



Testimony

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MANAGING IN THE NEW MILLENNIUM

Shaping a More Efficient and Effective Government for the 21st Century

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G A O

Accountability * Integrity * Reliability

Managing in the New Millennium: Shaping a More Efficient and Effective Government for the 21st Century

Mr. Chairman, Senator Lieberman, and Members of the Senate Committee on Governmental Affairs:

I appreciate the opportunity to be here this morning to discuss the unique budget and oversight issues that face you and other Members of Congress at this time in better positioning our national government to meet current and emerging challenges.

The cold war has ended, and we won. In addition, after nearly 30 years of budget deficits, the combination of hard choices and remarkable economic growth has led to budget surpluses. As a result, we transition into this new century with different security concerns and an improved financial position relatively free of the deficit constraints of the recent past. In order to prepare effectively for the future, however, we must fully explore the major dynamics that will shape the United States and its place in the world and adequately prepare the federal government to meet the challenges that lie ahead. The Senate Governmental Affairs Committee is uniquely positioned to consider these broad-based and crosscutting challenges and what needs to be done to address them.

As we stand at these crossroads, I would like today to focus on four topics that are critical to strengthening the performance and accountability of the federal government and are fundamental to improving the American public's respect for and confidence in government.

First, dynamics, such as increased globalization, rapid technological advances, shifting demographics, changing security concerns, and quality of life considerations, are prompting fundamental changes in the environment in which the federal government operates and are placing more of a premium on governmental responsiveness, integrated approaches, results orientation and accountability.

Second, current surpluses provide a tremendous opportunity to rise out of the 1-, 3-, or 5- year budget horizon of recent deficit debates and to focus on longer-term fiscal and management challenges as we move into the 21st century. This is especially important given the significant fiscal demands on health care and other areas that will be engendered by the demographic tidal wave that is due to hit us early in the century, when the "baby boom" generation starts to retire.

Third, we now have an opportunity and obligation to take a comprehensive look at what government should be doing and how it does it. Future fiscal challenges call for prudent stewardship of our national government to

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ensure delivery of the services that Americans want, need and can afford. In this regard:

- There is a critical need in the short term to continue to effectively implement the management reform structure that Congress has put in place to provide for more effective and accountable government. This is critical since the government will not be able to maximize its performance and ensure its accountability without modern and effective human capital practices.
- Human capital issues are the missing link in the management framework Congress has provided, and there is an urgent need to develop and implement modern human capital practices for the federal government.

Fourth, this is an opportune time to reconsider the fiscal and performance models, structures, and processes that the Congress uses to fulfill its oversight responsibilities. Addressing the themes that I have outlined calls for hard choices and persistent attention. Real improvement in performance and management calls for a disciplined and determined process by the executive branch, and continued oversight by the Congress.

Throughout this testimony I draw on the breadth of our work at GAO and propose that we continue to strengthen and expand our strategic partnership with Congress to help address the challenges that face the federal government in the 21st century.

The Forces Shaping the United States and Its Place in the World

We have identified six themes that represent dynamics with profound implications for congressional decision-making and government management in the next century:

- Globalization
- Security
- Demographics
- Quality of life
- Technological innovation
- Government performance and accountability

Globalization

Globalization, or the interdependence of enterprises, economies and governments, presents new opportunities for U.S. producers and consumers, but also new challenges for the country.

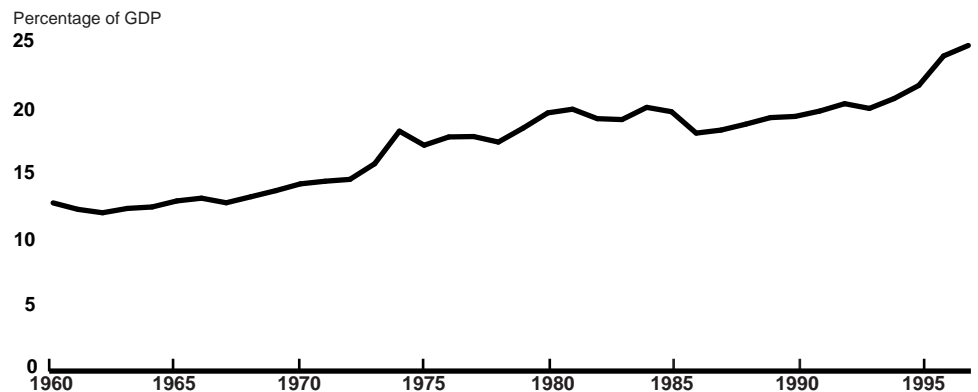
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With rapid advances in technology and the ease with which people, enterprises, and goods can cross borders, the economies and activities of nations have become increasingly interdependent. From 1960 to 1997, world exports increased from about 12 percent to about 24 percent of world GDP (gross domestic product). As shown in figure 1, multinational enterprises are an important part of the trend towards globalization. In 1997, 63 percent of U.S. exports and 40 percent of U.S. imports were associated with U.S. parent corporations or their foreign affiliates.

The U.S. has been a principal architect of an open world trading system and has benefited greatly. However, open trade has increased the complexities of maintaining the U.S. economy. Interdependence of the U.S. and foreign economies is illustrated by foreign investment in U.S. business, which has increased to over \$200 billion in 1998, an amount nearly 3 times that invested the year before.

Figure 1: World Exports as Percentage of GDP



Source: World Bank.

As the U.S. economy becomes increasingly linked with the global economy, international trade is growing in importance as a foreign policy issue. At the same time, significant national security issues also need to be considered. The effectiveness of regional and global trade arrangements in achieving their desired outcomes is being questioned at home and abroad. Critics have expressed concern that the United States has not been sufficiently aggressive in monitoring and enforcing over 300 international trade agreements that cover hundreds of billions of dollars in trade and affect millions of U.S. jobs, and that some decisions by the World Trade Organization could compromise U.S. sovereignty.

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Recent financial crises in developing nations highlight the implications of the interdependence of economies and financial systems. For example, the emergence of financial difficulties in Thailand in 1997 was followed by financial crises in Indonesia and Korea, and eventually Russia and Brazil. Fear that these crises could severely affect U.S. economic and security interests have (1) focussed attention on the interdependence of U.S. and global economies and (2) raised questions about what can be done to prevent or contain the spread of such crises. The International Monetary Fund is a key organization that the United States and agencies such as the Departments of Treasury and State cooperate with to maintain global economic stability. Prompted by financial crises and government corruption in some countries, questions have been raised regarding their effectiveness and roles in maintaining the health of the global finance and trade systems and resolving countries' financial crises.

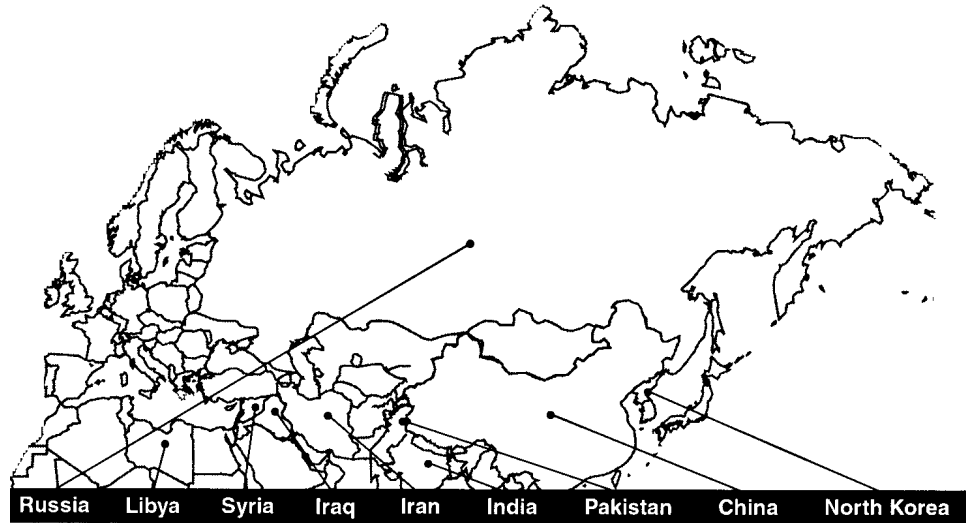
Economic and financial interdependence are not the only global trends with implications for this country. Increased globalization of information technology has resulted in significant new security and privacy threats to our nation's information network. Similarly, the spread of diseases around the world, like AIDS, and the global nature of environmental problems affect us and also call for a coordinated international response. Thus, in the future, federal responses to problems will increasingly have to consider international as well as national dimensions.

Security

The nation's **security** concerns reflect new, diverse, and diffuse threats of national, economic and personal dimensions.

Less restricted trade, expanding democracy and capitalism, and rapidly developing technology have broadened security concerns and changed the way the United States prepares for conflict. In addition to more conventional military threats, the United States is confronting threats from terrorism; the proliferation of weapons of mass destruction; information warfare; the international drug trade; and other more diffuse sources, which are harder to identify, respond to, and contain.

Figure 2: Countries With Weapons of Mass Destruction Posing National Security Concerns



Sources: DOD and State Department.

The bombings in New York City in 1993 and in Oklahoma City in 1995 have elevated concerns about the spread of terrorism to the U.S. At least nine countries posing national security concerns are believed to have weapons of mass destruction (nuclear, biological or chemical). More than 40 federal agencies, offices and bureaus spend over \$10 billion a year to combat terrorism.

The structure of U.S. armed forces has been reviewed a number of times since the end of the Cold War, resulting in substantial reductions. The Congress has expressed concern that the forces that remain may not be sufficient to implement the national military strategy and may not be sufficiently prepared to respond to the threats of the 21st century. In February 1999, the President proposed that DOD begin the first sustained increase in defense spending in 15 years, calling for additional resources totaling \$112 billion over the next 6 years. In particular, defending the United States against an intercontinental ballistic missile attack from a rogue nation and protecting U.S. and allied deployed forces from theater missile attacks is receiving considerable attention and will result in substantial spending. This year, activities leading to the President's deployment decision on a National Missile Defense system are moving ahead and improvements to key theater missile defense systems, such as the Theater High Altitude Area Defense system, are being instituted. The President has proposed about \$24 billion in total funding of national and theater missile defense from 2001 through 2005.

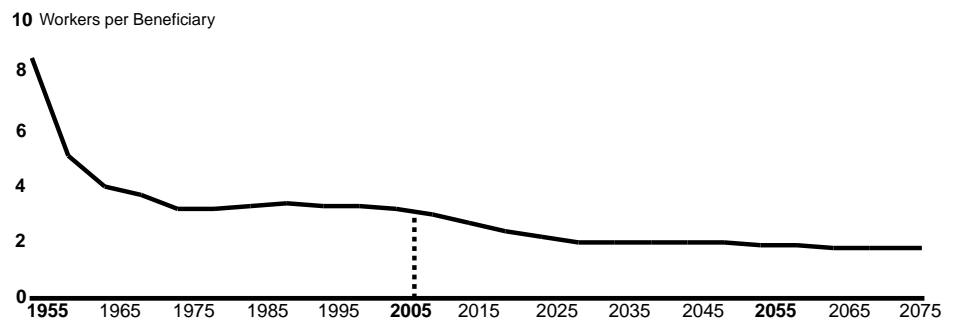
Increasing reliance on complex interconnected computer systems essential to public well being and the economy has created serious new vulnerabilities should disruptions occur. Protection of transportation, energy, emergency services, financial services, and communication systems is becoming increasingly important because they rely heavily on information technology. Criminals, terrorists, and others, working anonymously from remote locations and with relatively limited resources, can now use computers to severely disrupt this infrastructure. An example of disruptions that could occur is provided by recent denial-of-service attacks on popular web-sites.

Demographics

Demographics, or the profound changes forecast in the age and composition of our population, will have enormous consequences for the retirement and health care entitlement programs as well as programs supporting the workforce.

The population is growing older. By 2030, about one-fifth of the U.S. population is projected to be over age 65 compared with about 13 percent in 1998. Also by 2030, Medicare beneficiaries, who include the disabled as well as the elderly, are expected to account for 20 percent of the population. The result will be that fewer workers will be paying into Social Security for every person receiving benefits. In 1955, 9 persons were paying into Social Security for every person receiving benefits. Today, the ratio is down to 3.4 to 1, and, by 2030, it is projected to be about 2 to 1.

Figure 3: Social Security Workers per Beneficiary



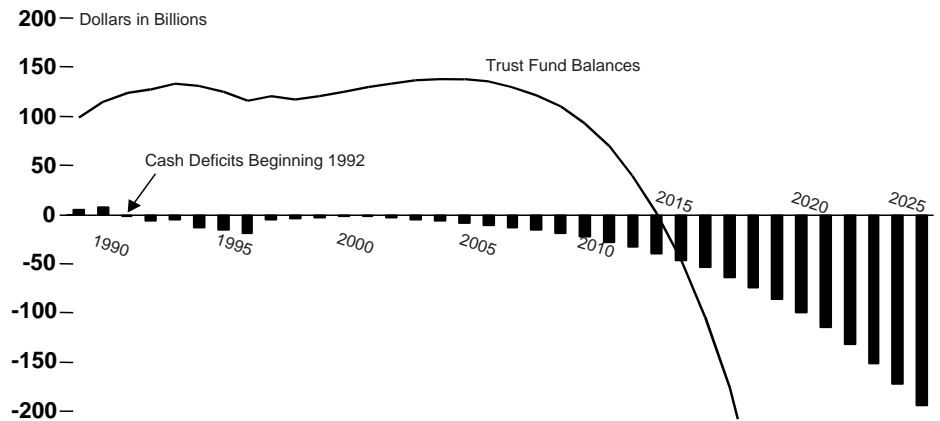
Source: Old Age Survivors and Disability Insurance Trustees.

These trends will have enormous financial repercussions for the solvency and sustainability of federal entitlement programs. The Medicare Hospital Trust Fund operated in the red since 1992 and is projected to face insolvency in 2015. Social Security expenditures are expected to exceed

payroll tax revenues beginning in 2014, with trust funds being depleted by 2034¹.

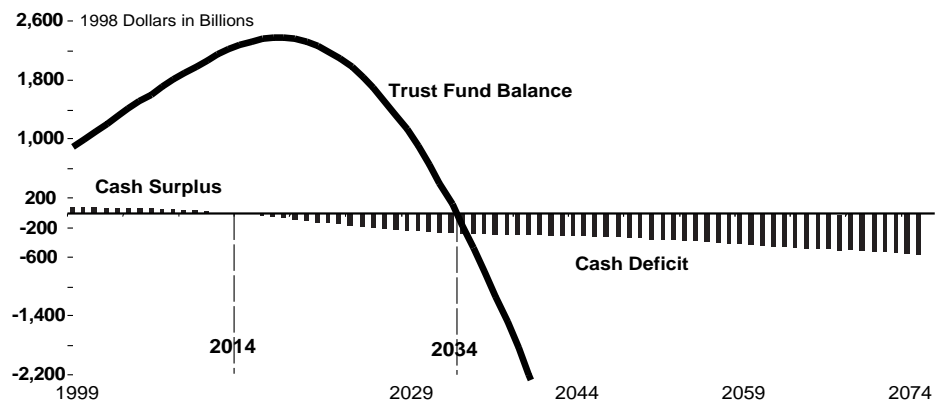
But crafting a solution to financing these entitlement programs involves more than the traditional approach of closing the gap between projected expenditures and revenues over a fixed time period, such as 75 years. Rather, any financing solution needs to achieve *sustainable* solvency that balances projected expenditures and revenues without requiring us to frequently revisit the financing of these programs.

Figure 4: Medicare Financing



Source: GAO analysis of data From the Office of the Actuary, Health Care Financing Administration.

Figure 5: Social Security Finances



Source: GAO analysis of data From the Office of the Chief Actuary Social Security Administration

¹ Estimates are based on 1999 projections. New estimates on Medicare financing are due to be released March 30, 2000.

The population is also becoming more diverse. Women and minorities as a proportion of the workplace have grown significantly. This trend, along with increased use of part time and other flexible work arrangements, has implications for federal policies and programs on education, training, childcare, and immigration, among others. Although the growing entry of women and minorities caused substantial growth in the U.S. labor force in recent decades, this trend seems to be changing. Projections for the future are that the annual growth in the labor force will be only about 1 percent in the short term and that this growth rate may even decline in the long term. These trends further exacerbating the current tight labor market for specialized skills and key sections of the economy suggesting the need for more policies designed to encourage people to retreat gradually from work, rather than plunge into retirement.

Quality of Life

Quality of life has improved for many but not for all Americans. At the same time, prosperity is placing greater stresses on the quality of life.

The long period of strong economic performance has been accompanied by economic prosperity. People are typically living longer, with average life expectancy rising to age 76 over the past 20 years, while unemployment has fallen to 4.3 percent, and violent crimes have dropped by 20 percent since 1990. The quality of the physical environment has also improved, as levels of major air and water pollutants have dropped since 1970.

However, many challenges remain. For example, the disparities between the net worth of those without a high school education and those with more education increased between 1989 and 1998. While unemployment has reached record or near-record lows for African-Americans and Hispanics, unemployment rates for these two groups still stand at nearly twice the rate for whites, and more than 40 million Americans lack health insurance. Given the large federal role in health care delivery and financing, there is a need to weigh the needs of Americans against their wants and the overall affordability of health care considered by policy makers.

At the same time prosperity is placing greater stresses on quality of life. Greater economic activity, for example, increases air and highway traffic and heightens concerns about congestion, safety and environmental quality. The shift to a more technologically based economy raises long term concerns about education, while population growth and geographic shifts, such as urban sprawl, place greater strains on transportation and other infrastructure. Over the coming years, these demands for new

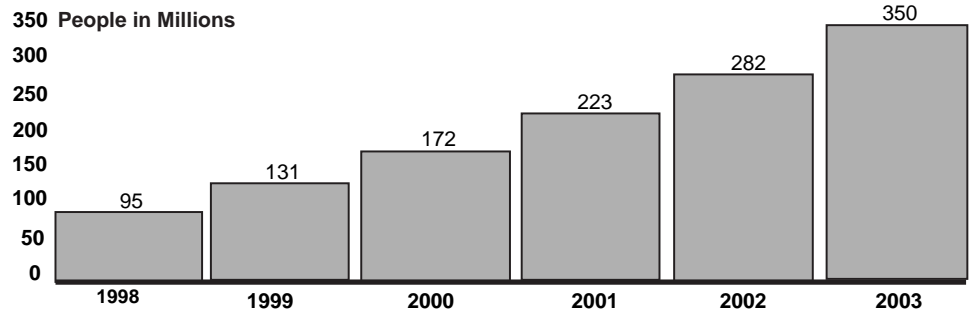
investment will increasingly come into competition with other national priorities, creating difficult choices for the federal government.

Technological Innovation

Technological innovation, especially in information technology, has enhanced productivity, but also created new vulnerabilities.

Information technology has transformed the ways we communicate, learn, use information, conduct commerce, practice health care and build and design products. This trend is expected to accelerate, with investment in information technology expected to account for 40 percent of all capital investment in the United States by 2004. Roughly 172 million people around the world will have Internet access in the year 2000, and by 2003, and that number is expected to double. Businesses that produce computers, software, semiconductors, and communications equipment have accounted for over a third of the growth in the U.S. economy since 1992. Government too is being affected, with information technology providing new, more responsive and efficient ways of delivering services and information to citizens, in such areas as tax administration, higher education, transportation safety and environmental protection.

Figure 6: Internet Users Worldwide, 1998-2003



Source: eMarketer (1999).

The connectivity and interdependence created through information technology also creates vulnerabilities. Computer security risks associated with the widespread use of information create the potential for disruptions to federal agencies and the private sector, in aviation, banking, law enforcement, emergency services and other critical services. The privacy and confidentiality of medical records, credit histories, and other personal data on millions of individuals stored in electronic databases are also at potential risk. Unless appropriately controlled, computerized operations can offer those with criminal or other malicious intentions numerous opportunities for committing fraud, tampering with data or disrupting vital operations.

Government Performance and Accountability

Faced with public demand for more economical, efficient, and effective government, countries around the world are undertaking major reform initiatives to improve government performance and accountability. These reform efforts being undertaken in major democracies are taking a generally consistent direction, requiring government organizations to focus more on results and less on process.

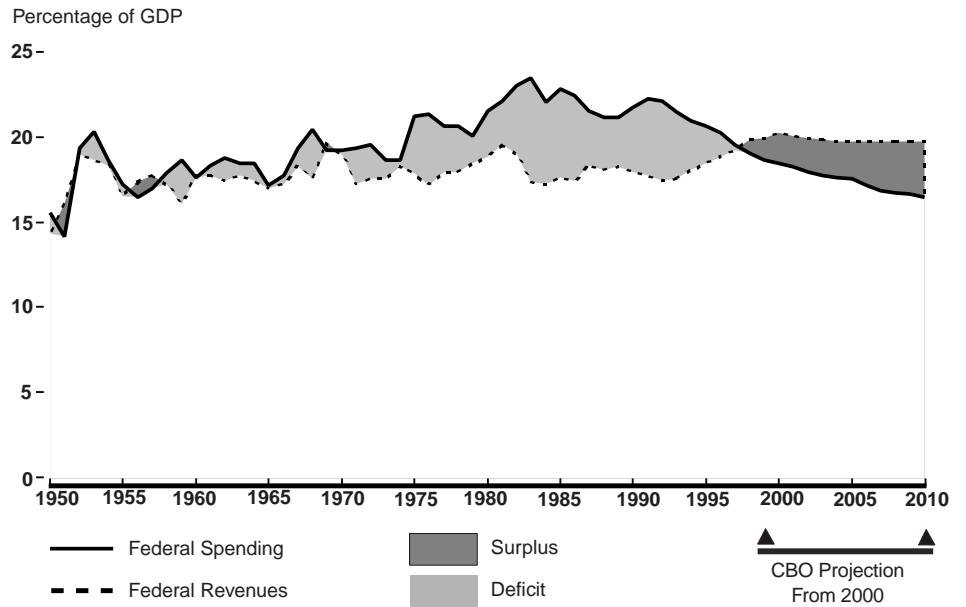
In the United States, American citizens are increasingly demanding improved government services and better stewardship of public resources. In an effort to meet these demands, the federal government is adopting the principles of performance-based management. Legislation enacted in the 1990s has provided a statutory framework that includes the Government Performance and Results Act of 1993, the Chief Financial Officers (CFO) Act and related financial management legislation, information technology reform legislation, including the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995. As I will discuss later, progress in implementing this framework has been uneven across the agencies, and certain areas, like human capital management, have had little attention.

Much of the impetus for government reform came in part as a reaction to poor performance, continuing disclosures of waste, and chronic budget deficits. However, the fact that the federal budget has turned the corner from deficit to surplus does not reduce the importance of effective and efficient government—nor of fiscal discipline. After a decade of focusing on deficit reduction, we know there are pent-up demands for using the projected budget surpluses. The challenge for policymakers will be to meet public expectations of government while maintaining the financial discipline necessary to avoid a return to deficits.

Issues Influencing the Federal Government's Long Term Fiscal Outlook

Our federal government has gone from budget deficit to surplus as a result of a burgeoning economy and difficult decisions by Congress and the Executive Branch to control spending. Compared to the deficits of recent decades, today's surplus represents a historic turnaround, and current projections show surpluses continuing over the 10-year budget window.

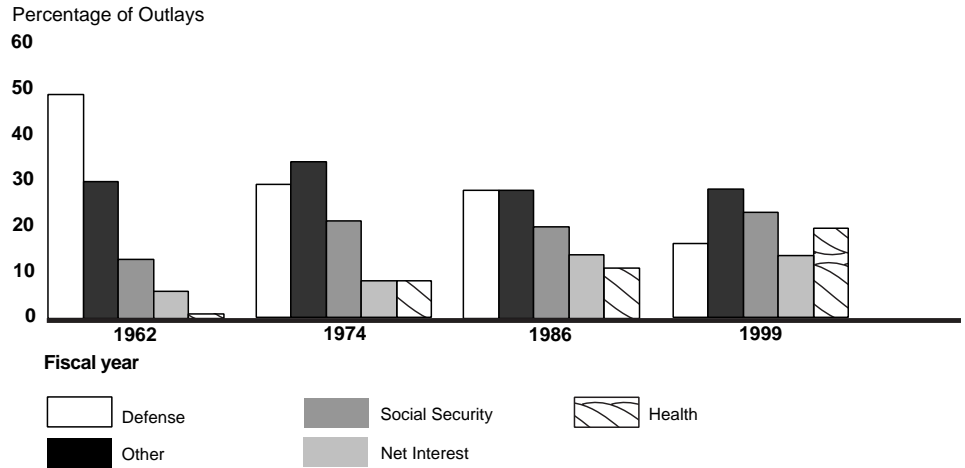
Figure 7: Federal Spending and Revenues, 1950-2010



Note: These projections assume that discretionary spending grows at the rate of inflation after 2000.
 Source: Budget of the U.S. Government, Fiscal Year 2001 and the Congressional Budget Office.

This picture of today's fiscal good fortune, however, masks a change in the composition of federal spending during the past few decades. Relative to federal spending subject to annual appropriations—defense and non-defense discretionary spending—the share devoted to federal health programs and Social Security payments has grown steadily over time. Correspondingly, the share available for all other programs, including defense, has decreased.

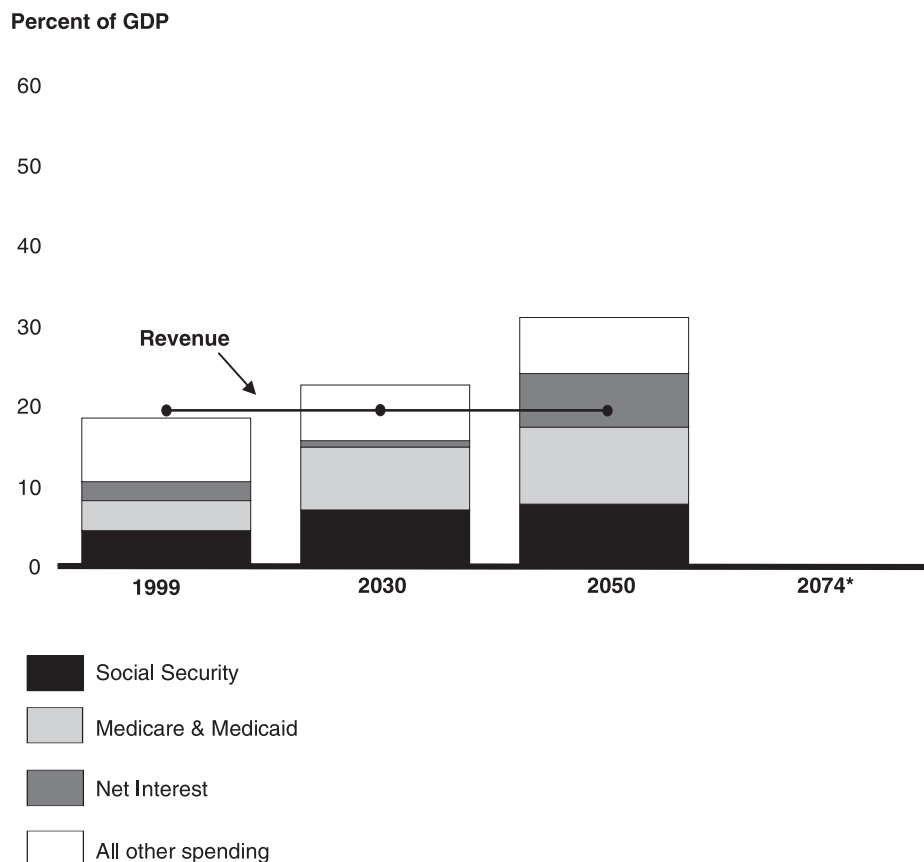
Figure 8: Distribution of Federal Spending, 1962-99



Source: Budget of the U.S. Government, Fiscal Year 2001.

Our long-term projections illustrate the consequences for the federal budget, assuming continuation of these trends. While we may enjoy annual surpluses for some time, long-term projections show a resumption of a pattern of deficits emerging when a demographic tidal wave hits. Because of this coming demographic shift, to move into the future without making changes to federal retirement and health programs—Social Security, Medicare, and Medicaid—is to envision a very different role for the federal government. Even assuming, for example, that the Congress and the President adhere to the often-stated goal of saving the Social Security surpluses, our long-term model shows a world by 2030 in which these three programs alone would require more than three-quarters of total federal revenue. Budgetary flexibility would be drastically constrained, and little room would be left for such programs as national defense, the young, infrastructure, and law enforcement.

Figure 9: Composition of Spending as a Share of GDP Under “Eliminate Non-Social Security Surpluses” Simulation



*The “Eliminate Non-Social Security surpluses” simulation can only be run through 2066 due to the elimination of the capital stock.

Note: Revenue as a share of GDP during the simulation period is lower than the 1999 due to unspecified permanent policy actions that reduce revenue and increase spending to eliminate the non-Social Security surpluses.

Source: GAO’s January 2000 analysis.

In addition there are other looming fiscal pressures such as:

- clean-up costs from federal operations that yield hazardous wastes, including defense facilities and weapon systems,
- future claims on federal insurance programs by an increasing number of retired federal employees and military personnel, and
- demands for new investment to modernize physical infrastructure, public buildings, transportation systems, and sewage and water treatment plants that are beginning to deteriorate or become obsolete.

Today's surplus represents both opportunity and obligation. While the new surplus projections offer an opportunity to address today's needs, we should not forget our stewardship responsibility to reduce the debt burden and increase the choices we leave to future generations, to provide a strong foundation for future economic growth, and to ensure that future commitments are both adequate and affordable. Continued debt reduction and entitlement reforms are both critical to promoting a more sustainable budget and economy for the long term. In the near- and medium-term, surpluses will depend on continued economic growth and fiscal restraint.

Actions Needed for Government to Operate Successfully in the 21st Century

The fiscal pressures associated with maintaining and managing the surplus have increased the need for more efficient and effective government and will continue to require difficult choices. Government performance and accountability need to be enhanced in order to get the most out of available resources, and forge effective approaches to both the newly emerging and long-standing problems facing the nation. The reforms that have been adopted have profound implications for what government does (the products and services it delivers), how it is organized, and how it performs. Yet, the reforms did not encompass all areas of government management, in particular human capital strategic planning and management at a governmentwide level. To meet the challenges of the 21st Century, the federal government will need to:

- possess the effective management approaches and tools needed to develop and maintain high-performing organizations;
- implement the human capital practices needed to support a focus on performance management and economy, efficiency, and effectiveness; and,
- implement modern approaches for more efficient and effective delivery of government services.

Congress has an important role in encouraging the implementation of the legislative framework already enacted to strengthen government performance and in creating new supportive legislation and governance mechanisms. Decisions also have to be made about the role of government—i.e. what government should do and how best to manage within continued fiscal restraint. GAO will continue to assist this transition through assessing agencies' progress and identifying opportunities to strengthen government accountability and performance.

Strengthen Management Practices to Improve Government Performance

In the 1990's Congress and the federal government laid out a statutory and management framework that provides the foundation for strengthening government performance and accountability. GPRA required agencies to establish missions, goals and performance measures that will tell taxpayers what they're getting for their money. The CFO Act and related legislation created a structure for more businesslike management and reporting of the government's finances. The Clinger-Cohen Act and the Paperwork Reduction Act required agencies to take an orderly, planned approach to their information technology needs.

Congress has helped focus attention on the need for effective implementation of this framework through hearings and other communication with agencies. In particular, this Committee has acted to open an important dialogue with agencies. August 17, 1999 letters to agencies summarized the key management issues identified by GAO and the Inspectors General and asked each agency to indicate how it will address its high-risk areas and major management challenges. Committee staff is now holding bipartisan meetings with the agencies to further discuss these issues and needed actions. These letters and subsequent meetings in follow-up to them demonstrate the Committee's resolve and foster increased agency attention to these areas.

We have seen some progress in agency efforts to manage more economically and efficiently. But, more needs to be done to achieve real and sustained improvements to address the nation's challenges. Implementing the management reforms will help contain costs, provide services that meet the public's needs, and enhance accountability.

The job in the 21st century is to continue to improve and to translate the intended reforms into a day-to-day management reality across government. Becoming high-performing organizations requires a cultural transformation in government agencies. Hierarchical management approaches will need to yield to partnerial approaches. Process-oriented ways of doing business will need to yield to results-oriented ones. Siloed organizations—burdened with overlapping functions, inefficiencies and turf battles—will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. And finally, internally focused agencies will need to focus externally in order to meet the needs and expectations of their ultimate clients—the American people.

Our work has consistently shown that many agencies face long-standing and substantial challenges to further progress. The major challenges that agencies face in becoming high-performing organizations include

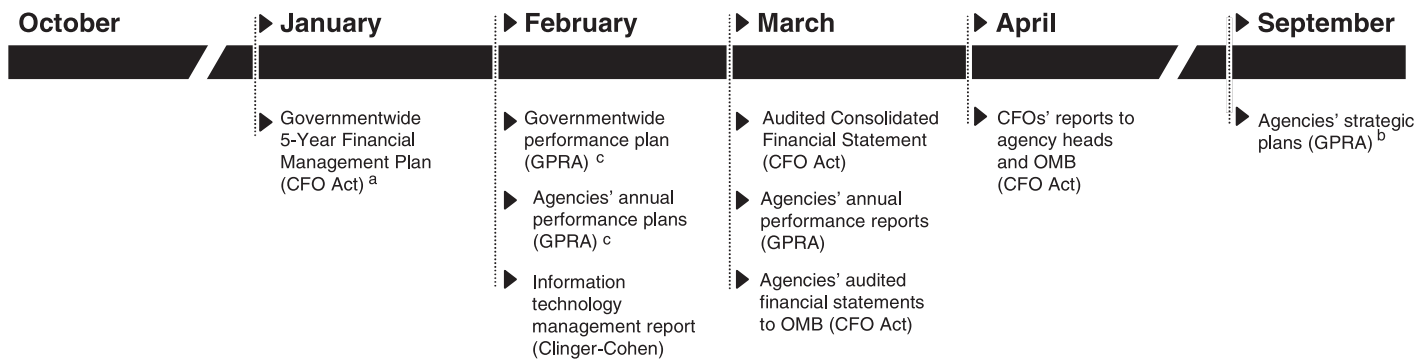
- Adopting an effective results orientation,
- Strengthening financial management to better support decision-making and demonstrate accountability, and
- Improving the use of information technology to modernize services and achieve results.

Adopting an Effective Results Orientation

The effective implementation of the statutory framework to improve the performance, management and accountability of the federal government, although important, is not an end in itself. Rather, the implementation of the framework is the means to an end—improved federal performance through enhanced executive branch and congressional decisionmaking and oversight. Performance improvements occur only when congressional and executive branch decisionmakers use information resulting from these reforms to help inform decisions and improve the performance and accountability of the federal government. GPRA has the potential to help Congress and the executive branch ensure that the federal government provides the results that the American people expect and deserve. It also has the potential, if properly implemented, to help improve the public's respect for and confidence in their government. Substantial efforts have been undertaken and progress clearly made. However, much of GPRA's potential remains unrealized.

GPRA Implementation is at a critical stage for agencies and Congress. In almost 2-1/2 years since the requirements of GPRA were implemented across the executive branch, Congress has been provided with a wealth of new and valuable information on the plans, goals, and strategies of federal agencies. According to OMB, about 100 agencies published a first set of strategic plans in 1997 and, as required, will issue updated plans by this September. These agencies also issued annual performance plans for fiscal years 1999 and 2000 and are issuing plans for 2001. OMB has issued three governmentwide performance plans covering fiscal years 1999, 2000, and 2001. Finally, by March 31 of this year, agencies are to release their first-ever performance reports covering fiscal year 1999. Figure 11 is a time line of GPRA requirements and other laws that make up the statutory framework to improve the performance, management, and accountability of the federal government, including the CFO Act and the Clinger-Cohen Act.

Figure 10: Time Line for Major Reports



^aAlthough required to be submitted by January 31, the governmentwide 5-year financial management plans are generally issued in June or July.

^bGPRA requires agencies' strategic plans to cover a period of at least 5 years forward from the fiscal year in which submitted. They are to be updated at least every 3 years and are submitted to OMB and Congress.

Source: GAO review of statutes.

The issuance of the first performance reports in March 2000 represents a new and potentially more substantive stage in the implementation of GPRA. The performance reports offer the first opportunity to systematically assess the agencies' actual performance on a governmentwide basis and to consider the specific steps that can be taken to improve performance and reduce costs. These annual reports on program performance can also help congressional committees monitor and select programs for more detailed reviews. The first performance reports, and thus the completion of the first full planning and reporting cycle of GPRA implementation, also suggest that it is an appropriate point to examine how GPRA can be more fully integrated into executive branch and congressional decisionmaking.

In our summary assessments of the fiscal year 1999 and fiscal year 2000 annual performance plans, we highlighted a consistent set of areas that we believe have the greatest potential for improving the usefulness of GPRA to congressional and executive branch decisionmakers.² For example, much more progress is needed in linking GPRA performance goals to agency budget presentations, so that the performance consequences of budget decisions can be clearly understood. Similarly, technology and human capital planning and decisionmaking are too often not integrated

²Managing for Results: An Agenda To Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD-98-228, Sept. 8, 1998); and Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

into considerations of programmatic results. In our assessment of the fiscal year 2000 annual plans, we found that most plans did not sufficiently address how the agencies will use their human capital to achieve results. In order for GPRA to be truly effective, agencies must link their performance measurement and reward systems to the goals and measures included in their strategic and performance plans.

We have seen that integrating GPRA into agency operations does not come quickly or easily. It requires dedicated and persistent leadership within agencies that uses goals and performance data as a basis for running organizations day-to-day and for holding units and individuals accountable. It requires leadership on the part of OMB to ensure performance data are used to inform budget decisions and that agencies take GPRA seriously and use it to run their organizations. Finally, it needs Congress in its various capacities--oversight, authorization, appropriation, and confirmation of political appointees—to use GPRA in its efforts and to underscore to agencies the importance it places on effective implementation of the Act. We have made recommendations in each of the last 2 years intended to help congressional and executive branch decisionmakers ensure that GPRA is effectively implemented and used.

Congress has used GPRA practices in decisionmaking and oversight. Congressional use of GPRA concepts and practices—such as results-oriented goal-setting and performance measurement—in crafting legislation, although not uniform, clearly exists and appears to be growing. The Congressional Research Service (CRS) reported in December 1998 on the provisions in public laws and the associated committee reports from the 105th Congress that were relevant to the implementation of GPRA.³ Although CRS notes that the data must be read with caution, it found that 78 committee reports accompanying bills enacted into law during the 105th Congress included language related to GPRA or performance measures. This language included endorsements of the importance of GPRA; comments on the status of an agency's implementation efforts, including the quality of its plans; and other language. In addition, CRS found that a number of laws enacted during the 105th Congress incorporated GPRA concepts and practices. These laws, for example, required the development of a variety of performance measurement systems to assess progress in meeting statutory purposes. In some cases, the statutory direction specified the goals and performance measures to be used; in other cases, the laws provided general categories of required goals and

³ Performance Measure Provisions in the 105th Congress: Analysis of a Selected Compilation, Genevieve J. Knezo and Virginia A. McMurtry, The Congressional Research Service, December 1998.

Next Steps in Using GPRA

measures. Overall, CRS found greater attention to performance in laws and committee reports in the 105th Congress than in the 104th Congress.

Recently, I used four broad themes to discuss the significant performance problems in federal programs and agencies that our work has identified:⁴

- Attack activities at risk of fraud, waste, abuse, and mismanagement.
- Improve the economy and efficiency of federal operations.
- Comprehensively reassess what the federal government does.
- Redefine the beneficiaries of federal government programs.

Concerted and continuing congressional oversight is key to addressing the federal government's persistent performance, management, and accountability problems.

Attack Activities at Risk to Fraud, Waste, Abuse, and Mismanagement.

Over the years, our work has shown that federal functions and programs critical to personal and national security, ranging from Medicare to weapons acquisition, have been hampered by daunting financial and program management problems, exposing the federal government to waste and abuse. Since 1990, as part of our "High-Risk" initiative, we have reported on specific federal activities and functions that are particularly vulnerable to waste, fraud, abuse, and mismanagement.

The annual planning process under GPRA provides an excellent vehicle for helping to address high-risk functions and programs and to ensure that clear accountability for progress is established. In our assessment of the fiscal year 1999 performance plans, we noted that precise and measurable goals for resolving mission-critical management problems are important to ensuring that the agencies have the institutional capacity to achieve their more results-oriented programmatic goals.⁵ Similarly, our assessment of the fiscal year 2000 annual performance plans concluded that plans with goals and strategies that address mission-critical management challenges and program risks show that agencies are striving to build the capacity to

⁴Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance. (GAO/T-AIMD-00-96, February 17, 2000.)

Managing for Results: Using GPRA to Help Congressional Decisionmaking and Strengthen Oversight (GAO/T-GGD-00-95, March 22, 2000).

⁵ GAO/GGD/AIMD-98-228, September 8, 1998.

be high-performing organizations and reduce the risk of waste, fraud, abuse, and mismanagement.⁶

Recent efforts to identify and reduce the level of improper payments in Medicare show how GPRA can help in focusing attention on mission-critical problems. Following findings from the fiscal year 1996 financial audits conducted by the Inspector General with assistance from GAO under the CFO Act, the Department of Health and Human Services (HHS) has begun to identify improper payments in its financial statements for the \$170-billion-a-year Medicare fee-for-service program. HHS adopted this improper payment quantification as a measure for its annual performance plans that focus on reducing the amount of improper payments each year. Such measures are important to helping Congress and the executive branch ensure that program management is taking the steps needed to reduce improper payments.

Unfortunately, we found that the fiscal year 2000 annual performance plans showed inconsistent attention to the need to resolve the mission-critical program risks that continue to undermine the federal government's economy, efficiency, and effectiveness. We found that in many cases, agencies did not address significant management challenges and program risks in their fiscal year 2000 performance plans. In those cases where challenges and risks are addressed, agencies use a variety of approaches, including setting goals and measures directly linked to the management challenges and program risks, establishing goals and measures that are indirectly related to the challenges and risks, or laying out strategies to address them.

Improve the Economy and Efficiency of Federal Programs. Effective congressional oversight can improve federal performance by examining whether agencies have the best, most cost-effective mix of strategies in place to meet their goals. Agencies' annual performance plans can help identify opportunities for more economical and efficient operations by systematically linking program strategies to the results they are intended to achieve.⁷ We have found that although agencies' fiscal year 2000 plans contain valuable and informative discussions of how strategies and programs relate to goals, additional progress is needed in explaining how strategies and programs will be used to achieve results, including how capital assets will be used to achieve results. Specifying clearly in

⁶ GAO/GGD/AIMD-99-215, July 20, 1999.

⁷ Agency Performance Plans: Examples of Practices that Can Improve Usefulness to Decisionmakers (GAO/GGD/AIMD-99-69, Feb. 26, 1999).

performance plans how strategies are to be used to achieve results is important to Congress and managers in order to determine the right mix of strategies and to maximize performance while limiting costs.

Comprehensively Reassess What the Federal Government Does and How it Does it. It is obviously important to periodically reexamine whether current programs and activities remain relevant, appropriate, and effective in delivering the government that Americans want, need and can afford. This includes assessing the effectiveness of the tools that these programs embody, such as direct spending, loan guarantees, tax incentives, regulation, and enforcement. Many federal programs—their goals, organizations, processes, and infrastructures—were designed years ago to meet the needs and demands as determined at that time and within the technological capabilities of that earlier era. For example, the Department of Agriculture’s Market Access Program (MAP) subsidizes the promotion of U.S. agricultural products in overseas markets. Despite changes made to the program between 1993 and 1998, its results remain uncertain. Our work has noted several unresolved questions, including whether subsidized promotions generate positive net economic returns, increase exports that would not have occurred without the program, and supplement rather than supplant private sector spending.⁸

GPRA is perfectly suited for assisting Congress and the executive branch in identifying and addressing programs that may have outlived their usefulness. Performance goals that focus on the results of programs—and performance reports that show what has been accomplished—will provide critical information needed for making judgments about the continuing value of a given program. As goals are being set, Congress can make decisions on whether the goals are appropriate and whether the expected level of performance is sufficient to justify the federal expenditure and effort. Later, as results are being reported, Congress can determine if the actual performance is sufficient to justify continuing the program.

Redefine the Beneficiaries of Federal Government Programs. Congress originally defines the intended audience for any program or service on the basis of certain perception of eligibility and/or need. As with other issues, GPRA can help Congress as it considers redefining program beneficiaries. Examinations of agencies’ goals and progress in achieving those goals can highlight cases where federal benefits could be better targeted to improve results and/or cut costs.

⁸ Agricultural Trade: Changes Made to Market Access Program, But Questions Remain on Economic Impact (GAO/NSIAD-99-38, Apr. 5, 1999).

Rationalization of crosscutting program areas needs additional effort.

Virtually all of the results that the government strives to achieve require the concerted and coordinated efforts of two or more agencies. Yet our work has repeatedly shown that mission fragmentation and overlap are widespread. Unfocused and uncoordinated programs waste scarce funds, confuse and frustrate program customers, and limit overall program effectiveness.

The Government Performance and Results Act can provide the Office of Management and Budget, agencies and Congress with a structured framework for addressing crosscutting program efforts. OMB, for example, can use the governmentwide performance plan to integrate expected agency-level performance. It can also be used to more clearly relate and address the contributions of alternative federal strategies. Agencies, in turn, can use the annual performance planning cycle and subsequent annual performance reports to highlight crosscutting program efforts and to provide evidence of the coordination of those efforts.

The fiscal year 2000 performance plans indicate that agencies continue to make progress in showing that crosscutting efforts are being coordinated to ensure effective and efficient program delivery. However, few agencies' performance plans attempted to establish complementary performance goals, mutually reinforcing strategies and common performance measures for their crosscutting programs. Food safety is one area where the fragmented federal approach is inefficient and hinders the government's efforts to actively protect consumers. The Centers for Disease Control and Prevention (CDC) estimated that food-borne diseases cause approximately 76 million illnesses and 5,000 deaths in the United States each year.⁹ However, the current system to ensure food safety suffers from inconsistent oversight, poor coordination, and inefficient allocation of resources. As many as 12 different federal agencies administer over 35 different laws overseeing food safety.

More information on programs with mission fragmentation and overlap, barriers to interagency coordination and potential approaches for improving the effectiveness and efficiency of crosscutting programs can be found in our report Managing For Results: Barriers to Interagency Coordination (GAO/GGD-00-106, March 29, 2000) which we are issuing today as background for this discussion.

⁹"Food-related illness and death in the United States", P.S. Mead, et. al. Emerging Infectious Diseases, 5(5), Sept.-Oct. 1999. See also Meat and Poultry: Improved Oversight and Training Will Strengthen New Food Safety System (GAO/RCED-00-16, Dec. 8, 1999), and Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System (GAO/T-RCED-99-256, Aug. 4, 1999).

Build the Capacity to Gather and Use Performance Information. Our work over the past several years has identified limitations in agencies' abilities to produce credible program performance and cost data and identify performance improvement opportunities. These limitations are substantial and long-standing, and they will not be quickly or easily resolved. For example, EPA has been challenged to aggregate water quality data provided by the states. This has made it difficult for EPA to set priorities, evaluate the success of its programs and activities, and report on its accomplishments in a credible and informed way.

Similarly, we continue to be concerned about the lack of capacity in many federal agencies to undertake program evaluations.¹⁰ The absence of program evaluation capacity is a major concern because a federal environment that focuses on results—where federal efforts are often but one factor among many that determine whether goals are achieved—depends on program evaluation to provide vital information about the contribution of the federal effort.

Under GPRA, agencies are to communicate to Congress how they will verify and validate the performance information that they will use to show whether goals are being met. Discussing data credibility and related issues in performance reports also can provide important contextual information to Congress. For example, Congress can use this discussion to raise questions about problems the agencies have had in collecting needed results-oriented performance information and the cost and data quality trade-offs associated with various collection strategies. Finally, GPRA requires agencies to include in their performance reports summary findings of those program evaluations completed during the fiscal year covered by the report. Congress can use such information to obtain a clearer picture of the agencies' contributions to improvements in citizens' lives.

Congressional committees of jurisdiction could hold augmented oversight hearings. At least once each Congress and preferably on an annual basis committees could examine information in agencies' plans and reports produced under the GPRA. These assessments would assess the extent to which they provide a reasonable return on investment—providing the results that Americans want and need at a reasonable cost—and to identify opportunities for additional improvements in agencies' management. This information on missions, goals, strategies, resources, costs, and results

¹⁰ GAO/GGD/AIMD-98-228, September 8, 1998.

could provide a consistent starting point for each of these hearings and allow for more informed discussions about issues such as the following:

- What progress is the agency making in limiting its vulnerability to fraud, waste, abuse, and mismanagement by addressing mission-critical management challenges and program risks?
- Does the agency have the best mix of programs, initiatives, and other strategies to achieve results and operate in an economical and efficient manner?
- Is the agency pursuing the right goals and making progress toward achieving them. Specifically, changing circumstances and/or program performance may suggest that programs are outdated and need to be revised or terminated?
- Are the eligibility rules for federal benefit programs properly targeted and do opportunities exist for reform, reduction, or termination based on changing conditions and perceptions of need?
- Is the federal government effectively coordinating its responses to pressing national needs?
- Is the federal government achieving an expected level of performance, especially in terms of outcomes, for the budgetary and other resource commitments that have been provided? More directly, what type of return are the taxpayers getting for their investment in the agency and its programs?
- Are there efforts under way to ensure that the agency's human capital strategies are linked to strategic and programmatic planning and accountability mechanisms?
- What is the status of the agency's efforts to use information technology to achieve results?

Finally, through the appointment and confirmation process, the Senate has an added opportunity to make clear its commitment to high performance and sound federal management by exploring with nominees what they plan to do to ensure that their agencies are striving to be high-performing organizations.

As you know, Mr. Chairman, I am personally committed to the successful implementation of GPRA—I have seen in my public and private sector careers how GPRA's purposes of improved performance and accountability can be achieved through the disciplined application of the goal-setting, planning, performance measurement, and reporting requirements of the Act. As a sign of my commitment, within the coming weeks, GAO will for the first time issue a strategic plan and associated annual performance plan that are consistent with the requirements and

best practices of GPRA. We seek, through our strategic and annual planning process, to “lead by example” by being a model for implementation of GPRA. We do this even though we are not required to comply with GPRA. Rather, we do it because GPRA’s requirements make good business sense. Most important, our strategic and annual performance plans will clearly set out our direction and show how GAO aims to better support Congress in carrying out its constitutional responsibilities and in improving the performance and accountability of the federal government for the benefit of the American people.

As part of our goal to support the transition to a more results-oriented and accountable federal government GAO’s strategic plan calls for analyzing and supporting federal efforts to instill results-oriented management across the government, by assessing:

- The effectiveness of agencies’ and OMB’s management reform initiatives to create high-performance organizations,
- The strategies and tools federal agencies use to ensure accountability for results,
- The collection and use of performance information and program evaluation results.

Strengthening Financial Management for Decisionmaking and Accountability

This Committee has contributed to a focus on sound financial management through its hearings and focus on high-risk federal programs and management challenges, and important efforts are underway in a number of areas. There is a critical need to continue the momentum toward real reform. In particular, better financial information is central to any meaningful reform.

Without timely and accurate information on the full costs of programs, the government cannot adequately ensure accountability, measure and control costs, manage for results, nor make timely and fully informed decisions about allocating limited resources. However, such information has historically not been routinely available across government.

The CFO Act laid the legislative foundation for the federal government to provide taxpayers, the nation’s leaders, and agency program managers with reliable financial information through audited financial statements. In addition to requiring annual audited financial statements, the CFO Act sets expectations for agencies to build effective financial management organizations and systems and to routinely produce sound cost and operating performance information throughout the year. The combination of reforms ushered in by GPRA and the CFO Act will, if successfully

implemented, generate the necessary foundation to effectively run performance-based organizations.

Some progress has been made by individual agencies in preparing annual financial statements. Of the 24 CFO Act agencies, 6 received an unqualified or “clean” opinion on their financial statements for fiscal year 1996, 11 for fiscal year 1997, 12 of 24 for fiscal year 1998, and 13 of 22 received an unqualified opinion as of today for fiscal year 1999. However, certain major agencies have not yet been able to obtain an unqualified opinion on a consistent basis.

The most significant in this regard is DOD, which represents a large percentage of the government’s assets, liabilities, and net costs. None of the military services or the department as a whole has yet been able to produce auditable financial statements. For example, DOD has acknowledged that the lack of a cost accounting system is the single largest impediment to controlling and managing weapon systems costs.¹¹ We designated DOD financial management to be a high-risk area in 1995 and it remains so today, although we have seen increased attention to begin to address many of these issues. DOD recognizes the seriousness of its problems and has a number of improvement initiatives under way.

IRS was able to produce reliable information on tax revenue collections, refund disbursements, and unpaid tax assessments in fiscal year 1999. However, this was only after investing substantial, time-consuming and costly efforts to overcome pervasive deficiencies in its financial management and operational systems and controls. Weaknesses in controls over unpaid taxes and refunds have likely cost the federal government billions of dollars. Additionally, serious weaknesses prevented IRS from being able to reliably report on the balances and uses of its administrative appropriations in fiscal year 1999. Specifically, they hindered IRS’ efforts to properly report the components of its net position and its statements of net cost, changes in net position, financing, and budgetary resources. IRS has a number of initiatives planned or in process intended to address these problems, and its top management has demonstrated a commitment to this effort. However, many of these initiatives are long term and will take years to implement.

The U.S. Government, as a whole, also has not yet been able to accurately report on a significant portion of its hundreds of billions of dollars of

¹¹Department of Defense: Status of Financial Management Weaknesses and Actions Needed to Correct Continuing Challenges (GAO/T-AIMD/NSIAD-99-171, May 4, 1999, p.20).

assets, liabilities and net costs due to widespread financial system weaknesses, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls, including computer controls. These deficiencies impair the government's ability to accurately measure the full cost and financial performance of programs. They also impinge on the safeguarding of the government's extensive inventory of assets and the proper recording of billions of dollars in transactions.

Major problems we have reported¹² include the government's inability to:

- Properly account for and report billions of dollars of property, equipment, materials and supplies, primarily at the Department of Defense;
- Properly estimate the cost of most major federal credit programs and the related loans receivable and loan guarantee liabilities, primarily at the Department of Agriculture;
- Estimate and reliably report material amounts of environmental and disposal liabilities and related costs, primarily at the Department of Defense;
- Determine the proper amount of various reported liabilities, including postretirement health benefits for military employees;
- Accurately report major portions of the net cost of government operations;
- Determine the full extent of improper payments that occur in major programs and that are estimated to involve billions of dollars annually;
- Ensure that all disbursements are properly recorded; and
- Properly prepare the federal government's financial statements, including balancing the statements, accounting for billions of dollars of transactions between governmental entities and properly and consistently compiling the information in the financial statements.

The Administration agrees with these deficiencies, has designated financial management as a top priority and has actions underway; but concerted effort over a number of years will be needed to achieve the legislative intent of the CFO Act.

Clean audit opinions are not the end-game; modern financial systems are essential. While clean audit opinions are essential to providing an annual public scorecard, they do not guarantee that agencies have the financial systems needed to dependably produce reliable financial information. Modern systems and good controls are essential to reach the end goal of

¹² Financial Audit: 1998 Financial Report of the United States Government (GAO/AIMD-99-130, March 31, 1999).

useful, relevant, reliable day-to-day financial information to support ongoing management and accountability.

Although clean audit opinions can be produced by “heroic efforts”, such efforts are not the solution. For example, IRS’ general ledger cannot routinely provide reliable information on its revenue, refunds, and unpaid tax assessments needed to prepare its financial statements. To develop reliable revenue and refund activity for its fiscal year 1999 financial statements, IRS had to use extensive, costly ad hoc procedures to generate tax revenue and refund activity from its legacy systems and then reconcile this information with its general ledger. In addition, IRS and GAO jointly developed estimates of the components of unpaid tax assessments based on a statistical sample of about 700 cases. This process resulted in reliable information, but only after eight months of substantial effort and after tens of billions of dollars of adjustments to IRS records. These costly procedures will need to be done annually until IRS successfully replaces its legacy systems.

The Federal Financial Management Improvement Act of 1996 (FFMIA) focuses on making improvements in the underlying systems to comply with federal accounting standards, financial systems requirements, and the government’s standard general ledger at the transaction level. For fiscal year 1997, 20 of 24 agencies’ financial management systems did not substantially comply with FFMIA requirements; 21 of 24 did not for fiscal year 1998. For fiscal year 1999, auditors for 19 of the 22 CFO Act agencies that have issued audit reports as of today reported that those agencies’ financial systems did not substantially comply with the Act. The two agencies that have not yet issued their fiscal year 1999 financial statement audit reports reported that their financial systems did not substantially comply for fiscal years 1997 and 1998.

Agencies are challenged to improve their critical existing financial systems applications, which are not designed to fully meet current accounting standards and financial system requirements. OMB reported in June 1998 that over 72 percent of systems applications needed replacement or significant upgrading over the next 5 years and that many agencies lacked the resources to do so. Some efforts have been delayed by preparation for the Year 2000 computing challenge.

Cost accounting also remains a key challenge in providing accountability and supporting GPRA. Most agencies still need to develop measures of the full costs of carrying out a mission, producing products, or delivering services to provide decision-makers with information on all the resources

used and permit comparisons of the costs of various programs and activities and their performance outputs and results. The development of such measures is expressly required by federal accounting standards. Developing the necessary approach to gather and analyze needed program and activity-level cost information will be a substantial undertaking. While there is a broad recognition of the importance of doing so, for the most part, agencies have just begun this effort.

Streamline, simplify and link performance and financial information. Accountability is enhanced when Congress can examine the relationship between agency financial information and program results. A pilot program under the Government Management Reform Act resulted in 10 agencies issuing accountability reports for 1996. These reports consolidate reporting requirements under several statutes, including the CFO Act, FMFIA, GPRA, Prompt Payment Act, and Debt Collection Improvement Act. The accountability reports include both program and financial information, such as the audited financial statements and performance measures reflecting performance in meeting key agency goals. They provide the opportunity for agencies to report a balanced set of measures that link an agency's strategic objectives to its financial performance, customer satisfaction, the results of its business processes and its efforts to improve. Twenty-two agencies are expected to prepare accountability reports for fiscal year 1999. The initial experience with accountability reports has been promising and we support congressional adoption of this concept, or at a minimum reauthorization of these pilots, which are to expire on June 30, 2000.

Next Steps

Congress can encourage the development of sound financial data by continuing to hold hearings and other discussions with agencies about their progress in this area as well as the barriers to and requirements for progress.

GAO is striving to lead by example through its financial management practices. For the past 13 years we have received clean audit opinions on our financial statements. Also, our auditors have found us to be in full compliance with Federal Financial Management Improvement Act requirements.

As another example of our decision to voluntarily comply with congressionally created management reforms and to "lead by example," I am also pleased to report to the Committee that, several days ago, GAO issued its first-ever Accountability Report. This report discusses GAO's role in serving Congress and the American People. The Accountability

Report is different from GAO's previous years' Annual Report. It reviews GAO's accomplishments in meeting its mission consistent with applicable professional standards and our core values of Accountability, Integrity, and Reliability. The report also includes a summary of GAO's new Strategic Plan, which was recently developed with input from the Congress, our financial statements, and an unqualified opinion from the agency's independent auditor.

As the Accountability Report indicates, GAO helped Congress and the federal agencies achieve many important goals in fiscal year 1999. For example, GAO's work resulted in more than \$20 billion in financial benefits, a return on investment of 57 to one, and over 600 specific actions leading to more effective government. I am very proud of these achievements and look forward to working with Congress and other GAO professionals to make equally important contributions in fiscal year 2000.

GAO's performance goals include strengthening accountability for the government's assets and operations and identifying needed improvements to the financial management infrastructure by:

- Analyzing and interpreting financial information and stimulating the development and analysis of reliable cost data that supports performance management and a better linkage between budget, financial, and program results information.
- Identifying opportunities to strengthen financial organizations and evaluating financial operations, systems, and internal controls;
- Evaluating the effectiveness of major agencies' actions to address deficiencies reported in prior financial audits; and,
- Annually auditing and reporting on the U.S. government's financial statements and the adequacy of internal controls;

Improving the Use of Information Technology to Achieve Results

Information technology, if leveraged properly, can be an effective tool for high quality, cost effective government services. Information technology is at the heart of improving accountability and performance. The government is heavily dependent on computer systems and networks to implement vital public services supporting national defense, revenue collections, and social benefits. To the extent that billions in planned annual obligations for information technology can be spent more wisely, federal programs will operate more efficiently and effectively. However, the global expansion of information technology has resulted in significant new information security and privacy threats to our information networks and technology infrastructure.

Resolving Serious Information Security Weaknesses. Our nation's computer-based critical infrastructures are at increasing risk of severe disruption, as illustrated by the recent denial-of-service attacks on popular Internet web-sites. Massive computer networks provide pathways among systems that, if not properly secured, can be used to gain unauthorized access to data and operations from remote locations. As a result, government officials are increasingly concerned about attacks from individuals and groups with malicious intentions, such as terrorists and nations engaging in information warfare.

Such risks are of particular concern at the federal level. Recent audit reports issued by us and by agency inspectors general show that most of the largest federal agencies have significant computer security weaknesses. These weaknesses place critical federal operations, such as national defense, tax collection, law enforcement, air traffic control, and benefit payments at significant risk of disruption, as well as fraud and inappropriate disclosures. In February 1997 and again in January 1999, our reports to the Congress designated information security as a governmentwide high-risk area.¹³

Hearings by this and other congressional committees have served to clarify this problem. In November 1999, Chairman Thompson and Senator Lieberman introduced S. 993, the Government Information Security Act of 1999, which seeks to strengthen information security practices throughout the federal government. S. 993 updates the legal framework that supports federal information security requirements and provides for a risk-based approach to implementing these requirements. It also requires independent annual audits of security controls, which would provide valuable information to support strengthened congressional oversight. In addition, this committee sponsored our efforts to identify best practices for improving information security management. This led to issuance in May 1998 of our executive guide, entitled Information Security Management: Learning From Leading Organizations (GAO/AIMD-98-68), which has been endorsed by the federal CIO Council and is being used by numerous federal agencies to bolster their ability to manage information security risks. A companion guide was issued in November 1999 entitled Information Security Risk Assessment: Practices of Leading Organizations (GAO/AIMD-00-33).

¹³High Risk Series: Information Management and Technology (GAO/HR-97-9, February 1997) and High Risk Series: An Update (GAO/HR-99-1, January 1999).

Concurrent with efforts to improve federal information security, our government's focus has broadened to include protecting privately controlled critical infrastructures from computer-based attacks. Such infrastructures are essential to the national welfare and include systems supporting public utilities, telecommunications, finance, emergency services, as well as government operations. These efforts began in 1996 with establishment of the President's Commission on Critical Infrastructure Protection. The Commission's findings led to issuance, in 1998, of Presidential Decision Directive (PDD) 63, which created several new federal entities for developing and implementing a strategy for critical infrastructure protection and tasked federal agencies with developing critical infrastructure protection plans and establishing related links with private industry sectors.

Most recently, in January 2000, the President released a National Plan for Information Systems Protection. As outlined in this plan, a number of new, centrally managed entities have been established and projects initiated to assist agencies in strengthening their security programs and improving federal intrusion detection capabilities.¹⁴ This first draft of the plan is intended to begin a dialogue and lead to the development of a more detailed blueprint for protecting the nation's infrastructures. In addition, on March 3, 2000, in response to recent Internet disruptions, the President issued a memo to the heads of executive departments and agencies urging them to renew their efforts to safeguard their computer systems against denial-of-service attacks on the Internet. Congressional leadership in this dialogue will be essential to help ensure that any critical infrastructure protection plans that are implemented are appropriate and cost-effective.

Improving Management of Large-scale Information Technology (IT) Investments. Large-scale agency investments in IT, whether they are major system modernization programs—such as the Federal Aviation Administration's (FAA) air traffic control modernization—or large system development and acquisition projects—such as Custom Service's Automated Commercial Environment, can cost hundreds of millions and even billions of dollars over their life cycles. In fact, federal agencies invest about \$38 billion to build, operate, and maintain automated information systems each year. If managed effectively, these investments can vastly improve government performance and accountability. If not, they can result in wasteful spending and lost opportunities for improving the delivery of services to the public.

¹⁴Defending America's Cyberspace: National Plan for Information Systems Protection: Version 1.0: An Invitation to a Dialogue. Released January 7, 2000. The White House.

For years, federal agencies have struggled with delivering promised system capabilities on time and within budget. IRS spent more than \$3 billion in the late 1980's and early 1990s on systems modernization without producing commensurate value. Accordingly, our work over the last decade has focused on strengthening federal agency management of IT investment. We continue to ask whether agencies are spending their technology dollars on the right things (i.e., investments that return business value in excess of costs) and whether they are investing in technology the right way (i.e., employing management and engineering practices that are disciplined and effective). In particular, we developed guidance, Assessing Risks and Returns: A Guide for Evaluating Agencies' IT Investment Decision-making (GAO/AIMD-10.1.13, Feb. 1997), based on best practices in the public and private sectors. We have also made hundreds of recommendations to improve management of large-scale IT investments in many major departments and agencies.

Some agencies are making tangible improvements. For example, the Customs Service has developed an enterprise system architecture to guide the development and evolution of its system investments. It is in the process of implementing disciplined investment management processes and strengthening acquisition and development capabilities for software intensive systems. At the same time, we have been working with OMB and the federal Chief Information Officers Council to strengthen federal policies and guidance in light of our experiences with federal agencies and the need for agencies to implement IT legislation, such as the Clinger-Cohen Act of 1996. Our executive guide, entitled Maximizing the Success of Chief Information Officers: Learning from Leading Organizations (Exposure Draft) (GAO/AIMD-00-83, March 2000) provides six principles of good CIO management based on lessons learned from leading CIO organizations in the private sector and state governments. In addition, we have raised several areas that should be addressed by agency heads and Congress in order to enhance the effectiveness of federal CIOs meeting the challenges we have identified.

Nevertheless, much remains to be accomplished and the challenges are formidable. While agencies are making inroads toward strengthening IT management, some have been slow to implement our recommendations. For example, the National Weather Service has made little progress in developing and implementing a systems architecture that includes all weather forecasting and warning systems to guide its current and future systems development. Also, many agency efforts to improve IT management are still in the beginning stages and it is clear that more needs to be done. At the same time, agencies are now beginning to address

deferred new IT investment needs caused by their recent, and appropriate, focus on the Year 2000 conversion problem. As a result, we anticipate that agencies will begin major modernization programs and large-scale IT projects in the very near future, making the need for fundamental improvements in the way agencies manage IT investments even more urgent.

Next Steps

Congress can focus on the status of agency efforts to:

- employ rigorous and disciplined system investment and engineering practices, including enforcing an enterprise systems architecture;
- use information technology to achieve results; and,
- proactively managing risk to their computer security.

For GAO to become a model of organizational efficiency, effectiveness, and accountability in the federal government, we must be able to maximize the benefits of information technology. Over the years, we have made important strides in—and realized efficiencies by—introducing technology into the organization. Most recently, we have successfully managed the Y2K transition. However, we need to maintain and enhance our ability to take greater advantage of modern technology and achieve an integrated infrastructure that supports our client service, strategic planning, human capital and business process goals and objectives. To this end we are:

- developing a long-term comprehensive plan for an integrated information technology approach;
- developing and implementing a short-term cost-effective approach to quickly begin to satisfy GAO's information needs;
- establishing performance and cost metrics addressing the quality and value of information technology services; and,
- ensuring the availability of required information technology skills.

To help ensure that the federal government's \$38 billion in annual obligations in information technology is better managed to help achieve greater program effectiveness and service delivery, as well as improved economy and efficiency in government operations, our strategy will be to examine areas critical to the government's and the nation's increasing dependency on information technology by:

- Promoting approaches to better protect our nation's information networks and technology infrastructures,

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- Helping to build the government's capacity to use information technology to provide higher quality, more cost-effective service to the American public,
 - Assessing federal agencies' efforts to protect their computer information systems infrastructure.

Develop and Implement Modern Human Capital Practices

The government's human capital management has emerged as the missing link in the statutory and management framework that Congress and the executive branch have established to provide for more businesslike and results-oriented federal government. Yet, federal employees are the ones who will make the principles of performance management work for government.

Federal employees should be viewed not as costs to be cut, but as assets to be valued. Only when the right employees are on board and provided the training, technology, structure, incentives and accountability to work effectively is organizational success possible. Modern strategic human capital management recognizes that employees are a critical asset for success, and that an organization's human capital policies and practices must be designed, implemented, and assessed by the standard of how well they support the organization's mission and goals.

Human capital reforms will be necessary to fully benefit from the performance-based management and accountability framework that Congress has created. I am optimistic that as the government's understanding of the importance of people to effective government grows, a new consensus on human capital will emerge and any needed and appropriate legislative reforms will be accomplished. But, I am also strongly convinced that we should not wait for the day when these reforms will arrive. Instead, we can and should take steps to align our human capital management policies and practices with modern performance management principles, within the constraints imposed by current law.

Changes in the demographics of the federal workforce, in the education and skills required of its workers, and in basic federal employment structures and arrangements are all continuing to unfold. The federal workforce is aging: the baby boomers, with their valuable skills and experience, are drawing near to retirement; new employees joining the federal workforce today have different employment options and different career expectations from the generation that preceded them. In response to an increasingly competitive job market, federal agencies will need the tools and flexibilities to attract hire, retain, and reward top-flight talent. More and more, the work that federal agencies do requires a knowledge-

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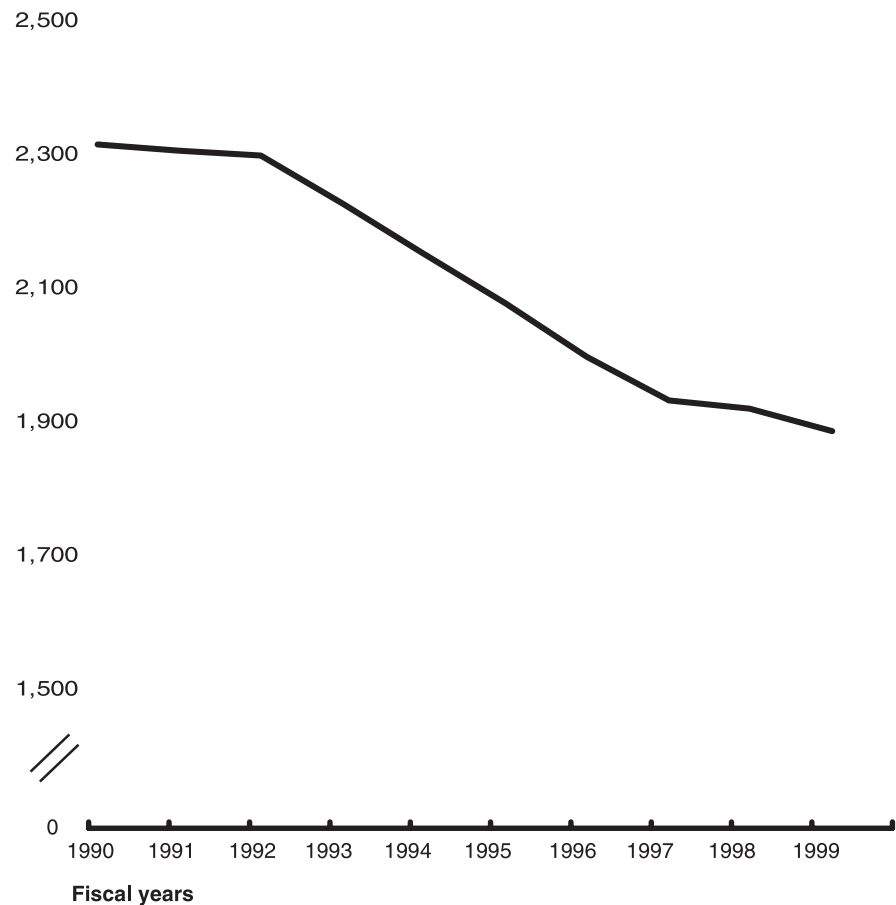
Managing in the New Millennium: Shaping a More Efficient and Effective Government for the 21st Century

based workforce that is sophisticated in new technologies, flexible, and open to continuous learning. Agencies' employment structures and working arrangements will also be changing, and the workplace will need to accommodate greater flexibility and uncertainty.

The implications of the downsizing of federal workforce over the past decade are also significant. From fiscal year 1990 to fiscal year 1999, the number of non-postal civilian federal employees fell from about 2.3 million to about 1.9 million.

Figure 11: Federal Workers

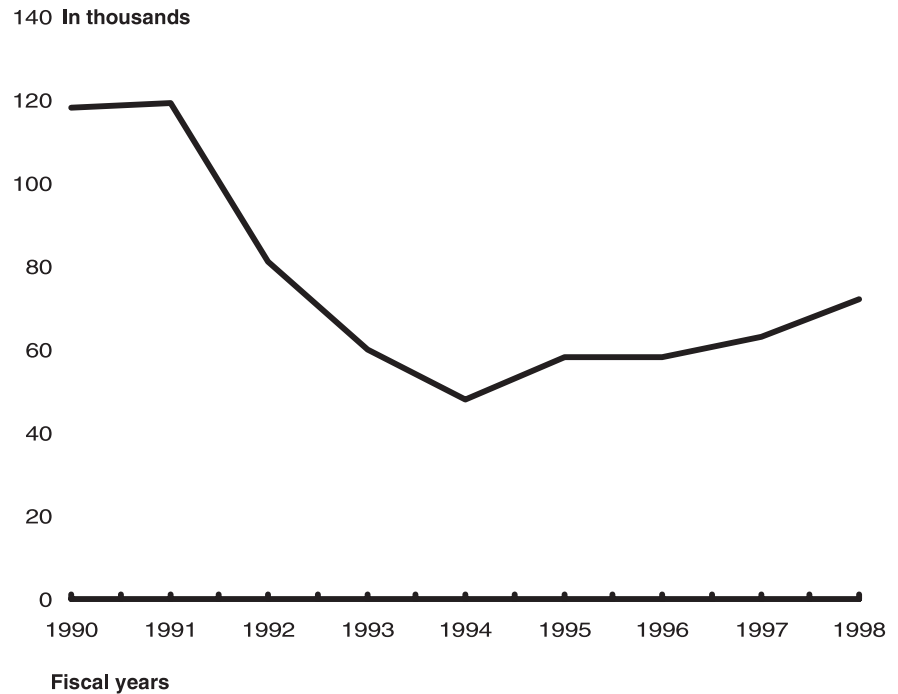
Federal workers (in millions)



Source: OPM, Federal Civilian Workforce Statistics, 1990-1999

As shown in figure 13, new permanent hires fell from about 118,000 in fiscal year 1990 to a low of about 48,000 in 1994, before beginning a slow rise to about 71,500 in fiscal year 1998.

Figure 12: Permanent Hires



Note: The number of permanent hires excludes SES permanent hires and represents individuals, not FTEs.

Source: GAO calculations based on OPM data.

In cutting back on the hiring of new staff in order to reduce the number of their employees, agencies also reduced the influx of new people with the new competencies needed to sustain excellence. Also, our reviews have found, for example, that a lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies affected their ability to achieve organizational missions. For example, Department of Housing and Urban Development (HUD) initiated its 2020 Management Reform plan to, among other things, correct several management deficiencies, and set a goal to reduce staffing. However, its target levels for reductions were not based on a systematic analysis of the staff needed to carry out its responsibilities and functions. We are concerned because we have reported since 1994 problems with HUD's programs, including an insufficient mix of staff with the proper skills.

We intend to do more work on the implications of downsizing, but our view today is that the widespread lack of attention to strategic human capital management may be creating a fundamental weakness in federal management, possibly even putting at risk the federal government's ability to efficiently, economically, and effectively deliver products and service to the taxpayers in the future. These shortcomings in the federal government's human capital management systems could well earn them GAO's high-risk designation when the next High Risk Series is issued in 2001.

To meet the changing environment, federal agencies need to give human capital a higher priority than ever before and rethink how their workforces are developed and deployed to enhance achievement of organizational performance goals. Although the civil service system is viewed by many as outdated and in need of reform, there is much that can and should be done today—by individual federal agencies, the Office of Personnel Management, the Office of Management and Budget, GAO and Congress—to improve the way the federal government manages its human capital, even in the absence of any fundamental legislative change. Our work with leading organizations in the private sector and among governments at the state and local levels and abroad has identified key human capital approaches in high-performing organizations¹⁵. Based on this work, values widely applied by the Malcolm Baldrige National Quality Award Program and the President's Quality Award Program, and comments from officials from various federal agencies and from human capital experts within and outside government, we have developed and published a human capital self-assessment checklist¹⁶. The checklist was designed to help agency leaders quickly scan their agencies' human capital policies and programs and determine whether they have addressed the areas necessary for the workforce to be managed for results. The questions in the checklist follow a five-part framework—recognizing, of course, that all five parts are, of necessity, interrelated and overlapping:

Strategic Planning: Establish the Agency's Mission, Vision for the Future, Core Values, Goals, and Strategies

¹⁵Our examination of performance-based human capital management in the private sector dates back to at least 1995, when we sponsored a 2-day symposium of 32 leaders from leading private sector organizations and from governments at the federal, state, and local level as well as from abroad. From these discussions, we came to understand how high-performing organizations value employees as assets and align their "people policies" with mission accomplishment. See Transforming the Civil Service: Building the Workforce of the future—Results of A GAO Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995). See also Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000)

¹⁶Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999)

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Organizational Alignment: Integrate Human Capital Strategies With the Agency's Core Business Practices

Leadership: Foster a Committed Leadership Team and Provide Reasonable Continuity Through Succession Planning

Talent: Recruit, Hire, Develop, and Retain Employees With the Skills for Mission Accomplishment

Performance Culture: Enable and Motivate Performance While Ensuring Accountability and Fairness for All Employees

Next Steps

OMB and OPM—the central management agencies with the greatest influence on individual agencies' human capital efforts—have substantial roles to play in promoting and enabling broader application of human capital principles.

OMB's role in setting governmentwide management priorities and defining resource allocations may be central to the adoption of human capital considerations across government. The President's fiscal year 2001 budget has added human capital management to its list of Priority Management Objectives (PMO). It is too early to tell whether the steps regarding human capital management outlined in the President's budget will lead to greater attention to human capital concerns or real improvement in the way the federal workforce is managed. But the fact that these considerations have been formally recognized as a management priority is an encouraging sign, and creates a clear opportunity to make real progress.

OPM has reported that it is developing a "systematic methodology for workforce planning and staff analysis that will provide user agencies with a single, integrated interface to a vast array of tools to facilitate their workforce planning".¹⁷ Although we have not formally reviewed OPM's progress in developing its workforce planning model or associated web-based tools, its efforts in this area would appear to be a worthwhile step toward filling a need for better guidance and tools from OPM in the workforce planning area. As we stressed more than a decade ago, OPM's leadership role should include working with the agencies to better prepare the government to meet future challenges, attack performance improvement efforts with more vigor, and ensure more effective oversight

¹⁷ Annual Performance Plan—Fiscal Year 2001 (February 2000), p.90.

of the government’s key human capital concerns.¹⁸ Today, OPM can potentially contribute greatly to agencies’ awareness of strategic human capital principles and their capacity to put them to use. The next thing needed from OMB—and from OPM—is a sustained commitment to making these plans a reality.

Congress could enable reform by considering the extent to which traditional “civil service” approaches—the structures, oversight mechanisms, rules and constraints—support the needs of a government that is now adopting performance management principles and whether fundamental structural or policy changes needed for agencies to adapt human capital management to the needs of the next century. Ultimately, legislative reform may need to be considered. In the meantime, within the context of current law, Congressional oversight of agencies’ management improvement efforts can target for special attention agencies’ efforts, if any, to take a more strategic and integrated approach to managing their human capital for results. Hearings could encourage discussion of agency efforts to ensure that they have the needed human capital and that the agency’s human capital strategies are linked to strategic and programmatic planning and accountability mechanisms. For agencies that request legislative exceptions from current civil service laws or regulations, Congress can require that agencies “make their case” based on rational and fact-based analyses of their needs, the constraints under which they presently operate, and the flexibilities available to them. Further, through the appointment and confirmation process, the Senate has an added opportunity to make clearer its commitment to sound human capital management and to explore what prospective nominees plan to do to ensure that their agencies recognize and enhance the value of their people.

At GAO, we hope to encourage and facilitate the adoption throughout government of a greater human capital focus, as well as of other performance management principles, and to “lead by example.” Right now, we are making our own human capital a top priority. GAO has completed an extensive assessment of its “Human Capital Profile”. The profile depicts GAO’s significant human capital imbalances, and risks, stemming from dramatic budgetary cuts, downsizing, hiring freezes, and other related actions from 1992-1997. Over that period GAO underwent budgetary cuts totaling 33 percent in constant FY 1992 dollars. In order to achieve these budgetary reductions, GAO staff was reduced by 39 percent. In addition,

¹⁸Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19, Jan. 19, 1989).

the retirement eligibility of the GAO workforce has accelerated. By the end of 2004, about 34 percent of all GAO employees will be eligible to retire.

In order to maximize GAO's existing economy, efficiency and effectiveness to position the agency for the future, and meet the increasingly complex and multidimensional needs of the Congress, GAO is seeking legislation to:

- Give GAO the flexibility to appoint scientific, technical or professional staff to senior level positions with the same pay, rights, and other attributes as members of the Senior Executive Service.
- Authorize voluntary early retirement for selected individual employees for the purpose of realigning the agency's workforce.
- Authorize separation payments for realignment purposes.
- Authorize the Comptroller General to take steps to realign GAO's workforce by considering factors such as the agency's needs (i.e. strategic plan) combined with the skills, performance and knowledge of individuals.

By investing resources in our human capital programs, we are hoping to enhance the value of our people and, in turn, the value of GAO to Congress and all Americans. We are also hoping to demonstrate that other federal agencies if they put their minds to it and are willing to make the appropriate investments, can do much to improve the way they manage people.

In addition, we hope to assist federal agencies by:

- Providing conceptual frameworks and practical tools to help agencies make substantial improvements in their human capital management policies and practices. The human capital self-assessment checklist is one of our first efforts in this area.
- Through our audit and evaluation work and outreach efforts, learning more about the day-to-day challenges that agencies face and developing more rigorous, widely adaptable methodologies for human capital assessment.
- Identifying and sharing with agencies best practices in human capital skills, knowledge and performance drawn from the private sector and from governments at all levels and abroad.

Another way in which we intend to contribute is by providing sound and reliable data gathering to help inform a consensus on what governmentwide human capital reforms may be needed. One thing we can do is help bring to light common barriers that agencies have identified as

standing in the way of their changeover to performance management principles. It is becoming increasingly clear that the system for federal employment must provide agencies with sufficient flexibilities to tailor their human capital approaches to their missions, goals, strategies, and other circumstances—while ensuring, meanwhile, that adequate safeguards are in place to prevent abuses. We intend to give a higher priority to studying the structure and underlying assumptions of the civil service, including the roles and responsibilities of the central personnel agencies, and the effective balance between flexibility and accountability. Drawing on the human capital self assessments we hope that agencies will perform, and on the work we at GAO pursue at Congress' behest, we hope to identify common themes and experiences across the range of federal employers. The more commonalties and shared perceptions we can identify, the more likely it may be that we can reach a consensus on reform.

Developing Government Structures for the 21st Century

To this point I have discussed action that congress, executive agencies and this office can undertake to improve the efficiency, effectiveness and accountability of the federal government in the near and medium term. But, the broad based and rapid changes that confront government also call for a more long term studied focus on the fundamental structure of the federal government and the processes used for service delivery, decisionmaking and oversight.

In this context, it is appropriate to think about changes not only to specific programs and activities within the broad oversight questions discussed in this statement, but also to reconsider the fiscal and performance models, structures, and processes that are used to organize and manage our federal government and those used by the Congress to fulfill its oversight responsibilities. I would like to conclude my statement by offering our observations on what issues need to be examined in this regard.

Developing a New Fiscal Paradigm

As I have emphasized in previous testimonies before the Congress, we must be mindful that today's fiscal decisions have important consequences for the kind of society and economy we hand to the next generations of American citizens. I firmly believe that we need to develop a new fiscal paradigm that prompts a clearer focus on and attention to the long-term implications of current decisions. Specifically, continued debt reduction and entitlement reforms are both critical to promoting a more sustainable budget and economy for the longer term. More importantly, failure to do so will consign the nation to a long-term future where, at current revenue levels, the federal government may be able to afford little more than paying for retirement checks and health care for the elderly.

Our recent work discussing how other countries are dealing with current surpluses can be informative about the character of a new fiscal paradigm for our nation. For example, some countries have recognized that using fiscal targets such as debt-to-GDP ratios can be useful to guide decision-making in a world where achieving a current year balance is no longer sufficient as a fiscal compass. We reported that several foreign countries, including New Zealand and Norway, have succeeded in saving at least a portion of their surpluses for several years, partly by adopting a broader framework for budgetary decision-making guided by explicit fiscal and economic goals that provided a compelling rationale for continued restraint.¹⁹

In addition, other nations have discovered that greater transparency about the future cost of commitments can be a useful method to prompt a timely debate about current and future affordability. Some foreign governments are attempting to achieve this transparency by incorporating accrual measures of longer-term consequences in budget documents and presentations. The federal government also could consider where and to what extent greater disclosure of the future costs of today's commitments—possibly including accrual measures for appropriate areas of our budget such as pensions, federal insurance, and federal retirees' health care costs—might enhance congressional oversight.

Developing a New Performance Paradigm

Just as there is a need to rethink approaches to fiscal decision-making models with the advent of projected surpluses, so also there is a need to consider changes to oversight of the performance and management of the federal government. I have discussed ways in which the executive branch and Congress can use the information they will be receiving about the costs, efficiency, and effectiveness of federal programs and activities. However, although individual authorization and oversight committees are well suited to address performance or financial issues affecting individual agencies or programs, many of the key performance questions are not confined to, and cannot be addressed effectively on, an agency-by-agency or committee-by-committee basis. Many federal mission areas—from low-income housing assistance to food safety to counter-terrorism—are addressed by a wide range of mandatory and discretionary spending programs, tax expenditures, and regulatory approaches that cut across federal agencies and committee jurisdictions.²⁰ Similarly, while budgetary

¹⁹ Budget Surpluses: Experience of Other Nations and Implications for the United States (GAO/AIMD-00-23, Nov. 2, 1999)

²⁰ Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997.)

choices should be more clearly informed by performance considerations and a full understanding of associated costs, the capacity to align and relate this information to existing appropriations structures and presentations is complicated and very much in the early stages of development.²¹

Given this environment, the Congress should also consider the need for mechanisms that allow it to more systematically focus its oversight on problems with the most serious and systemic weaknesses and risks. Today, the President is required by the Government Performance and Results Act to prepare and submit to the Congress as part of the annual budget submission a governmentwide performance plan that provides a “single cohesive picture of the annual performance goals for the fiscal year.” First submitted with the fiscal year 1999 budget, the governmentwide performance plan includes fiscal, management, and program performance expectations. It provides a means to present performance goals for the varied missions of government and to identify the relative contributions of a wide range of agencies, programs, and strategies to address those mission-based performance goals.²² At present, the Congress has no direct mechanism to respond to and provide a congressional perspective upon the President’s governmentwide performance plan. For example, the Congress has no established mechanism to articulate performance goals for the broad missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted on the most pressing crosscutting performance and management issues.

In the light of such considerations, the Congress should assess whether its current structures and processes are adequate to take full advantage of the benefits arising from the reform agenda under way in the executive branch. Following from this assessment, Congress might consider whether a more structured oversight mechanism is needed to permit a coordinated congressional perspective on governmentwide performance matters. As part of such a mechanism, the role of the Governmental Affairs Committee could be to identify crosscutting performance concerns for priority congressional attention.

²¹Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans with Budgets (GAO/AIMD-99-239R, July 30, 1999) and Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans with Budgets (GAO/AIMD/GGD-99-67, Apr. 12, 1999).

²²The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999 (GAO/AIMD/GGD-98-159, Sept. 8, 1998).

Such reexamination has merit across government. S.2623, introduced October in 1998 by Chairman Thompson, Senator Lieberman and others proposed a mechanism for instituting a coordinated approach to addressing some of the significant challenges facing the federal government in the 21st century. S.2623, which proposed an independent Commission on Government Restructuring and Reform, was noteworthy in that the duties of the Commission would create opportunities to address a number of the themes that I have discussed as critical to an efficient, effective and accountable federal government in the future. I have discussed ways in which Congress and the Executive Branch could, within current structures begin to address the themes of:

- Attacking activities at risk of fraud, waste, abuse and mismanagement;
- Improving the economy and efficiency of federal operations;
- Reassessing what the federal government does; and,
- Redefining the beneficiaries of federal government programs.
- Rationalizing crosscutting program areas; and
- Building the capacity to gather and use performance information.

However, approaches within current structures are not sufficient. It is time to take a broad look at the need for fundamental changes in the current structure of the federal government. The principles underlying S. 2623 are intended to address many of these issues. Ultimately, what is important is not the specific approach or process, but rather the intended result of helping the Congress better promote improved fiscal, management, and program performance through broad and comprehensive oversight and deliberation.

In summary, Mr. Chairman, you and I have discussed the importance of congressional oversight in the past, and I believe that is very timely to refocus our efforts on this subject as we enter a very unique period in our nation's history. Broad and periodic reexamination of federal government priorities, programs, and activities is an important responsibility of the Congress to maintain the public's respect for and confidence in government and to ensure our capacity to meet current and emerging needs. However, good oversight is difficult work and often is not headline grabbing. It requires taking a hard look at existing programs and carefully reconsidering the goals those programs were intended to address—and whether those goals are still valid. It involves analyzing the effectiveness of programs and seeking out the reasons for success or failure. It involves sorting through the maze of federal programs and activities, in which multiple agencies often operate many different programs to address often common or complementary objectives. However, revising and reforming

current programs and activities that may no longer be needed or that do not perform well is fraught with difficulties and leads to real “winners” and “losers.” Notwithstanding demonstrated weaknesses in program design and shortfalls in program results, there often seems to be little “low hanging fruit” in the federal budget. In fact, some argue that because some programs are already “in the base” in budgetary terms, they have an advantage over new initiatives and new demands, even though these new initiatives may relate to legitimate current and future needs and existing programs may be based on past wants.

This is an opportune time for the Congress to carefully consider how this Committee and all of the Committees of the Congress will take advantage of and leverage the new information and perspectives coming from the reform agenda underway in the executive branch. Prudent stewardship of our nation’s resources—whether in time of deficit or surplus—is essential not only to meet today’s needs but also tomorrow’s commitments and demands.

If a new oversight model were to include annual or biennial oversight hearings, GAO could enter into a strategic partnership with Congress by periodically synthesizing the wealth of information that is being produced under the legislative framework that Congress has enacted to strengthen government performance and accountability. Drawing on GPRA strategic plans and performance plans and reports, financial audit results, our own work in our High Risk and Performance and Accountability series, annual federal budget reviews, major government reports, major open GAO recommendations, and the work of inspectors general, we could provide Congress with a broad perspective on performance in areas it was focussing on. We could provide perspectives on:

- the most meaningful challenges faced in a specific agency, cross-cutting area or broad mission area such as those outlined in the government-wide performance plan;
- cuts and investments that would contribute to a government more efficient and effective in meeting the wants and needs that Americans can afford; and,
- the tools, such as regulations, legislation, tax incentives, loan guarantees, enforcement options, or direct spending that appear to be the most effective in furthering a given government mission.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or the other members of the Committee may have at this time.

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