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MANAGEMENT REFORM

Continuing Progress in  
Implementing Initiatives in  
the President's  
Management Agenda

Statement of Patricia A. Dalton, Director  
Strategic Issues





Highlights of [GAO-03-556T](#), a report to Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

## Why GAO Did This Study

As part of its work to improve the management and the performance of the federal government, GAO monitors progress and continuing challenges related to the five crosscutting initiatives in the President's Management Agenda (PMA). The President cited GAO's high-risk areas and major management challenges in developing these initiatives. GAO remains committed to working with the Congress and the Administration to help address these complex issues.

## What GAO Recommends

We are not making any recommendations in this testimony, but these steps can further progress:

- OMB's support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls. Over time, comprehensive human capital reform is needed.
- Congress and the executive branch need better information about the link between resources and results to prioritize competing claims on the federal budget.
- Quality financial management systems are crucial for agencies to achieve PMA goals.
- E-government initiatives require effective risk-management and comprehensive strategies to guide agencies efforts.
- Continued emphasis on improving public-private competitions is needed.

[www.gao.gov/cgi-bin/getrpt?GAO-00-556T](http://www.gao.gov/cgi-bin/getrpt?GAO-00-556T).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6806 or [daltonp@gao.gov](mailto:daltonp@gao.gov).

## MANAGEMENT REFORM

# Continuing Progress in Implementing Initiatives in the President's Management Agenda

## What GAO Found

There has been continuing progress in implementing the five crosscutting PMA initiatives to improve the management and performance of the federal government. However, progress has been uneven, and a continuing focus is needed to improve the management and performance of the federal government and ensure accountability.

These five crosscutting PMA initiatives are interrelated and must be addressed in an integrated way.

- **Strategic human capital management:** Considerable progress has been made in this area since we designated it as high risk in 2001. Serious human capital shortfalls, however, continue to erode the ability of many agencies, and threaten the ability of others, to economically, efficiently, and effectively perform their missions.
- **Budget and performance integration:** The administration has set forth an ambitious agenda for performance budgeting but the federal government has a long way to go before it can meet its goals. More explicitly infusing performance information into resource allocation decisions is critical for further progress in government performance and management.
- **Improved financial performance:** This initiative is aimed at ensuring that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. Although a range of improvements is under way, much work remains to be done across government.
- **Expanded electronic government:** E-government offers many opportunities to better serve the public, make government more efficient and effective, and reduce costs. Although substantial progress has been made, the government has not yet fully reached its potential in this area.
- **Competitive sourcing:** The administration has committed to using competitions to determine whether public or private sources should provide commercial services. OMB has proposed changes to the procedures for conducting public-private competitions under its Circular A-76. However, some of the proposed changes are not consistent with sourcing principles or recommendations of the Commercial Activities Panel.

Congressional support has proven to be critical in sustaining interest in management initiatives over time. A focus on the quality of program performance and effective management is critical today, and now is the time to act.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss continuing progress in implementing the President's Management Agenda (PMA) initiatives to improve the management and performance of the federal government. PMA points out important challenges for the federal government and is intended to focus agencies' efforts on making needed improvements. It establishes priorities for five crosscutting challenges and nine program initiatives. There are clear links between the PMA initiatives and the high-risk areas and major management challenges covered in our 2003 and 2001 Performance and Accountability and High-Risk Series. Many of these issues are complex and long-standing, and we are committed to working with Congress and the administration to help address them.

The President's 2004 budget recognized that although progress has been made, it has been uneven and there needs to be a continuing focus on improving effectiveness and getting results from federal spending. As discussed in our 2003 Governmentwide Perspective,<sup>1</sup> several major trends, including diffuse security threats and national preparedness, globalization, a shift to knowledge-based economies, and advances in science and technology, are driving the need for federal agencies to transform their cultures and operations. Budgetary flexibility has been shrinking for some time and long-range fiscal and demographic pressures affect the long-term outlook of the federal government. The retirement of the baby boom generation and rising health care costs threaten to overwhelm our nation's finances. Within this context, government leaders must be accountable for making needed changes to resolve high-risk areas, address major management challenges, and position the federal government to take advantage of emerging opportunities and meet future challenges.

Today, as agreed with the subcommittee, my statement will focus on the progress made in the five crosscutting initiatives in PMA and the next steps our work shows will be key to effectively enhance the management and performance of the federal government. I will also highlight the importance of transparency and congressional oversight in continuing to provide the attention needed to improve management and performance across the federal government and ensure accountability. Overall, there has been continuing progress in implementing the governmentwide PMA initiatives.

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<sup>1</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: January 2003).

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This progress, however, has been uneven and a continuing focus is needed to improve the management and performance of the federal government and ensure accountability. This testimony draws upon our wide-ranging ongoing and completed work on federal management and transformation issues and analysis of PMA initiatives and the President's 2004 Budget of the U.S Government. We conducted our work in accordance with generally accepted government auditing standards.

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## Effective Management Is Required to Create and Sustain High-performing Organizations

The President cited our work on high-risk areas and major management challenges in developing his initiatives, and implementation of PMA has reinforced the need to focus agencies' efforts on achieving key management and performance improvements. Our work shows that agencies have made progress in these areas—although more needs to be done. A focus on the quality of program performance and effective management is critical today, and now is the time to act. Building on lessons learned, major programs and operations need urgent attention and transformation to ensure that the government functions as economically, efficiently, and effectively as possible. Management reform will be vitally important for agencies to transform their cultures to respond to the transition that is taking place in the role of government in the 21<sup>st</sup> century.

The Executive Branch Management Scorecards have highlighted agencies' progress in achieving management and performance improvements. We have found that the value in the scorecards is not, in fact, in the scoring, but in the degree to which scores lead to a sustained focus and demonstrable improvements. The Office of Management and Budget (OMB) uses a grading system of red, yellow, and green, to indicate agencies' status in achieving the standards of success. It also assesses and reports progress using a similar "stoplight" system. Although we collaborated in some cases with OMB and the lead agencies regarding the broad standards of success, we have not had the opportunity to review the more specific criteria that OMB uses to assess each agency's progress on these initiatives nor have we examined the specific evidence that OMB used to assess the agency's accomplishments.

By calling attention to needed improvements, the focus that PMA and the scorecards bring is certainly a step in the right direction. PMA initiatives are consistent in key aspects with the statutory reforms related to financial management, information technology, and results-oriented management that Congress enacted during the 1990s. In crafting that framework,

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Congress sought to provide a basis for improving the federal government's effectiveness, financial condition, and operating performance.

Central to effectively addressing the government's management problems and providing a solid base for successful transformation efforts is the recognition that fundamental management practices and principles cannot be addressed in an isolated or piecemeal fashion separate from the other major management challenges and high risks facing federal agencies. Rather, these efforts are mutually reinforcing and must be addressed in an integrated way to ensure that there is the needed management capacity to drive a broader transformation of the cultures of federal agencies.

The President has identified five crosscutting management initiatives that are interrelated and support each other. A comprehensive planning process that establishes clear goals and objectives linked to decision-making and resource allocation processes will continue to be critical in achieving the desired results and the synergy that can advance and support governmentwide transformation efforts. These five initiatives are:

- strategic human capital management,
- budget and performance integration,
- improved financial performance,
- expanded electronic government, and
- competitive sourcing.

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## Strategic Human Capital Management

People are an agency's most important organizational asset, and strategic human capital management should be the centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies. Considerable progress has been made in this area since we designated it as high risk in 2001.<sup>2</sup> Legislation has been enacted that, among other things, creates the Chief Human Capital Officer (CHCO) position within federal departments, and a CHCO Council, expanded

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<sup>2</sup>U.S. General Accounting Office, *High-Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003); and *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

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voluntary early retirement and buyout authority, authorized the use of category rating in the hiring of applicants instead of the “rule of three,” and requires agencies to discuss human capital approaches in Government Performance and Results Act (GPRA) plans and reports.<sup>3</sup>

Serious human capital shortfalls, however, continue to erode the ability of many agencies, and threaten the ability of others, to economically, efficiently, and effectively perform their missions. Plainly, the major problem is not federal employees. Rather, it is the lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure its accountability. An organization’s people define its character, affect its capacity to perform, and represent the knowledge base of the organization.

Although progress has been made, it remains clear that today’s federal human capital strategies are not appropriately constituted to meet current and emerging challenges or drive the needed transformation across the federal government. Specifically, agencies continue to face challenges in four key areas:

- *Leadership*: Top leadership in agencies must provide the committed and inspired attention needed to address human capital and related organizational transformation issues.
- *Strategic human capital planning*: Agencies’ human capital planning efforts need to be more fully and demonstrably integrated with mission and critical program goals.
- *Acquiring, developing, and retaining talent*: Additional efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure that agencies have the needed talent.
- *Results-oriented organizational cultures*: Agencies continue to lack organizational cultures that promote high performance and accountability and that empower and include employees in setting and accomplishing programmatic goals.

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<sup>3</sup>Category rating allows a selecting official to select a candidate from all qualified candidates instead of limiting the selecting official to only the top three ranked candidates as set forth in 5 USC Section 3318(a).

One step in meeting the government’s human capital challenges is for agency leaders to identify and make use of all the appropriate administrative authorities available to them to manage their people both effectively and equitably. Much of the authority agency leaders need to manage human capital strategically is already available under current laws and regulations, as recognized by PMA. We recently reported on a set of practices that are key to the effective use of flexibilities.<sup>4</sup> These practices are shown in figure 1.

**Figure 1: Key Practices for Effective Use of Human Capital Flexibilities**

<b>Plan strategically and make targeted investments</b>	<ul style="list-style-type: none"> <li>• Obtain agency leadership commitment</li> <li>• Determine agency workforce needs using fact-based analysis</li> <li>• Develop strategies that employ appropriate flexibilities to meet workforce needs</li> <li>• Make appropriate funding available</li> </ul>
<b>Ensure stakeholder input in developing policies and procedures</b>	<ul style="list-style-type: none"> <li>• Engage the human capital office</li> <li>• Engage agency managers and supervisors</li> <li>• Involve employees and unions</li> <li>• Use input to establish clear, documented, and transparent policies and procedures</li> </ul>
<b>Educate managers and employees on the availability and use of flexibilities</b>	<ul style="list-style-type: none"> <li>• Train human capital staff</li> <li>• Educate agency managers and supervisors on existence and use of flexibilities</li> <li>• Inform employees of procedures and rights</li> </ul>
<b>Streamline and improve administrative processes</b>	<ul style="list-style-type: none"> <li>• Ascertain the source of existing requirements</li> <li>• Reevaluate administrative approval processes for greater efficiency</li> <li>• Replicate proven successes of others</li> </ul>
<b>Build transparency and accountability into the system</b>	<ul style="list-style-type: none"> <li>• Delegate authority to use flexibilities to appropriate levels within the agency</li> <li>• Hold managers and supervisors directly accountable</li> <li>• Apply policies and procedures consistently</li> </ul>
<b>Change the organizational culture</b>	<ul style="list-style-type: none"> <li>• Ensure involvement of senior human capital managers in key decision-making processes</li> <li>• Encourage greater acceptance of prudent risk taking and organizational change</li> <li>• Recognize differences in individual job performance and competencies</li> </ul>

Source: GAO.

Another step in meeting the government’s human capital challenges is for policymakers to continue to pursue incremental legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need, particularly in critical occupations. The National Aeronautics and Space Administration (NASA), for example, is facing

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

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shortages in its workforce which could likely worsen as the workforce continues to age and the pipeline of talent shrinks.<sup>5</sup> This dilemma is more pronounced among areas crucial to NASA's ability to perform its mission, such as engineering, science, and information technology. NASA is addressing this challenge through strategic planning, a new workforce planning and analysis system, and requesting additional personnel flexibilities, among other initiatives.

Over time, however, it will be important for all interested parties to work together to identify the kinds of comprehensive legislative reforms in the human capital area that should be enacted. These reforms should place greater emphasis on knowledge, skills, and performance in connection with federal employment, promotion, and compensation decisions. This summer the Comptroller General will be convening a forum to discuss the key actions needed for significant human capital reform.

Federal agencies need to continue to incorporate a crucial ingredient found in successful organizations: organizational cultures that promote high performance and accountability. Effective performance systems align organizational goals with daily operations and thereby create a "line of sight" between an individual's efforts and results that the organization is trying to achieve. In doing so, performance management systems can be a strategic tool to drive internal change and achieve external results by creating a shared perspective and demonstrating how unit, team, and individual performance can contribute to overall organizational goals. Agencies can also foster a results-oriented culture by the way that they treat and manage their people, building commitment and accountability through involving and empowering employees. Effective changes can only be made and sustained through the cooperation of leaders, union representatives, and employees throughout an organization. We have work under way, at the request of Congress, to assess the extent to which employees are involved in the formation of the human resource system at the Department of Homeland Security.

We collaborated with the Office of Personnel Management (OPM) and OMB in developing language for the standards for success that OPM released. As OPM, OMB, and the agencies learn to evaluate themselves against the

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<sup>5</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: National Aeronautics and Space Administration*, [GAO-03-114](#) (Washington, D.C.: Jan. 2003).



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standards for success in implementing strategic human capital management approaches, OPM and OMB will need to ensure that the standards are consistently and appropriately applied while they assess agencies' progress in managing their human capital. Importantly, OMB's support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls. In the final analysis, modern, effective, and credible human capital strategies will be essential in order to maximize the performance and ensure the accountability of the government for the benefit of the American people.

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## Budget and Performance Integration

PMA recognized that improvements in the management of human capital, financial performance, and expanding electronic government, and competitive sourcing matter little if they are not linked to program performance and resource allocation decisions. The administration has set forth an ambitious agenda for performance budgeting, calling for agencies to develop cost accounting systems and proposing to better align the federal budget structure with their performance goals. Such efforts to begin implementing a consistent and transparent framework for performance budgeting and financial information are key steps needed to provide a greater focus on performance and improve congressional decision making as envisioned in GPRA, but the federal government has a long way to go before it can meet these goals.

Performance-based budgeting can help shift the focus of debate from inputs to outcomes and results, enhancing the government's ability to gauge performance and assess competing claims for scarce resources.<sup>6</sup> Building on the statutory framework that Congress enacted over the last decade, performance budgeting requires results-oriented performance information generated by federal agencies in response to GPRA, and cost accounting data generated in response to provisions of the Chief Financial Officers (CFO) Act. Sustained leadership attention, however, is needed to build on this foundation.

Integrating management and performance issues with budgeting is absolutely critical for progress in government performance and management. Such integration is obviously important to ensuring that management initiatives obtain the resource commitments and sustained

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<sup>6</sup>U.S. General Accounting Office, *Performance Budgeting: Opportunities and Challenges*, GAO-02-1106T (Washington, D.C.: Sept. 19, 2002).

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leadership commitment throughout government needed to be successful. Moreover, the budget process is one of the major processes in the federal government in which programs and activities come up for regular review and reexamination. Thus there is a compelling need to ensure that trade-offs are informed by reliable information on results and costs.

Performance budgeting can help shift the focus of budgetary debates and oversight activities by changing the agenda of questions asked. Performance information can help policymakers address a number of questions such as whether programs are (1) contributing to their stated goals, (2) well-coordinated with related initiatives at the federal level or elsewhere, and (3) targeted to those most in need of services or benefits. Results-oriented information is also needed for better day-to-day management and agency decision-making. It can provide information on what outcomes are being achieved, whether resource investments have benefits that exceed their costs, and whether program managers have the requisite capacities to achieve promised results.

While budget reviews have always involved discussions of program performance, such discussions have not always been conducted in a common language or with transparency. Last year, OMB introduced a formal assessment tool into the deliberations. PART—the Program Assessment Rating Tool—is the central element in the performance budgeting piece of the PMA. Potentially, PART can complement GPRAs' focus on increasing the supply of credible performance information by promoting the demand for this information in the budget formulation process. PART's greatest contribution may turn out to be its usefulness in focusing discussions between OMB and the agencies about progress towards planned performance; about what progress has been made toward achieving specific program goals and objectives; and about what tools and strategies may be used to bring about improvements. As with performance budgeting in general, no assessment tool can magically resolve debates or answer questions. Rather, it is likely to be a useful screen to help identify programs for further evaluation.

Credible performance information can facilitate a fundamental reassessment of what the government does and how it does business by focusing on the outcomes achieved with budgetary resources. Therefore, the goals and measures that agencies establish must address program results. Our work has shown that agencies had at least some goals and measures that address program results, but improvement is needed to ensure that agencies measure performance toward a comprehensive set of

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goals that focus on results.<sup>7</sup> In addition, it is important for performance measures to provide complete information. For example, in measuring customer satisfaction, the Small Business Administration uses results of its survey of successful disaster loan applicants, but unsuccessful applicants are not surveyed, which is likely to produce positively skewed responses.<sup>8</sup>

Understanding performance issues requires an in-depth evaluation of the factors contributing to the program results. Targeted evaluation studies can be designed to detect important program side effects or to assess the comparative advantages of current programs to alternative strategies for achieving a program's goals. Further, although the evaluation of programs in isolation may be revealing, it is often critical to understand how each program fits with a broader portfolio of tools and strategies to accomplish federal missions and performance goals. Such an analysis is necessary to capture whether a program complements and supports other related programs, whether it is duplicative and redundant, or whether it actually works at cross-purposes with other initiatives.

Furthermore, while no data are perfect, agencies need to have sufficiently credible performance data to provide transparency of government operations so that Congress, program managers, and other decision makers can use the information. However, limited confidence in the credibility of performance data has been one of the major weaknesses in GPRA implementation. Based on our review of agencies fiscal year 2000 and 2001 performance reports, agencies are not consistently assessing the completeness and reliability of their performance data as required by the Reports Consolidation Act of 2000.<sup>9</sup>

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<sup>7</sup>U.S. General Accounting Office, *Performance Reporting: Few Agencies Reported on the Completeness and Reliability of Performance Data*, [GAO-02-372](#) (Washington, D.C.: Apr. 26, 2002); and *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans*, [GAO/GGD/AIMD-99-215](#) (Washington, D.C.: July 20, 1999).

<sup>8</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: Small Business Administration*, [GAO-03-116](#) (Washington, D.C.: January 2003).

<sup>9</sup>U.S. General Accounting Office, *Results-Oriented Management: Agency Crosscutting Actions and Plans in Drug Control, Family Poverty, Financial Institution Regulation, and Public Health Systems*, [GAO-03-320](#) (Washington, D.C.: Dec. 20, 2002); *Results-Oriented Management: Agency Crosscutting Actions and Plans in Border Control, Flood Mitigation and Insurance, Wetlands, and Wildland Fire Management*, [GAO-03-321](#) (Washington, D.C.: Dec. 20, 2002); and [GAO-02-372](#).

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In attempting to link resources to results, it also will be important to measure the full costs of the resources associated with performance goals using consistent definitions of costs between and among programs. In looking ahead, the integration of reliable cost accounting data into budget debates needs to become a key part of the performance budgeting agenda. Also, the current budget does not always help policymakers consider the long-term costs associated with some activities that commit the government to future spending. This may limit the attention given to the future sustainability and flexibility of the government's fiscal position and the cost effectiveness of existing programs.

Although clearly much more remains to be done, together GPRA and the CFO Act have laid the foundation for performance budgeting by establishing infrastructures in the agencies to improve the supply of information on performance and costs. Merely the number of programs "killed" or a measurement of funding changes against performance "grades" cannot measure the success of performance budgeting. Rather, success must be measured in terms of the quality of the discussion, the transparency of the information, the meaningfulness of that information to key stakeholders, and how it is used in the decision-making process. The determination of priorities is a function of competing values and interests that may be informed by performance information but also reflects such factors as equity, unmet needs, and the perceived appropriate role of the federal government in addressing these needs. If members of Congress and the executive branch have better information about the link between resources and results, they can make the trade-offs and choices cognizant of the many and often competing claims on the federal budget.

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## Improved Financial Performance

The PMA initiative to improve financial performance is aimed at ensuring that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. It focuses on key issues such as data reliability, clean financial statement audit opinions, and effective financial management systems and internal control. Our work also demonstrates the importance of improvement efforts that are under way. In the area of financial performance, however, we have pointed out that the federal government is a long way from successfully implementing the statutory reforms that Congress enacted during the 1990s.

Reliable cost data are critical for effective performance measurement to support program management decisions in areas ranging from program efficiency and effectiveness to sourcing and contract management. For

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effective management, this information must not only be timely and reliable, but also both useful and used. Under this PMA initiative, agencies are expected to implement integrated financial and performance management systems that routinely produce information that is (1) timely—to measure and affect performance immediately, (2) useful—to make more informed operational and investing decisions, and (3) reliable—to ensure consistent and comparable trend analysis over time and to facilitate better performance measurement and decision making. This result is a key to successfully achieving the goals that Congress established in the CFO Act and other federal financial management reform legislation.

The executive branch management scorecard for the financial performance area not only recognizes the importance of achieving an unqualified or “clean” opinion from auditors on financial statements, but also focuses on the fundamental and systemic issues that must be addressed in order to routinely generate timely, accurate, and useful financial information and provide sound internal control and effective compliance systems.

PMA stated that a clean financial audit is a basic prescription for any well-managed organization, and recognized that “most federal agencies that obtain clean audits only do so after making extraordinary, labor-intensive assaults on financial records.” Receiving a clean opinion on annual financial statements is an important milestone, which 21 of the 24 agencies designated under the CFO Act achieved for fiscal year 2002.

Even more critical, however, is the capability and quality of the supporting financial management systems in ensuring that agencies can meet the scorecard measures for timely, accurate, and useful financial, program cost, and other important management information needed for decision making and monitoring government performance every day. The scorecard also measures whether agencies have any material internal control weaknesses or material noncompliance with laws and regulations, and whether agencies meet Federal Financial Management Improvement Act (FFMIA)<sup>10</sup> requirements. As stated in PMA, without sound internal controls and accurate and timely financial information, it will not be possible to

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<sup>10</sup>FFMIA requires auditors to report whether agencies’ financial management systems comply with federal financial management systems requirements, applicable federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government’s Standard General Ledger at the transaction level.

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accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Much work remains to be done across government to improve financial performance, as shown by the December 2002 scorecards. Of the 22 CFO Act agencies that OMB scored,<sup>11</sup> 15 were in the red category for financial performance.<sup>12</sup> This is not surprising, considering the well-recognized need to transform financial management and other business processes at agencies such as the Department of Defense, the results of our analyses under FFMIA, and the various financial management operations we have designated as high risk. Four agencies improved their scores from the initial baseline evaluation for financial performance as of September 30, 2001;<sup>13</sup> however, two agencies' scores declined, reflecting increased challenges.<sup>14</sup> Overhauling financial management represents a challenge that goes far beyond financial accounting to the very fiber of a department's business operations and management culture, particularly at agencies with longstanding problems, such as DOD.<sup>15</sup> Further, establishing sound financial management will be a critical success factor for the implementation of the Department of Homeland Security.<sup>16</sup>

In the area of financial performance we have continued to point out that the federal government is a long way from successfully implementing needed financial management reforms. Widespread financial management

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<sup>11</sup>The Federal Emergency Management Agency, which was consolidated into the Department of Homeland Security, and the Nuclear Regulatory Commission were not scored. The Department of Homeland Security also received a red in financial performance.

<sup>12</sup>These include the Departments of Agriculture, Commerce, Defense, Education, Health and Human Services, Housing and Urban Development, the Interior, Justice, State, Transportation, the Treasury, and Veterans Affairs; the Agency for International Development; and the National Aeronautics and Space Administration.

<sup>13</sup>The Departments of Energy and Labor, and the Environmental Protection Agency and Office of Personnel Management.

<sup>14</sup>The National Aeronautics and Space Administration and the Small Business Administration declined.

<sup>15</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003); and GAO-03-119.

<sup>16</sup>U.S. General Accounting Office, *Homeland Security: Management Challenges Facing Federal Leadership*, GAO-03-260 (Washington, D.C.: Dec. 20, 2002).

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system weaknesses, poor recordkeeping and documentation, weak internal controls, and the lack of information have prevented the government from having the cost information needed to effectively and efficiently manage operations through measuring the full cost and financial performance of programs and accurately reporting a large portion of its assets, liabilities, and costs. The government's ability to adequately safeguard significant assets has been impaired by these conditions.

One of the challenges that many agencies face is the difficulty of ensuring that underlying financial management processes, procedures, and information systems are in place for effective program management. Agencies need to take steps to continuously improve internal controls and underlying financial and management information systems to ensure that managers and other decision makers have reliable, timely, and useful financial information to ensure accountability; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources. In October 2002, we reported that meeting FFMA requirements presents long-standing, significant challenges that will only be met through time, investment, and sustained emphasis on correcting deficiencies in federal financial management systems.<sup>17</sup> The widespread systems problems facing the federal government need sustained management commitment at the highest levels of government to ensure that these needed modernizations come to fruition. PMA provides the visibility needed for sustaining these efforts.

This PMA initiative also focuses special attention on addressing erroneous payments, credit card abuse in the federal government, and asset management. These areas, on which we have reported problems and challenges, have undermined government financial performance.<sup>18</sup> Our work has shown, for example, that the Centers for Medicare & Medicaid Services (CMS) has made improvements in assessing the level of improper payments, collecting overpayments from providers, and building the foundation for modernizing its information technology. Nevertheless, much

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<sup>17</sup>U.S. General Accounting Office, *Financial Management: FFMA Implementation Necessary to Achieve Accountability*, [GAO-03-31](#) (Washington, D.C.: Oct. 1, 2002).

<sup>18</sup>U.S. General Accounting Office, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, [GAO-02-749](#) (Washington, D.C.: Aug. 9, 2002); *Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse*, [GAO-02-676T](#) (Washington, D.C.: May 1, 2002); and *High-Risk Series: Federal Real Property*, [GAO-03-122](#) (Washington, D.C.: January 2003).

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work remains to be done, given the magnitude of its challenges to safeguard program payments. This includes more effectively overseeing Medicare's claims administration contractors, managing the agency's information technology initiatives, and strengthening financial management processes across multiple contractors and agency units. In light of these challenges and the program's size and fiscal significance, Medicare remains on our list of high-risk programs.<sup>19</sup>

Across government, there is a range of financial management improvement initiatives under way that, if effectively implemented, will improve the quality of the government's financial management and reporting. Federal agencies have started to make progress in their efforts to modernize their financial management systems and improve financial management performance as called for in PMA.

In August 2001, the Principals of the Joint Financial Management Improvement Program (JFMIP) began a series of periodic meetings and have agreed on key financial management reform issues such as better defining measures for financial management success.<sup>20</sup> The Executive Branch Management Scorecard embraces these new measures. The JFMIP Principals also agreed that agency financial statement reporting should be significantly accelerated to improve the timeliness of the government's financial statements and to discourage costly efforts designed to obtain unqualified opinions on financial statements without addressing underlying systems challenges. For fiscal year 2004, audited agency financial statements are to be issued no later than November 15, with the U.S. government's audited consolidated financial statements becoming due by December 15. Two agencies, the Department of the Treasury and the Social Security Administration, met the accelerated date for fiscal year 2002. Although many actions have been taken, the continued leadership and personal commitment of the Principals is necessary to continue the momentum for improving the government's financial management and performance.

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<sup>19</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Health and Human Services*, [GAO-03-101](#) (Washington, D.C.: January 2003); and [GAO-03-119](#).

<sup>20</sup>The JFMIP principals are the Secretary of the Treasury, the Director of OMB, the Director of OPM, and the Comptroller General of the United States.



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## Expanded Electronic Government

Electronic government (e-government) offers many opportunities to better serve the public, make government more efficient and effective, and reduce costs. Federal agencies have implemented a wide array of e-government applications, including using the Internet to collect and disseminate information and forms; buy and pay for goods and services; submit bids and proposals; and apply for licenses, grants, and benefits. Although substantial progress has been made, the government has not yet fully reached its potential in this area.<sup>21</sup>

Recognizing the magnitude of challenges facing the federal government, Congress has enacted important legislation to guide the development of e-government. In 1998, Congress enacted the Government Paperwork Elimination Act, which requires federal agencies to provide the public, when practicable, the option of submitting, maintaining, and disclosing required information electronically. More recently the E-Government Act of 2002 includes provisions to promote the use of the Internet and other information technologies to provide government services electronically; strengthen agency information security; and define how to manage the federal government's growing information technology human capital needs. In addition, this act established an Office of Electronic Government within OMB to provide strong central leadership and full-time commitment to promoting and implementing e-government.

To implement this PMA initiative, OMB has selected 25 e-government efforts that focus on a wide variety of services, aiming to simplify and unify agency work processes and information flows, provide one-stop services to citizens, and enable information to be collected on line once and reused, rather than being collected many times. For example, Recreation One-Stop is a Web portal for a single point of access to information about parks and other recreation areas. There are other e-government efforts that do not necessarily rely on the Internet, such as the e-payroll initiative to consolidate federal payroll systems. The results from these e-government initiatives, according to OMB, could produce several billions of dollars in savings from improved operational efficiency. To obtain such savings—and significantly improve service to citizens—it will be critically important that these efforts are well managed as the government undertakes the challenging task of turning good ideas into real-world results.

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<sup>21</sup>U.S. General Accounting Office, *Electronic Government: Proposal Addresses Critical Challenges*, GAO-02-1083T (Washington, D.C.: Sept. 18, 2002).

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While many of the e-government initiatives are showing tangible results, progress has been uneven. Our review of the planning documents for the e-government initiatives highlight the critical importance of management and oversight to their success.<sup>22</sup> Important aspects—such as collaboration among agencies and other governmental entities and a focus on identifying and addressing customers’ needs—had not been incorporated into early program plans for many of the projects, and major uncertainties in funding and milestones were not uncommon. In particular, fewer than half addressed collaboration and customer focus, despite the importance of these topics to e-government strategy and goals. Similarly, the accuracy of estimated costs in the funding plans was questionable and some of the estimates changed significantly between May and September 2002. Accurate cost, schedule, and performance information is essential to ensure that projects are on schedule and achieve their goals.

In order to help ensure the success of the President’s objective of expanding e-government to improve the potential value of government to citizens, we have recommended that the Director of OMB ensure that the managing partners for all e-government initiatives (1) focus on customers by soliciting input from the public and conducting user needs assessments, (2) work with partner agencies to develop and document effective collaboration strategies, and (3) provide OMB with adequate information to monitor the cost, schedule, and performance.<sup>23</sup>

Increasingly, the challenges that the government faces are multidimensional problems that cut across numerous programs, agencies, and governmental tools. For example, a critical aspect of implementing effective e-government solutions and developing and deploying major systems development projects is ensuring that robust information security is built into these endeavors early and is periodically revisited.

Since we designated computer security in the federal government as high risk in 1997, there is evidence that pervasive weaknesses continue. For example, although the Internal Revenue Service (IRS) had corrected or

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<sup>22</sup>U.S. General Accounting Office, *Electronic Government: Success of the Office of Management and Budget’s 25 Initiatives Depends on Effective Management and Oversight*, [GAO-03-495T](#) (Washington, D.C.: Mar. 13, 2003).

<sup>23</sup>U.S. General Accounting Office, *Electronic Government: Selection and Implementation of the Office of Management and Budget’s 24 Initiatives*, [GAO-03-229](#) (Washington, D.C.: Nov. 22, 2002).

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mitigated many of the computer security weaknesses identified in our previous reports, much more needs to be done to resolve the significant control weaknesses that continue within IRS' computing environment and to be able to promptly address new security threats and risks as they emerge.<sup>24</sup> Related risks have escalated, in part because of the rapid increase in computer interconnectivity and increasing dependence on computers to support critical operations and infrastructures, such as power distribution, water supply, national defense, and emergency services. This year, we expanded this high-risk area to include protecting information systems that support our nation's critical infrastructures. Among the actions essential to sustaining federal information security improvements are the agencies' development of effective risk management programs and the development of a comprehensive strategy to guide agencies' efforts.

The growth in electronic information—as well as the new security threats facing our nation—highlight privacy issues. On-line privacy has emerged as one of the key—and most contentious—issues surrounding the continued evolution of the Internet. The government cannot realize the full potential of the Internet until people are confident that the government will protect their privacy when they visit its web sites. We have made recommendations to strengthen governmentwide privacy guidance and oversight of agency practices that OMB has not yet implemented. For example, we recommended that the Director of OMB determine whether current oversight strategies are adequate to ensure agencies' adherence to web site privacy policies and whether the policies will need further revision as web practices continue to evolve.<sup>25</sup>

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## Competitive Sourcing

As part of the PMA initiative to achieve efficient and effective competition between public and private sources, the administration has committed to simplifying and improving the procedures for evaluating public and private sources. Among the factors that agencies must consider as they determine how best to meet their missions is whether the public or private sector

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<sup>24</sup>U.S. General Accounting Office, *High-Risk Series: Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures*, [GAO-03-121](#) (Washington, D.C.: January 2003); and *Financial Audit: IRS' Fiscal Year 2001 and 2000 Financial Statements*, [GAO-02-414](#) (Washington, D.C.: Feb. 27, 2002).

<sup>25</sup>U.S. General Accounting Office, *Internet Privacy: Agencies' Efforts to Implement OMB's Privacy Policy*, [GAO/GGD-00-191](#) (Washington, D.C.: Sept. 5, 2000).

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would be the most appropriate provider of the services the government needs. Aspects of the current process for making such decisions have been criticized as cumbersome, complicated, and slow. Against this backdrop, and in response to a requirement in the National Defense Authorization Act for fiscal year 2001, the Comptroller General convened a panel of experts to study the current process used by the government to make sourcing decisions. The Commercial Activities Panel, consisting of representatives from agencies, federal labor unions, private industry, and other individuals with expertise in this area, conducted a yearlong study. The panel members heard repeatedly about the importance of competition and its central role in fostering economy, efficiency, and continuous performance improvement. The panel strongly supported continued emphasis on competition and concluded that whenever the government is considering converting work from one sector to another, public-private competitions should be the norm, consistent with the principles adopted unanimously by the panel.<sup>26</sup>

As part of the administration's efforts to advance this PMA initiative and implement the recommendations of the Commercial Activities Panel, OMB published proposed changes to Circular A-76 for public comment. This circular sets forth federal policy for determining whether federal employees or private contractors will perform commercial activities associated with conducting the government's business. In January, the Comptroller General commented on OMB's proposed revision, and noted that in many ways it was consistent with the sourcing principals and recommendations adopted by the Commercial Activities Panel.<sup>27</sup> In particular, the proposal stresses the use of competition in making sourcing decisions and, through reliance on procedures contained in the Federal Acquisition Regulation, should result in a more transparent, expeditious, fair, and consistently applied competitive process. The proposal should promote sourcing decisions that reflect the best overall value to the agencies, rather than just the lowest cost. Importantly, the proposed revision also should result in greater accountability for performance, regardless of the service provider selected.

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<sup>26</sup>*Improving the Sourcing Decisions of the Government*. Final report of the Commercial Activities Panel (Washington, D. C.: April 2002).

<sup>27</sup>U.S. General Accounting Office, *Proposed Revisions to OMB Circular A-76*, [GAO-03-391R](#) (Washington, D.C.: Jan. 16, 2003).

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There are several areas, however, where the proposed revisions to the circular were not consistent with the principles or recommendations of the panel. Specifically, these include the absence of a link between sourcing policy and agency missions, unnecessarily complicated source selection procedures, certain unrealistic time frames, and insufficient guidance on calculating savings. Federal sourcing policy should support agency missions, goals, and objectives. In other words, sourcing policy is not just about choosing among potential service providers. Rather, an agency's sourcing policy should be viewed as part of an overall strategy for how best to accomplish the mission of the agency, including how it conducts human capital planning. The circular requires that agencies report the savings that accrue from A-76 competitions but does not provide any guidance on how savings are to be calculated. Our work examining the use of Circular A-76 in the Department of Defense has shown a lack of consistency among and even within the military services in how they calculate savings. Additional OMB guidance, additional training, technical resources, or other support for agency officials would be helpful for agency officials in preparing for and participating in public-private competitions.

The critical issue for all affected parties is how the government's sourcing policies are implemented. In this regard, one of the panel's sourcing principles was that the government should avoid arbitrary numerical or full-time equivalent goals.<sup>28</sup> This principle is based on the concept that the success of government programs should be measured by the results achieved in terms of providing value to the taxpayer, not the size of the in-house or contractor workforce. Although the proposed revised circular contains no numerical targets or goals for competitive sourcing, this has been a controversial area in the past. In our view, the administration needs to avoid arbitrary targets or quotas, or any goal that is not based on considered research and analysis.

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<sup>28</sup>Full time equivalent is a measure of staff hours equal to those of a full-time employee working 40 hours per week over the course of a year.

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## Continuing Attention Is Needed to Improve Management and Performance Across the Federal Government

As my testimony today has highlighted, serious and disciplined efforts are needed to improve the management and performance of federal agencies and to ensure accountability. Along with OMB's leadership in implementing PMA, it will only be through the attention of Congress, the administration, and federal agencies, that progress can be sustained and, more importantly, accelerated. To be successful, management improvement initiatives must become a part of agencies' programs and day-to-day actions.

Congressional support has proven to be critical in sustaining interest in management initiatives over time. Congress has served as an institutional champion for many of the management reform initiatives over the years, such as the CFO Act and GPRA. Congress has also provided a consistent focus for oversight and has reinforced important policies. Making pertinent and reliable information available will be necessary for Congress to adequately assess agencies' progress toward PMA initiatives and to ensure accountability for results.

To facilitate congressional oversight and support executive branch performance and decision making, the administration could develop and use a governmentwide performance plan. This plan, required under the GPRA, could become a valuable tool to help Congress and the executive branch address critical federal performance and management issues by building on the knowledge about the range of programs and tools, including baseline and trend information, that are directed toward achieving similar results. The first governmentwide performance plan was issued in February 1998, and it reflected the challenges of preparing a plan for an entity as large and diverse as the federal government. We noted that, among other things, attention was needed to emphasize an integrated, governmentwide perspective throughout the plan.<sup>29</sup>

Preparing a governmentwide plan could build on the administration's efforts to assess progress across the government as well as contribute to efforts to compare the performance results across similar programs that address common outcomes. Although there has been limited progress, efforts to date have not provided the Congress and others with an integrated perspective on the extent to which programs and tools

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<sup>29</sup>U.S. General Accounting Office, *The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999*, GAO/AMD/GGD-98-159 (Washington, D.C.: Sept. 8, 1998).

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contribute to national goals and position the government to successfully meet 21<sup>st</sup> century demands.

Mr. Chairman, we are pleased to be able to participate in this hearing today and look forward to participating in future oversight hearings you have planned on specific PMA initiatives. We have issued a large body of reports, guides, and tools on issues directly relevant to PMA, and we plan to continue to actively support congressional and agency actions to address today's challenges and prepare for the future. As I have discussed in my statement today, although efforts to transform agencies by improving their management and performance are under way, more remains to be done to ensure that the government has the capacity to deliver on its promises and meet current and emerging needs. Decisive action and sustained attention will be necessary to transform the federal government, maximize its performance, and ensure accountability.

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

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