United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, September 17, 2003

RESULTS-ORIENTED GOVERNMENT

Shaping the Government to Meet 21st Century Challenges

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

G A O
Accountability ★ Integrity ★ Reliability

GAO-03-1168T

September 17, 2003

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-03-1168T, a report to the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, House of Representatives

RESULTS-ORIENTED GOVERNMENT

Shaping the Government to Meet 21st Century Challenges

Why GAO Did This Study

GAO has sought to assist the Congress and the executive branch in considering the actions needed to support the transition to a more high-performing, results-oriented, and accountable federal government. At the Subcommittee's request, GAO provided perspectives on the federal government's overall structure and the need for reorganization to improve performance.

What GAO Recommends

We did not make recommendations in this testimony. However, we suggested a range of options that the Congress could use to eliminate redundancy and improve federal operations to meet the challenges the federal government faces at the beginning of the 21st century.

What GAO Found

Through normal evolution and inertia over the years, the United States now has a government that is weighed down by organizations with significant performance and management problems as well as duplicative and overlapping missions and functions. This situation is exacerbated by ways of doing business that, in some cases, are better suited for the beginning of the 20th century than the 21st century. Given the changed circumstances and stark fiscal realities, the nation simply cannot afford unnecessary, redundant, or inefficient organizations, programs, or operations.

Periodic reexamination and reevaluation of federal agencies' activities have never been more important than they are today. The federal government must address and adapt to major trends in the nation and around the world. At the same time, our nation faces serious, long-term fiscal challenges. Fundamental reexamination of federal agencies' roles, functions, and structure is never easy. Reorganizing government can be an immensely complex and politically charged activity. Those who would reorganize government must make their rationale clear and build a consensus for change if proposed reorganizations are to succeed. All key players must be involved in the process—the Congress, the President, affected executive branch agencies, their employees and unions, and other interested parties, including the public.

Regardless of the number and nature of federal entities, the government's goal should be to create high-performing organizations. The federal government needs to look not only at what business it is in, but how it does business. Practices that were good 50 years ago may not make sense today. Old, outdated practices and systems result in inefficiency and waste of resources that the nation cannot afford. Management reform will be vitally important to agencies in transforming their cultures to address the changing role of the government in the 21st century.

Strategic human capital management should be a centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies. It is a vital element to the success of any government restructuring efforts, whether within an existing agency or across current agency boundaries. People are an agency's most important organizational asset. An organization's people define its character, affect its capacity to perform, and represent the knowledge base of the organization.

www.gao.gov/cgi-bin/getrpt?GAO-03-1168T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6737 or daltonp@gao.gov.

Chairwoman Davis and Members of the Subcommittee:

I appreciate the opportunity to address this vital topic: how can the federal government meet the large and emerging challenges it faces and become more effective?

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. A number of overarching trends, such as diffuse security threats and homeland security needs, increasing global interdependency, the shift to knowledge-based economies, and the looming fiscal challenges facing our nation drive the need to reconsider the role of the federal government in the 21st century, how the government should do business (including how it should be structured), and in some instances who should do the government's business. The proposed Government Accountability and Streamlining Act of 2003 (H.R. 2743), introduced by Chairwoman Davis, recognizes the need to address these critical issues.

The challenges we face are significant and require action by a variety of parties. Through normal evolution and inertia over the years, we now have a government that is weighed down by organizations with significant performance and management problems as well as duplicative and overlapping missions and functions. This situation is exacerbated by ways of doing business that, in some cases, are better suited for the beginning of the 20th century than the 21st century. Given the changed circumstances and stark fiscal realities, we simply cannot afford unnecessary, redundant, or inefficient organizations, programs, or operations.

We need to begin by reexamining the base of government programs, policies, and operations to make government more effective and relevant to a changing society—a government that is as free as possible of outmoded commitments and operations. This is true for at least two reasons. First, as I will discuss briefly, known demographic and health care cost trends drive a fiscal future that is—absent significant changes—clearly unsustainable. Second—and this will be the main focus of this testimony—whatever role the American people choose for the federal government, its activities should be conducted in the most effective manner possible.

We now have both an opportunity and an obligation to take a look at what the government should be doing and how it should go about doing its work. Based on GAO's recent experiences with restructuring, such a fundamental

reexamination of government missions, functions, and activities could improve government effectiveness and efficiency and enhance accountability by reducing the number of entities managed, thereby broadening spans of control, reducing unnecessary overhead, increasing flexibility, and fully integrating—rather than merely coordinating—related government activities.

GAO has sought to assist the Congress and the executive branch in considering the actions needed to support the transition to a more high-performing, results-oriented, and accountable federal government. We believe that it is crucial for both the Congress and the executive branch to work together constructively and on a bipartisan basis in addressing a range of "good government" issues.

My statement today will focus on six points:

- the impact of current trends and increasing fiscal challenges,
- the need to reexamine how departments and agencies are managing their programs and organizations,
- the need to reassess how federal agencies do business,
- the importance of strategic human capital management,
- GAO as an example of positive change, and
- options for strengthening congressional oversight.

This testimony draws upon our wide-ranging, ongoing, and completed work on government transformation, organization, management, human capital, and budget issues. We conducted our work in accordance with generally accepted government auditing standards.

Impact of Emerging Trends and Fiscal Challenges

Periodic reexamination and reevaluation of federal agencies' activities has never been more important than it is today. The federal government must address and adapt to major trends in our country and around the world. At the same time, our nation faces a serious, long-term fiscal challenge. Increased pressure also comes from world events: both from the recognition that we cannot consider ourselves "safe" between two oceans—which has increased demands for spending on homeland

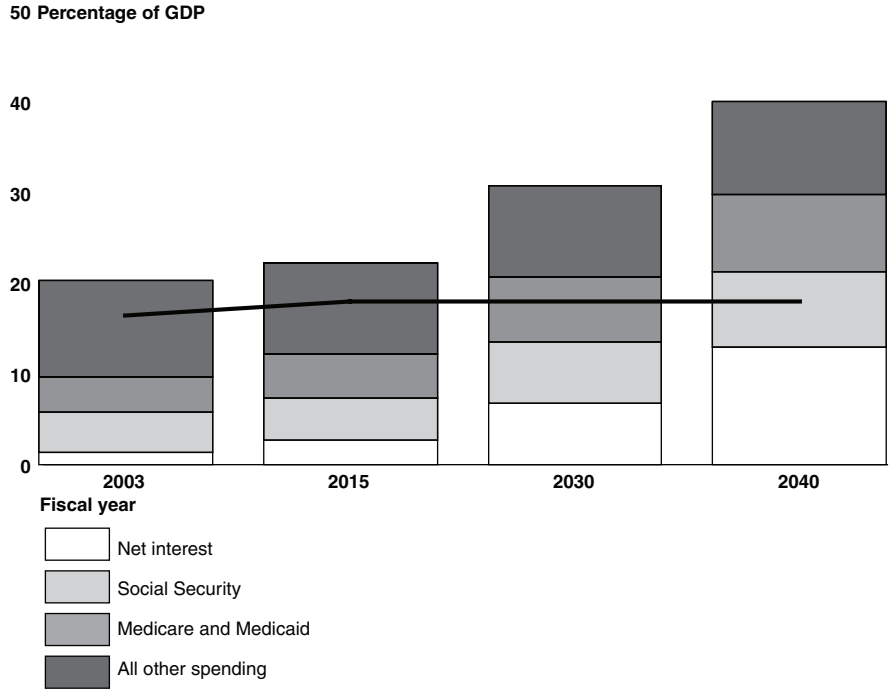
security—and from the U.S. role in combating terrorism and an increasingly interdependent world.

Our country's transition into the 21st century is characterized by a number of key trends, including:

- the national and global response to terrorism and other threats to our personal and national security;
- the increasing interdependence of enterprises, economies, markets, civil societies, and national governments, commonly referred to as globalization;
- the shift to market-oriented, knowledge-based economies;
- an aging and more diverse U.S. population;
- rapid advances in science and technology and the opportunities and challenges created by these changes;
- challenges and opportunities to maintain and improve the quality of life for the nation, communities, families, and individuals; and
- the changing and increasingly diverse nature of governance structures and tools.

As the nation and government policymakers grapple with the challenges presented by these evolving trends, they do so in the context of rapidly building fiscal pressures. GAO's long-range budget simulations show that this nation faces a large and growing structural deficit due primarily to known demographic trends and rising health care costs. The fiscal pressures created by the retirement of the baby boom generation and rising health costs threaten to overwhelm the nation's fiscal future. As figure 1 shows, by 2040, absent reform or other major tax or spending policy changes, projected federal revenues will likely be insufficient to pay more than interest on publicly held debt. Further, our recent shift from surpluses to deficits means the nation is moving into the future in a weaker fiscal position.

Figure 1: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2003 and All Expiring Tax Provisions Are Extended



Source: GAO.

Notes: Although all expiring tax cuts are extended, revenue as a share of gross domestic product (GDP) increases through 2013 due to (1) real bracket creep, (2) more taxpayers becoming subject to the Alternative Minimum Tax, and (3) increased revenue from tax-deferred retirement accounts. After 2013, revenue as a share of GDP is held constant. This simulation assumes that currently scheduled Social Security benefits are paid in full throughout the simulation period.

The United States has had a long-range budget deficit problem for a number of years, even during recent years in which we had significant annual budget surpluses. Unfortunately, the days of surpluses are gone, and our current and projected budget situation has worsened significantly. The bottom line is that our projected budget deficits are not manageable without significant changes in "status quo" programs, policies, processes, and operations.

Doing nothing is simply not an option nor will marginal efforts be enough. Tough, difficult choices will have to be made. Clearly, the federal government must start to exercise more fiscal discipline on both the spending side and the tax side. While many spending increases and tax cuts

may be popular, they may not all be prudent. However, there is not a single solution to the problems we face, but a number of solutions are needed. And, it will take the combined efforts of many parties over an extended period to address these fiscal challenges successfully.

One needed improvement is streamlining and simplifying the federal government's organizational structure to make it more economical, efficient, effective, flexible, responsive, and accountable. This includes addressing both fragmentation of effort and duplicative, overlapping, and conflicting government programs, policies, and operations. We need governmental organizations that embrace modern management practices of the 21st century, including a strategic human capital management approach. Streamlining the federal government to eliminate unnecessary redundancy and inefficient operations will help address our growing fiscal problems. It will not by itself solve the problem, but it certainly will help.

Need to Reexamine How Departments and Agencies Are Managing Their Programs and Organizations

It is important to reexamine periodically 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 sustainability of the programs over time as well as the effectiveness of a range of tools—such as grants, loan guarantees, tax incentives, regulation, and enforcement—that are used to achieve results. Many federal programs—their goals, organizations, processes, and infrastructures—were designed years ago to meet the demands as determined at that time and within the technological capabilities of earlier eras. We currently have 15 departments and numerous independent agencies. The recent report of the Volcker Commission found that "fifty years have passed since the last comprehensive reorganization of the government" and that "the relationship of the federal government to the citizens it services became vastly broader and deeper with each passing decade." The commission recommended a fundamental reorganization of the federal government into a limited number of mission-related executive departments to improve its capacity to design and implement public policy. I believe that GAO's past and present work supports the validity of this finding. As a result, we should begin to take the steps necessary to make this recommendation a reality. This hearing is one step toward doing so.

I believe that a number of events over the last few years, combined with a greater understanding of broad trends, have fostered growing recognition that fundamental change is necessary. This presents the Congress and the executive branch with an opportunity to create highly effective,

performance-based organizations that can strengthen the nation's ability to meet the challenges of the 21st century and reach beyond our current level of achievement. Many departments and agencies were created in a different time and in response to problems and priorities very different from today's challenges. Some have achieved their one-time missions, yet they are still in operation. Many have accumulated responsibilities beyond their original purposes. Others have not been able to demonstrate how they are making a difference in real and concrete terms. Still others have overlapping or conflicting roles and responsibilities. Redundant, unfocused, and uncoordinated programs waste scarce resources, confuse and frustrate program customers, and limit overall program effectiveness.

Fundamental reexamination of federal agencies' roles, functions, and structure is never easy. Reorganizing government can be an immensely complex and politically charged activity. Those who would reorganize government must make their rationale clear and build a consensus for change if proposed reorganizations are to succeed. All key players must be involved in the process—the Congress, the President, affected executive branch agencies, their employees and unions, and other interested parties, including the public.

In recent years, events have driven us to reassess several major components of government. In response to the events of September 11, 2001, the Department of Homeland Security was established. Seeing a pressing need, the government moved expeditiously to form this new agency and thus consolidate many disparate homeland security functions under a single agency. However, the formation of the Department of Homeland Security is still a work in progress. In January of this year, we designated the implementation and transformation of the Department of Homeland Security as high risk.[1] The size and complexity of the effort and the challenges the department inherited will require sustained attention over time for the department to reach its full potential.

Driven in part by the events of September 11, 2001, the Federal Bureau of Investigation (FBI) is also undergoing a major transformation, including a multiphase reorganization, first announced in December 2001. The first phase is designed to strengthen the FBI's management structure, enhance accountability, reduce executive span of control, and establish two new

[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C.: January 2003).

divisions for Records Management and Security. The second phase is designed to build, among other things, a national terrorism response capability that is larger and more mobile, agile, and flexible by shifting resources from other areas within the FBI. In June of this year, 18 months into the effort, we reported progress in several areas but noted that major challenges remain. These challenges included the continued need for a comprehensive transformation plan, an updated strategic plan, and a human capital strategic plan.[2]

The tragedy of Columbia has turned a spotlight on the weaknesses in the National Aeronautics and Space Administration's (NASA) organization and culture. The recent report of the Columbia Accident Investigation Board made a number of very specific recommendations related to the NASA's organization. NASA now must take a hard look at its organizational structure and culture. While NASA has undertaken numerous programs that have greatly advanced scientific and technological knowledge, the agency is at a critical juncture, and major management improvements are needed. Earlier this year, we outlined several major management challenges at NASA in human capital, contract, and financial management, some of which have existed for years.[3]

Improved performance has been a primary goal of several other restructuring efforts under way. For example, the Internal Revenue Service (IRS) is in the midst of a long-term modernization.[4] In addition, the Department of Defense (DOD) is in the process of transforming its business operations, and the U.S. Postal Service faces the challenge of transforming its business model for the 21st century.[5]

[2]U.S. General Accounting Office, *FBI Reorganization: Progress Made in Efforts to Transform but Major Challenges Continue*, GAO-03-759T (Washington, D.C.: June 18, 2003).

[3]U.S. General Accounting Office, *NASA: Major Management Challenges and Program Risks*, GAO-03-849T (Washington, D.C.: June 12, 2003).

[4]U.S. General Accounting Office, *IRS Modernization: Continued Progress Necessary for Improving Service to Taxpayers and Ensuring Compliance*, GAO-03-796T (Washington, D.C.: May 20, 2003).

[5]U.S. General Accounting Office, *U.S. Postal Service: Key Postal Transformation Issues*, GAO-03-812T (Washington, D.C.: May 29, 2003) and U.S. General Accounting Office, *Opportunities for Oversight and Improved Use of Taxpayer Funds: Examples from Selected GAO Work*, GAO-03-1006 (Washington, D.C.: Aug. 1, 2003).

These are some recent examples of building consensus and undertaking restructuring to meet new or changed missions and goals. To a great extent, these changes were driven by catastrophic events. Even with dramatic events demonstrating the need for change, these reorganizations and transformations will not be easy. It is likely to be even more difficult to build consensus for reorganization and change when there is not such an event driving it. However, current trends, poor performance, and growing fiscal pressures demand that we make the effort. We simply cannot afford unnecessary redundancy and inefficiency in the government, especially in light of impending fiscal challenges and taxpayers deserve better.

GAO's work has documented the widespread fragmentation and overlap in both federal missions and individual federal programs. As new needs are identified, the common response has been to add new responsibilities and roles within federal departments and agencies, perhaps targeted to a newly identified clientele or involving a new program delivery approach. In the worst-case scenario, new programs are layered onto existing programs that have failed or performed poorly. Though our work also suggests that some issues, such as security, may warrant the involvement of multiple agencies or more than one approach, fragmentation and overlap often adversely affect the economy, efficiency, and effectiveness of the federal government.

Last month, we issued a report, *Opportunities for Oversight and Improved Use of Taxpayer Funds: Examples from Selected GAO Work*.[6] In this report, we highlight opportunities for and specific examples of legislative and administrative change that might yield budgetary savings. Several examples clearly illustrate the need to take a hard look at our organizational structures.

- The responsibilities of the four major land management agencies—the National Park Service, the Bureau of Land Management (BLM), the Fish and Wildlife Service within the Department of the Interior, and the Forest Service within the Department of Agriculture (USDA)—have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a number of laws and regulations, and the authority for these laws is dispersed among several federal agencies as well as

[6]GAO-03-1006.

state and local agencies. These changes have coincided with two other developments—the federal government's increased focus on downsizing and budget constraints and scientists' increased understanding of the importance and functioning of natural systems, the boundaries of which may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies operate.

Two basic strategies have been proposed to improve federal land management: (1) streamlining the existing structure by coordinating and integrating functions, systems, activities, programs, and field locations and (2) reorganizing the structure by combining agencies. The two strategies are not mutually exclusive. Some small steps have been taken. For example, the Forest Service and BLM have colocated some offices or shared space with other federal agencies. However, more needs to be done.

- In 1987, the Congress passed the Stewart B. McKinney Act (Pub. L. No. 100-77) to address the multiple needs of homeless people. The act encompasses both existing and new programs. Over the years, some of the original McKinney programs have been consolidated or eliminated, and some new programs have been added. Today, homeless people receive assistance through these programs as well as other federal programs that are not authorized under the McKinney Act but are nevertheless specifically targeted to serve the homeless population. In February 1999, we reported that seven federal agencies administer 16 programs that serve the homeless population, with the Department of Housing and Urban Development (HUD) responsible for most of the funds.[7] Consolidating all of the homeless assistance programs under HUD could increase administrative and operational efficiencies at the federal level as well as reduce administrative and coordination burdens for state and local governments, which also face fiscal challenges.

- Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these separate, costly systems perform many of the same administrative, management, and operational

[7]U.S. General Accounting Office, *Homeless: Coordination and Evaluation of Programs Are Essential*, GAO/RCED-99-49 (Washington, D.C.: Feb. 26, 1999).

functions. Since 1949, numerous studies, the most recent completed in 2001, have reviewed whether a central entity should be created within DOD to manage and administer the three health care systems. Most of these studies encouraged some form of organizational consolidation. A DOD health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicative administrative, management, and operational functions.

Similarly, there are potential benefits to be achieved by greater coordination with the veterans health care system. In an effort to save federal health care dollars, the Department of Veterans Affairs (VA) and DOD have sought ways to work together to gain efficiencies. For example, some local VA and DOD facilities have entered into joint venture agreements, pooling resources to build a joint facility or capitalizing on an existing facility. To ensure maximize use of federal health care dollars, this area needs continued attention.

- A multitude of agencies oversee food safety, with two agencies accounting for most federal spending on, and regulatory responsibilities for, food safety. The Food Safety and Inspection Service, under USDA, is responsible for the safety of meat, poultry, eggs, and some egg products, while the Food and Drug Administration, under the Department of Health and Human Services, is responsible for the safety of most other foods.

  The current food safety system emerged from a patchwork of often archaic laws and grew into a structure that actually hampers efforts to address existing and emerging food safety risks. Moreover, the current regulatory framework concentrates on only a segment—primarily food processing—of the continuum of activities that bring food from farm to table. The threat of deliberate contamination of the food supply and scientific and technical advances in the production of food, such as the development of genetically modified foods, have further complicated the responsibilities of the existing federal food safety structure. The food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources. Consolidation of the federal food safety agencies under a single, independent agency or under a single department could improve both the efficiency and effectiveness of the system.

These examples illustrate a few of the opportunities that exist to improve effectiveness and efficiency by reexamining the government's

organizational structure. As part of this reexamination, it is important to ask the fundamental question of whether an existing program, policy, or activity "fits" the work we face today and will face in the future. It is important not to accept all existing activities as givens by subjecting new proposals to greater scrutiny than existing ones undergo. However, such a fundamental reexamination is not easy. Success will depend on establishing clear goals, having all the key players actively involved, and using a process that can help build consensus.

Throughout the 20th century, efforts to structure the federal government to address the economic and political concerns of the time met with varying degrees of success. The first Hoover Commission,[8] which lasted from 1947 through 1949, is considered by many to have been the most successful of government restructuring efforts. The membership of the commission was bipartisan, including members from the administration and both houses of the Congress. Half of the members were from outside government. The commission had a clear vision, making reorganization proposals that promoted what it referred to as "greater rationality" in the organization and operation of government agencies, and enhanced the President's role as the manager of the government—principles that were understood and accepted by both the White House and the Congress.[9] Former President Hoover himself guided the creation of a citizens' committee to build public support for the commission's work. More than 70 percent of the first Hoover Commission's recommendations were implemented, including 26 reorganization plans. According to the Congressional Research Service, "the ease with which most of the reorganization plans became effective reflected two factors: the existence of a consensus that the President ought to be given deference and assistance by Congress in meeting his managerial responsibilities, and the fact that most of the reorganization plans were pretty straightforward proposals of an organizational character."[10]

[8]The commission's formal name was the Commission on Organization of the Executive Branch. Its membership was as follows: Former President Herbert Hoover, Dean Acheson, Senator George Aiken, Representative Clarence Brown, Arthur Flemming, James A. Forrestal, Joseph P. Kennedy, Representative Carter Manasco, Senator John L. McClellan, George Mead, James K. Pollock, and James Rowe.

[9]Ronald C. Moe, *The Hoover Commissions Revisited* (Boulder, Colo.: Westview Press, 1982), 2.

[10]Congressional Research Service, *The President's Reorganization Authority: Review and Analysis* (Washington, D.C.: Mar. 8, 2001).

History teaches lessons that are applicable today. Those who would reorganize government must make their rationale clear and must build a consensus for change before submitting specific proposals to the Congress if these efforts are to succeed. To achieve substantive changes, it is important that all players, particularly the Congress and the President, agree on restructuring goals and establish processes to achieve their objectives that provides needed transparency. The processes used may vary depending on the significance of the changes sought. However, the risk of failure is high if key players are not involved and no processes for reaching consensus on specific reorganization proposals submitted to the Congress for consideration are in place. Both having the right processes and the right players are critical to success.

Restructuring existing programs is part of the solution to meeting the challenges faced by our government. However, those decisions are not the end of the story. Restructuring is not easy and takes time to fully implement, even once consensus exists on specific proposals. This is why we have designated the implementation and transformation of the Department of Homeland Security as high risk.[11] In addition to the implementation actions taken within the executive branch, congressional oversight throughout the implementation will be crucial to ultimate success.

Need to Reassess How Federal Agencies Do Business

Regardless of the number and nature of federal entities, the government's goal should be to create high-performing organizations. We need to look at not only at what business we are in, but how we do business. Practices that were good 50 years ago may not make sense today. Old, outdated practices and systems result in inefficiency and waste of resources that we cannot afford.

Our work has identified opportunities to change how the government does business.[12] The following three examples illustrate opportunities to improve business practices and to make them more efficient and effective.

- USDA's meat and poultry inspection system is hampered by inflexible legal requirements and relies on outdated inspection methods. Current

[11]GAO-03-102.

[12]GAO-03-1006.

law requires mandatory inspections that do not factor in risk. Inspectors continue to largely rely on their sense of sight, smell, and touch in making judgments about disease conditions, contamination, and sanitation. Microbial testing for such things as salmonella, listeria, and generic E. coli has increased but is still not sufficient. Legislative revisions could allow USDA to emphasize risk-based inspections. Much of the funding used to fulfill current, mandatory meat and poultry inspection activities could be redirected to support more effective food safety initiatives, such as increasing the frequency of inspections at high-risk food plants.

- Recently, GAO identified at least 21 different grant programs that can be used by the nation's first responders to address homeland security needs.[13] Multiple, fragmented grant programs can create a confusing and administratively burdensome process for state and local officials seeking to use federal resources to meet pressing homeland security needs. In addressing the fragmentation prompted by the current homeland security grant system, the Congress has taken the initial step of bringing many of these programs under the Department of Homeland Security. Additional administrative and legislative steps, such as block grants, waivers, performance partnerships, and grant waivers, might be considered. These approaches could provide state and local governments with increased flexibility while potentially improving intergovernmental efficiency and homeland security program outcomes. Better integration, including consolidation, of programs could yield administrative efficiencies that result in savings or improved performance. In taking any additional steps, it will be important to ensure accountability for both performance and funding.

- The U.S. overseas presence at more than 260 overseas posts consists of more than 90,000 people (including dependents of federal workers). The workforce has been estimated at as many as 60,000 employees, representing over 30 agencies. The Department of State employs about a third of the U.S. workforce overseas, and its embassies and consulates have become bases for the operations of agencies involved in hundreds of activities. The costs of overseas operations and related security requirements are directly linked to the size of the overseas workforce. By reducing the number of employees at posts where U.S. interests are a

[13]U.S. General Accounting Office, *Homeland Security: Reforming Federal Grants to Better Meet Outstanding Needs*, GAO-03-1146T (Washington, D.C.: Sept. 3, 2003).

lower priority, consolidating functions, establishing regional centers, or relocating personnel to the United States, the costs of overseas operations could be significantly reduced. In August 2001, The President's Management Agenda noted that the U.S. overseas presence is costly, increasingly complex, and of growing security concern.[14] It concluded that the cost and security considerations demand that the overseas staffing process be improved.

Creating high performing organizations will require a cultural transformation in government agencies and new ways of doing business. 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 will need to become more horizontal and integrated to make the most of the knowledge, skills, and abilities of their people. Internally focused agencies will need to focus externally to meet the needs and expectations of their ultimate clients—the American people. 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 address the changing role of the government in the 21st century.

The key to effective public management in the 21st century is to ensure that organizations have the characteristics and capabilities needed to effectively influence and leverage partners, people, processes, and technology to achieve results. As part of a continuing series of forums, GAO will convene a forum in November that will focus specifically on the implications of the public management environment in the 21st century for federal agencies as they strive to become high performing organizations. This forum is intended to help identify key characteristics and capabilities of high-performing organizations in this environment, challenges facing federal agencies in transitioning into high-performing organizations, and ways in which the Congress and the executive branch can foster these transformation efforts.

[14]GAO-03-1006.

Importance of Strategic Human Capital Management

Strategic human capital management should be a centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies. It is a vital element to the success of any government restructuring efforts, whether within an existing agency or across current agency boundaries. People are an agency's most important organizational asset. An organization's people define its character, affect its capacity to perform, and represent the knowledge base of the organization. Human capital issues have been a focus of this Congress and certainly this Subcommittee. They will require continuing attention.

Since 2001, we have designated human capital as a governmentwide high risk. The Congress and the executive branch have taken a number of steps to address the federal government's human capital shortfalls. However, serious human capital challenges continue to erode the ability of many agencies, and threaten the ability of others, to perform their missions economically, efficiently, and effectively. A consistent strategic approach to maximize government performance and ensure its accountability is vital to the success of any reorganization efforts as well as to transforming existing agencies.

A high-performing organization should focus on human capital. Human capital approaches are aligned with accomplishing missions and goals. Strategies are designed, implemented, and assessed based on their ability to achieve results and contribute to an organization's mission. Leaders and managers stay alert to emerging demands and human capital challenges. They reevaluate their human capital approaches through the use of valid, reliable, and current data, including inventories of employee skills and competencies. Recruiting, hiring, professional development, and retention strategies focus on ensuring that an agency has the needed talent to meet organizational goals. Individual performance is clearly linked with organizational performance. Effective performance management systems provide a "line of sight" showing how unit, team, and individual performance can contribute to overall organizational goals.

The first 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. The second step is for policymakers to purse incremental legislative reforms. Most recently, the Congress has been considering legislative proposals for the DOD.

As we have previously testified, agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). In addition, targeted reforms should be considered in situations in which additional testing or piloting is needed for fundamental governmentwide reform.

Moving forward, we believe it would be preferable to employ a governmentwide approach to address human capital issues and the need for certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and for the Office of Personnel Management (OPM), in particular. Some examples, that have been pursed, include broadbanding, pay for performance, reemployment, and pension offset waivers. As federal agencies compete for resources, it is important to maintain a level playing field among agencies.

However, whether through a governmentwide authority or agency-specific legislation, in our view, such additional authorities should be put in operation only when an agency has the institutional infrastructure in place to use the new authorities effectively. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; the capabilities to develop and implement a new human capital system effectively; and a modern, effective, and credible performance management system that includes adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure the fair, effective, and nondiscriminatory implementation of the system.

GAO as an Example of Positive Change

Transforming an organization is not an easy endeavor. It requires a comprehensive, strategic approach that takes leadership, time, and commitment. Because GAO is the agency that reviews others, we strive to lead by example. To create a model federal agency and world-class professional services organization, we have undertaken a comprehensive transformation effort over the past few years. Our strategic plan, which is developed in consultation with the Congress, is forward-looking and built on the key trends emerging at the beginning of the 21st century that were discussed earlier and relate to the United States and its position in the world community.

We also have restructured our organization to align with our goals, resulting in significant consolidation—going from 35 to 13 teams, eliminating an extra organizational layer, and reducing the number of field offices from 16 to 11. We have become more strategic, results-oriented, partnerial, integrated, and externally focused. Our scope of activities includes a range of oversight-, insight-, foresight-related engagements. We have expanded and revised our product lines to better meet client needs. We also continue to provide certain legal and adjudicatory services, as specified in our authorizing legislation. In addition, we have redefined success in result-oriented terms and linked our institutional and individual performance measures. We have strengthened our client relations and employed a "constructive engagement approach" with the entities we review. The impact on our results has been dramatic. Client feedback reports show significant improvement, and results for several of our key performance indicators have almost doubled in only 4 years.

There are four lessons to be learned from our experiences. First, one should not minimize how challenging it is for an organization to undertake a comprehensive transformation. Second, transformation is multifaceted and takes time. Our transformation began in 2000 and continues to be a work in progress. Third, transformation must be based on the best, most up-to-date management practices to reach its full potential. Fourth, transformation requires continual management commitment, monitoring, and oversight. Because of the 15-year terms for comptrollers general, GAO has the advantage of stable, long-term leadership that many other agencies do not have. However, our approach—based on best management practices—can serve as a guide to others.

We employed a strategic, not an incremental, approach to transforming GAO. Our approach is based on a regularly updated 6-year strategic plan for serving the Congress. GAO's strategic plan, which is currently being updated, established clear goals and objectives. Three goals aimed at providing Congress timely, quality service to: (1) address challenges to the well-being and financial security of the American people, (2) respond to changing security threats and the challenges of global interdependence, and (3) transform the federal government's role and how it does business. Our fourth goal is to be a model federal agency and a world-class professional organization. Our strategic plan provides a firm foundation from which to identify priorities and opportunities for eliminating redundancies and improving operations. It is the basis for our workforce planning. It also sets the stage for maximizing our effectiveness and efficiency. Our strategic planning process provides for updates with each

new Congress, ongoing analysis of emerging conditions and trends, extensive consultations with congressional clients and outside experts, and assessments of our internal capabilities and needs.

Our strategic plan formed the basis for a major organizational realignment. This realignment focused the organization on our goals and resulted in significant streamlining. The process employed to accomplish the realignment required time, energy, and commitment from GAO's senior leadership. Input was sought from GAO executives and employees at all levels throughout the process. Extensive communications with GAO staff and key congressional stakeholders were maintained on an ongoing basis. The result has been a more agile, effective, responsive, and accountable organization that has been able to effectively respond to the many new challenges presented to it.

People are an organization's most important asset. Modern, effective, and credible human capital policies are critical to the successful functioning of any enterprise. This has been the case at GAO. In 2000, we sought and received certain narrowly tailored human capital authorities, including early out and buyout authorities. We have used these authorities responsibly to strategically reshape GAO. In addition, we have implemented a comprehensive recruiting program, instituted a competency-based performance management system, made significant investments in training and staff development, and continued to refine our staffing process to maximize resource utilization. We continually seek to refine and improve our human capital practices. Recently, I have sought additional flexibilities for GAO to ensure quality service to the Congress; continue leading by example in government transformation; and continue to attract, retain, motivate, and reward a quality and high-performing workforce. I appreciated the support from you Chairwoman Davis and the Subcommittee on this request.

Continual communication with GAO staff is a critical feature of our human capital strategy. Among other things, we periodically survey staff on a wide range of human capital and organizational issues. I am pleased to report that the results of our latest comprehensive survey, completed last month, continued to demonstrate remarkably positive results.

Finally, we are continually evaluating, reengineering, and refining our work processes to reflect the best management practices to ensure the most effective and efficient service delivery. For example, we have employed two new management strategies within the organization—risk

management and matrix management. GAO's risk management approach allows management to identify and involve internal stakeholders with needed subject matter expertise throughout an engagement to transcend traditional organizational boundaries, maximize institutional value, and minimize related risks. GAO's matrix management approach maximizes our value to the Congress by leveraging the knowledge, skills, and experience of all employees to ensure the highest quality products and services and to help the Congress address the challenging, complex, changing, and multidimensional problems facing the nation. As part of this effort, we continually strive to provide GAO's people with necessary tools, technology, and training, and a world-class working environment.

GAO's transformation can provide lessons about what can be accomplished. To measure ourselves, we use a balanced scorecard, measuring client service, results, and employees. On all three dimensions, we are reporting very positive results. To illustrate, in fiscal year 2002, GAO's efforts helped the Congress and government leaders achieve $37.7 billion in financial benefits—an $88 return on every dollar invested in GAO, up from $19.7 billion and $58 return in fiscal 1998. The return on the public's investment in GAO extends beyond dollar savings to improvements in how the government serves its citizens. The results in 2002 are in part attributed to work we have done to transform GAO using a strategic, comprehensive approach.

Similar benefits can be achieved in other governmental organizations. Building on GAO's experience, a comprehensive approach grounded in a sound strategic plan and appropriate organizational alignment, and based on the best management practices, including human capital management, can yield optimal results in terms of effectiveness and efficiency. Successful transformation is not easy. It will take strong, committed, and persistent leadership, and it will take time. We are still working on it, but we are ahead of schedule and are pleased with our progress.

Options for Strengthening Congressional Oversight

The challenges facing our nation are many and difficult. Clearly, there is a need to reexamine how the federal government is organized both in the executive and legislative branches. We need to reassess how the federal government does business. Fundamental questions need to be asked about what the federal government should be doing and who should be doing it, given past changes and 21st century challenges. Clearly any major organizational change is both complex and controversial. In considering government restructuring and changes in business practices, it is important

to focus not just on the present but on the future trends and challenges. Identifying goals for addressing these trends and challenges can provide a framework for achieving the needed consensus. In fact, the effects of any changes will be felt more in the future than they are today. Because the world is not static and never will be, it is vital to take the long view, positioning the government to meet challenges throughout the 21st century.

There is no easy answer to the challenges federal departments and agencies face in transforming themselves. Multiple actions are required. This is illustrated by the examples I have provided today. As the Congress moves forward, it will be important to keep three things in focus: goals, players, and processes. Clear goals are essential. Defining clear goals forces decision makers to reach a shared understanding of what really needs to be fixed in government, what the federal role ought to be, how to balance differing objectives, and what steps need to be taken to create not just short-term progress but long-term success. All key players must be engaged if viable solutions are to be achieved—this means the Congress and the President, as well as other parties with vested interests. Excluding key players increases the risk of failure. Finally, the process used must be tailored to the task at hand. Straightforward changes, such as the consolidation of agency payment operations, may call for agency-centered processes, requiring minimal involvement by the Congress or others. Other changes, such as revamping the U.S. food safety system, will require a process that involves key congressional stakeholders and administration officials as well as others, ranging from food processors to consumers. Even more ambitious changes like reorganizing the executive branch or rationalizing the existing federal infrastructure will likely require commission approaches similar to the Hoover Commission that I discussed previously.

On September 24, 2002, GAO convened a forum to identify and discuss useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations that federal agencies could implement to transform their cultures successfully.[15] While there is no one right way to manage a successful merger, acquisition, or transformation, the experiences of both successful and unsuccessful

[15]U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002), and *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C. July 2, 2003).

efforts suggest that there are practices that are key to their success. These key practices should be considered as federal agencies seek to transform their cultures in response to governance challenges. These practices include the following.

- Ensure that top leadership drives the transformation.
- Establish a coherent mission and integrated strategic goals to guide the transformation.
- Focus on a key set of principles and priorities at the outset of the transformation.
- Set implementation goals and a timeline to build momentum and show progress from day one.
- Dedicate an implementation team to manage the transformation process.
- Use the performance management system to define responsibility and ensure accountability for change.
- Establish a communication strategy to create shared expectations and report related progress.
- Involve employees to obtain their ideas and gain their sense of ownership of the transformation.
- Build a world-class organization.

Eliminating redundancy and improving federal operations are critical to meeting the challenges we are facing at the beginning of the 21st century. Chairwoman Davis has introduced the Government Accountability and Streamlining Act of 2003. This bill is aimed at stopping the creation of any additional unnecessary redundancy. As it considers this proposal, the Congress may also want to consider other options, such as reinstituting some form of budget controls, granting the President executive reorganization authority, establishing special commissions, and enhancing oversight. The Congress may want to consider giving federal department and agencies additional tools to assist in the transformations that they undertake, including creating chief operating officer positions in selected departments and agencies and human capital reforms. As I have

emphasized, multiple approaches are needed to address not only future but also existing redundancy and inefficiency in federal operations. Each of the following seven tools has merit depending on the situation.

- *Government Accountability and Streamlining Act of 2003*. This proposal would require GAO to prepare statements for bills and resolutions reported by congressional committees and subcommittees on whether the responsibilities of any proposed new federal entities, programs, or functions are redundant. While I appreciate the respect for our work shown by this proposal, I also think it is important that we be practical in designing such a mandate. This kind of evaluation is very resource intensive, and there are currently no agreed-upon criteria for determining whether an activity is actually duplicative or redundant. Each year, there are hundreds of bills proposed by committees alone. Though not all bills would have potential redundancy implications, the number might be significant and could affect our other work for the Congress. An alternative might be to provide the Chair of the House Committee on Government Reform and its Senate counterpart with the authority to request such an evaluation for any bill before it goes to the floor. At a minimum, some way to limit the number of bills analyzed would be necessary.

- *Reinstitution of budget controls.* The appropriations caps and "pay-go" requirements—which expired in 2002—limited the expansion and creation of new government programs and activities. Such controls could be beneficial given our current and future fiscal challenges. In addition, the reconciliation process could be used more to force trade-offs as well as a reexamination of existing programs.

- *Executive reorganization authority.* Earlier this year, the House Committee on Government Reform held hearings on reinstating the President's executive reorganization authority. Though a bill has not yet been introduced, this authority could provide a useful tool in reexamining the federal government's organizational structure. Essentially, it would reinstate the authority of the President to submit government restructuring plans to the Congress and obtain expedited review. Such authority can better enable the President to propose government organization designs that would be more efficient and effective in meeting existing and emerging challenges. But it is important to achieve consensus on identified problems, needs, and solutions. The Congress has a vital role in this process. As I testified at the April 2003 hearing, some expedited congressional consideration may

be appropriate for specific issues.[16] However, the Congress may want to consider different tracks for proposals that encompass significant policy changes versus those that focus more narrowly on specific government operations.

- *Special commissions*. In the past, there have been special commissions chartered to examine and make recommendations on difficult structural issues. The most successful had both executive and bipartisan legislative branch support. For example, the first Hoover Commission had more than 70 percent of its recommendations implemented, including 26 of 35 reorganization plans. More recently, the Base Realignment and Closure process was used successfully to reduce unneeded defense assets. Provided there is a clear statement of goals and the process to be used, such commissions can provide an effective means of examining issues in depth and formulating recommendations for the consideration of the Congress.

- *Enhanced oversight*. A management and oversight process that is narrowly focused or one that considers only incremental changes, while beneficial, will not allow the government to reach its full performance potential. The government is composed of organizations, programs, and functions that are overlapping, fragmented, and interdependent. Structuring management and oversight only according to preexisting boundaries, whether they be executive departments or congressional committee structures, limits the full potential of any review. The importance of seeing the overall picture cannot be overestimated. It is important to be asking the right questions.

  The traditional oversight that the Congress provides to individual organizations, programs, and activities has an important role in eliminating redundancy and inefficiencies. There are important benefits to be achieved through focused oversight if the right questions are asked about program design and management. Five key questions for program oversight are as follows:

  - Does the program duplicate or even work at cross-purposes with related programs and tools?

[16]U.S. General Accounting Office, *Executive Reauthorization Authority: Balancing Executive and Congressional Roles in Shaping the Federal Government's Structure*, GAO-03-624T (Washington, D.C.: Apr. 3, 2003).

- Is the program targeted properly?
- Is the program financially sustainable and are there opportunities for instituting appropriate cost-sharing and recovery mechanisms?
- Can the program be made more efficient through reengineering or streamlining processes or restructuring organizational roles and responsibilities?
- Are there clear goals, measures, and data with which to track progress built into its planning and reporting systems?

- *Chief operating officer (COO)*. Transformation of a large organization is a difficult undertaking, especially in government. Success depends on committed, top-level leadership and sustained attention to management issues. A COO could provide the sustained management attention essential for addressing key infrastructure and stewardship issues and could facilitate the transformation process. Establishing a COO in selected federal agencies could provide a number of benefits. A COO would be the focal point for elevating attention on management issues and transformational change, integrating various key management and transformation efforts, and instituting accountability for addressing management issues and leading transformational change. A COO would provide a single organizational position for key management functions, such as human capital, financial management, information technology, acquisition management, and performance management as well as for transformational change initiatives. To be successful, in many cases, a COO will need to be among an agency's top leadership (e.g., deputy secretary or under secretary). However, consistent with the desire to integrate responsibilities, the creation of a senior management position needs to be considered with careful regard to existing positions and responsibilities so that it does not result in unnecessary "layering" at an agency. Consideration also should be given to providing a term appointment, such as a 5—7 year term. A term appointment would provide sustained leadership. No matter how the positions are structured, it is critical that the people appointed to these positions have a proven track records in similar positions and be vested with sufficient authority to achieve results. To further clarify expectations and responsibilities, the COO should be subject to a clearly defined, results-oriented performance contract with appropriate incentives, rewards, and accountability mechanisms. For selected agencies, a COO should be subject to a Senate confirmation. In creating such a position, the

Congress might consider making certain subordinate positions, such as the chief financial officer, not subject to Senate confirmation.

- *Governmentwide human capital reforms*. There are a number of reforms that might be considered. As I have previously testified, Congress should consider providing governmentwide authority to implement broadbanding, other pay for performance systems, and other authorities whereby whole agencies are allowed to use additional authorities after OPM has certified that they have the institutional infrastructures in place to use them effectively and fairly. In addition to requiring a human capital strategic plan from each agency, the Congress should establish statutory principles for standards that an agency must have in place before OPM can grant additional pay flexibilities. Additional efforts should be taken to move the Senior Executive Service to an approach wherein pay and rewards are more closely tied to performance. Further, the Congress might consider establishing a governmentwide fund where agencies, based on a sound business case, could apply to OPM for funds to be used to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. The governmentwide fund would provide for targeted investments needed to prepare agencies to use their performance management systems as strategic tools to achieve organizational results and drive organizational change.

Government leaders are responsible and accountable for making needed changes to position the federal government to meet current and future challenges and to take advantage of emerging opportunities. In meeting this responsibility, leaders must take advantage of every tool that is available to them. Each of the seven tools that I have discussed has unique characteristics and benefits that can be highly effective depending on the goals to be achieved.

Concluding Remarks

In view of the trends and fiscal challenges facing the nation, there is a need to consider the proper role of the federal government, how the government should be structured, how the government should do business, and in some instances who should do the government's business. We cannot afford unnecessary redundancy and inefficient operations, and taxpayers deserve better. The federal government's large and growing fiscal gap means that doing nothing is simply not an option. Tough choices will have to be made by elected officials. The Congress and the administration will need to use every tool at their disposal to address these challenges. In addressing these

challenges, it will be important to set clear goals, involve all key players, and establish viable processes that will lead to positive and sustainable results. We in GAO take our responsibility to assist the Congress in these crucial efforts very seriously.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER