalances in congressional requests versus our ability to address those requests in a timely manner in several areas, such as healthcare and homeland security.

And last, we're asking for a few targeted investments based on a business case, one time money that we would hopefully get funded for and will reverse out of our base, for things like replacing our 20 year old financial management system and enhancing our physical and information security requirements. In that regard, Mr. Chairman, it's not just for us, but we're one of several contingent sites for the Congress in the event of an unexpected catastrophic event.

#### PREPARED STATEMENT

So, we're not just trying to take care of ourselves and our people, we're also trying to be in a position to help the Congress in the event that the Congress needs to use our facilities, which has already happened once in the history of the republic. I hope it won't happen again. But if it does, we want to be ready.

Thank you, Mr. Chairman.

[The statement follows:]

#### PREPARED STATEMENT OF DAVID M. WALKER

Mr. Chairman and Members of the Committee: I am pleased to appear before the Committee today in support of the fiscal year 2007 budget request for the U.S. Government Accountability Office (GAO). This request will help us continue our support of the Congress in meeting its constitutional responsibilities and will help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

Budget constraints in the federal government grew tighter in fiscal years 2005 and 2006. In developing our fiscal year 2007 budget, we considered those constraints consistent with GAO's and the Committee's desire to "lead by example." In fiscal year 2007, we are requesting budget authority of \$509.4 million, a reasonable 5 percent increase over our fiscal year 2006 revised funding level. In the event Congress acts to hold federal pay increases to 2.2 percent, our requested increase will drop to below 5 percent. This request will allow us to continue making improvements in productivity, maintain our progress in technology and other transformation areas, and support a full-time equivalent (FTE) staffing level of 3,267. This represents an increase of 50 FTEs over our planned fiscal year 2006 staffing level and will allow us to rebuild our workforce to a level that will position us to better respond to increasing supply and demand imbalances in areas such as disaster assistance, the global war on terrorism, homeland security, forensic auditing, and health care.

I am proud of the work we accomplished this past fiscal year in support of the Congress and the American people. We provided our congressional clients with timely, objective, and reliable information on how well government programs and policies are working and, when needed, recommendations for improvement. In the years ahead, our support to the Congress will likely prove to be even more critical because of the pressures created by our nation's current and projected budget deficit and growing long-term fiscal imbalance. Indeed, as it considers those fiscal pressures, the Congress will be grappling with tough choices about what government does, how it does business, and who should do the government's business. GAO is a valuable tool for helping the Congress review, reprioritize, and revise existing mandatory and discretionary spending programs and tax policies. Additionally, through its involvement domestically with the federal, state, and local audit community and internationally with its national audit office counterparts, GAO has played—and will

continue to play—an important role in helping to ensure the financial integrity of U.S. funds expended at home and abroad. GAO-led efforts to develop and implement the first-ever strategic plans for the National Intergovernmental Audit Forum and the International Organization of Supreme Audit Institutions have helped improve the effectiveness of these audit organizations and GAO to work more efficiently and cost-effectively.

In an effort to identify areas for potential improvement, GAO underwent two peer reviews in fiscal year 2005. We obtained a clean opinion on our performance audit practice from an international team of experienced auditors—the first time that we have sought such an opinion. The independent reviewers concluded that we have designed and implemented an effective system of quality controls to provide reasonable assurance of complying with generally accepted government auditing standards, which are designed to ensure that audits of government activities are objective, independent, and reliable. This opinion validated that the Congress and the American people can rely on our work and products. Also during fiscal year 2005, GAO received an unqualified report, or clean opinion, on the results of the external peer review of its financial audit practice. External peer reviews are conducted on a 3-year cycle, and this is the fourth such clean opinion that GAO has received from an external peer reviewer since the program began in fiscal year 1996. The external peer reviewer, KPMG LLP, found that the system of quality control for GAO's financial auditing practice met professional standards and that GAO in fact complied with the standards.

In fiscal year 2005, we met or exceeded targets for 10 of our 14 performance measures, while setting or matching all-time records for 3 measures. We documented \$39.6 billion in financial benefits—a return of \$83 for every dollar we spent—and over 1,400 nonfinancial benefits—a record for us. Our targets for fiscal years 2006 and 2007 will continue to challenge the agency in our efforts to support the Congress and serve the American people. Beginning with fiscal year 2006, we will add 2 internal operations measures to the list. These 2 new performance measures will assess how well our mission and people are supported by our infrastructure operations staff.

In fiscal year 2005, we issued two products that will assist the Congress as it addresses future challenges. Recognizing the importance and scope of these reports, we provided a copy to every member of Congress and each Committee, as well as the White House. Our report entitled *21st Century Challenges: Reexamining the Base of the Federal Government* provides a series of illustrative questions related to 12 areas of federal activity as well as our perspective on various strategies and approaches that should be considered as a possible means to address the issues and questions raised in the report. Drawing on our institutional knowledge and extensive program evaluation and performance assessment work for the Congress, we presented over 200 specific 21st century questions illustrating the types of hard choices our nation needs to face as it reexamines what the federal government should do, how it should do it, and how it should be financed. We also issued our *High-Risk Series: An Update*, which identifies federal areas and programs at risk of fraud, waste, abuse, and mismanagement and those in need of broad-based transformations. The issues affecting many of these areas and programs may take years to address, and the report will serve as a useful guide for the Congress's future programmatic deliberations and oversight activities. The current administration has looked to our high-risk program in shaping governmentwide initiatives such as the President's Management Agenda, which has at its base many of the areas we had previously identified as high risk. The Office of Management and Budget (OMB), in consultation with GAO, is currently working to ensure that agencies develop detailed action plans to address high-risk areas, with the ultimate objective, over time, of seeing these items removed from our high-risk list.

As in past years, during fiscal year 2005, our work covered a number of major topics of concern to the nation and, in some cases, the world. For example, we reported on the nation's long-term fiscal challenges, the financial condition of the airline industry, spending and reconstruction activities related to Iraq and Afghanistan, and strengthening the visa process as an antiterrorism tool. We also examined the Department of Defense's (DOD's) transformation challenges, base realignment and closure issues, increasing the strategic focus of federal acquisitions, protecting against identity theft, the oversight of electricity markets, zero down-payment mortgages, and immigration enforcement. We testified many times before the Congress, contributing to the public debate on a variety of topics that included Social Security reform, pension reform, postal reform, GSE oversight, wildland fire management, gasoline prices, the flu vaccine, veterans' health care, benefits for members of the Reserves and National Guard, digital broadcast television, long-term health care financing, passport fraud detection, reducing the tax gap, information security, and

a range of financial management and accountability issues. In addition, we conducted a range of work on a variety of legislative branch agencies and projects, including the Capitol Visitor Center, the Architect of the Capitol, and the U.S. Capitol Police.

This past year we also continued to take steps internally to help us achieve our goal of being a model federal agency and a world-class professional services organization. These steps helped us to address our three major management challenges—human capital, physical security, and information security. Through the GAO Human Capital Reform Act of 2004, the Congress granted GAO several additional human capital flexibilities that will allow us, among other things, to move to an even more performance-oriented and market-based compensation system. As you have heard me say many times, our most valuable asset is our people, and the flexibilities granted in this act will help us to continue to modernize our people-related policies and strategies, which, in turn, will help ensure that we are well-equipped to serve the Congress and the American people in the years to come. As a result, we are continuing to take a range of actions designed to modernize our human capital policies and practices. In fiscal year 2005, we adopted a broad pay band approach and a more performance-oriented pay system for our administrative staff. In fiscal year 2006, we implemented a more market-based and skills-, knowledge-, and performance-oriented classification and pay system for all of our employees.

My testimony today will focus on our budget request for fiscal year 2007 to support the Congress and serve the American people and on our performance and results with the funding you provided us in fiscal year 2005.

#### GAO'S FISCAL YEAR 2007 REQUEST TO SUPPORT THE CONGRESS

Our fiscal year 2007 budget request will provide us the resources necessary to achieve our performance goals in support of the Congress and the American people. This request will allow GAO to improve productivity and maintain progress in technology and other transformation areas. We continue to streamline GAO, modernize our policies and practices, and leverage technology so that we can achieve our mission more effectively and efficiently. These continuing efforts allow us to enhance our performance without significant increases in funding. Our fiscal year 2007 budget request represents a modest increase of about \$25 million (or 5 percent) over our fiscal year 2006 revised funding level—primarily to cover uncontrollable mandatory pay and price level increases. This request reflects a reduction of nearly \$5.4 million in nonrecurring fiscal year 2006 costs used to offset the fiscal year 2007 increase. This request also includes about \$7 million in one-time fiscal year 2007 costs, which will not recur in fiscal year 2008, to upgrade our business systems and processes.

As the Congress addresses the devastation in the Gulf Coast region from Hurricane Katrina and several other major 2005 hurricanes, GAO is supporting the Congress by assessing whether federal programs assisting the people of the Gulf region are efficient and effective and result in a strong return on investment. In order to address the demands of this work; better respond to the increasing number of demands being placed on GAO, including a dramatic increase in health care mandates; and address supply and demand imbalances in our ability to respond to congressional interest in areas such as disaster assistance, homeland security, the global war on terrorism, health care, and forensic auditing, we are seeking your support to provide the funding to rebuild our staffing level to the levels requested in previous years. We believe that 3,267 FTEs is an optimal staffing level for GAO that would allow us to more successfully meet the needs of the Congress.

In preparing this request and taking into account the effects of the fiscal year 2006 rescission, we revised our workforce plan to reduce fiscal year 2005 hiring and initiated a voluntary early retirement opportunity for staff in January 2006. These actions better support GAO's strategic plan for serving the Congress, better align GAO's workforce to meet mission needs, correct selected skill imbalances, and allow us to increase the number of new hires later in fiscal year 2006. Our revised hiring plan represents an aggressive hiring level that is significantly higher than in recent fiscal years, and it is the maximum number of staff we could absorb during fiscal year 2006. These actions will also position us to more fully utilize our planned FTE levels of 3,217 and 3,267 in fiscal years 2006 and 2007, respectively.

Our fiscal year 2007 budget request includes approximately \$502 million in direct appropriations and authority to use about \$7 million in estimated revenue from rental income and reimbursable audit work. Table 1 summarizes the changes we are requesting in our fiscal year 2007 budget.

TABLE 1.—FISCAL YEAR 2007 BUDGET REQUEST, SUMMARY OF REQUESTED CHANGES

[Dollars in thousands]

Budget category	FTEs	Amount	Cumulative percentage change
Fiscal year 2006 enacted budget authority .....	3,217	\$489,560	.....
Less: rescission .....		(4,896)	.....
Fiscal year 2006 revised budget authority .....		\$484,664	.....
Fiscal year 2007 requested changes:			
Nonrecurring fiscal year 2006 costs .....		(\$5,380)	(1)
Mandatory pay costs .....	50	18,469	3
Price level changes .....		4,073	4
Relatively controllable costs .....		7,528	.....
Adjustment due to rounding .....		1	.....
Subtotal—requested changes .....	50	\$24,691	5
Total fiscal year 2007 budget authority required to support GAO operations .....	3,267	\$509,355	.....

Source: GAO.

Our fiscal year 2007 budget request supports three broad program areas: Human Capital, Engagement Support, and Infrastructure Operations. Consistent with our strategic goal to be a model agency, we have undertaken a number of initiatives to implement performance-based, market-oriented compensation systems; adopt best practices; benchmark service levels and costs; streamline our operations; cross-service and outsource activities; and leverage technology to increase efficiency, productivity, and results.

The Human Capital Program provides the resources needed to support a diverse, highly educated, knowledge-based workforce comprising individuals with a broad array of technical and program skills and institutional memory. This workforce represents GAO’s human capital—its greatest asset—and is critical to the agency’s success in serving the Congress and the nation. Human Capital Program costs represent nearly 80 percent of our requested budget authority.

To further ensure our ability to meet congressional needs, we plan to allocate approximately \$17 million for Engagement Support to: conduct travel, a critical tool to accomplish our mission of following the federal dollar cross the country and throughout the world, and to ensure the quality of our work; contract for expert advice and assistance when needed to meet congressional timeframes for a particular audit or engagement; and ensure a limited presence in the Middle East to provide more timely, responsive information on U.S. activities in the area.

In addition, we plan to allocate about \$91 million—or about 18 percent of our total request—for Infrastructure Operations programs and initiatives to provide the critical infrastructure to support our work. These key activities include information technology, building management, knowledge services, human capital operations, and support services.

PERFORMANCE, RESULTS, AND PLANS

In fiscal year 2005, the Congress focused its attention on a broad array of challenging issues affecting the safety, health, and well-being of Americans here and abroad, and we were able to provide the objective, fact-based information that decision makers needed to stimulate debate, change laws, and improve federal programs for the betterment of the nation. For example, as the war in Iraq continued, we examined how DOD supplied vehicles, body armor, and other materiel to the troops in the field; contributed to the debate on military compensation; and highlighted the need to improve health, vocational rehabilitation, and employment services for seriously injured soldiers transitioning from the battlefield to civilian life. We kept pace with the Congress’s information needs about ways to better protect America from terrorism by issuing products and delivering testimonies that addressed issues such as security gaps in the nation’s passport operations that threaten public safety and federal efforts needed to improve the security of checked baggage at airports and cargo containers coming through U.S. ports. We also explored the financial crisis that weakened the airline industry and the impact of this situation on the traveling public and airline employees’ pensions. We performed this work in accordance with our strategic plan for serving the Congress, consistent with our professional stand-

ards, and guided by our core values (see appendix 1). See table 2 for examples of how GAO assisted the nation in fiscal year 2005.

TABLE 2.—EXAMPLES OF HOW GAO ASSISTED THE NATION IN FISCAL YEAR 2005

Goal	Description	GAO provided information that helped to
1	Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.	<ul style="list-style-type: none"> <li>Improve the transition from active duty to civilian status for veterans with serious war-related injuries</li> <li>Address long-term health care financing pressures on state and local government budgets</li> <li>Identify challenges associated with transferring the Medicare appeals process from the Social Security Administration and HHS</li> <li>Improve patient safety at Department of Veterans' Affairs hospitals</li> <li>Improve the security of Social Security numbers</li> <li>Address the challenges of pension reform</li> <li>Strengthen the security screening process for passengers and checked baggage at the nation's airports</li> <li>Improve the oversight of Federal Housing Administration single-family and multifamily lenders</li> <li>Improve the oversight of electricity markets by the Federal Energy Regulatory Commission</li> <li>Identify challenges associated with the Department of Energy's (DOE's) nuclear facility designs</li> <li>Monitor the growth in the digital television market</li> <li>Analyze issues contributing to the declining financial condition of the airline industry</li> </ul>
2	Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.	<ul style="list-style-type: none"> <li>Improve the management of funds for the global war on terrorism</li> <li>Increase the security of cargo containers to prevent terrorist activity</li> <li>Alert the Congress to issues affecting the DOD's major weapon systems</li> <li>Analyze funding options for a new federal foreign assistance program—the Millennium Challenge Account</li> <li>Promote government efforts to address threats to the security of the nation's information systems</li> <li>Strengthen the visa process as an antiterrorism tool</li> <li>Improve management of the U.S. Coast Guard's Deepwater Program</li> <li>Shape the debate on improving military pay and benefits</li> <li>Strengthen the U.S. strategic export control system</li> <li>Identify improvements needed to secure critical IT systems used by U.S. financial markets</li> <li>Report to the Congress on the 2005 base realignment and closures (BRAC) defense transformation</li> </ul>
3	Help transform the federal government's role and how it does business to meet 21st century challenges.	<ul style="list-style-type: none"> <li>Increase the public's understanding of the federal government's long-term fiscal challenges</li> <li>Implement governmentwide civil service reforms</li> <li>Oversee federal tax policy</li> <li>Increase debts collected from criminals</li> <li>Decrease improper payments made by the USDA Food Stamp Program and other federal agencies</li> <li>Manage multibillion dollar IT modernizations and investments at the Department of Homeland Security (DHS) and Office of Personnel Management</li> <li>Improve agencies' strategic purchasing practices</li> <li>Examine changes in key areas of federal activity that could affect the federal government's fiscal future</li> <li>Enhance the knowledge base on comprehensive national indicators</li> <li>Improve postal operations through reform legislation</li> </ul>
4	Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	<ul style="list-style-type: none"> <li>Foster among other federal agencies GAO's innovative human capital practices, such as broad pay bands; performance-based compensation; and workforce planning and staffing strategies, policies, and processes</li> <li>Share GAO's model business and management processes and other transformation-related information with counterpart organizations in the United States and abroad</li> </ul>

Source: GAO.

## OUTCOMES OF OUR WORK AND THE ROAD AHEAD

During fiscal year 2005 we monitored our performance using 14 annual performance measures that capture the results of our work; the assistance we provided to the Congress; and our ability to attract, retain, develop, and lead a highly professional workforce (see table 3). For example, in fiscal year 2005 our work generated \$39.6 billion in financial benefits, primarily from actions agencies and the Congress took in response to our recommendations. Of this amount, about \$19 billion resulted from changes to laws or regulations, \$12.8 billion resulted from agency actions based on our recommendations to improve services to the public, and \$7.7 billion resulted from improvements to core business processes. See figure 1 for examples of our fiscal year 2005 financial benefits.

TABLE 3.—AGENCYWIDE SUMMARY OF ANNUAL MEASURES AND TARGETS  
 [Dollars in billions]

Performance measures	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Target	2007 Target
<b>Results:</b>							
Financial benefits .....	\$26.4	\$37.7	\$35.4	\$44.0	\$39.6	\$39.0	\$40.0
Other benefits .....	\$799	\$906	\$1,043	\$1,197	\$1,409	\$1,050	\$1,100
Past recommendations implemented (percent) .....	79	79	82	83	85	80	80
New products with recommendations (percent) .....	44	53	55	63	63	60	60
<b>Client:</b>							
Testimonies .....	151	216	189	217	179	210	185
Timeliness (percent) .....	95	96	97	97	97	98	98
<b>People:</b>							
New hire rate (percent) .....	N/A	96	98	98	94	97	97
Acceptance rate (percent) .....	N/A	81	72	72	71	75	75
Retention rate with retirements (percent) .....	91	91	92	90	90	90	91
Retention rate without retirements (percent) .....	95	97	96	95	94	94	95
Staff development (percent) .....	N/A	71	67	70	72	74	75
Staff utilization (percent) .....	N/A	67	71	72	75	75	78
Leadership (percent) .....	N/A	75	78	79	80	80	80
Organizational climate (percent) .....	N/A	67	71	74	76	75	76

Source: GAO.  
 Note: N/A indicates the information is not available or the target is not applicable.  
 In fiscal year 2006, we will add two internal operations measures to our list of performance measures on which we report. These measures will help us determine how well our internal operations (1) help employees get their jobs done and (2) improve employees' quality of life in the workplace.

FIGURE 1.—GAO'S SELECTED MAJOR FINANCIAL BENEFITS REPORTED IN FISCAL YEAR 2005  
 [In millions of dollars]

Description	Amount
<p>Reduced funding for a missile defense system .....</p> <p>In an April 2003 report, we stated that to successfully develop an effective and suitable missile defense system, the Missile Defense Agency must be willing to adopt knowledge-based acquisition practices that have made other developers successful. Our report acknowledged that the agency's development strategy for the Kinetic Energy Interceptor Program included knowledge-based practices, but concluded that the agency had not implemented two important practices: (1) using well-developed technologies during system integration and (2) fully testing a system before fielding it. In response, the Missile Defense Agency is scaling back development of the Kinetic Energy Interceptor Program until technologies are mature. Over a 5-year period—from fiscal years 2005 through 2009—program funding will be reduced by about \$5.2 billion, which has a net present value of about \$4.7 billion.</p>	4.7
<p>Avoided higher costs associated with a nuclear waste disposal process .....</p> <p>In a June 2003 report, we recommended that DOE pursue legislative clarification from the Congress because of a legal challenge that threatened DOE's ability to proceed with its less costly strategy for treating and disposing of radioactive tank wastes with lower concentrations of radioactivity. DOE estimated that pursuing a more expensive treatment and disposal strategy suitable for wastes with higher concentrations of radioactivity would increase waste treatment disposal costs by \$55 billion to \$60 billion at its Savannah River Site. The fiscal year 2005 National Defense Authorization Act contained a provision that clarified DOE's authority to follow its planned treatment and disposal strategy, thus avoiding a more costly process. We calculated that the net present value of the cost avoidance for fiscal years 2005 through 2009 was about \$4.5 billion.</p>	4.5
<p>Improved the Army's force structure .....</p> <p>In a report examining the Army's force structure, we recommended that the Army establish mission criteria to provide a firmer basis for its Strategic Reserve, Domestic Support, and Homeland Defense force requirements. Such criteria would help to ensure that the Army had the right number and types of soldiers available for these purposes. Rather than request additional end strength, the Army reconfigured its existing force's structure. In April 2003, DOD reported that the Army had included force structure changes in its fiscal year 2004 budget, which supported increased units for military police; military intelligence; special forces; and chemical, civil affairs, and psychological operations. Based on this action, the Army has been able to rebalance its force structure to create needed units with minimal increases in authorized end strength. The amount shown represents the net present value of the force structure changes over a 5-year period (fiscal years 2004 through 2008).</p>	3.4
<p>Reduced the cost of federally subsidized housing projects .....</p> <p>We determined that the Department of Housing and Urban Development (HUD) had not developed the systems it needed to track the status of unexpended balances in its project-based Section 8 housing program and therefore could not use this information to help manage the program and formulate budget requests for it. As a result of our work, the Congress required HUD to better enforce the legislative provisions requiring the recapture of capital funds not being utilized by public housing authorities. In fiscal year 2005, we documented—using HUD data—that a financial benefit of about \$2.7 billion in current dollars resulted from HUD's recapture of about \$2.5 billion of fiscal year 2003 dollars.</p>	2.7
<p>Avoided costs associated with higher payment rates at skilled nursing homes .....</p> <p>In 2002, we assessed the impact of a 16.6 percent increase in Medicare's daily rate for skilled nursing facilities on nurse staffing ratios. Our analysis showed that nurse staffing ratios changed little from April 1, 2001, through September 30, 2002—the period during which the rate increase was in effect. In fiscal year 2003, the cost to the federal government of reinstating the payment rate increase was approximately \$1 billion per year. Since we issued our report, the Congress has considered reinstating the rate increase, but it has chosen not to, largely on the basis of our analysis. The net present value of the annual cost avoidance for fiscal years 2004 and 2005 is \$2 billion.</p>	2.0
<p>Increased tax revenues .....</p> <p>We reported that the Internal Revenue Service (IRS) did not have systems or procedures in place to allow it to identify and actively pursue unpaid tax cases that may have some collection potential. Based on our work, IRS has taken action to better assess the potential for collecting unpaid tax assessment cases and has used that information to better target its collection efforts. Specifically, in 2004 IRS began implementing a sophisticated modeling technology to identify productive and less productive cases to ensure that its resources are devoted to cases with a higher likelihood of collection and to help prevent premature suspension of collection efforts. IRS's analysis of the yield on collection cases after employing this modeling in fiscal year 2004 shows that this yield increased by about \$1.8 billion (in current year dollars), or 8.4 percent from the previous year (fiscal year 2003), without significant staffing level increases.</p>	1.8
<p>Ensured continued investment in the General Services Administration's (GSA) online purchasing system .....</p>	1.3

FIGURE 1.—GAO’S SELECTED MAJOR FINANCIAL BENEFITS REPORTED IN FISCAL YEAR 2005—  
Continued  
[In millions of dollars]

Description	Amount
<p>As of 2003, GSA had spent \$84 million to develop, implement, and maintain Advantage, a system for ordering products and services online. However, 5 years after the system was launched, only 35 percent of all government-contracted vendors participated in the program, and agencies were largely using the system to compare pricing. To ensure GSA’s level of investment matched customer needs, we recommended that the agency develop a business case for a system such as Advantage, and in January 2005, GSA selected a new business strategy that would significantly enhance the system’s capabilities to serve as a broker between buyers and suppliers and provide agencies with an automated tool for formulating acquisition requirements and developing requests for quotes. GSA projects over \$1.5 billion in financial benefits to result from electronic transactions, spend analysis (analysis of expenditures that shows how money is spent on goods and services), a searchable procurement data repository, and competitive pricing. This financial benefit has a net present value of just over \$1.3 billion.</p>	
<p>Reduced Navy and Air Force appropriations .....</p>	1.3
<p>DOD policy requires the Defense Working Capital Fund to maintain cash levels to cover 7 to 10 days of operational cash and 6 months of capital asset disbursements. Our analysis showed that the January 2004 reported actual cash balance for the Air Force Working Capital Fund exceeded the 10-day cash requirement by about \$1.5 billion, and the Navy’s Working Capital Fund reported actual cash balance exceeded the budgeted cash balance by \$659 million and \$408 million at the end of fiscal years 2002 and 2003, respectively. The Congress reduced the Navy and Air Force fiscal year 2005 Operation and Maintenance appropriations by just under \$1.3 billion due to excessive cash amounts.</p>	
<p>Eliminated the National Aeronautics and Space Administration’s (NASA) Prometheus 1 project .....</p>	1.1
<p>We issued a report questioning whether NASA had established the initial justification for its investment in the Prometheus 1 project and how the agency planned to ensure that critical nuclear power and propulsion system technologies were sufficiently developed to support deep space probes like the Jupiter Icy Moons Orbiter. We also reported that the approved Prometheus 1 funding profile was inadequate to support the planned mission—a launch to Jupiter’s Icy Moons in 2015. NASA has subsequently deferred the Jupiter Icy Moons Orbiter mission indefinitely, reducing the agency’s funding needs by about \$1.22 billion through fiscal year 2009; the net present value of this reduction is over \$1.1 billion.</p>	
<p>Reduced the budget request for a new foreign assistance program .....</p>	1.0
<p>In March and June 2004, we provided the Congress with information to help it assess the President’s \$2.5 billion fiscal year 2005 budget request for the Millennium Challenge Account—a new foreign assistance program intended to provide economic assistance to countries that demonstrate a commitment to ruling justly, investing in people, and encouraging economic freedom. Our work provided the Congress with a framework for identifying relationships and trade-offs between funding levels, compact length, and number of compacts (i.e., agreements). Our analysis indicated that by reducing assistance target levels, the length of compacts or both with participating countries, the program could operate at a lower funding level. We also estimated the effect of funding compacts partly from future appropriations. Our work facilitated the Congress’s decision to reduce the appropriation for the Millennium Challenge Account in fiscal year 2005 to \$1.5 billion.</p>	

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2005, we recorded a total of 1,409 other benefits. For instance, we documented 75 instances where information we provided to the Congress resulted in statutory or regulatory changes, 595 instances where federal agencies improved services to the public, and 739 instances where agencies improved core business processes or governmentwide reforms were advanced. These actions spanned the full spectrum of national issues, from ensuring the safety of commercial airline passengers to identifying abusive tax shelters. See figure 2 for additional examples of GAO’s other benefits in fiscal year 2005.

FIGURE 2.—GAO’S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2005

	Description
OTHER BENEFITS THAT HELPED TO CHANGE LAWS	
Intelligence Reform and Terrorism Prevention Act of 2004 (Pub. L. No. 108–458).	<p>Our work is reflected in this law in different ways. In our May 2004 testimony on the use of biometrics for aviation security, we reported on the need to identify how biometrics will be used to improve aviation security prior to making a decision to design, develop, and implement biometrics. Using information from our statement, the House introduced a bill on July 22, 2004, directing the Transportation Security Administration (TSA) to establish system requirements and performance standards for using biometrics, and establish processes to (1) prevent individuals from using assumed identities to enroll in a biometric system and (2) resolve errors. These provisions were later included in an overall aviation security bill and were eventually included in the Intelligence Reform and Terrorism Prevention Act of 2004, enacted in December 2004.</p>
Real ID Act of 2005 (Pub. L. No. 109–13).	<p>We conducted a body of work assessing the physical screening of airport passengers and their checked baggage. We found that the installation of systems that are in line with airport baggage conveyor systems may result in financial benefits, according to TSA estimates for nine airports. We also found that the effectiveness of the advance passenger screening under the process known as Secure Flight was not certain. TSA agreed to take corrective actions in these areas, and the Congress required TSA in the Intelligence Reform and Terrorism Protection Act to prepare a plan and guidelines for installing in-line baggage screening systems, and enacted measures to promote Secure Flight’s development and implementation.</p>
Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Pub. L. No. 108–375).	<p>We reported on the verification of identity documents for drivers’ licenses, noting that visual inspection of key documents lent itself to possible identity fraud. To demonstrate this, our investigators were able to obtain licenses in two states using counterfeit documents and the Social Security numbers of deceased persons. The Congress established federal identification standards for state drivers’ licenses and other such documents and mandated third-party verification of identity documents presented to apply for a driver’s license.</p> <p>We assisted the Congress in crafting major improvements to a program intended to compensate individuals who worked in DOE facilities and developed illnesses related to radiation and hazardous materials exposure. In a 2004 report, we identified features of the originally enacted program that would likely lead to inconsistent benefit outcomes for claimants, in part because the program depended on the varying state workers compensation systems to provide some benefits. We also presented several options for improving the consistency of benefit outcomes and a framework for assessing these options. When the Congress enacted the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, it revamped this energy employees’ benefit program. Among other changes, this law federalized the payment of worker compensation benefits for eligible energy contractor employees and provided a schedule of uniform benefit payments.</p>

FIGURE 2.—GAO’S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2005—Continued

	Description
Federal Lands Recreation Enhancement Act (Pub. L. No. 108–447).	<p>Our work over the past several years has helped the Congress to establish and assess the impacts of the recreational fee demonstration program. Under this trial program, the Congress authorized the National Park Service, the Fish and Wildlife Service, the Bureau of Land Management, and the Forest Service to charge fees to visitors to, among other things, reduce the maintenance backlog at federal parks and historic places and protect these lands from visitor impacts. Since the program’s inception in 1996, we have identified issues that needed to be addressed to improve the program’s effectiveness that included providing (1) a more permanent source of funds to enhance stability, since the current program had to be reauthorized every 2 years; (2) the participating agencies with greater flexibility in how and where they apply fee revenues; and (3) improvements in interagency coordination in the collection and use of revenue fees to better serve visitors by making the payment of fees more convenient and equitable and reducing visitor confusion about similar or multiple fees being charged at nearby or adjacent federal recreational sites. As a result of this body of work, the Congress addressed these issues by passing the Federal Lands Recreation Enhancement Act in December 2004. This act permits federal land management agencies to continue charging fees at campgrounds, rental cabins, high-impact recreation areas, and day-use sites that have certain facilities. The act also provides for a nationally consistent interagency program, more on-the-ground improvements at recreation sites across the nation, enhanced visitor services, a new national pass for use across interagency federal recreation sites and services, and public involvement in the program.</p>
Consolidated Appropriations Act, 2005 (Pub. L. No. 108–447).	<p>Our work is reflected in this law in different ways. At the time of our August 2003 report, the original 1999 expiration date for the franchise fund pilots operating at the Departments of Commerce, Veterans Affairs, Health and Human Services, the Interior, and the Treasury and at the Environmental Protection Agency had been extended three times. These franchise funds, authorized by the Government Management Reform Act of 1994, are part of a group of 34 intragovernmental revolving funds that were created to provide common administrative support services required by many federal agencies. For example, the Commerce Franchise Fund’s business line provides IT infrastructure support services to the agency. We concluded that increasing the period of authorization would help ease concerns of current and potential clients about franchise fund stability and might allow franchise funds to add new business lines, and we suggested that the authorizations be extended for longer periods. The Congress provided permanent authority to the Treasury franchise fund in the Consolidated Appropriations Act, 2005, passed on December 8, 2004.</p> <p>In 2003, we reported that most agencies could not retain the proceeds from the sale of unneeded property and this acted as a disincentive to disposing of unneeded property. We stated in our high-risk report on federal real property that it may make sense to permit agencies to retain proceeds for reinvestment in real property where a need exists. Subsequently, in the Consolidated Appropriations Act, 2005, the Congress authorized the Administrator of GSA to retain the net proceeds from the conveyance of real and related personal property. These proceeds are to be deposited into the Federal Buildings Fund and are to be used as authorized for GSA’s real property capital needs.</p> <p>In December 2003, we reported that 184 out of 213 Alaska Native villages are affected, to some extent, by flooding and erosion. However, these villages often have difficulty qualifying for federal assistance to combat their flooding and erosion problems. In our report, we recommended that the Denali Commission adopt a policy to guide investment decisions and project designs in villages affected by flooding and erosion. In this legislation, the Congress provided the Secretary of the Army with the authority to carry out “structural and non-structural projects for storm damage prevention and reduction, coastal erosion, and ice and glacial damage in Alaska, including relocation of affected communities and construction of replacement facilities.”</p>

FIGURE 2.—GAO'S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2005—Continued

	Description
<p>Consolidated Appropriations Act, 2005 (Pub. L. No. 108-447).</p>	<p>To improve the federal government's ability to collect billions of dollars of outstanding criminal debt, we recommended in a 2001 report, that the Department of Justice work with other agencies involved in criminal debt collection, including the Administrative Office of the U.S. Courts, the Department of the Treasury (Treasury), and OMB, to develop a strategic plan that would improve interagency processes and coordination with regard to criminal debt collection activities. The conference report that accompanied the Consolidated Appropriations Act, 2005, directed the Attorney General to assemble an interagency task force for the purposes of better managing, accounting for, reporting, and collecting criminal debt.</p>
<p>OTHER BENEFITS THAT HELPED TO IMPROVE SERVICES TO THE PUBLIC</p>	
<p>Encouraged improvements in the process for ensuring states' compliance with education laws for the disabled.</p>	<p>Our report found that the Department of Education's (Education) system for resolving noncompliance with the Individuals with Disabilities in Education Act is protracted. We found that resolution of noncompliance cases often takes several years, in part because Education took a year on average from the time it identified noncompliance to issue a report citing the noncompliance. We therefore recommended that Education improve its system of resolving noncompliance by shortening the amount of time it takes to issue a report of noncompliance and by tracking changes in response times under the new monitoring process. In response to our recommendation, Education has instituted an improved process for managing and tracking the various phases of the monitoring process, which includes the creation of a database to facilitate this tracking. This new tracking system will enable Education to better monitor the status of existing noncompliance, and thus enable the department to take appropriate action when states fail to come into compliance in a timely manner.</p>
<p>Identified a weakness in Medicare's telephone assistance service.</p>	<p>In 2004, we found that the 24-hour 1-800-MEDICARE help line, operated by the Centers for Medicare and Medicaid Services (CMS), did not answer 10 percent of the calls we placed to test its accuracy, often because it automatically transferred some calls to claims administration contractors that were not open for business at the time of the call. This call transfer process prohibited callers from accessing information during nonbusiness hours, even though 1-800-MEDICARE operates 24 hours a day. As a result, we recommended that CMS revise the routing procedures of 1-800-MEDICARE to ensure that calls are not transferred or referred to claims administration contractors' help lines during nonbusiness hours. In response, CMS finished converting its call routing procedures. As a result, calls placed after normal business hours will be routed to the main 1-800-MEDICARE help line for assistance.</p>

FIGURE 2.—GAO'S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2005—Continued

	Description
Highlighted the need for increased security at a federal disease research facility.	United States Department of Agriculture scientists at the Plum Island Animal Disease Center research contagious animal diseases that have been found in other countries. The mission of the facility, now administered by DHS, is to develop strategies for protecting the nation's animal industries and exports from these foreign animal diseases. In our September 2003 report, <i>Combating Bioterrorism: Actions Needed to Improve Security at Plum Island Animal Disease Center</i> , we made several recommendations to improve security at the facility and reduce vulnerability to terrorist attacks. Among other things, we recommended that the Secretary of Homeland Security, in consultation with the Secretary of Agriculture, enhance incident response capability by increasing the size of the guard force. DHS has informed us that this has been completed. According to the Director of Plum Island, DHS has more than doubled the number of guards assigned on each shift on Plum Island.
OTHER BENEFITS THAT HELPED TO PROMOTE SOUND AGENCY AND GOVERNMENTWIDE MANAGEMENT	
Recommended a process to increase the efficiency of DOD procurements.	DOD spending on service contracts approaches \$100 billion annually, but DOD's management of services procurement is inefficient and ineffective and the dollars are not always well spent. Many private companies have changed management practices based on analyzing spending patterns and coordinating procurement efforts in order to achieve major savings. We recommended that DOD adopt the effective spend analysis processes used by these leading companies and use technology to automate spend analysis to make it repeatable. In response, DOD is developing new technology to do that. According to DOD and contractor project managers, one phase of the project was completed in December 2004. In March 2005, DOD approved a business case analysis to seek follow-on funding for developing a DOD-wide spend analysis system.
Improved the Air Force's oversight of purchase card transactions.	As part of our audit of Air Force purchase card controls, we identified transactions that Air Force officials acknowledged to be fraudulent as well as potentially fraudulent transactions that the Air Force had not identified. To improve Air Force oversight of purchase card activity and facilitate the identification of systemic weaknesses and deficiencies in existing internal control and the development of additional control activities, we recommended that the Air Force establish an agencywide database of known purchase card fraud cases. In lieu of establishing a separate agencywide database, during fiscal year 2003, the Air Force Office of Special Investigations initiated quarterly reporting on its purchase card investigations to the DOD IG for macro-level analysis of systemic weaknesses in the program. Our ongoing collaboration with the DOD IG on DOD's purchase card program confirmed that the Air Force's Office of Special Investigations is working effectively with DOD's IG on data-mining techniques for detection of potentially improper and fraudulent purchase card transactions. As a result of our work, the Air Force has taken action to reduce the financial risk associated with undetected fraud and abuse in its purchase card program.

FIGURE 2.—GAO'S SELECTED OTHER (NONFINANCIAL) BENEFITS REPORTED IN FISCAL YEAR 2005—Continued

	Description
Encouraged the Census Bureau to produce training materials in other languages.	For the 2000 Census, the United States Census Bureau (Bureau) printed material used to train census workers only in English, except in Puerto Rico where training materials were available in Spanish. However, to better prepare census workers—some of whom speak Spanish as their first language—to locate migrant farm workers and other hard-to-count groups, we recommended that the Bureau consider providing training materials in languages other than English to targeted areas. In response to our recommendation, the Bureau is researching foreign-language data collection methods as part of its preparations for the 2006 Census test and, more generally, plans to identify areas and operations that will require in-language training materials for areas with very large, new migrant populations where it will not be possible to hire bilinguals. Moreover, the Bureau's June 2005 request for proposals for a Field Data Collection Automation System includes a requirement for the contractor to provide training applications and materials in English and Spanish for the handheld computers enumerators are to use to count nonrespondents.

Source: GAO.

One way we measure our effect on improving the government's accountability, operations, and services is by tracking the percentage of recommendations that we made 4 years ago that have since been implemented. At the end of fiscal year 2005, 85 percent of the recommendations we made in fiscal year 2001 had been implemented, primarily by executive branch agencies. Putting these recommendations into practice will generate tangible benefits for the nation over many years.

During fiscal year 2005, experts from our staff testified at 179 congressional hearings covering a wide range of complex issues (see table 4). For example, our senior executives testified on improving the security of nuclear material, federal oversight of mutual funds, and the management and control of DOD's excess property. Over 70 of our testimonies were related to high-risk areas and programs (see table 5).

TABLE 4.—Selected Testimony Issues, Fiscal Year 2005

*Goal 1: Address Challenges to the Well-Being and Financial Security of the American People*

Head Start grants management	Medicaid financing issues
Retirement options for seniors	Amtrak's Acela train
Postal service reform legislation	Rural housing service
Wildland fire management	Federal oversight of the E-rate program
National air traffic system	Overseeing the U.S. food supply
Providing services to seriously injured veterans	Energy demand in the 21st century
Endangered Species Act	Social Security reform
Preparing for influenza pandemic	Meeting the future demand for energy in the United States
Long-term health care costs and government budgets	Protecting nuclear material handled at science and environmental sites
Veterans' disability claims	Federal real property

*Goal 2: Respond to Changing Security Threats and the Challenges of Globalization*

Army's modular forces	Federal oversight of mutual funds to ensure investor security
Acquisition challenges facing the Navy's DD(X) destroyer program	DOD's business transformation
Oil for Food program	DOD's national security personnel system
Managing violations of restricted air space	Cargo security strategies
Protecting U.S. officials overseas from terrorist attacks	DOD security clearances
Implementing laws that protect the security of information	Condition of Coast Guard aircraft and ships used in deep waters
U.S. passport fraud	Port security
Unmanned aircraft modernization	Transportation security issues
Unmanned aerial vehicles	Acquisition challenges facing the Army's future combat systems

*Goal 3: Help Transform the Federal Government's Role and How it Does Business*

Long-term fiscal issues affecting the federal government	Army National Guard travel reimbursement issues
Air Force procurement protests	Agencies' continuity of operations plans
Space shuttle workforce issues	21st century challenges for the federal government
Management and control of DOD's excess property	Preparing for emergencies at federal agencies
High-risk federal programs	U.S. government financial statements
Improper Payments Information Act	Performance budgeting
Gaps in military pay and benefits	Space acquisitions and investment planning
Human capital transformation at DHS	DHS's Student and Exchange Visitor Information System
Reducing the tax gap	
Pricing federal multiple award contracts	

GAO'S HIGH-RISK PROGRAM

Issued to coincide with the start of each new Congress, our high-risk update, first used in 1993, has helped Members of the Congress who are responsible for oversight and executive branch officials who are accountable for performance. Our high-risk program focuses on major government programs and operations that need urgent attention or transformation to ensure that our government functions in the most economical, efficient, and effective manner possible. Overall, our high-risk program has served to identify and help resolve a range of serious weaknesses that involve substantial resources and provide critical services to the public. Table 5 details our 2005 high-risk list.

TABLE 5.—GAO'S 2005 HIGH-RISK LIST

2005 high-risk area	Year designated high risk
Addressing challenges in broad-based transformations:	
Strategic Human Capital Management <sup>1</sup>	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>1</sup>	2001
Managing Federal Real Property <sup>1</sup>	2003
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation <sup>1</sup>	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 (formerly Inventory 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 <sup>1 2</sup>	1990
IRS Business Systems Modernization <sup>3</sup>	1995
Modernizing and safeguarding insurance and benefit programs:	
Modernizing Federal Disability Programs <sup>1</sup>	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program <sup>1</sup>	2003
Medicare Program <sup>1</sup>	1990
Medicaid Program <sup>1</sup>	2003
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Other: Federal Aviation Administration (FAA) Air Traffic Control Modernization	1995

<sup>1</sup> Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

<sup>2</sup> Two high-risk areas—collection of unpaid taxes and earned income credit noncompliance—have been consolidated to make this area.

<sup>3</sup> The IRS financial management high-risk area has been incorporated in this high-risk area.

Source: GAO.

## CONCLUDING REMARKS

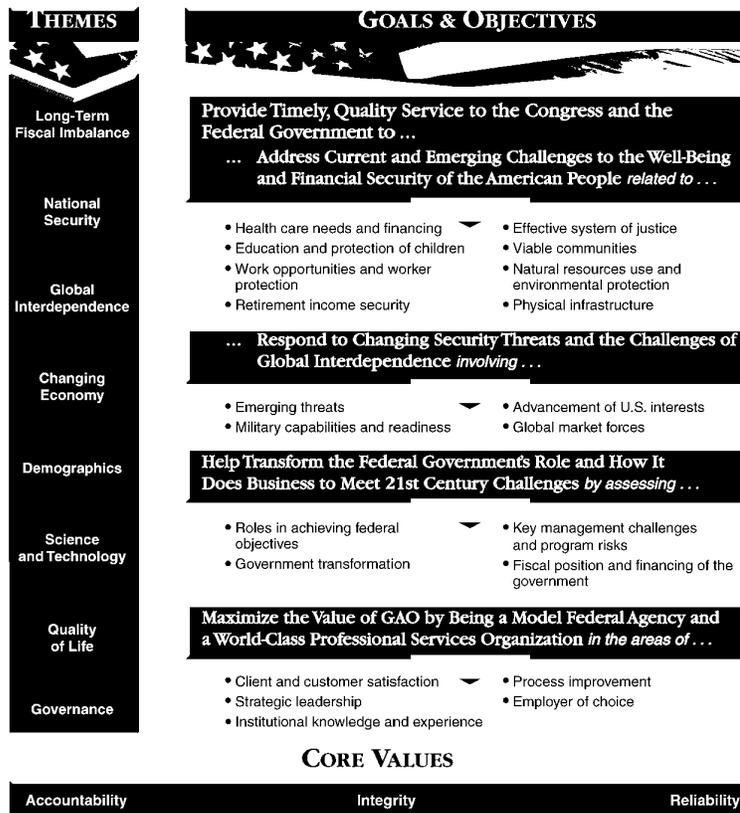
We are grateful for the Congress's continued support of our joint effort to improve government and for providing the resources that allow us to be a world-class professional services organization. We are proud of the positive impact we have been able to affect in government over the past year and believe an investment in GAO will continue to yield substantial returns for the Congress and the American people. Our nation will continue to face significant challenges in the years ahead. GAO's expertise and involvement in virtually every facet of government positions us to provide the Congress with the timely, objective, and reliable information it needs to discharge its constitutional responsibilities.

This concludes my statement. I would be pleased to answer any questions the Members of the Committee may have.

## SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

### MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.



Source: GAO.

Fiscal years 2004-2009

### COST FOR 50 ADDITIONAL FULL-TIME EQUIVALENTS

Senator ALLARD. Well thank you for your testimony. Total, you're going to have about a \$25 million request, which is 5 percent over fiscal year 2006 and we'll look very closely at your request. We've got 50 new employees that are coming on. You have about 3,217 employees now, according to the facts that I have here. Now, we've tried to break that out on the employee costs at \$7.5 million. So I was just doing some quick math here. That's \$150,000 per em-

ployee. I'm kind of curious. That's not salary. I'm sure there's benefits figured in there, and insurance, and other things, retirement plan, everything else. So I just want to have you verify how it is, that you come up with \$150,000.

Mr. WALKER. Sure.

Let me provide an overview, and I'm going to turn to Sallyanne Harper to provide some additional information, Mr. Chairman, with your indulgence.

Senator ALLARD. Okay.

Mr. WALKER. The compensation adjustments are for several things. Number one, to bring us up to our full compliment of 3,217. We've been authorized that for a full FTE level, but we haven't been there in several years. We're now on track to do that and, therefore, to the extent that we do that, we're going to need some money to be able to maintain that next year.

Second, for pay increases. Our policy is, if you're performing at meets expectation or better on all applicable competencies and you're paid within applicable competitive compensation ranges, you're going to get some across-the-board pay adjustment. In addition to that, you're going to get an additional adjustment based on how you do relative to your peers.

Senator ALLARD. So the \$7.5 million not only includes the new 50 employees, but also there is some pay increase adjustments figured in.

Mr. WALKER. That's correct, Mr. Chairman.

Senator ALLARD. Okay. So the \$150,000 is entirely too generous.

Mr. WALKER. That's correct, Mr. Chairman. And then, we have the 50 employees, not all of which are going to be hired on day one. They'll be hired throughout the year.

Senator ALLARD. Yes.

Mr. WALKER. And depending upon what you finally give us for a budget, it will determine how many we can hire, if we can hire them, and when we can hire them.

#### CALCULATING THE TOTAL EMPLOYEE COST TO THE GOVERNMENT

But you raise an excellent point, which I would like to reinforce. And that is, we're trying to get our employees to understand more about the concept of total compensation, which you and I have talked about before. It's not just how much you pay in cash, in the form of salary, bonuses, incentive awards, and things of that nature, but it's also how much you receive in the form of healthcare, pension, and other benefits. In our budget, the average load factor that we have to bare directly is about 24 percent, I believe.

However, when you consider the fact that some costs are borne by the Office of Personnel Management (OPM), with regard to things like the Civil Service Retirement System (CSRS) cost, et cetera, the actual load factor is about 31 percent. So for every \$1 we pay somebody, they receive compensation of \$1.31 because of other benefits that ultimately, the taxpayers have to pay.

But I would ask Sallyanne if she's got anything she wants to add on this.

Ms. HARPER. Mr. Chairman, the only thing that—

Senator ALLARD. So, I just want to clarify, if I might, before we move to the last statement. So, if you pay them a \$1, there's one-third of that—

Mr. WALKER. Added—

Senator ALLARD [continuing]. Added on. It would add on as additional benefits. So the \$1 that you talk about in actual cash, becomes \$1.32 because of the benefits of the employee.

Mr. WALKER. Two points, Mr. Chairman. For our budget, which is before you, the \$1 becomes \$1.24. For our financial statements, which is important, which is ultimately what the taxpayers have to bear, \$1 becomes \$1.31.

Senator ALLARD. I see. Okay.

Ms. HARPER. The only addition I would make, Mr. Chairman, is that we do disproportionately hire into the analyst core and that is a higher salary rate in general, than other portions of our budget. So the evaluators, the analysts, and particularly the specialists are going to have a higher initial compensation rate than people in the administrative and professional services community.

Mr. WALKER. It's important, Mr. Chairman, to note for the record, that last year, over 90 percent of the people that we hired as auditors, investigators, analysts, evaluators, and attorneys had advanced degrees from top schools in the country. We are hiring some of the Nation's best and brightest, and it's very, very important that we be able to compensate them appropriately, because we are only as good as our people.

Senator ALLARD. Particularly in what you're trying to accomplish, that's your personnel incentive.

Mr. WALKER. Eighty percent of our budget is personnel cost.

Senator ALLARD. Yes.

Mr. WALKER. And so, if we don't get adequately funded, it starts cutting into the bone pretty quickly.

#### EARLY RETIREMENTS

Senator ALLARD. Let me move on to early retirements. Would you please explain your criteria for approving voluntary early retirement applications and ensuring that areas where there is a supply and demand imbalance or a recruiting challenge, are not negatively impacted?

Mr. WALKER. Well thank you for the question and let me also thank you and your colleagues for giving us the legislative authority that we needed to make more intelligent decisions in this area.

Basically, several years ago, we sought and the Congress gave us authority to be able to target early retirement offers to a greater extent, than previously was the case; you also gave us the authority to say no. Basically, we're trying to use early retirement offers to help realign GAO's workforce, to be able to reallocate resources from areas where we have more supply than demand, to areas where we have more demand than supply. We're also trying to use it to try to help with succession planning. Because as you probably recall, Mr. Chairman, before I came to GAO, we had a hiring freeze for about 5 years. We were downsized 40 percent. And so, we had a real gap in our development pipeline and a very high and increasing percentage of people that were going to be eligible for retirement.

The bottom line is anybody can come forward and seek early retirement. But whether or not they're going to be approved, is based upon what we need from a workforce standpoint to meet our client demands, and we also consider the performance of the individual. We're not looking to lose people in areas where we have supply and demand imbalances and ones that are top performers. We're looking to try to use this as a strategic workforce realignment tool.

Most people that come forward are approved, but not all.

#### GOVERNMENT ACCOUNTABILITY OFFICE'S MARKET-BASED PAY SYSTEM

Senator ALLARD. Okay. Now let's go to your GAO pay system. You've gone into it in some detail already. What are the major objectives of your market-based pay system and how would you assess your success in meeting those objectives?

Mr. WALKER. There are a number of objectives, Mr. Chairman. Number one, the overall objective is that we want to be able to attract, retain, motivate, and reward a top flight workforce. Compensation is one element to do that, but it's only one. As you know, Mr. Chairman, those of us—yourself, myself, all of us here included, don't come into Government to maximize our net worth. We come into Government to maximize our abilities and to make a difference. And it's not just about the money, it's also about the difference that you can make in the lives of others.

But we need to be competitive with those organizations that we actually compete for talent. Whether that be the Office of Management and Budget (OMB), whether that be the Congressional Budget Office (CBO), whether that be the think tanks, or whether that be the major accounting firms, whom we actually compete with for talent, based upon hiring and to whom we lose people. So we wanted to make sure that we achieve that objective. We also wanted to make sure that we were targeting our limited resources. Because, we have limited resources. Therefore, we are targeting money to where the market requires it and where performance supports it. We want to target our dollars based on skills, knowledge, and performance.

And so my view is, by conducting our first ever competitive compensation study in the history of GAO, which was created in 1921, we are now in a much better position to provide reasonable assurance that we are paying competitively and allocating our dollars more intelligently. I think that's not only in our interest, it's in the Congress' and the country's interest.

Senator ALLARD. Yes. I applaud you for those efforts in that area. They're not unique in the private sector, but certainly unique on the Government's sector.

#### CHANGES TO THE GOVERNMENT ACCOUNTABILITY OFFICE'S PAY SYSTEM IN THE PAST YEAR

Now, what changes in the pay system have occurred in the last year? Anything specific that you want to highlight for us?

Mr. WALKER. The biggest changes that have occurred in the last year, and when I say the last year, I'm including this current fiscal year.

Senator ALLARD. Yes.

Mr. WALKER. We now have implemented the new market-based compensation ranges. That's number one. Number two, we have also implemented a new system for determining annual pay adjustments for all of our personnel. And number three, the effects of the restructuring that I mentioned before, the so-called Band II level personnel, that has taken place. Let me briefly touch on that, as you know, under the old system of compensation in Government, everybody had the right to be paid at the pay cap, irrespective of their performance. It was an entitlement. It wasn't a matter of if somebody was going to make the pay cap, it was only a matter of when they were going to make the pay cap. Because until we received an exemption from the Congress, we had to give the across-the-board pay adjustment that the executive branch had to give every year to all employees, irrespective of their performance. And believe it or not, on the executive branch side, even unacceptable performers are by law, entitled to that adjustment, which I would respectfully suggest Congress may want to reconsider. Now, there's not very many GAO employees in that category, okay? But intellectually it makes no sense.

So we have implemented new competitive compensation ranges. There were pluses and minuses to that. There were some of our occupations and some levels, where we've raised our pay ranges, both the cap as well as the minimum, are subject to statutory limits. As you know, we can't pay what we call a Band III, which is an assistant director, more than a GS-15, step 10 level. And so, that's a constraint.

But below that, it's market based and everybody has the opportunity to make the pay cap, but not necessarily the right. For the higher levels you have to perform in excess of certain levels in order to be in top end of the pay range. The reason is, because there is an overlap with the next level of responsibility. Our philosophy is that you can justify paying people at a lower level, who are really strong performers as much as people as the next level, but you can't justify paying below average performers, at a lower level of responsibility, more money than somebody at the next level, who might be a higher performer would be paid.

Senator ALLARD. Yes.

#### BAND II RESTRUCTURING

Mr. WALKER. Now, the most challenging aspect of this, Mr. Chairman, has to do with this Band II restructuring. And I'll give you a few stats to bring it to life. We had 1,238 Band II's when we started this process. That's out of about 3,200 employees. So you can see, that's the largest component of our workforce. When we received the results of the competitive compensation study, we had to make the decision on which one of those 1,238 should be put in the higher pay range, which gives them a chance to make up to \$10,000 more, and which ones should not. In some cases, individuals may be making more than they should be making, based upon the market ranges. We had an extensive process that resulted in everybody being able to apply. Of the 1,238, 794 applied, 757 were deemed eligible, 409 were initially placed into the higher Band IIB range. Seventy-eight of the ones who were not originally placed, appealed directly to me. I placed 19 of the 78 into Band IIB. In addi-

tion, five, who didn't even appeal to me, were placed into Band IIB because I modified the relative performance criteria. Therefore, some individuals benefited from that change, even through they did not appeal.

So in summary, 433 or 35 percent of all our Band II's, were placed in the higher pay range. There are 236 people who, when we made the decisions based upon their roles, responsibility, relative performance, and potential, did not justify being placed into the higher pay range, but were already getting paid in the higher pay range. So they were making in excess of competitive compensation levels. For those people, we did not cut anybody's pay, because they played by the rules. It wouldn't be right. It wouldn't be fair.

At the same time, if they were already paid in excess of competitive compensation levels, we didn't give them the automatic across-the-board adjustments because they were already paid in excess of competition compensation levels. But we did give them the right to make additional pay increases, based on their performance. And a vast majority did get some pay increase even if they didn't get the across-the-board adjustment. They will, if they end up getting moved to the next level, or as pay ranges change over time. So that's where we are. And I apologize, that took a little bit of time, but it's a fairly complicated matter.

#### EMPLOYEE PERCEPTION OF NEW PAY SYSTEM

Senator ALLARD. Okay. I want to follow up a little more on that. What is the morale, after you've implemented that system, among the employees?

Mr. WALKER. We do an annual confidential electronic employee feedback survey, which we'll do in July and that will give us more concrete information on morale. I will give you my opinion, based upon extensive interaction with our employees, talking to our managing directors, talking to our Employee Advisory Council, meeting with our employees, and answering their questions.

My view is that there is no easy way to tell somebody that their pay is in excess of competitive compensation levels. There's no easy way to tell somebody that you are not going to continue to receive across-the-board adjustments that you've been receiving year, after year, after year. All right. And so my view is that there is a significant percentage of those individuals who were not placed into the higher pay range, that are disappointed, and I'm sure that that's had some impact on their "morale."

At the same point in time, we've taken several steps to try to mitigate any adverse morale impact. First, rather than only allowing for competitive placements from the so-called lower IIA pay range to the higher IIB pay range, once a year, we're going to have a second competitive placement process that will be effective near the end of June. We've erred on the side of generosity in allocating the number of competing positions, so that more people will have an opportunity to make it. We're going to do another competitive process next January. So basically, that means within a 12-month period of time, we will have had three placement cycles, and then we'll move to an annual cycle after that.

My view is that while a significant percentage of the people who did not get placed into IIB and my understanding is that there

were 345 people out of 3,200 roughly, who did not receive an across-the-board increase, because of this factor or because they were otherwise paid in excess competitive compensation levels.

Obviously, a significant percentage of those people aren't happy with the result. But that's a subset of our workforce. That's only about 11 percent of our workforce. I feel confident that not only was it the right thing to do, but it was necessary to do especially given tight budgets.

The other thing that we did to try to ease the pain which, as I said before, was not to cut anybody's pay. In addition we told every Band II employee who was onboard in January, that they would have the opportunity to earn up to what they could've earned under the old system, which in Washington, is almost \$119,000 a year in cash compensation only, with benefits added on top of that. They will have that opportunity to earn that but at a slower rate than they could have under the old system. So we're preserving their ability to make what they could have under the old system at a slower rate, but we're providing them an opportunity to make more money if their skills, knowledge, roles, responsibility, and performance justify. Over the long term, this will clearly be a plus. In the short term, sometimes you have to have short-term pain to get long-term gain. And that's where we're at.

Senator ALLARD. Well, we had a communication from one employee here, who felt that somehow or the other, he'd been promised that he was automatically going to get this annual increase and this particular year, it would have been a 2.6-percent increase. Do you have any response to that?

Mr. WALKER. Well without knowing the facts, I can say this, I never committed, nor would I ever commit to pay an across-the-board pay increase to an individual who's paid in excess of competitive compensation levels. I never committed to that, nor would I commit to that.

#### POTENTIAL FOR GOVERNMENT-WIDE USE OF MARKET-BASED PAY

Senator ALLARD. Okay. Would you recommend this pay system be used Government-wide, at this point in time?

Mr. WALKER. I believe there are several aspects of what we've done, that have potential merit for broad-based application throughout Government. Although each workforce is different, and therefore you need to make some changes. For example, I believe that individuals who perform at a meets expectation level or better, who are paid within competitive compensation ranges, should, at a minimum, receive some pay adjustment, based upon how the pay ranges change each year.

In addition to that, I believe that any additional pay adjustment that people receive should be based on how they perform relative to their peer group. So that means, if you do like we do, where we set the bar high on expected performance and if you hit that bar for meets expectations, you're going to get something. But how much extra you're going to get, depends upon how you compare to your peer group, with the top performers getting more money than people who are good performers, but not top performers.

I think that framework has a great deal of intellectual merit, and when I've gone around speaking to executives and others at other

agencies, they have found that it is a possible bridge from a system where 85 percent of the pay was on auto pilot and 15 percent was merit based, to one where everything relates to merit, but you're going to get something, as long as you're a solid performer. But how much more you'll get, depends upon how you do relative to your peers.

#### LESSONS LEARNED IN IMPLEMENTING MARKET-BASED PAY

The other thing that I think makes sense is you've got to do market-based compensation studies. Most agencies in Government have never done that. When you end up going to broad banding, you really need to make sure you make solid decisions on how many bands you set up, based upon roles and responsibilities. We made two mistakes in 1989. Hindsight is always 20/20.

Senator ALLARD. Well, you learn.

Mr. WALKER. Yes. We made mistakes in 1989. Number one, we combined two GS levels into one pay band that we shouldn't have, because they were different roles of responsibility. That caused us to have to do this Band II restructuring, because it was clear that we had people with different roles and responsibilities. Second, the agency assumed that the GS pay ranges were reflective of the market.

Now they may or may not have been in 1989, but they're surely not today. So when agencies are moving forward, they have to be careful on how many pay bands they set up, based upon meaningful differences in roles and responsibilities. Then, they need to conduct competitive compensation studies to decide what the pay ranges ought to be for those bands.

The last thing that I would say that's relevant, is that it's okay to have overlaps in pay ranges. It's okay from somebody in a lower level to have the opportunity to make as much or more than the lower end of the pay range at the next level. But in my view, the only people that you can justify doing that for, are very strong performers. That shouldn't be an entitlement. Because otherwise, you don't get equal pay for work of equal value, over time. And that's one of our objectives too, though I didn't mention it before, that I think is an important principle.

#### STAFFING UP TO REDUCE BACKLOGS

Senator ALLARD. Last year, you talked about your single biggest backlog was in the area of healthcare. Have you fully staffed that area, now?

Mr. WALKER. I would ask Gene Dodaro to look at some data. We clearly still have a backlog in the healthcare area. But I would footnote before Gene gets into the area, the backlog we're going to talk to you about, is engagements that we've accepted. And one has to use a note of caution, because there could be demand on the Hill that we haven't received yet and have not accepted yet. In some cases, people don't send us things because they already know that we have a backlog. So with that footnote, I would ask Gene to give you the backlog statistics.

Senator ALLARD. Gene.

Mr. DODARO. Mr. Chairman, we've begun addressing the backlog issue in healthcare and have made a little progress, but not much.

Basically what's occurring there, because of large growth in healthcare expenditures and the interest in healthcare, particularly with the addition of the prescription drug benefit in Medicare part D, the requests and mandates from Congress just keep coming in at a fast pace. And there's also more interest now in how FDA handles drug safety issues. There's more interest in bioterrorism concerns and public health preparedness and readiness. So the range of issues just keeps growing, both in the Medicare program, as well as the Medicaid program, in public health, and in the regulatory structure. So we don't believe we can make much more progress unless we add additional people.

We've also reinforced a process that we've had in place for a number of years now, to look at potential mandates. When Congress introduces a bill, there's often a requirement for a GAO study in there and so, we try to talk to the people once the bills are introduced. If it's something that may not fall within our scope of our responsibility, or be something that we've already addressed we try to deal with it.

The other big backlog area has been in homeland security. And of course following September 11, 2001, a lot of concerns about the areas that the Department of Homeland Security is addressing. And then, came Hurricanes Katrina and Rita, et cetera. And a lot of concern has, as everybody knows, emerged about the Federal Government's response in that area. And so that has occurred in addition to the continuing concerns about air transportation, railroad security, port security, and all the other issues that have been addressed. So that's been layered on top and is causing an additional backlog in that area, as well.

Ms. HARPER. Mr. Chairman, to address the second—

Senator ALLARD. Ms. Harper.

Ms. HARPER [continuing]. Part of your question, healthcare is on track to be fully staffed. Their hiring is going very well this year, so their staff should be fully onboard as we come toward the end of the fiscal year.

Mr. WALKER. And the third area, Mr. Chairman, where there's a big backlog, is natural resources and the environment, for fairly obvious reasons and yourself being from the West, you can appreciate some of those issues.

COMPARATIVE ANALYSIS OF THE GOVERNMENT ACCOUNTABILITY  
OFFICE'S SUPPLY-DEMAND IMBALANCE

Senator ALLARD. Yes. Okay. I'd like to have you provide, unless you already have it with you, a comparative analysis of GAO's current supply and demand imbalance between staff capacity and job demands of the last 5 and 10 years. Can we do that with current figures?

Mr. WALKER. We'll be happy to provide data for the record, Mr. Chairman.

[The information follows:]

*Question.* For each of GAO's 13 mission areas, please compare changes in the supply/demand imbalance between staff capacity and job demands for fiscal years 2006, 2001, and 1996. How does GAO measure supply and demand as it relates to this issue? What criteria does GAO use to identify backlogs?

*Answer.* As of the end of March 2006, GAO had 374 requests from Congress that had not yet been started (defined as the imbalance between supply and demand).

This compares to the 361 requests pending at the end of fiscal year 2001 and 349 requests pending at the close of fiscal year 1996.

Pending requests include those (1) assigned to teams but still awaiting screening at GAO's weekly Engagement Acceptance Meeting, (2) approved at the EAM to start but not yet begun, and (3) awaiting staff. It does not include work that is contingent on a future due date or event.

The following table shows the number of pending requests for each of GAO's 13 mission teams as of the end of March 2006 and the end of fiscal year 2001. GAO's mission teams were organized by the current Comptroller General beginning in fiscal year 2001, so information on their pending requests in 1996 does not exist.

PENDING REQUESTS BY MISSION TEAM

Current Team	2001 <sup>1</sup>	2006
Acquisition and Sourcing Management (ASM) .....	23	37
Applied Research and Methods (ARM) .....	3	3
Defense Capabilities and Management (DCM) .....	8	21
Education, Workforce, and Income Security (EWIS) .....	18	23
Financial Management and Assurance (FMA) .....	1	44
Financial Markets and Community Investment (FMCI) .....	15	13
Health Care (HC) .....	84	82
Homeland Security and Justice (HSJ) .....	NA	45
International Affairs and Trade (TAT) .....	7	12
Information Technology (IT) .....	17	12
Natural Resources and Environment (NRE) .....	59	54
Physical Infrastructure (PI) .....	38	22
Strategic Issues (SI) .....	12	6

<sup>1</sup>Tax Administration and Justice (TAJ) had 69 pending requests at the end of fiscal year 2001 and the Office of Special Investigations (OSI) had 7. TM was merged mainly into HSJ and SI and OSI was merged mainly with FMA and the Office of General Counsel.

GOVERNMENT ACCOUNTABILITY OFFICE'S HIGH RISK LIST

Senator ALLARD. Another area I wanted to cover before we bring things to a close is your high risk list. Can you give us a rating of how effective that program might be?

Mr. WALKER. Well Mr. Chairman, thank you for asking that question. It's a very timely question. I have to give credit to my predecessor, Chuck Bowsher and the individuals who were at GAO in the early 1990's for creating the high risk list. It's been public since around about 1992. Since I've been Comptroller General, I've tried to work with our GAO executives and others, to make it a much more strategic list. Not just focused on fraud, waste, abuse, and mismanagement which will never be zero, but also to address major transformation challenges facing the Federal Government and to take a more strategic approach.

I'm pleased to say, that a very high percentage of our hearings and a very high percentage of our financial benefits and other accomplishments, are directly related to the high risk list. The Congress is focusing on the high risk list for the most part. GAO continues to focus on it. The administration is now working with us to create action plans for every high risk area. As you know, the President's management agenda is based, in large part, on GAO's high risk list and that is not an accident.

Furthermore, GAO's high risk program is being emulated in other countries, in other States, and localities and is now on the short list for an Innovations in Government Award from Harvard. Whether or not we'll be selected, we've made the short list. This program is making a difference, and I think it's an example of when you're dealing with an entity that's as vast as the Federal Government and when you've got limited resources, you need to fig-

ure out some way to target. We can target, the Congress can target, the agencies can target whatever resources and authorities they have, to have the most impact. This has clearly been a valuable tool in getting that done.

I don't know if Gene has anything.

HISTORY AND IMPORTANCE OF THE GOVERNMENT ACCOUNTABILITY  
OFFICE'S HIGH RISK LIST

Mr. DODARO. Mr. Chairman, I've been involved in the program since it was created back in 1990 and I can tell you, it has tremendous value over time in sustaining attention between administrations and with changes in the Congress. A lot of these problems require sustained attention over time. And even for some of them, the areas that are still on the high risk list, even though they have not been taken off yet, there's been a lot of progress made because of this sustained attention. Medicare, for example, now has a means to measure the level of improper payments that they're sending out. That didn't exist when we put them on the list back in 1990 and that's enabling them to measure the degree of progress that they're making and target corrective actions.

Tax enforcement, the latest measure of the tax gap had occurred back in 1988 and because that area has been on the high risk list, there has been a new estimate made of the tax gap, which is about \$300 billion. In the Department of Energy (DOE) area for example, on contracting, since we've put that on the list, even though they're not taking off yet, they're now competing contracts, where they had not been before and other progress has been made.

So it's a very, very effective means and I could tell you, when Dave and I have met with heads of agencies, nobody really wants to be on the list and they're making concerted progress to get off. And they see the benefits of also being on the list, to get attention to their area.

Mr. WALKER. But let me footnote, Mr. Chairman, in addition to everything that Gene said, by taking a much more strategic and transformational approach to the high risk list, I must say, that I have actually received two telephone calls from heads of agencies, thanking us for putting them on the high risk list. And let me tell you why. Because one of the things that we've also done, is we've noted which items on the high risk list not only require action by the executive branch, but also require action by the Congress. And when you look at that high risk list, anything that has an asterisk, means that both branches of Government have to be involved to create a more positive future. In many cases, by putting an item on the high risk list, that provides attention and additional momentum for changes not just within the executive branch, but also within the legislative branch. One example of that, is a topic that you talked about earlier, namely human capital reform. We put that on our high risk list in January 2000. There's been more done administratively and legislatively in the human capital area since January 2000, than the 20 years prior to that. Therefore, it can make a difference. It is making a difference.

CRITERIA FOR COMING ON AND OFF THE GOVERNMENT  
ACCOUNTABILITY OFFICE'S HIGH RISK LIST

Senator ALLARD. Let me serve the role of a devil's advocate, we have two that have been on there—DOE and the National Aeronautics and Space Administration (NASA) contract management. They've been on there forever. And there hasn't seemed to be any improvement. Doesn't that diminish the effectiveness of your program?

Mr. WALKER. Well we've had a number that have come off over the years and we've had some that have come on over the years. I can assure you, that people don't come off until they earn coming off.

The other thing that is different here is that within 1 year of my coming on board, one of the things that we did working with GAO's executives and also providing an opportunity for comments from the Congress and the executive branch, we came up with clearly defined, transparent, and consistently applied criteria for what it took to go on the list and what it took to come off the list. This has helped tremendously.

And the last thing I would say is this, the current administration is taking the high risk list seriously, as evidenced by the fact that they're working with us and the agencies to try to develop a specific action plan for each item to eventually get off the list. In some cases, it took years for people to get where they are, and it's going to take years to get off.

The most prominent example, Mr. Chairman, is that the Defense Department has 8 of 25 high risk areas individually and shares all 6 of the Government-wide areas. So it has 14 of 25. And in many cases, Mr. Chairman, it's not just because it's going to take a long time to deal with it and there needs to be more attention in the executive branch, it's because there needs to be more attention paid in the legislative branch. There needs to be more accountability than there has been, in many regards.

Senator ALLARD. Have we ever had any legislative agencies on this list?

Mr. WALKER. This list has been geared toward the executive branch, which is an overwhelming percentage of Federal revenues and expenditures. And as you might imagine, Mr. Chairman, that raises certain sensitivity issues, since we are a sister agency to other legislative branch agencies.

Senator ALLARD. Just a thought I had. Okay. Before concluding the hearing, I would like to thank your staff for the exceptional work that they do to support this subcommittee. And in particular, Bernard Ungar and Terrell Dorn have been steadfast in their commitment to support our oversight of the Capitol Visitor Center.

In addition, Gloria Jarmon and many of your other staff provide outstanding advice and guidance to the subcommittee routinely and we appreciate their efforts.

## ADDITIONAL COMMITTEE QUESTIONS

There will be some additional questions that will be submitted to your agency for response in the record.

[The following questions were not asked at the hearing, but were submitted to the Office for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR WAYNE ALLARD

*Question.* GAO's budget requests 50 additional full-time equivalent employees. What is the full-year cost for the additional FTEs, and why isn't this cost made clear in the budget justification?

*Answer.* The full-year cost for 50 full-time equivalent (FTE) staff is about \$5.8 million using an average annual salary of \$116,362 including benefits. Our work-force plan projects that we will end fiscal year 2006 with an onboard strength of 3,350 staff. This staffing level will position GAO to utilize 3,217 FTEs in fiscal year 2006 and 3,267 FTEs in fiscal year 2007.

The cost to support these staff in fiscal year 2007, assuming no other staffing changes, is included in the budget request as part of estimated annualization costs. The annualization cost represents the difference between the estimated costs to be paid in fiscal year 2006 and fiscal year 2007. The annualization cost has been reduced by expected savings from leave-without-pay and part-time schedules, and includes the cost to maintain our student intern and knowledge transfer programs. The intern program has been an effective recruitment tool for permanent hires, especially in our specialized areas of accounting and financial management. The knowledge transfer program is a vital tool in our succession planning strategy to help ensure continuity of operations.

*Question.* Given that GAO's budget was cut below the request in fiscal year 2006, how has the agency managed to maintain the fully authorized level of FTEs?

*Answer.* We expect to be able to maintain 3,217 FTEs in fiscal year 2006 primarily due to lower average compensation costs than estimated. We estimate our actual fiscal year 2006 compensation costs will be lower than we estimated in January 2005 at the time our budget request was prepared, primarily due to: (1) a lower on-board strength at the beginning of fiscal year 2006 than assumed in our budget request; and (2) institution of our new compensation program which is market-based and more performance-oriented that will result in somewhat lower average salary growth than originally expected.

*Question.* Given GAO is requesting 50 additional employees, why is there a need for \$500,000 in additional costs for contract services?

*Answer.* Based on our current assessment of trends in engagements and audits, we anticipate an increasing demand for technical expertise. We expect to continue to rely on external experts and advisors in disciplines related to our work in physical infrastructure, education, pension simulations, health care, natural resources, economic analyses, and survey assistance. Contract services support congressional engagements by providing specialized, expert advice and assistance not readily available from GAO staff and not necessarily needed on a recurring basis. Contract services are also used when certain kinds of expertise are needed within a compressed time-frame to meet congressional needs for particular engagements, projects, or audits. For example, we plan to use contract services to provide expertise on a congressional request related to utility tunnels.

Examples of contract services can range from expert advice on specific issues to an analysis of a particular program. We have found that contracts—such as with the National Academies—provide an efficient, flexible vehicle to obtain technical assistance and expertise in highly specialized areas. We have used the expertise of the National Academies in such areas as: information on trends in printing and dissemination, technologies to protect structures from wildfires, environmental indicators, air traffic control modernization and privatization, vulnerabilities of federal lands to climate changes, and the Capitol Visitor Center.

*Question.* GAO's budget includes \$3.894 million in "relatively controllable costs" associated with information technology. Please provide a breakout of the projects and activities that comprise the \$3.894 million estimate, and the projected impact of not funding each of these items.

*Answer.* In preparing our fiscal year 2007 budget request, we vigorously scrubbed our requirements and limited the items included in our request to selected, targeted initiatives that we believe are essential to our ability to maintain our effectiveness and productivity. These initiatives primarily relate to (1) enhancing critical business systems and (2) addressing security requirements resulting from recent federal guidance. If funding is not directly provided for the requested initiatives, we may need to consider delaying these improvements which will only result in increased cost over time due to future price level increases. Alternatively, we may need to consider our staffing levels in fiscal year 2007 in order to ensure that we could pursue these initiatives. The following table provides additional information on the requested in-

creases for Information Technology activities and the impact of not funding these items.

FISCAL YEAR 2007 INCREASES REQUESTED FOR INFORMATION TECHNOLOGY ACTIVITIES

[In thousands of dollars]

Activity	Amount
Replace GAO's financial management system ..... GAO's financial management system needs to be replaced now and is a priority effort over the next 2 years. Our financial management system is antiquated, is no longer supported by the vendor, fails to meet current business system requirements, and is in danger of failing. If the system is not replaced expeditiously, we run the risk of being unable to (1) effectively operate our financial management system, (2) produce auditable financial statements, and (3) meet internal control standards without extensive manual intervention and support.	1,400
In fiscal year 2006, we plan to select a government cross-service provider and begin a phased implementation in fiscal year 2007. The replacement financial management system will provide integrated budgeting, purchasing, and accounting functionality while enhancing the information available to program managers, and allow us to meet our goal of being a model agency.	
Enhance the Engagement Management and Job Information Systems ..... In fiscal years 2006 and 2007, we plan to continue the redesign of the Engagement Management System and Job Information Systems. With the integration of existing systems such as the Congressional Contact System and Staffing Information System into the Engagement Management System, the new system will provide a more robust management tool which will allow one information source and access point for planning, staffing, and management of GAO's evaluation work. Currently, GAO maintains multiple systems with similar data, requiring managers to enter redundant data into multiple databases, reconcile information to ensure its accuracy, and access multiple systems to obtain information needed to manage and conduct congressional engagements.	425
Improve IT security and systems ..... In fiscal year 2006, GAO will relocate its alternate computing facility for disaster recovery and continuity of operations from a commercial site to one that is shared with other legislative branch agencies. In fiscal years 2006 and 2007, we will continue to implement security features to identify and stop potential hackers and improve the overall security of the agency's information and technology assets. In fiscal year 2007, we will initiate the transition to Internet Protocol version 6 (IPv6) to comply with federal guidance and policy to implement IPv6 by fiscal year 2008. This will require the upgrade of numerous infrastructure devices and GAO applications to ensure interoperability and IT security. With the completion of installing SIPRNet—DOD's Internet for sharing data classified up to the secret level—in the field offices, our efforts will shift to installing access to DOD's Non-classified Internet Protocol Router Network system, NIPRNet, in fiscal year 2007. Electronic access to DOD's systems allows staff to obtain information needed to complete engagements without incurring travel costs. In addition, we will build upon our design of the Hurricane Central Portal to create portals that will provide a single access point to enterprise information resources, tools, and common applications within the GAO network. These portals will facilitate timely and effective staff research and access to data needed to respond to congressional inquiries. The initial focus will be a portal for the core business and analyst communities.	2,069
Total .....	3,894

*Question.* GAO's budget proposes \$3.819 million in "relatively controllable costs" associated with building management. Please provide a breakout of this requested increase, and the impact of not funding these items.

*Answer.* In preparing our fiscal year 2007 budget request, we vigorously scrubbed our requirements and limited the items included in our request to selected, targeted initiatives that we believe are essential to our ability to maintain our effectiveness and productivity. These initiatives primarily relate to (1) cyclical maintenance identified in our 2005 GAO Building Condition Assessment Report, and (2) security requirements resulting from recent federal guidance. If funding is not directly provided for the requested initiatives, we may need to consider delaying these improvements which will only result in increased cost over time due to future price level increases. Alternatively, we may need to consider our staffing levels in fiscal year 2007 in order to ensure that we could pursue these initiatives. The following table provides additional information on the requested increases for Building Management activities and the impact of not funding these items.

## FISCAL YEAR 2007 INCREASE REQUESTED FOR BUILDING MANAGEMENT ACTIVITIES

[In thousands of dollars]

Activity	Amount
GAO Building Maintenance and Repair .....	922
<p>In fiscal years 2006 and 2007, we plan to undertake several maintenance and repair projects identified in our 2005 Building Condition Assessment report. In fiscal year 2007, we plan to continue upgrades to the heating, ventilation, and air-conditioning systems, replace the cooling towers, upgrade the hand-capped lift, and perform cyclical maintenance on the building elevators. In order to ensure the safety of GAO staff, we could not defer critical elements, such as elevator upgrades.</p>	
Increase Security For Incoming Mail And Packages .....	400
<p>We plan to relocate and consolidate our mail and package receiving facilities to help ensure the safety and security of GAO staff and assets in the event of the receipt of hazardous materials.</p>	
Upgrade Contract Security Force .....	610
<p>In fiscal year 2005, we restructured the contract for the security force to upgrade the qualifications for the security force to Special Police Officers, gradually replacing GSA guards. The restructuring will help ensure a more professional, secure environment. In fiscal year 2006, we completed the restructuring of the security force and have attained full staffing with special police officers. The requested increase represents the annualized cost of making the transition from GSA guards to special police officers. If the requested funding is not available, we would be required to reduce the number of officers that we could support and determine other ways to help mitigate the potential risks to GAO staff and assets.</p>	
Integrated Electronic Security System (IESS) .....	1,225
<p>We plan to implement an IESS at GAO headquarters in fiscal year 2006 and expand the system to the field offices in fiscal year 2007. The IESS will allow GAO to integrate headquarters and field office access control, surveillance, and alarm systems and provide the ability to monitor field activity from a console in the headquarters Command Control Center. We anticipate some savings will result from integrating the field offices and headquarters control systems and less reliance on the Federal Protective Service (FPS) in the field. The integrated system will allow GAO to comply with Homeland Security Presidential Directive 12 (HSPD 12) which sets forth requirements for using government-issued identification, Smart Cards, to permit access to federal agencies.</p>	
Security Investigations .....	197
<p>In fiscal year 2006, we will start conducting higher-level investigations on contractors and interns to meet the requirements of HSPD 12 for the issuance of government identification to allow access to federal facilities. In addition, in fiscal year 2007, a significant number of staff are due for cyclical updates of their security clearance which is required to gain access to needed information and facilities.</p>	
Upgrade Tax Rooms .....	225
<p>We plan to assess secure space in the field offices and implement changes needed to comply with Internal Revenue Service guidelines for storing tax returns and other sensitive information.</p>	
Design For Library & 7th Floor .....	240
<p>We plan to redesign the physical layout of our library facility to (1) reconfigure space to improve work collaboration as we reduce our physical collection and migrate to greater use of electronic resources, and (2) design additional workspace to accommodate displaced GAO staff when the GAO Building is used as an alternate facility for congressional staff.</p>	
Total .....	3,819

## QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

*Question.* How many GAO staff did not perform at a satisfactory level (meets expectations or better rating) in 2005 and were thus ineligible for purchase power protection?

*Answer.* Only 8 staff did not perform at a meets expectation level or better and therefore did not receive an annual adjustment. In addition, 19 staff did not meet the relative performance requirements for satisfactory performance and therefore did not receive an annual adjustment.

*Question.* What happened to these individuals?

*Answer.* The 8 employees whose performance was not at a meets expectations level or better did not receive the annual adjustment or any other salary increases or performance bonuses. The remaining 19 employees did not receive the annual adjustment, but were assessed for performance based compensation and were eligible to receive a performance bonus.

*Question.* Were the affected employees aware of the reasons for being denied their COLA's?

*Answer.* Yes. GAO has implemented a market-based and performance-oriented compensation system and does not provide an across-the-board increase to all em-

employees regardless of their performance, roles and responsibilities or salary in relation to the market. Our annual adjustment reflects changes in the cost of labor and is one component of an employee's compensation. As noted above, some employees were ineligible for this adjustment due to their performance.

Employees who didn't receive adjustments due to "below expectations" ratings were made aware that their appraisals made them ineligible for salary adjustments or performance bonuses. The 19 employees who didn't receive annual adjustments due to the relative performance criteria were considered for performance based compensation. All staff can access a performance-based compensation report from a web-based system. This report contains information about employees' ratings, base salary increases and/or performance bonuses, but does not provide a specific explanation of why the amount may be a bonus rather than a base salary adjustment. Various communications were undertaken to inform staff as to the nature and basis for 2006 salary adjustments—including who was or was not eligible for the annual adjustment component. These included a special Comptroller General televised chat for which the briefing materials were posted for all staff. A GAO order covering the annual adjustment and performance-based compensation process was issued for notice and comment. Lastly, a PBC guide with calculation examples was posted on the GAO intranet. Human Capital Office staff also provided specific explanations of individual salary adjustments to employees upon request.

*Question.* What affect has the GAO Human Capital Reform Act had on the morale of the employees in your agency?

*Answer.* The Human Capital Reform Act (HC II) was passed in July 2004 and provided GAO with several flexibilities including permanent authority for the Comptroller General to offer voluntary early retirement, voluntary separation incentive payments, enhanced annual leave for key employees, flexible relocation benefits and an executive exchange program. In addition, the act authorized the Comptroller General to establish revised pay retention regulations and to determine the annual salary adjustment for GAO staff rather than increasing salaries by the percentage authorized for the General Schedule. The Comptroller General's authority to establish the amount of the annual adjustment was effective for increases effective on or after October 1, 2005. Therefore, January 2006 represented the first exercise of this authority.

GAO conducts an annual employee feedback survey to give staff an opportunity to provide input on various issues relating to their employment at GAO. The results from the 2005 survey which was the first conducted since the passage of Public Law 108-271 (May and June 2005) show morale improved from the prior year with 71.24 percent of employees agreeing or strongly agreeing that their morale was good. In the 2004 survey (July and August of 2004), 68.76 percent of employees agreed or strongly agreed that their morale was good. While we can't attribute changes in morale to this particular legislation or any other single factor, the next survey will be conducted in the summer of 2006 after the HC-II pay flexibilities have been exercised. Employees' responses on the morale question have trended upwards in 2003, 2004 and 2005 and we will track the 2006 responses when the survey is completed in light of the legislation and other changes that have occurred in the agency in the past year.

*Question.* Why did you not allow for a minimum of a two year transition period before implementing the GAO annual pay adjustment provisions?

*Answer.* We did. In 2003, as part of our legislative proposal, the Comptroller General laid out plans for a 2-year transition period with increases under the new authority occurring in January 2005 at the earliest. Public Law 108-271 was passed in July of 2004 and provided for implementation of the Comptroller General's annual pay adjustment authority to be effective for any increases effective after October 1, 2005. In January 2005, GAO adjusted employees' salaries at the same time and to the same extent as the General Schedule and January 2006 was the first year in which GAO employees received a different annual adjustment than the executive branch.

*Question.* Why was the restructuring of GAO senior analysts (Band IIs) carried out?

*Answer.* As part of our overall human capital transformation efforts, GAO has developed and implemented a modern classification system and a market-based and more performance-oriented compensation system. The principles that guided the development of our classification and compensation system are as follows:

- Enable GAO to attract and retain top talent
- Result in equal pay for work of equal value over time
- Reflect the roles and responsibilities that staff are expected to perform
- Be reasonable, competitive, performance-oriented; and based on skills, knowledge and roles

- Be affordable and sustainable based on current and expected resource levels
- Conform to applicable statutory limits.

The purpose of restructuring the Band II position was to clearly distinguish between the roles and responsibilities of those analysts who are generally individual contributors and/or sometimes provide overall leadership on selected engagements and those who are expected to consistently take on a leadership role for a broad range of engagements over time. When comparing Band II roles, responsibilities and pay to the market, the Watson Wyatt compensation study validated that these two roles should have different pay ranges. By better linking roles and responsibilities to the appropriate market-based pay ranges, senior analysts will be more equitably compensated.

*Question.* When did the idea of the senior analyst (Band II) restructuring occur to you?

*Answer.* The issue of how GAO classifies its analyst staff first surfaced in 2000 during the development of GAO's competency-based performance system. As part of the competency validation effort, some Band II employees reported that certain work activities associated with leadership and the development of staff were relevant and important to their responsibilities and other employees indicated that they were not relevant. As a result of this bimodal response, these work activities were not included in the competency-based performance system, but the reasons for the differing response remained a matter of concern.

In preparation for the development of market-based compensation ranges, it was essential to address the issue of Band II roles and responsibilities in order to ensure appropriate benchmarking with comparable positions. The results of the market-based study, which was conducted from July to October of 2004, indicated that the different Band II roles should have different pay ranges. In response, the Band II restructuring effort was formally announced to staff in May 2005, placement decisions were relayed to individual employees in December 2005 and placements actions effected in January 2006.

*Question.* Did you ever mention the possibility of restructuring GAO's Band II during the legislative consideration of your human capital proposal? Why not?

*Answer.* At the time of the 2003 hearings on human capital II, GAO had not formulated any response to address the issues associated with Band IIs' roles and responsibilities. We had no idea in 2003 what the results, if any, of our market-based compensation study would be.

*Question.* What have been the benefits and costs of the Band II restructuring process?

*Answer.* There are significant benefits to implementing a modern and credible classification and compensation system. It supports our continuing efforts to achieve our strategic goal of maximizing the agency's value by becoming a model federal agency and a world class professional services organization. The Band II restructuring process was integral to the effort to classify positions to the appropriate levels of responsibility and appropriate market-based salary ranges. While direct cost savings were not the impetus for our classification and compensation initiatives, over 80 percent of our budget is composed of people-related costs. Our restructuring of Band II along with the agency-wide implementation of a market-based and performance-oriented compensation system is a key element in the efficient use of our budget. Our previous pay system did not result in equal pay for equal work, was financially unsustainable and harmed the agency's ability to adequately reward strong performance. The new system will support our efforts to attract, retain, award and motivate top talent.

However, we recognize that there are also costs associated with any significant change and the restructuring was difficult for GAO staff, particularly for long-term employees directly affected by the restructuring. Transformation efforts take patience and perseverance to achieve results and we fully expect that employees' acceptance of these changes will take time.

*Question.* How much did GAO "save" by freezing the salaries and denying one-half of bonuses earned of its staff?

*Answer.* The implementation of a market-based compensation system was not designed to save the agency money. In fact, only 47 staff (2.6 percent) assessed for performance-based compensation and onboard as of the effective date of these increases received no salary increase or performance bonus this year. Our compensation system is a part of our overall transformation effort whose goal is to establish modern, effective, and credible human capital policies in order to ensure that GAO is well positioned to serve our congressional clients, maximize our performance, operate the organization within the resources provided in a constrained budget environment, and assure our accountability and service to the nation not only now, but also in the future.

There were 236 Band II Analysts and Specialists who were placed in Band IIA and who had salaries in excess of the IIA maximum rate. Under the policy adopted to mitigate the impact of the Band II restructuring, these staff whose average salary is approximately \$109,000 were provided 50 percent of their performance-based compensation as a base salary adjustment not to exceed the maximum “transition” rate. The transition rate allows all band IIA employees to earn a maximum salary equal to the maximum rate that these employees were eligible to earn in 2005 as Band IIs, i.e., \$118,700 in Washington, D. C. (Note: In some locations, the transition maximum was slightly higher than the former Band II maximum due to differing locality rates.) If these 236 employees had been provided with the 2.6 percent annual adjustment and the additional 50 percent of their PBC, the added annual cost would have been approximately \$882,000.

*Question.* What is GAO’s policy for paying the relocation expenses of an employee who requests a transfer from HQ to a region?

*Answer.* GAO does not pay the relocation expenses for employees who request to be transferred. As required by Federal Travel Regulation 302.1–1, GAO only offers relocation benefits if GAO determines that a transfer is in the interest of the Government. GAO always decides in advance of issuing a job announcement if it will offer relocation benefits for a position. If the decision is made to offer relocation benefits, that notation is made in the job announcement. Employees receive relocation benefits only if they are chosen for a position which includes relocation benefits in the job announcement. Employees who request to transfer from headquarters to a field office (or vice versa) are generally allowed to transfer if a position is available, however, the agency does not pay their relocation expenses.

*Question.* In recent years, GAO, as well as other federal agencies, has invested significant resources to upgrade security. Yet, both physical and information security remain a management challenge for the GAO. Please describe why these areas continue to be a management challenge.

*Answer.* The continuing dynamics of information technology (IT) and security is the primary reason for GAO’s management challenge. It is a challenge that is not unique to GAO—all federal agencies are dealing with this challenge. Essentially, changing security threats, evolving security guidance, and new technologies have created an environment in a high state of flux. Our experience has already shown that security designs implemented today may not have the same effect of protecting our information resources from a newly designed threat, or variant of an existing threat, tomorrow.

The explosion of the Internet, e-commerce and web-based services, along with the rapidly expanding presence of wireless and other computing devices, has created new challenges for protecting IT systems, privacy information and other agency information assets. In addition, the ease with which technology allows the sharing and transfer of information and the portability of cellular devices, tablet computers, and PDAs presents ongoing IT security threats—such as viruses, worms, spyware, zero day exploits, as well as pharming, phishing and spoofing exploits. Unfortunately, these are risks and challenges that are not likely to abate as we look forward and as new threats and the potential for new exploits emerge.

The National Institute of Standards and Technology (NIST) has significantly increased its government-wide guidance on IT, providing more and greater detail in direct response to legislative direction and the Federal Information Security Management Act (FISMA). FISMA, in turn, has expanded the visibility of each federal agency’s IT programs and how secure they are—and caused an increase in the workload and resources needed to comply with government-wide standards and reporting requirements. Furthermore, the guidance on implementing and reporting on FISMA requirements, as well as the related NIST standards and technology approaches continues to evolve. We foresee an increase rather than a decrease in work directly supporting these initiatives.

Also, directives to move towards new technologies, such as IPv6, the next generation Internet protocol, may require a significant restructuring of network architectures and network services. (OMB has mandated that all Federal agencies must be using IPv6 by June 2008.) By implementing some of these new technologies, the existing mechanisms implemented to secure the network and information systems may need to be discarded and replaced by very different technologies, creating their own set of new challenges. Significant changes in technology will require additional resources for training and education of staff to meet the challenge. In the case of IPv6, it is critical that we develop and implement a sound transition plan to acquire, test and deploy the needed infrastructure equipment to implement IPv6 and ensure secure compatibility and interoperability with customers, clients, business partners, and service providers. The full implication of IPv6 implementation from

a security standpoint is just now emerging as industry and organizations/agencies gain a greater understanding of the protocol.

In addition, Homeland Security Presidential Directive (HSPD) 12 and Office of Management and Budget guidance require federal agencies implement a new federal employee identification standard in October 2006. The technical requirements to implement these directives are contained in the Federal Information Processing Standard (FIPS) 201 guidelines. However, the vendor community is still developing and testing products capable of meeting the new standards and requirements. Meanwhile, agencies are trying to develop systems and processes to implement the new guidelines in a timely fashion in the absence of street-ready products.

*Question.* What further investments do you believe are necessary to resolve the challenge?

*Answer.* Due to the dynamic nature of the security and IT environments, there is no silver bullet to resolve the challenge. By following consistent standards and best practices, GAO has implemented a defense-in-depth approach using measured technical security controls to protect our information systems and information at the perimeter, throughout the network, and at the desktop. We still face mounting challenges from changing technologies and multi-vendor solutions. Most environments today must still rely on multi-vendor solutions that lack appropriate levels of integration. As the industry matures, we should see more integrated solutions on the market. GAO's future investments will be in support of our desire to consolidate security solutions to a limited number of vendors providing integrated effective solutions and reporting capabilities. These solutions will require both investments in technologies and human resources. As GAO moves forward, we will continue to review and update our security tools and approaches to ensure they are the most cost effective—and are responsive to ever evolving threats.

Overall, the increasing and more sophisticated outsider threats, together with additional legislative mandates, presage a steady level of spending, at a minimum, for security initiatives to ensure the safeguard of our information resources and compliance with IT security regulations. While the composition of IT security funding will likely change to meet new security challenges and government wide requirements, we don't—at this time—envision overall costs decreasing, particularly in light of the required move to IPv6.

GAO has several actions planned or underway in the area of physical security which will help improve our security posture, including an integrated access security system which utilizes enhanced Smartcard technology, more stringent background investigations for federal employees and contractors, and a more robust security force of special police officers. However, given the dynamic nature of the nation's post-September 11 security environment, the challenge is continually evolving.

*Question.* What is the status of your effort to install an integrated access security system?

*Answer.* GAO is working with a solutions provider to work through the details of implementing the new technology. During fiscal year 2006, we plan to establish an Emergency Operations Center in headquarters as the focal point of our efforts to integrate physical security issues. This Center will allow us to monitor and control physical access issues in both headquarters and the field. It will also allow us to reduce our reliance in 10 field offices on local Federal Protective Service Staff and security forces. We also plan to install turnstiles in the headquarters lobby areas, implement Smartcard technology consistent with HSPD 12 and FIPS 201, and implement a visitor and credential management system in headquarters. In fiscal years 2007 and 2008, we plan to phase implementation of the access security system to the field offices.

*Question.* What is the status of your disaster recovery/continuity of operations program?

*Answer.* We have put in place a structured plan and process—which we test on a periodic basis—for business continuity planning and disaster recovery. We have also expanded the capability of our offsite alternative computing facility to ensure the recovery and restoration of the IT systems that support the agency's business processes in the event of a disruption. Expanded capabilities include the installation of additional file servers, operating systems, storage, back-up, data lines, additional remote access licenses and replication technology to synchronize headquarters production data at the alternative computing site. And, we are in the process of moving our alternative computing facility from a commercial site to the legislative branch facility which will save us about \$126,000 annually, while providing the foundation for better coordination with other legislative branch entities. The move will occur during the summer, 2006.

*Question.* Given the current environment of fiscal constraint, it is unlikely the Congress will be able to fully fund your budget request.

- a. What impact will this have on your plans for an FTE increase?
- b. How will this affect your ability to meet the Congress' needs for information?

Answer. If the Congress is unable to fully fund our budget request, we may need to consider delaying some of the requested initiatives which will only result in increased cost over time due to future price level increases. Alternatively, we may need to consider reducing our planned staffing level in fiscal year 2007 in order to ensure that we could pursue the critical initiatives.

GAO already has a significant supply and demand imbalance with 374 requests from the Congress that had not been started as of March 2006. If we are unable to increase our staffing, this imbalance will likely continue. We will work with our clients on the Hill to determine their priorities for our work, but we will obviously not be able to complete all that they have requested.

Failure to increase our staffing to the requested level would also have an impact on the timeliness of our work. While we continue to receive good marks on our service to the Congress, we recognize that we could always improve the timeliness of our work.

#### SUBCOMMITTEE RECESS

Senator ALLARD. The subcommittee stands in recess until tomorrow, April 27 at 10:30 a.m., in Senate Dirksen 116, when we will take testimony on the progress of the Capitol Visitor Center construction. Thank you for your testimony.

Mr. WALKER. Thank you, Mr. Chairman.

[Whereupon at 11:32 a.m., Wednesday, April 26, the subcommittee was recessed, to reconvene subject to the call of the Chair.]