Today I’d like to speak the truth about two important topics: (1) our nation’s financial condition and fiscal outlook and (2) our homeland security challenges. I hope my comments will stimulate your thinking and provoke a number of questions about these or other topics.

Financial Condition and Fiscal Outlook

- Let’s start with our nation’s current and projected financial condition.
- Before I address the present and the future, it’s important to understand the past and how we have gotten to where we are.
- From 1963-2003, the federal budget percentage for defense spending fell from 48% to 19%, with the reduction in defense spending going to Social Security, Medicare, and Medicaid. In addition, discretionary spending fell from 68% to 39% during the same 40-year period.
- One thing is for sure: The past is not prologue!
- According to the U.S. Government’s September 30, 2002 balance sheet, we had an accumulated deficit of about $7 trillion, or about $24,000 for every man, woman, and child in the United States today.
- Interestingly, that accumulated deficit does not include a number of very important and very large items (e.g., the bonds in Social Security/Medicare trust funds, the difference between future Social Security and Medicare promised versus funded benefits, and veterans health care benefits).
- As a result, our real financial condition is much worse than advertised, and it’s getting worse every day.
- In fact, if you were to estimate the cost of the items that were not included in the September 30, 2002 financial statements, the average burden per American would go from $24,000 to more than $124,000.
- This is multiple times the average annual wage and the average net worth of a typical American worker.
- From a budget perspective, we just ended fiscal year 2003 with a deficit of about $375 billion, and the deficit for fiscal year 2004 is projected by CBO to be about $480 billion.
- Interestingly, the cost of our global war against terrorism, IRAQ’s reconstruction, and our additional homeland security costs amount to less than 25% of the projected fiscal year 2004 deficit.
• The current deficit is also due to a number of factors, including a lack of fiscal discipline and prudence on both the spending side and the tax side. This problem is growing and involves both political parties.
• In addition, while overall economic growth has not been what we would have liked during the past few years, we haven’t been in a recession since November 2001.
• While there has been some recent good news about the economy, it’s too early to tell whether it will continue.
• Looking forward, due largely to known demographic trends and rising health care costs, we face a large structural deficit that must be addressed.
• Much of this projected deficit is due to the impending and unprecedented demographic tidal wave that will begin to hit our country in fewer than 10 years.
• However, unlike most tidal waves, this demographic tidal wave will never recede! It will bring a fundamental and lasting change to the age profile of our nation.
• Frankly, budget deficits are not just numbers. If left unchecked, they can have an adverse effect on the national security of our nation and the economic security of Americans in the future.
• While additional economic growth can help, our future fiscal gap is simply too great to grow our way out of the problem!
• Tough choices will be required on both the spending and tax sides of the policy ledger, including tough choices in connection with national defense and homeland security issues.
• Given the size of the projected fiscal gap, we need to engage in nothing less than a fundamental review, reassessment, and reprioritization of the “base” of government policies, programs, functions, and activities.
• The simple truth is that the base of government is not “OK.” Why? Because the current base of government represents an accumulation and amalgamation of programs, policies, functions, activities and entities that may have made sense at their inception, but may not make sense or represent as high a priority for today and/or tomorrow.
• Clearly, the longer we wait to make appropriate changes, the more dramatic the changes will have to be. In addition, delay may also increase the degree of difficulty in making the changes.
• This is a matter of significant concern for our country, our children, and our grandchildren.
• Unfortunately, public officials in Washington have yet to answer this fiscal wakeup call. In addition, despite the fact that we’re in a deep fiscal hole, Washington is still digging, both on the spending and the tax side of the ledger.
• Most recently, the enactment of the new Medicare prescription drug benefit will help many seniors, including those with very high annual drug costs. However, it will also add trillions to our existing unfunded commitments and serves to dig our fiscal hole deeper. In fact, preliminary estimates are that this bill alone will add another $8 trillion to our existing unfunded commitments. That’s an additional $25,000 burden for every man, woman, and child in America today.
• There is also a real risk that attempts will be made to add to this drug benefit when seniors understand the contents of the bill.
• Looking forward, at the very least, we need to think about formulating new budget process controls to prompt more caution and discipline in the near term. We also need to think about new metrics to promote greater disclosure and deliberation over long-term costs of our commitments and the cost effectiveness of various government programs and policies.
• In my recent National Press Club speech, I suggested several specific actions that should be taken to help get us on track. I'd be happy to address these in the Q&A period. In addition, my Press Club speech is on the website, and some copies are available here today.

**Homeland Security Challenges**

• We are unlikely to ever definitively “win the war against terrorism” since terrorist threats are subject to constant change, resources are finite, and it is simply impossible to be 100% secure in today’s world.
• Although we have made considerable progress, much more needs to be done. For example, while progress has been made, we still lack an updated, fully integrated and effectively deployed “watch list.”
• It’s also clear that we must set priorities and recognize that there is a limit as to how much we can and should do. In addition, certainly no one sector of our government can meet this challenge alone.
• Instead, it is increasingly apparent that homeland security will require a strategic and partnership-oriented approach that includes shared responsibilities and investments among the various sectors (e.g., public, private, not-for-profit).
• These investments should relate to the three central missions of homeland security – prevent terrorism, reduce vulnerabilities, and respond and recover quickly in the event of an attack.
• Development of capacity to counter a range of potential threats, from natural disasters to deliberate acts of terrorism requires pursuit of an “all hazards” approach, given
  o uncertainty about specific terrorist tactics likely to be used
  o the need to integrate homeland security as seamlessly as possible into existing programs, business processes and agency missions
  o the difficult balancing of resources and other important priorities besides homeland security
  o questions about affordability and sustainability of any other approach
• Since we can never be 100% secure, and must set priorities due to our finite resources, we must be guided by a risk management approach that measures the effectiveness of our investments against the most likely threats and our most serious vulnerabilities.
Risk management approach

• Unfortunately, the nation still does not have a comprehensive risk management approach to help guide federal programs for homeland security and apply our resources both efficiently and effectively.
• Such a risk management approach is built on assessing threats, vulnerabilities, and importance of assets [criticality]. The results of the assessment are used to define and prioritize resource and operational requirements consistent with the greatest threats and vulnerabilities.
• We recognize that a national level risk management approach that includes balanced assessments of threats, vulnerabilities, and criticality will not be a panacea for all the problems in providing homeland security, but it will provide a considered, comprehensive, multi-disciplinary and multi-dimensional framework for action.

The transformation of the Department of Homeland Security presents a different type of risk

• September 11th precipitated the largest re-organization of the federal government since 1947. It is still too early to tell whether this reorganization – the creation of the Department of Homeland Security – will be as successful as hoped. In this regard, it is critically important that both DHS and DOD be successful in implementing their new human capital flexibilities, not just for these agencies, but also for future civil service reform efforts.
• Since the early 1990’s, under Chuck Bowsher’s leadership, GAO has periodically reported on government operations that it has designed as high risk. Historically, high-risk areas have involved traditional vulnerabilities due to their greater susceptibility to fraud, waste, abuse, and mismanagement.
• During my 5-year tenure as Comptroller General, our high-risk program has evolved to include new high risk items designed to draw attention to areas associated with the need to improve economy, efficiency, effectiveness, and accountability of government programs and operations. The new items also include selected transformation challenges relating to federal government programs, policies, and functions.
• For 2003, GAO designated the implementation and transformation of the Department of Homeland Security (DHS) as a high risk area.
• This high risk designation reflects the sheer size of the undertaking, the fact that several DHS’ components already face a wide array of existing challenges, and the prospect of serious consequences for the nation should DHS fail to adequately address its management challenges and program risks.
• We at GAO are committed to working with DHS, the Administration and the Congress in a consistent manner to make the transformation of DHS as successful as possible, and hopefully to eventually remove DHS from our high-risk list.
Sustainability and federal stimulus programs

- There are also risks associated with our federal investment and stimulus programs to improve homeland security nationwide and across the various sectors.
- There is little doubt that we will be addressing terrorist threats into the foreseeable future.
- As a result, we must be concerned not only about these first few years, but the next 10-20 years, so that our investments now lead to sustainable improvements in homeland security, not just temporary fixes.
- As we think about our longer-term preparedness and implement homeland security strategies, we can and should select those programs and tools that promise to provide the most cost-effective approaches to achieve our goals. We must separate the unlimited number of “wants” from the more reasonable number of critical “needs.”
- At the same time, we must design such programs in the current challenging environment where the federal government and most state governments are dealing with large and growing deficits, and U.S. businesses must compete in an increasingly borderless, global economy.

Federal grants and investment programs

- Federal grants are currently a central vehicle to improve and sustain preparedness in communities throughout the nation.
- However, the federal grant system for first responders is highly fragmented and the related fragmented delivery of federal assistance can complicate coordination and integration of services and planning at state and local levels.
- At this time, it is difficult to know what impact the grant system has in protecting the nation and its communities from terrorism. It is also difficult to know just how much of this grant money has been used for such items as new fire trucks, police cars, emergency vehicles, leather jackets, and non-interoperable technologies that may be only tangentially related to homeland security and/or beyond the capabilities of the users. GAO and the DHS Inspector General will be looking at these issues.
- Our current grant structure is not well suited to provide assurance that scarce federal funds are in fact enhancing the nation’s preparedness in the places most at risk.
- Sustaining support for the necessary funding over the longer term will ultimately depend on rationalizing and restructuring our grant system to streamline and simplify overlapping programs, promote appropriate targeting, and ensure accountability for the results achieved with scarce federal resources.
- In this regard, accountability needs to be built in on the front end, not after the funds are expended. Assuring effective accountability will also require employment of a partnership approach between federal, state, local, and private sector officials and auditors as well.
National standards can improve homeland security

- At this time, the nation still does not have a comprehensive set of performance goals and measures in the homeland security area.
- Today, there are few national or federal risk or performance-related standards that can be defined, given the differences among states and lack of understanding of what levels of preparedness are appropriate given a particular jurisdiction’s risk factors.
- One thing seems clear - our initial one-size-fits-all national color-coded alert system has not proven to be either credible nor cost effective.
- From a more strategic and long-term perspective, national standards, particularly those management standards taken or derived from the ISO 9000 or ISO 14000 standards, can provide opportunities for us to more effectively implement and embed strategic homeland security goals and initiatives.
- Adoption of these standards can help facilitate a shift from “business as usual” to a more strategic, long-term, and sustainable approach.
- Furthermore, such standards could encourage embedding or weaving homeland security goals into both business and government plans, policies, and programs in ways compatible with other important social and economic goals. They can also foster federal, regional, sector specific and proprietary solutions.

Innovations as well as standards are necessary to improve homeland security

- Technology has the potential to create innovative solutions to many of our nation’s problems, including homeland security.
- Homeland security also provides a tremendous opportunity for the application of a variety of technology solutions.
- For example, IT systems can support functions such as intelligence and warning, risk management, and horizontal and vertical organizational communication, coordination, and service delivery. They can also help facilitate implementation of a more strategic approach, while reducing costs.

Metrics for measuring progress and success

- Finally, we need to develop various metrics to measure our progress in connection with key offensive and defensive homeland security efforts.
- Assertions of our effectiveness based on the lack of a catastrophic event are simplistic and misleading. On this basis, we were safe from 1993 (post World Trade Center bombing) until September 11, 2001.
- We need to develop intermediate outcome based measures.
- From a broader perspective, the U.S. also needs develop a portfolio of key national indicators to assess our nation’s position and progress over time and in comparison with other developed nations.
• We have been working with the National Academies and others to help facilitate the development of such indicators in the economic, social, environmental, safety, and security areas.
• We are very encouraged by the progress that has been made in the past year in connection with this key initiative.

Conclusion

• In summary, our nation faces many changes and challenges.
• We must address these new challenges in a time of large and growing budget deficits.
• As a result, we must exercise extra prudence to assure that we are doing the right things with the resources that we have and that we achieve positive and sustainable results with such resources.
• In making these choices, it’s important to do what is right not just for today but also for tomorrow. We also need to think not only about ourselves but also about our children, grandchildren, and future generations of Americans. This is what statesmanship, prudence, and stewardship are all about.
• I and others at GAO look forward to working with the Congress and key officials to address our challenges and capitalize on our opportunities in the years ahead.