GAO

Accountability • Integrity • Reliability

SERVING THE CONGRESS AND THE NATION

Strategic Plan

2004 — 2009

Serving the Congress and the Nation
GAO's Strategic Plan Framework

Mission

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

Themes

- Long-Term Fiscal Imbalance
- National Security
- Global Interdependence
- Changing Economy
- Demographics
- Science and Technology
- Quality of Life
- Governance

Goals & Objectives

Provide Timely, Quality Service to the Congress and the Federal Government to …

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to . . .*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing . . .*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of . . .*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

Core Values

Accountability | **Integrity** | **Reliability**

Table of Contents

Letter from the Comptroller General 1

GAO's Mission, Responsibilities, Strategies, and Means 4

Mission Statement. 4
Statutory Responsibilities 4
Strategies and Means 5

Themes for the Plan: Forces Shaping the United States and Its Place in the World. 8

Large and Growing Long-term Fiscal Imbalance. 8
Evolving National and Homeland Security Policies. 10
Global Interdependence: Trends and Challenges 14
The Changing Economy 17
An Aging and More Diverse Population. 21
Advances in Science and Technology 24
Measuring the Quality of Life 26
Diverse Governance Structures and Tools 27

Goal 1: Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-being and Financial Security of the American People 31

Goal 2: Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence. 50

Goal 3: Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges. 58

Goal 4: Maximize the Value of GAO by Being a Model Federal Agency and a World-class Professional Services Organization. 69

Performance Measures and Evaluations 73

Consultations and Relationships with Others 76

Subject Area Supplements to the Strategic Plan 77

The Health Needs of an Aging and Diverse Population. 78
The Education and Protection of the Nation's Children 89

The Promotion of Work Opportunities and the Protection of Workers 99
A Secure Retirement for Older Americans. 108
An Effective System of Justice 116
The Promotion of Viable Communities. 122
Responsible Stewardship of Natural Resources and the Environment. 132
A Safe, Secure, and Effective National Physical Infrastructure 143
Respond to Emerging Threats to Security 154
Ensure Military Capabilities and Readiness 165
Advance and Protect U.S. International Interests. 177
Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests 185
Reexamine the Federal Government's Role in Achieving Evolving National Objectives 194
Support the Transformation to a Results-Oriented, High-Performing Government 200
Support Congressional Oversight of Key Management Challenges and Program Risks to Improving Federal Operations and Ensuring Accountability 214
Analyze the Government's Fiscal Position and Strengthen Approaches for Addressing the Current and Projected Fiscal Gap 221
Continuously Improve Client and Customer Satisfaction and Stakeholder Relationships. 229
Lead Strategically to Achieve Enhanced Results 233
Leverage GAO's Institutional Knowledge and Experience 238
Continuously Enhance GAO's Business and Management Processes 242
Become a Professional Services Employer of Choice. 245

Cover and inside cover source: GAO.

On 3/15/2004, we replaced incorrect data in Figure 7: World Exports of Goods and Services as a Percentage of World GDP, 1970--2002.

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List of Acronyms

CACFP	Children and Adult Care Food Program
CBO	Congressional Budget Office
CCDF	Child Care and Development Fund
CMS	Centers for Medicare & Medicaid Services
CMSO	Chief Mission Support Office
C4ISR	command, control, communications, computers, intelligence, surveillance, reconnaissance
EA	enterprise architectures
DHS	Department of Homeland Security
DOD	Department of Defense
DOE	Department of Energy
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
GDP	gross domestic product
GPRA	Government Performance and Results Act of 1993
GSE	government-sponsored enterprises
HHS	Department of Health and Human Services
HPO	high-performing organization
HUD	Department of Housing and Urban Development
IDEA	Individuals with Disabilities Education Act
IMF	International Monetary Fund
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
IT	information technology
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
NNSA	National Nuclear Security Administration
OASDI	Old-Age Survivors and Disability Insurance
OECD	Organization of Economic Cooperation and Development
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PBGC	Pension Benefit Guarantee Corporation
PDP	Professional Development Program
PPBS	Planning, Programming, and Budgeting System
R&D	research and development
RHS	Rural Housing Service
SARS	severe acute respiratory syndrome
SBA	Small Business Administration
SCHIP	State Children's Health Insurance Program
SES	Senior Executive Service
SSA	Social Security Administration
SSN	Social Security number
TANF	Temporary Assistance for Needy Families
UNAIDS	Joint United Nations Programme on HIV/AIDS
USDA	United States Department of Agriculture
VA	Department of Veterans Affairs
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children
WMD	weapons of mass destruction
WTO	World Trade Organization

Letter from the Comptroller General

March 2004

I am pleased to present GAO's strategic plan for serving the Congress for fiscal years 2004 through 2009. In keeping with our commitment to update our plan every 2 years, with each new Congress, this plan describes our proposed goals and strategies for supporting the Congress and the nation in facing the challenges of a rapidly changing world while addressing the nation's large and growing long-term fiscal imbalance.

Indeed, even since our last plan, much has changed. The war against terrorism led the nation to a war in Iraq and an ensuing reconstruction effort that is still unfolding. Efforts to ensure homeland security also resulted in the creation of the Department of Homeland Security—the largest government reorganization in over 50 years, involving 170,000 employees and a $40 billion budget. Legislation was enacted to modernize the Medicare program to include a prescription drug benefit, at a potential cost of more than $500 billion over the next 10 years alone. Given these important national priorities and relatively weak economic performance, historic budget deficits have returned and are projected to continue for the next decade. But, perhaps more disturbing, the long-range fiscal outlook appears to be unsustainable, given existing federal commitments and the challenges of caring for a growing elderly population. Policymakers are therefore increasingly being called on to distinguish wants from needs and to judge what the nation can afford, both now and in the longer term.

Policymakers also face a world in which national boundaries are becoming less relevant when addressing a range of economic, security, social, and environmental issues. The shift to a knowledge-based economy and additional productivity gains are having significant impacts on the job market. Scientific research and technological developments are improving and even extending life but are also raising profound ethical questions for society. Accompanying these changes are new expectations about the quality of life for Americans and how we should measure the nation's position and progress. Governance structures are evolving in order to contend with these new forces and an accelerating pace of change. These broad themes—security, the changing economy, global interconnectedness, an aging and more diverse population, scientific and technological change, concern for quality of life, and evolving governance structures—provide the context for our plan.

The broad goals and objectives of our plan have not altered dramatically since our last plan, but recent events account for some modifications in emphasis:

- Because of the large and growing long-term fiscal imbalance facing the nation, we have identified this as a separate theme for our plan. Therefore, we will continue to increase our emphasis on work related to the transformation of the federal government, as it addresses fiscal challenges, new priorities and world conditions, as well as a substantial turnover in its workforce. GAO's High-Risk Series, which began more than a decade ago with an emphasis on fraud, waste, and abuse, has

most recently expanded to include challenges in broad-based transformation, and we will continue to use the high-risk designation to highlight additional areas facing major transformation challenges.

- Given the continued national focus on homeland security, the creation of the Department of Homeland Security, and the ongoing war on terrorism, we expect to pay continuing attention to monitoring the progress of the department and other critical parts of the federal government in becoming effective structures for meeting national needs.
- Because the pressures to meet the health care and retirement needs of a growing elderly population continue to mount, we expect that health care cost and quality, along with public and private pension issues, will come under increasing scrutiny and require additional effort and attention.
- As the reconstruction of Iraq and Afghanistan continues and other global events unfold, we expect to provide additional support to the Congress in overseeing the pace and cost of related federal efforts. Additionally, as the Department of Defense embarks on a major transformation effort following the enactment of sweeping new authorities, we expect to report on the department's progress and effectiveness.

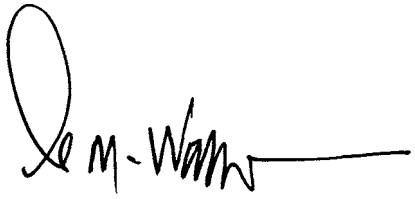
To help support our efforts on behalf of the Congress and the American people, we have set ourselves the goal of becoming a model agency and world-class professional services organization—a goal that remains as vital to us as ever. We will continue to work toward making best use of the key elements that enable GAO to accomplish its goals—our people, processes, technology, environment, and partnerships. We will continue to "lead by example" in transforming how the government should do business in the 21st century.

To make sure that our plan is an accurate reflection of congressional and national needs, we invited comments on a draft of this plan from Members of the Congress and their staffs; our sister congressional agencies—the Congressional Budget Office and the Congressional Research Service; the inspectors general; state and local government audit organizations; and other key accountability organizations. We have incorporated many of these comments in this final version of the plan.

If you would like to know more about specific areas of GAO's work, you will find detailed strategic supplements on our Web site at www.gao.gov/sp.html that describe the performance goals, key efforts, and potential outcomes for each of our strategic objectives. Links on that Web page will also take you to our agency's performance

and accountability reports. If you have questions, please contact me at (202) 512-5500 or walkerd@gao.gov or Gene L. Dodaro, Chief Operating Officer, at (202) 512-5600 or dodarog@gao.gov.

Sincerely yours,



David M. Walker
Comptroller General
of the United States

GAO's Mission, Responsibilities, Strategies, and Means

Mission Statement

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

GAO examines the use of public funds; evaluates federal programs and activities; and provides analyses, options, and other assistance to help the Congress make effective oversight, policy, and funding decisions. In this context, GAO works to continuously improve the economy, efficiency, and effectiveness of the federal government through the conduct of a variety of oversight-, insight-, and foresight-related activities. GAO's work includes financial audits, program reviews and evaluations, policy analyses, legal opinions and analyses, and investigations. GAO's activities are designed to ensure the executive branch's accountability to the Congress under the Constitution and the federal government's accountability to the American people.

Statutory Responsibilities

Through the Budget and Accounting Act of 1921, the Congress established GAO with the broad role of investigating "all matters relating to the receipt, disbursement, and application of public funds" and to "make recommendations looking to greater economy or efficiency in public expenditures." Since World War II, the Congress has clarified and expanded that original charter:

- The Government Corporation Control Act of 1945 provides GAO the authority to audit the financial transactions of government corporations.
- The Budget and Accounting Procedures Act of 1950 assigns GAO responsibility for establishing accounting standards for the federal government and carrying out audits of internal controls and financial management.
- The Legislative Reorganization Act of 1970 authorizes GAO to conduct program evaluations and analyses of a broad range of federal activities.
- The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 authorize GAO to audit agencies' financial statements and annually audit the consolidated financial statements of the United States.
- Numerous other laws complement GAO's basic audit and evaluation authorities, including the Congressional Budget and Impoundment Control Act of 1974, providing for GAO review of reported or unreported impoundments; the Inspector General Act of 1978, providing for GAO-established standards for the audit of federal programs and activities; and the Competition in Contracting Act of 1984, providing for GAO's review of protested federal contracting actions.

Today, GAO engages in a range of oversight, insight, and foresight activities, spanning the full breadth and scope of federal activities and programs. GAO publishes thousands of reports and other documents annually and provides a number of other related services. The agency also looks at national and international trends and challenges to antic-

ipate their implications for public policy. By making recommendations to improve the practices and operations of government agencies, GAO contributes not only to the increased effectiveness of and accountability for federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government. When considering GAO's strategic goals and objectives or weighing the potential outcomes of GAO's work, it is important to remember that GAO achieves its results mainly through the actions taken by the Congress and federal agencies in response to the information and recommendations that GAO provides.

Strategies and Means

For GAO, achieving strategic goals and objectives rests, for the most part, on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information to the Congress and other stakeholders. Most of the information is gathered and reported in response to congressional requests for specific work. As authorized by GAO's enabling legislation, the agency also independently undertakes certain research and development work. GAO develops and presents the information it gathers in a number of ways to support the Congress, including the following:

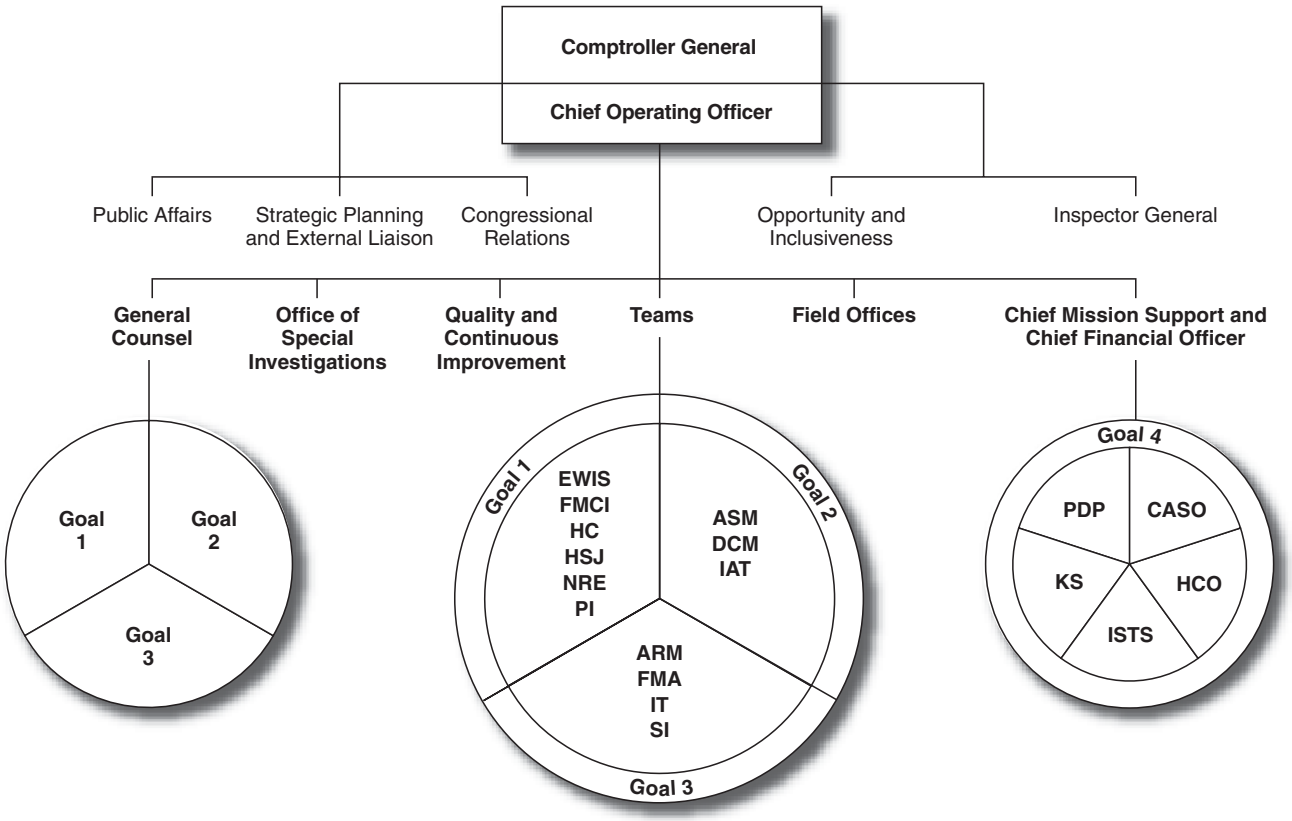
- evaluations of federal programs, policies, operations, and performance;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigations to assess whether illegal or improper activities are occurring;
- analyses of the financing for government activities;
- constructive engagements in which GAO works proactively with agencies, when appropriate, to help guide their efforts toward achieving positive results;
- legal opinions to determine whether agencies are in compliance with applicable laws and regulations;
- policy analyses to assess needed actions and the implications of proposed actions; and
- additional assistance to the Congress in support of its oversight, appropriations, legislative, and other responsibilities.

GAO combines those general strategies with strategies specific to individual strategic objectives. These specific strategies take the form of performance goals, each of which has a set of key efforts that connect with GAO's day-to-day work. We also use an integrated strategy to focus attention on important issues across the government and within specific program areas and operations. For example, our High-Risk Series focuses on both major challenges in addressing broad-based transformation or areas where legislative solutions may be called for, and on federal programs and operations that are vulnerable to fraud, waste, abuse, and mismanagement. GAO has made hundreds of recommendations to improve these high-risk operations. Moreover, GAO's focus on high-risk problems contributed to the Congress enacting a series of governmentwide reforms to address critical human capital challenges, strengthen financial management, improve information technology practices, and establish a more results-oriented government. The administration has also looked to GAO's high-risk program in shaping governmentwide initiatives, such as the President's Management Agenda. GAO's high-risk status reports are provided at the start of each new Congress.

In addition, GAO has built strategic working relationships with other national and international government accountability and professional organizations including the inspectors general, state and local audit organizations, and other national audit offices. These relationships are meant to broaden and leverage its institutional knowledge and experience and, in turn, to improve its service to the Congress and the American public.

Unlike large executive branch departments that manage federal lands or maintain extensive facilities and systems across the country and, in some instances, around the world, GAO is a relatively small agency that depends almost totally on one type of resource to achieve its strategic goals and objectives: its people. GAO's staff, numbering about 3,300, are arranged in 13 research, audit, and evaluation teams and staff offices and mission support units. (See fig. 1.)

Figure 1: GAO's Organizational Structure

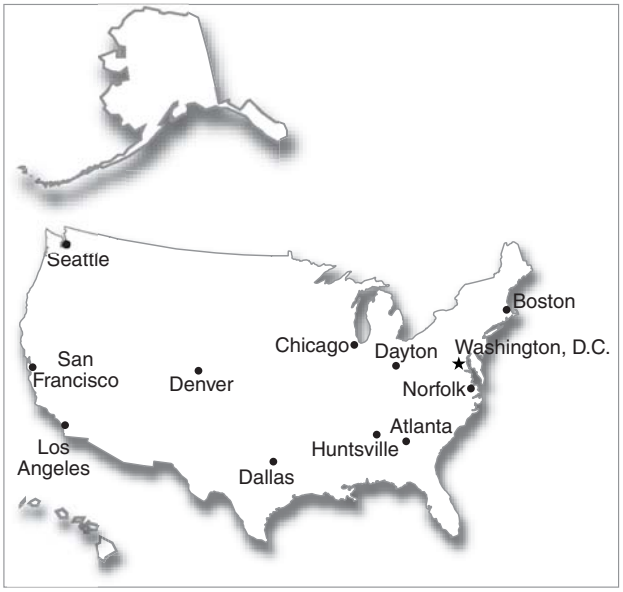


Source: GAO.

Note: Several teams perform work in support of multiple strategic goals. These teams are Acquisition and Sourcing Management (ASM); Applied Research and Methods (ARM); Defense Capabilities and Management (DCM); Education, Workforce, and Income Security (EWIS); Financial Management and Assurance (FMA); Financial Markets and Community Investment (FMCI); Health Care (HC); Homeland Security and Justice (HSJ); Information Technology (IT); International Affairs and Trade (IAT); Natural Resources and Environment (NRE); Physical Infrastructure (PI); and Strategic Issues (SI). Units supporting strategic goal 4 are the Controller/Administrative Services Office (CASO); the Human Capital Office (HCO); Information Systems and Technology Services (ISTS); Knowledge Services (KS); and the Professional Development Program (PDP).

Approximately three quarters of GAO's staff are based in its main office in Washington, D.C. The rest are deployed in 11 field offices across the country. (See fig. 2.) Staff in these offices provide a "frontline" presence and broad-based coverage throughout the United States, gathering information and firsthand insight and perspective on government programs and operations in different regions and cities. Through its field office structure, GAO has been able to attract and retain top talent from across the country.

Figure 2: GAO's Offices



Source: GAO.

To achieve its strategic goals and objectives, GAO must maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. To maximize their productivity, GAO must make steady investments in information technology (IT). It must also ensure the safety and security of its people, information, and assets. The strategies GAO will use to ensure that it has the human capital it needs to carry out its responsibilities and that its human capital, business processes, IT, and other resources are well managed and secure are covered under the fourth strategic goal of this plan.

Themes for the Plan:
Forces Shaping the United States and Its Place in the World

In charting GAO's work over the next several years, the agency's strategic plan takes into account the forces that are likely to shape American society, the United States' place in the world, and the role of the federal government. This section discusses these forces through the eight themes that form the context for what GAO hopes to accomplish—its goals and objectives—and that suggest the major trends ahead and their implications for congressional decision making.

This update to the plan includes a new theme, related to the nation's growing long-term fiscal imbalance. Given the magnitude of the problem and its potential consequences, it will form a critical backdrop to GAO's work over the next several years. The other major themes for this update to GAO's plan remain similar to those in the prior plan, but with some additional emphases. National security continues to remain a prominent concern for the United States, for example, but with new dimensions of homeland security and global economic security now linked to military power and international relationships. After a period of containment, health care costs have again been on the rise, foreshadowing significant economic and fiscal consequences when considered with the overall aging of the population. The higher retirement and health care costs associated with an aging population will further constrain the federal government's ability to address important national resource needs. Finally, while concerns about quality of life issues remain, the discussion of this theme now takes into account the growing efforts of nations and communities to adopt key social, economic, and environmental indicators to measure their progress and position systematically.

The eight themes address

- the nation's large and growing long-term fiscal imbalance;
- evolving national and homeland security policies;
- the increasing global interdependence of enterprises, economies, civil society, and national governments;
- the global shift to market-oriented, knowledge-based economies;
- an aging and more diverse population;
- advances in science and technology and the opportunities and challenges created by these changes;
- measuring the quality of life for the nation, communities, families, and individuals; and
- diverse governance structures and tools.

Any significant changes in these areas over the next 6 years, the period covered by this plan, will affect GAO's ability to meet its goals and objectives. GAO will therefore continue to track developments in these areas to make sure that its plan continues to respond to the needs of the Congress, the federal government, and the American people.

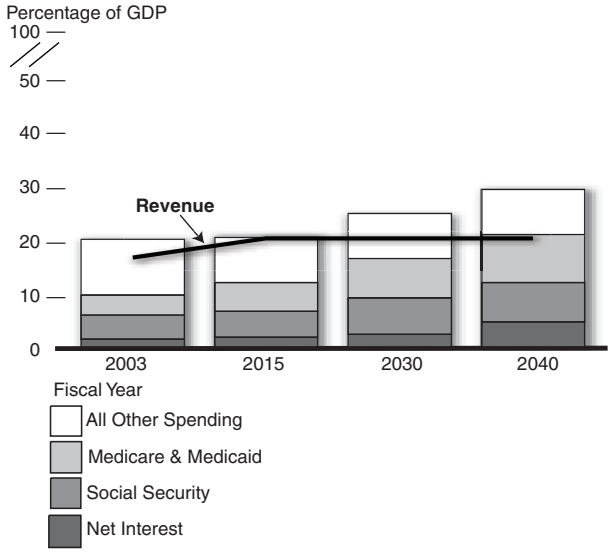
Large and Growing Long-term Fiscal Imbalance

The U.S. government's long-term financial condition and fiscal outlook present enormous challenges to the nation's ability to respond to forces that shape American society, the United States' place in the world, and the role of the federal government. The near-term deficits are daunting—a $375 billion deficit in fiscal year 2003 and a $477 billion deficit forecast in fiscal year 2004, according to the Congressional Budget Office. If the

near-term deficits represented a short-term phenomenon, there would be less cause for concern. Unfortunately, these short-term deficits are but a prelude to a projected worsening long-term budget outlook.

The United States faces a long-term structural deficit. The Congressional Budget Office has projected that on the basis of current rules for benefits, federal spending, excluding interest payments, will rise considerably as a share of national income. According to GAO's long-term budget simulations, demographic trends and rising health care spending will drive escalating federal deficits and debt. Assuming, as in figure 3, that discretionary spending grows with inflation over the next decade and that current tax cuts expire when scheduled, spending for Social Security, Medicare, and Medicaid would consume over three-quarters of federal revenue in 2040. If all expiring tax provisions are extended and discretionary spending keeps pace with the economy, by 2040, federal revenues may not even be adequate to pay Social Security and interest on the federal debt. (See fig. 4.)

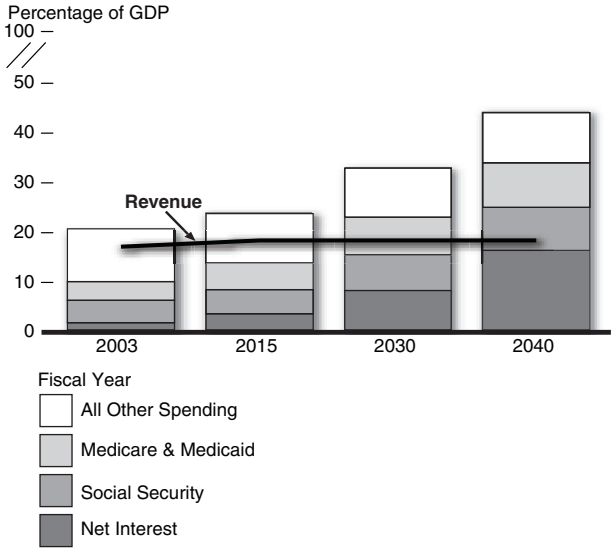
Figure 3: Composition of Spending as a Share of Gross Domestic Product (GDP) under Baseline Extended



Source: GAO's January 2004 analysis.

Note: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due primarily to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred revenue accounts. After 2014, revenue as a share of GDP is held constant.

Figure 4: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions Are Extended



Source: GAO's January 2004 analysis.

Notes: Although all expiring tax cuts are extended, revenue as a share of GDP increases through 2014 due primarily to (1) real bracket creep, (2) more taxpayers subject to the alternative minimum tax, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

To balance the budget would require massive spending cuts, massive tax increases, or some combination of the two. Neither slowing the growth of discretionary spending nor allowing tax cuts to sunset—nor both together—will eliminate the long-term imbalance. While additional economic growth will help ease any burden, the potential fiscal gap is too great to grow our way out of the problem.

Further, neither 10-year budget projections nor financial statements recognize the longer-term implications of present day policies and historical commitments. As figure 5 shows, the federal government takes on a wide range of fiscal exposures—from explicit liabilities to those implied by current policies. Although the long-term budget simulations shown in figures 3 and 4 assume currently promised Social Security and Medicare benefits, the federal government's financial statements do not record as liabilities the difference between future promised and funded benefits of Social Security, nor do they adequately account for future health care benefit costs for veterans. Regardless of whether these items are ultimately considered liabil-

ities from an accounting perspective, they represent significant commitments that will have to be addressed by future generations.

Figure 5: Selected Fiscal Exposures: Sources and Examples, End of Fiscal Year 2003

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt ($3,913) Military and civilian pension and post-retirement health ($2,857) Veterans benefits payable ($955) Environmental and disposal liabilities ($250) Loan guarantees ($35)
Explicit financial commitments	Undelivered orders ($596) Long-term leases ($47)
Explicit financial contingencies	Unadjudicatedclaims ($9) Pension Benefit Guaranty Corporation ($86) Other national insurance programs ($7) Government corporations e.g., Ginnie Mae
Implicit exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts ($2,859)[a] Future Social Security benefit payments ($3,550)[b] Future Medicare Part A benefit payments ($5,931)[b] Future Medicare Part B benefit payments ($9,619)[b] Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

Source: GAO analysis.

[a]This amount includes $774 billion in securities held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

[b]Figures for Social Security and Medicare are as of January 1, 2003, and are estimated over a 75-year period. These amounts represent NPV and are net of debt held by the Trust Funds ($1,387 billion of Social Security and $235 billion for Medicare Part A and $34 billion for Medicare Part B). The estimate for Social Security over an infinite horizon would be $10.5 trillion according to the Social Security Trustees' 2003 annual report. There is no infinite horizon estimate for Medicare included in the Medicare Trustees' 2003 annual report. Medicare Part D was enacted after the end of fiscal year 2003.

To facilitate consideration of the long-term impacts of budget and policy decisions, current budget process and measurements need to be reviewed and reconsidered. A way should be found to permit the long-term cost of selected major spending and tax proposals to be quantified and presented before legislation is enacted. This is especially important in connection with proposals for which the related costs significantly escalate after the current 10-year projection period. Financial accounting and reporting practices should also be reviewed.

Finally, policymakers will need to recognize and anticipate the effects of the long-term fiscal imbalance on governance at all levels of government—federal, state, and local—and on the nation's ability to thrive in the world that we face in the 21st century. As discussed at length in the rest of this section, national and homeland security needs, the requirements to support a knowledge-based and global economy, the opportunities and challenges resulting from scientific and technological advances, public expectations for improved quality of life, and the governance structures and tools needed to provide for all of these will increasingly become the focus of public policy. To effectively address these needs, policymakers will have to begin today to reconsider the constraints that current fiscal policies place on their ability to act.

Evolving National and Homeland Security Policies

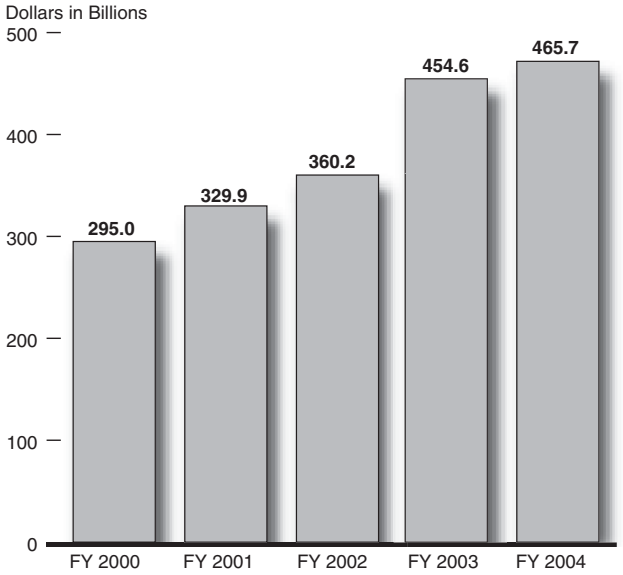
National security in the 21st century is a complex interaction of military power, international relationships and foreign policy, homeland security, and international economics. Understanding the dimensions of these issues, and their mutual impacts and

relationships, is key for decision makers in deciding on roles and responsibilities of key federal entities, levels of investment, and expected outcomes.

Militarily, the United States is unchallenged and probably will be for the foreseeable future. Some call it the "world's sole superpower"; some call it a "hyperpower." Whatever the terminology, since the demise of the Soviet Union and the end of the Cold War, the United States has emerged as the dominant military, political, and economic power in the world. In fact, according to some analysts, no nation in the history of the world has attained such military preeminence. The United States spends several times more on its military than any conceivable adversary, and together with its allies accounts for more than two-thirds of total worldwide defense spending. U.S. conventional forces include the 12 largest aircraft carriers in the world, the only stealth aircraft in the world, a long-range bomber and air cargo force able to reach worldwide with the help of a huge aerial refueling fleet, and prepositioned military equipment around the world equaling the size of the total military inventory of many countries. U.S. nuclear weapons, while reduced over time through agreement with Russia, still provide a formidable triad of incredible destructive power.

And, in recent years, the United States has demonstrated its ability to project and use its military forces with great effectiveness. U.S. forces quickly defeated the Taliban regime in Afghanistan—a trained and experienced guerrilla force—and the Saddam Hussein regime in Iraq—which had the world's sixth largest army. Defense spending increased significantly after the terrorist attacks of September 11, 2001, not only to conduct those military operations and improve homeland security, but also to upgrade military forces even more. (See fig. 6.)

Figure 6: Growth in Defense Budget Authority, Fiscal Years 2000–2004, as of October 2003



Source: Congressional Research Service.

U.S. technological advantage on the battlefield, already considerable, is being further enhanced through breakthroughs in such areas as precision-guided munitions, unmanned aerial vehicles, and battlefield awareness and communications. Future developments in nanotechnology, sensors, and space-based and nonkinetic weapons will further increase this advantage. The United States spends more on defense research and development than all but a small number of countries spend on their entire defense budgets.

New military missions are also changing, evolving from countering state adversaries to countering less structured terrorist groups, and employing greater use of special operations forces, peacekeepers, and engineers for reconstructions following conflicts. Prolonged, if lower-intensity engagements influence world views of the U.S. military, ranging from "protector" to "occupier." And unlike conflicts prior to the 21st century, the war on terrorism is unlikely to have a discrete end point.

International relationships and foreign policy is another dimension of national security. Since the end of World War II, this U.S. military might has generally been employed through a series of alliances and partnerships from Europe to Southeast Asia, originally aimed at containing the Soviet Union and its communist allies. For example, the United Nations arose out of the ashes of the war as

a way to resolve international disputes diplomatically before they escalated into armed conflict. While these institutions have been evolving since the end of the Cold War, recent events indicate that this overall system of multilateral organizations and alliances may be starting to break down. For example:

- The United Nations itself has come under question by those who believe it is good at debating and passing resolutions but lacks credibility in enforcing them. An action-oriented United States finds itself in conflict with the United Nations' status-quo-oriented Security Council. As a result, the United States has become more assertive in the United Nations and other institutions, as it believes events such as the September 11 terrorist attacks create the need for more active use of military options to prevent the further spread of terrorism and possible use of weapons of mass destruction.
- The North Atlantic Treaty Organization (NATO), having "won" the Cold War, now must reinvent itself to be relevant in the 21st century. Expansion eastward is bringing new members—the "New Europe"—that are very different from the alliance's original members. Serious disagreement with France and Germany over Iraq policy exposed some gaping holes in alliance cohesion.
- U.S. solidarity with South Korea against North Korea has been a given since the 1950 invasion across the 38th parallel. This relationship seems to be fraying somewhat, with talk of repositioning U.S. forces in response to South Korean public outcries.
- Support for both the State of Israel and the Palestinians in the Middle East has dominated U.S. relations in that part of the world since Israel's founding and the 1967 war. A solution to the Arab-Israeli peace process has been elusive, but its resolution is criticial to improving U.S. relations with Muslim countries throughout the region.
- In the Persian Gulf, Saudi Arabia has long been the key U.S. relationship, especially since the fall of the Shah of Iran in 1979. The 1991 Gulf War was fought largely from Saudi territory. In Operation Iraqi Freedom, however, the Central Command headquarters was very visibly in Qatar, not Riyadh. Kuwait, Qatar, Oman, and Bahrain—and in time, maybe even Iraq—are becoming more important partners and will likely affect the U.S. relationship with Saudi Arabia. Nonetheless, Saudi Arabia remains an important partner in the United States' global efforts to combat terrorism.

In addition to these changing relationships, U.S. foreign policy seems to be turning away from multilateral arrangements and toward more unilateral and bilateral interactions. In challenging such previously negotiated international agreements as the missile defense treaty, an international war crimes court, the ban on landmines, and the Kyoto agreements on greenhouse gases, the United States has charted a different course with yet unknown consequences for its international relations and relationships. U.S. handling of Afghan combatants at Guantanamo Bay or reconstruction efforts in Iraq may be driving additional wedges between the United States and its traditional allies. The policy of preemption—striking at terrorists or regimes before they attack the United States—may prove to be effective, but it has been controversial around the world and even within the United States.

In this new era, homeland security is a major dimension of national security. Despite America's unrivaled military advantage, Americans are feeling more vulnerable. The hijackings and successful attacks on the World Trade Center and Pentagon shook citizens' confidence about their safety at home and in their workplaces. The anthrax attacks and persistent threats from terrorist spokesmen continued to raise anxiety levels. With the war in Iraq and religious and social unrest in many countries, experts worry about more terrorism against U.S. interests.

Since the September 11 attacks, legislation such as the USA Patriot Act and the Homeland Security Act, which created the Department of Homeland Security, responded to terrorism and other threats to personal, financial, and national security. The new Northern Command has provided additional resources and authority for homeland defense. The administration published a series of national strategies, such as the National Strategy for Homeland Security, setting initiatives in homeland security areas. Periodic adjustments to the department's color-coded homeland security threat levels corre-

spond to threats. However, some commentators believe the nation is still not as prepared to prevent and respond to a terrorist attack within the United States as it should be, and have recommended that the pace of preparation to prevent, respond to, and contain an attack accelerate.

While diplomatic and military efforts have focused on fighting the war against terrorism abroad, risks have been exposed in many aspects of normal life at home. Terrorist weapons need not kill or injure large numbers to have the terrorists' desired impact; the psychological impact alone can disrupt the economy and undermine people's confidence in the government. Bioterrorism poses risks of unprecedented magnitude, potentially affecting air and water supplies and food production chains using instruments of normal life, such as the mail or air conditioning systems. Many elements of everyday life that are critical to the American economy, such as airports and power stations, have become potential targets.

The administration has asked for significant homeland security funding in normal budget and supplemental funding requests. For example, the President's fiscal year 2004 budget request for homeland security is $41.3 billion, including funding for the Department of Defense. This more than doubles 2002 funding and will cover priorities in mission areas such as intelligence and warning, border security, and protection of critical infrastructure. However, these federal funding changes and new organizational structures alone will not significantly improve the security of the homeland. Homeland security can only be accomplished through recognizing the interdependencies of federal, state, local, and private sector partners and the careful planning and integration of the roles and responsibilities of federal and nonfederal partners. For example, emergency response to a terrorist attack involving chemical or biological weapons will require effective coordination between federal, state, and local law enforcement agencies; other first responders; as well as public health agencies, affected hospitals, and laboratories. The challenge for the federal government is to design, select, and manage the various tools to prompt effective integration and leverage scarce resources. Critical information must be shared, analyzed, integrated, and disseminated to help prevent or minimize terrorist activities. These efforts require the involvement of the Central Intelligence Agency, the Federal Bureau of Investigation, the National Security Council, the National Security Agency, the Department of Defense, the Department of Homeland Security, and a myriad of other agencies.

The Congress faces the difficult task of integrating and balancing fighting terrorism and meeting the requirements for homeland security with efforts to maintain economic vitality and innovation; create jobs; and improve education, housing, health care, and the quality of life in general while protecting core American values. Rapidly rising costs for homeland security also are a concern. In the long term, homeland security measures should be undertaken with a deliberate and informed analysis of the choices and balances that must be struck, for example, balancing the cost and benefit of security measures, including the collateral or unintended consequences on missions not related to homeland security and American values.

Traditional threat, risk, and criticality assessments remain valuable tools in the fight against terrorism. However, the use of such assessments should be viewed in a broader national preparedness context in which decision makers consider how homeland security can be viewed as integral to everyday life—in which measures are consistently expected, applied, and integrated into the underlying business process or programs from the very beginning, not separate and apart from other strategic and operational decisions. Weaving homeland security into the everyday life of the American people will be complex and time consuming. However, it will be critical to fashioning a sustainable homeland security strategy that balances the need for increased protection against other national priorities.

A final dimension is international economics. National security in this new era is more intertwined than ever with economic security in a world that increasingly recognizes the opportunities a robust economy can bring. Many see reducing poverty and enlarging the middle class, especially in countries troubled by terrorism, as a key to attacking the root causes of unrest. According to this argument, young people around the world, regardless of their cultural or religious upbringing, must have some prospects for economic prosperity to give them a reason to strive to better themselves and their countries. The nascent reconstruction of the Iraqi economy could

be a crucial test of whether a functioning free-market economy can emerge from a country damaged by years of dictatorship and war in a troubled part of the world. And because access to natural resources is vital to worldwide economic health, priority will be given to restoring Iraqi oil production to help power the local economy and to restore order to energy markets.

Broader economic question are also arising as strains with some traditional allies could affect trading patterns. Changes in NATO membership could lead to changes in economic ties between Europe and the United States, as Eastern European countries attract more attention. The Pacific Rim countries are increasingly a focus of U.S. security and economic policy. The biggest issue of all, in the view of many analysts, is the U.S. relationship with China: Will it be a relationship of trade and economic ties or a tense one focused on military rivalry? Domestically, the recent sluggishness in the economy has been exacerbated by factors at least partially related to terrorism: high energy prices, disruptions in the travel and tourism industry—especially commercial airlines, and low consumer confidence. Large budget deficits not just in the United States but also in governments around the world make economic prosperity even more important and more elusive. Moreover, the U.S. lead in military equipment and technology depends on a robust industrial base that can provide the know-how to stay ahead of potential competitors. The challenge for the United States is to avoid the pitfalls of the "military-industrial complex" that was a concern as far back as President Eisenhower—how to promote a strong private sector capability that will not "capture" security policy.

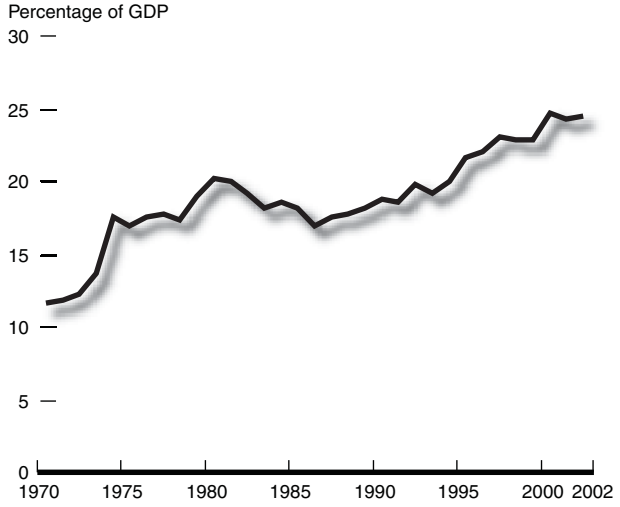
Military power, international relationships and foreign policy, homeland security, and international economics must all be considered in defining the parameters of national security. While the Cold War stressed a containment and deterrence strategy—defined by the balance of power—the new war on terrorism, some suggest, is defined by the "power of balance"—balancing implementation of powerful national security strategies against their societal and economic impact. In the midst of World War II, President Roosevelt noted that the supreme objective for the future, and for the United Nations, was one word: security. He emphasized that security meant not only physical security, but also economic security, social security, and moral security. Contemporary national security still meets that definition.

Global Interdependence: Trends and Challenges

Recent decades have witnessed a rapid increase in international trade and in the movement of investment, people, and information across borders. As a result of these trends, nations' economies, cultures, and governments have become increasingly interdependent—that is, globalized. These movements have brought many changes and many benefits to people around the world, but this high level of interdependence also creates challenges. Some of these challenges have long been known, such as the need to extend the benefits of globalization to the poorest parts of the world. Other challenges are more recent, such as the outbreak of severe acute respiratory syndrome (SARS) and containing its spread. In both examples, increased interdependence means that governments have to be involved in events outside their borders to resolve these new global problems.

One measure of growing worldwide interdependence is the total share of world goods and services that is traded. As shown in figure 7, from 1970 through 2002, world exports increased from about 12 percent to about 24 percent of world GDP. Hence, all over the world, people are depending more and more on other nations to consume the goods they produce and to produce the goods they in turn consume.

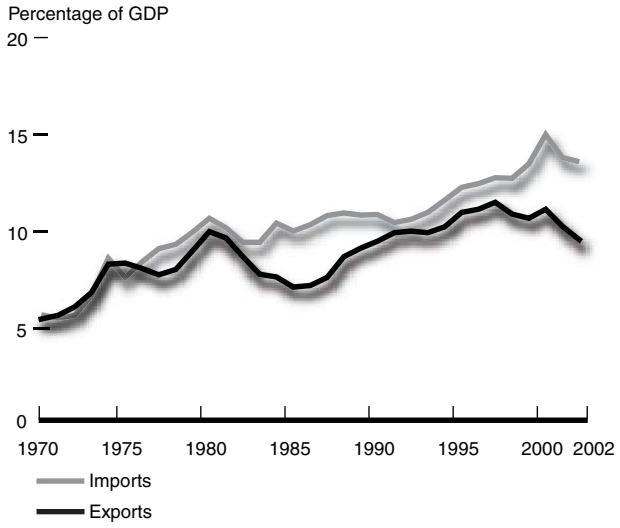
Figure 7: World Exports of Goods and Services as a Percentage of World GDP, 1970–2002



Source: Calculated from International Monetary Fund data.

In the United States, where the economy was relatively self-contained in the decades following World War II, the importance of international trade, investment, and financial flows has grown noticeably in recent decades. U.S. exports as a share of U.S. GDP grew from about 5 percent to about 9 percent from 1970 through 2002. (See fig. 8.) The rise in U.S. imports was even greater, increasing from about 5 percent to about 13 percent of GDP. These increases came during a period when overall U.S. output, adjusted for inflation, more than doubled.

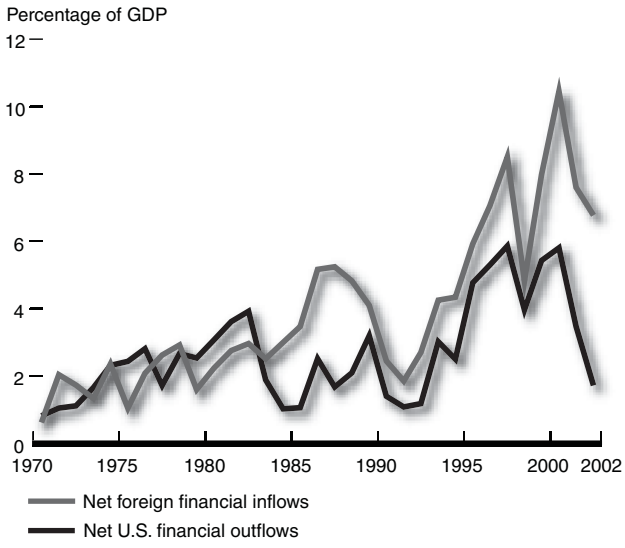
Figure 8: U.S. Exports and Imports as a Percentage of U.S. GDP, 1970–2002



Source: Department of Commerce, Bureau of Economic Analysis.

A companion to growing international trade is an overall increase in international financial flows and net financial inflows as an important source of U.S. capital. The internationalization and liberalization of financial markets worldwide, along with growing wealth in many countries, have fueled huge increases in cross-border investments. Gross capital flows relative to GDP have grown almost tenfold for industrial countries since 1970. For the United States, net financial inflows—comprising foreign holdings of U.S. stocks and bonds as well as foreign direct investment in the United States—generally increased from under 1 percent to about 7 percent of U.S. GDP from 1970 through 2002, as shown in figure 9. Net financial outflows, which reflect similar U.S. investments abroad, have fluctuated over this period, and fell noticeably over the past 2 years. The difference between financial inflows and outflows, the net financial inflows into the United States, is a measure of U.S. reliance on foreign capital to finance domestic investment and federal debt.

Figure 9: U.S. Financial Flows as a Percentage of U.S. GDP, 1970–2002



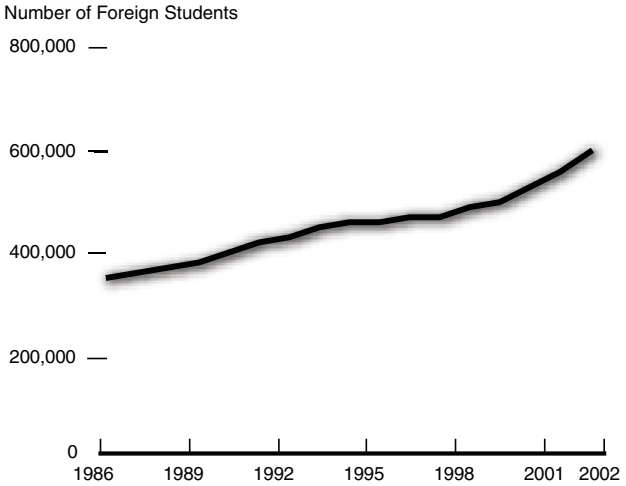
Source: Department of Commerce, Bureau of Economic Analysis.

A second important aspect of globalization is the movement of people around the globe. These movements occur for a variety of reasons, such as permanent migration, temporary relocation for business or educational reasons, or travel and tourism. The movement of people represents both a cause and a consequence of globalization in that people who migrate tend to create stronger links between nations, while some people visit other nations

because of established business relationships or to learn about different cultures. During the 20th century, permanent migration to the United States fluctuated, beginning with a high of 8.8 million immigrants admitted from 1901 through 1910; dropping significantly, in response to the Depression and the Second World War, to a low of half a million admissions from 1931 through 1940; and gradually rising again, reaching record admissions of over 9 million immigrants from 1991 through 2000.

Relocation for educational reasons has also reached high levels in the last few decades. As shown in figure 10, from 1986 through 2002, the number of foreign students enrolled in U.S. colleges and universities increased by 70 percent to nearly 600,000. During the same period, the number of U.S. college and university students studying abroad more than tripled from 48,000 to 154,000 students each year.

Figure 10: Foreign Students in the United States, 1986–2002



Source: Institute for International Education.

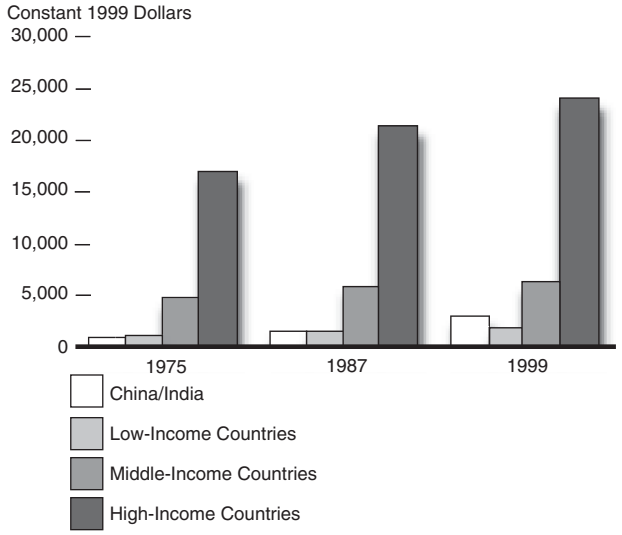
Finally, admissions of international tourists to the United States increased nearly fourfold from 1985 through 2001. Overall, the number of tourist visas issued during this period increased from 9.5 million to 33 million, with the largest increase, a 45 percent increase, occurring from 1995 through 2001.

The third area that helps illustrate the rapid pace of globalization is the movement of information across borders, a development that is directly related to the advances in IT. While there is no single indicator of the rapid growth in information crossing borders, telephone and Internet communications both provide some insight. The number of main telephone lines in use throughout the world doubled from 1991 through 2001, from 550 million to 1.1 billion, while cellular phone subscribers increased from 16 million to 955 million. During the same period, the number of Internet users increased from 4.4 million to 502 million, with concentrations of Internet users reaching over 20 percent of the populations of a number of advanced industrial countries.

This increase in international communication is met with ambivalence in many countries. The 2003 Pew Foundation Global Attitudes Project reports that "large majorities in most countries" dislike the United States' growing influence in their countries, but equally large majorities support the technologies that promote increased international interaction. The Global Attitudes Project reports that "majorities in almost all nations" feel positively about the Internet, and "overwhelming majorities" in nearly all countries surveyed feel positively about cellular telephones.

While many countries have benefited greatly from the increased movement across borders, this movement also creates some daunting challenges. One of those is ensuring that globalization creates benefits that are not overly concentrated in countries around the world. As shown in figure 11, some less-developed countries experienced strong income growth as world trade flows increased while others experienced only slow growth. Overall, differences in per capita income across countries have largely continued over the past 25 years, although China and India stand out as countries that have shown significant gains. Even when differences in cost of living across countries are taken into account, average incomes in 1999 were about 13 times higher for countries in the high-income group than in the low-income group, compared with incomes about 14 times higher in 1975.

Figure 11: Trends in Per Capita Income Across Country Groupings, 1975, 1987, and 1999



Source: GAO analysis of data from the World Bank, *World Development Indicators 2001.*

Note: These country groupings contain 28 low-income, 45 middle-income, and 30 high-income countries as grouped by the World Bank based on 1975 per capita income. China and India are shown as a distinct grouping due to their size and strong income growth over the period. Countries' per capita incomes are converted into dollars using purchasing power parity exchange rates, which take into account differences in costs of living across countries.

A second challenge is ensuring that the measures taken to assure the security of trade and investment and the movement of people do not choke off the benefits of those movements. For example, some of the security measures designed to protect against risks related to container trade could affect the efficiency of the trade flows. In addition, measures taken to control the threat of terrorists entering other countries could reduce the number of migrants or visitors who might provide benefits to the originating and the host nations.

A related challenge is the need to ensure that health problems—and particularly contagious diseases—do not spread uncontrolled around the world. The recent outbreak of SARS rapidly had an impact on movement to and from some of the most highly globalized parts of the world, such as Hong Kong, Singapore, and China. While AIDS has had devastating impacts on certain nations such as those in Africa, the speed and critical role of communications and cooperation among nations has been particularly important in trying to limit the spread of this highly communicable disease.

All of these challenges make it clear that some of the most difficult issues that policymakers will continue to address cannot be resolved within the borders of any nation. Because of the interdependence, nations will have to rely in part on the institutions that have been in place to address international concerns and are constantly evolving as they attempt to meet the current challenges. Part of this evolution is related to the increasing efforts of nations to ensure that these institutions achieve their particular goals. This is not surprising as interdependence grows, since the decisions made in these forums have important consequences for the nations involved.

The last decade has witnessed a sharp debate about the ability of the international trade and financial institutions to address problems such as worldwide income disparities and the continuing debt problems of the poorest countries. For example, while the World Trade Organization has emphasized the importance of efforts to bring more advantages of trade to the less-developed world, disagreements between developed and developing countries and among diverse interest groups on how to accomplish this have made reaching new agreements very difficult. Concerns have also been raised regarding the ability of the International Monetary Fund, World Bank, and other multilateral development banks to successfully promote economic development in the world's poorest countries. The United States and other participants in these institutions have advocated a greater allocation of resources to those countries that successfully adopt best practices such as participatory decision making and privatization. In addition, the United States has been a leader in promoting the greater use of grant financing to help avoid future debt problems for the poorest countries.

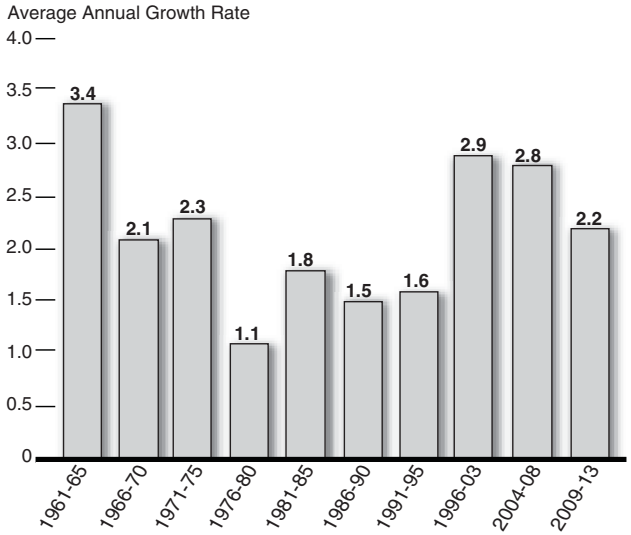
The Changing Economy

Many of the issues facing the Congress and the nation stem from complex and evolving domestic and global economies. The last few years of the 1990s saw a dramatic surge of productivity and economic growth that was reduced but not eliminated by the economic slowdown associated with the decline in financial markets, capital spending, corporate scandals, and issues related to international terrorism in the early 21st century. The growth was

fueled in part by the nation's shift to a knowledge-based economy, the adoption of new technology, and a greater emphasis on public policies that rely on market forces and competition. In the coming years, the United States faces the challenge of returning to strong economic growth while meeting increased demands for spending to counter terrorism and improve security. Over the longer term, declining personal saving, coupled with the overall aging of the population, presents significant challenges to meeting the commitments to Social Security, Medicare, Medicaid, and other national priorities.

After two decades of diminished expectations and reduced economic performance, the GDP grew dramatically in the late 1990s, only to slow due to the bursting of the technology bubble, corporate scandals, and challenges in addressing international terrorism, all of which added to uncertainty about the economy. As shown in figure 12, labor productivity growth accelerated from 1.6 percent per year in the early 1990s to 2.9 percent per year from 1996 through 2003. This growth can be attributed, in part, to the move away from the nation's traditional, manufacturing-based economy toward one characterized by the production of information and services. In fact, for most of the past two decades, high-technology manufacturing and knowledge-based services have grown at roughly double the rate of other manufacturing industries. In light of forecasts for a shift downward in labor productivity growth for the remainder of this decade, the challenge for the future will be to sustain GDP growth.

Figure 12: Labor Productivity Growth, 1961–2013



Source: GAO analysis of data from the Bureau of Labor Statistics through 2003; Global Insight's January 2004 forecast thereafter.

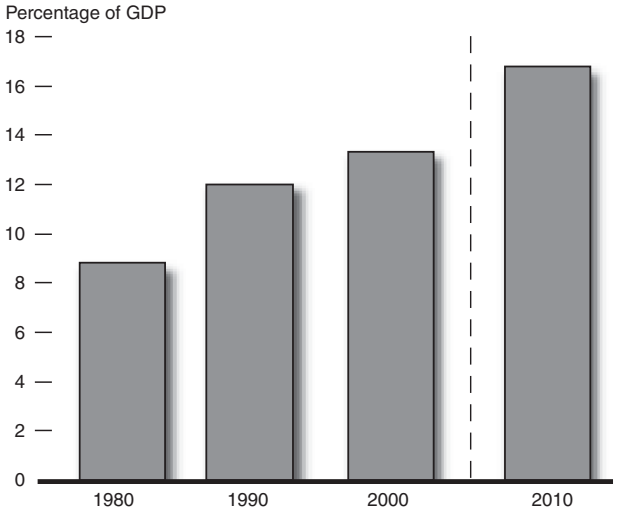
Due to the changing composition of the economy, states appear to be facing a long-term erosion of their sources of revenue that is causing challenges in the provision of government services. That revenue base is estimated to have declined from 51.4 percent of personal income in 1979 to 41.5 percent in 2001. Four factors are cited as contributing to the decline: technological changes, legislated exemptions, cross-border shopping, and changing purchasing patterns. Technological advances such as digitized books and music have changed some taxable, tangible goods into nontangible products that are not taxed in some states. Although still small, cross-border shopping via mail order and electronic commerce has been growing rapidly, much of which escapes taxation. Finally, the rise in services' share of personal consumption from about 47 percent in 1979 to 59 percent in 2002 has reduced the sales tax base because most services, particularly professional services, are exempt from the sales tax on which states rely heavily. At the same time, there is evidence that the types of purchases subject to sales tax declined from the early 1970s to the 1990s but have remained relatively stable as a percentage of consumption since then.

The growing use of technology and knowledge-based services raises a number of policy issues. Because intellectual assets are the underpinning of a knowledge-based economy, investment in human capital and research and development is fundamental to continued growth. For policymakers, this

shift requires greater attention to education and training, both for children and adults. The methods of preparing children for their futures as citizens and workers should be adapted for new needs. New importance should be given to continuing education and training for adults, whose longer life expectancies will allow them to stay in the workforce longer, a prospect that also holds significance for retirement policies. The importance of research and development, particularly in the private sector but augmented by basic work in the public sector, requires strategic management and attention to incentives.

The shift to new technologies and knowledge-based services has had a significant impact on the delivery of health care in the country and on the percentage of the nation's resources devoted to this industry. For instance, laser surgery has made it possible for people to see clearly without the need for glasses or contacts; brain disorders that cannot be treated by conventional surgery are now treated by using precisely targeted beams of radiation. Recent medical discoveries, such as mapping the human genome, provide new knowledge that may lead to unheard of medical advances. However, advances in medical technology, along with demographic trends and other factors, have contributed to health care consuming a continually increasing proportion of the nation's GDP, as shown in figure 13.

Figure 13: National Health Expenditures as a Percentage of GDP



Sources: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, and Department of Commerce, Bureau of Economic Analysis.

Note: The figure for 2010 is projected.

The shift to a knowledge-based economy also has implications for immigration policy. The emergence of technology-oriented industries has tended to create both high-paying jobs in computing and IT and low-skilled jobs ultimately delivering the services these industries provide. To fill these jobs, the United States has come to rely increasingly on workers from other countries, working either in the United States or in their home countries. In light of heightened concern for homeland security, the relatively easy flow of workers into the country may be reassessed. Moreover, the demand for both high- and low-skilled workers may contribute to a long-term trend of inequality in income in which those in the richest segments of society see their incomes increase more than do those in the poorest segments.

Consumer and investor protection policies are also affected by the growth in knowledge-based industries. With human capital and technological capabilities as the principal assets of these companies, valuation of corporate assets has become particularly difficult. Moreover, many of these companies—in the financial services sector, for example—are in the business of selling a range of new and complex services, the value of which is difficult to calculate. Questions of market power in a knowl-

edge-based economy also make determining consumer and investor protection policies more difficult.

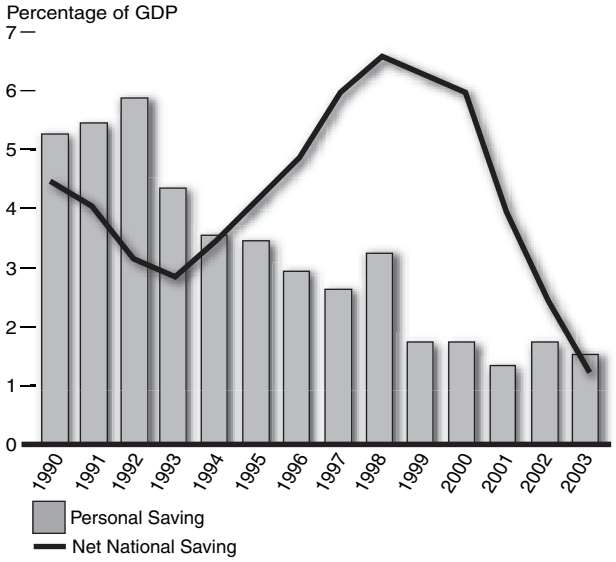
The shift in the U.S. economy to knowledge-based industries calls into question whether GDP, the traditional indicator of economic performance, should take into account investment in human capital and in other intangible assets, such as research and development, or include supplemental accounts for broader measures of production. As a result, the public policy issues of the future are likely to demand new metrics that can measure the long-term strategic impact of government choices.

Other changes in the U.S. and world economies have occurred because of government policies to improve the economic performance of both the private and public sectors through measures such as liberalizing trade and drawing on greater market competition. The U.S. government and, increasingly, foreign countries have moved away from heavily regulated or state-owned enterprises to more competitive markets. In the United States, the federal government has moved to deregulate industries such as trucking, electricity, and telecommunications. In Europe and elsewhere, governments have privatized formerly publicly owned industries, and many formerly planned economies have reorganized to be more market oriented. Consequently, formerly regulated industries have been forced to become more efficient as new competitors enter previously protected markets.

According to a study conducted by the Organization of Economic Cooperation and Development (OECD), the U.S. economy benefits from an industry structure, with comparable entry but more active exit, and from less restrictive labor and product market regulation compared to many other members of OECD. Nevertheless, as the electricity market woes in California and the problems besetting the airline industry illustrate, markets work within a boundary of oversight institutions and regulations that are provided by government.

Although the economy was still growing in the early years of the 21st century, the sustainability of this growth was becoming more of a concern because of a serious decline in the personal saving that is used to fuel capital investment and research and development. Saving and investment drive the productivity growth that allows personal incomes to rise without accelerating inflation. Since the early 1990s, personal saving declined from about 5 percent of GDP to about 1.5 percent in 2003. (See fig. 14.) In recent years, low personal saving was offset by government budget surpluses and sustained by foreign investment in the United States. To the extent that these offsetting trends change, personal saving must rise if growth in investment and productivity is to continue at the levels of the 1990s.

Figure 14: Declines in U.S. Personal Saving, 1990–2003



Source: GAO analysis of NIPA data from the Bureau of Economic Analysis, Department of Commerce.

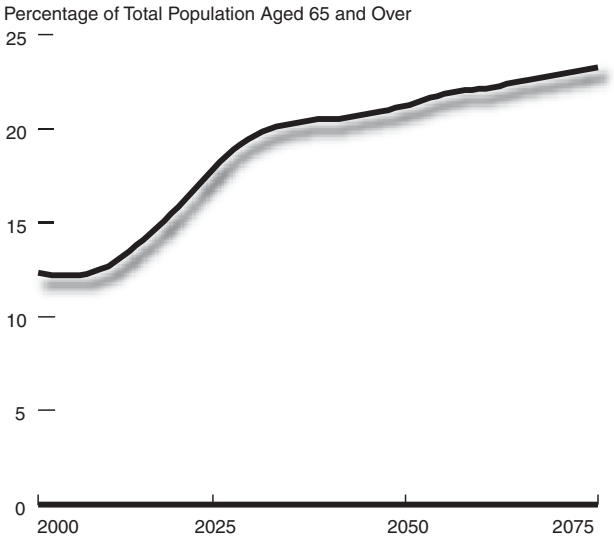
OECD has determined that several of the sources of economic growth are related to key factors in the changing economy. Among key factors that OECD determined will affect growth are research and development expenditures, reduced variability in inflation, increased human capital formation (as measured by education), inflation, trade openness, and physical capital investment. The ability of a society to change these factors also varies; for instance, it may be more difficult or expensive to change business research and development by 1 percent than it is to change the variability in inflation. The impact of research and development and that of human capital highlight the importance of the knowledge base of the changing economy.

Increases in spending on national defense and homeland security add to already intense competition for resources among many national priorities. In the longer term, the level of aggregate saving may place even greater constraints on federal spending for national priorities, particularly Social Security, Medicare, and Medicaid. As previously noted, GAO's long-term budget model shows that simply paying for the higher retirement and health care costs associated with the baby boom generation will limit budgetary flexibility while leaving few resources for investment in new technology. This budget outlook reinforces the importance of long-term growth—fueled by efficiency, saving, and investment—that will allow the nation to support its commitments to future generations.

An Aging and More Diverse Population

Profound changes in the characteristics of the U.S. population will continue in the coming decades as the population becomes increasingly older and more diverse. According to the 2000 census, the median age of the U.S. population is now the highest it has ever been, and the most rapidly increasing age group is the 45- to 54-year-olds—the baby boomers. As the baby boomers age, the share of the population aged 65 or older is projected to grow from 12 percent in 2000, to about 19 percent in 2030, and to 23 percent in 2075. (See fig. 15.)

Figure 15: Growth in Elderly Population

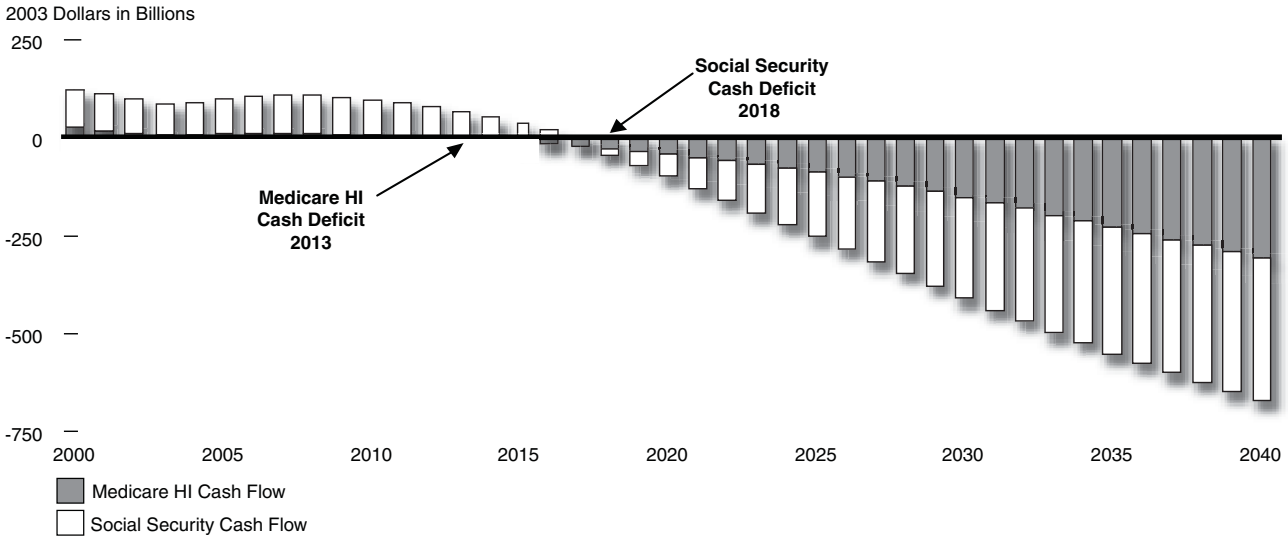


Source: Social Security Administration, Office of the Chief Actuary.

Note: Projections based on intermediate assumptions of *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds*.

As noted earlier, the baby boomers' aging and retiring will have severe effects on the Social Security and Medicare program trust funds, with both programs projected to begin running cash deficits in the next decade that will continue to grow for decades into the future. By 2040, their combined cash deficits are estimated to be $670 billion. (See fig. 16.)

Figure 16: Cash Deficits Social Security and Medicare's Hospital Insurance Trust Funds Will Face as Baby Boomers Begin to Retire

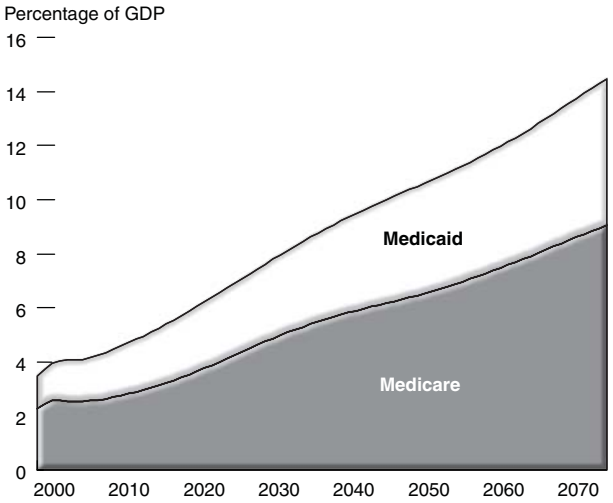


Source: GAO analysis of data from the Social Security Administration.

Note: Projections based on the intermediate assumptions of the 2003 Trustees' report.

Furthermore, public spending on the elderly through the Medicare and Medicaid programs will consume a drastically increasing share of GDP, rising from about 3.4 percent in 2000 to approximately 9 percent in 2040 and to about 14 percent in 2075. (See fig. 17.)

Figure 17: Medicare and Medicaid as a Share of GDP

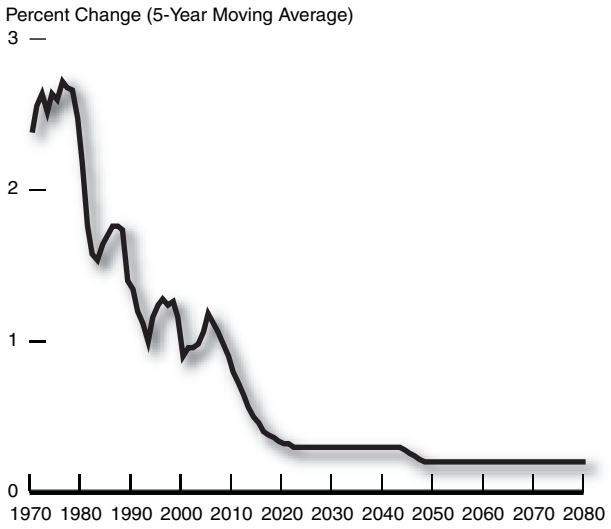


Sources: Centers for Medicare & Medicaid Services' Office of the Actuary and Congressional Budget Office.

Notes: Projections based on the intermediate assumptions of the 2003 Trustees' Reports, the Congressional Budget Office's (CBO) August 2003 short-term Medicaid estimates, and CBO's March 2003 Medicaid long-term projections under midrange assumptions.

At the same time that the baby boomers are exerting such major pressures on federal expenditures, the growth of the labor force is expected to slow considerably, becoming negligible by 2050. (See fig. 18.)

Figure 18: Labor Force Growth, 1970–2080

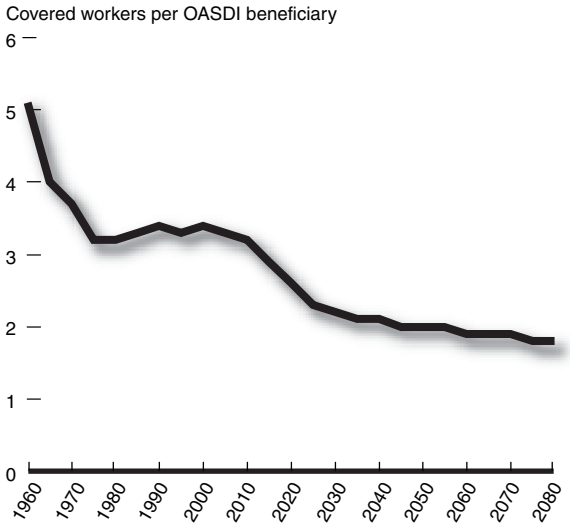


Source: GAO analysis based on the intermediate assumptions of The *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds.*

Note: Percent change is calculated as a centered 5-year moving average.

This decline in the number of working-age people compared with the rise in the number of elderly has obvious implications for the Social Security and Medicare trust funds. Today, about 3.3 people pay into Social Security for every person receiving benefits. (See fig. 19.) By 2030, this ratio is projected to decline to 2.2 and by 2080 fall to 1.8.

Figure 19: Social Security Workers per Beneficiary, 1960–2080



Source: Projections based on the intermediate assumptions of the 2003 Trustees' Reports.

Medicare faces a similar scenario. When this year's high school seniors turn 65 in 2051, the ratio of workers to Medicare beneficiaries will have dropped from 4:1 to approximately 2:1.

Unless there are improvements in the underlying sources of productivity—such as education, technology, and research and development—low labor force growth will lead to slower growth in the economy—and to slower growth in federal revenues at a time when the expenditure demands on federal programs for the elderly are increasing. This slowing labor force growth is likely to raise questions about current retirement policies in both the public and private sectors and whether people ought to be encouraged to stay in the workforce longer and be given opportunities to continue their education and training. As with demand for scarce technical skills and low-cost labor, the slowing growth in the labor force increases pressures to import workers, thereby raising questions about immigration policies.

The implications of a growing elderly population are likely to extend far beyond the financial status of the Social Security, Medicare, and Medicaid programs. Services provided by state and local governments for housing, transportation, and programs for the elderly also are likely to change in response to the needs of this population. Privately provided services, including communications and financial services, also are likely to change in response to the needs of the elderly population. These changes are likely to have their largest impact on areas in which the elderly population is increasing the most. From 1990 through 2000, the elderly populations in 8 states increased by more than 25 percent, while 22 states had increases of just under 10 percent.

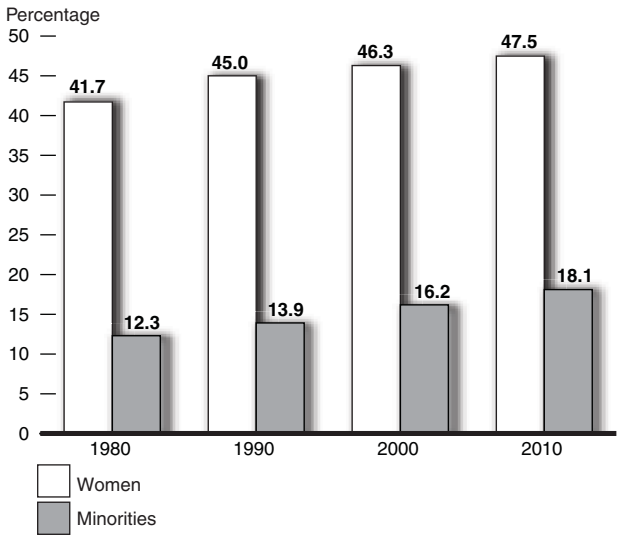
This demographic shift will affect other industrialized nations as well. For example, in some European countries, social program costs are projected to consume a greater share of total GDP than in the United States. As the health and retirement costs of these nations burgeon, their budgets may become more constrained, which in turn could affect U.S. interests. For example, while U.S. assets today represent a significant share of foreign portfolios, European lending to the United States is likely to be scaled back as the continent has to finance the consumption needs of its elderly populations. The United States' international interests could also be affected if Europe and other major donors are forced to curtail their contributions to international lending institutions and peacekeeping missions and their aid to developing countries.

While the U.S. population is growing older, it is also growing more diverse—in large part because of record numbers of immigrants. From 1990 through 2000, the number of foreign-born people in the United States grew by 57 percent to total more than 31 million—the largest number of foreign-born residents in U.S. history. While these foreign-born residents make up about 11 percent of the U.S. population overall, in some parts of the United States, the numbers are especially high. For example, 26 percent of California's population is foreign born—over three-quarters of whom came from Mexico and Asia. Also, in 18 other states, at least one-half of foreign-born residents came to the United States since 1990. Although over one-fourth of these immigrants are college educated, foreign-born residents are more likely to be less educated and more likely to live in poverty and lack health

insurance than residents who were born in the United States, placing special demands on education, health, and other social service systems. These changes also have implications for how the federal government targets subsidies and grants to mitigate regional disparities.

This more diverse population means that minorities, as well as women, will continue to represent a continuously increasing share of the workforce. In 2000, women constituted 47 percent of the American workforce, up from about 45 percent in 1990, and this proportion is expected to increase further in the future. (See fig. 20.) African Americans, Hispanic Americans, Asian Americans, and other minorities are projected to account for about 30 percent of the total labor force by 2010, but will account for about 60 percent of all new workers from 2000 through 2010. These trends, along with slow labor force growth, have implications for federal policies and programs in education, training, child care, and immigration, among other things.

Figure 20: Women and Minorities in the Labor Force, 1980–2010



Source: Bureau of Labor Statistics, "Labor Force Projections to 2010: Steady Growth and Changing Composition," *Monthly Labor Review*, November 2001.

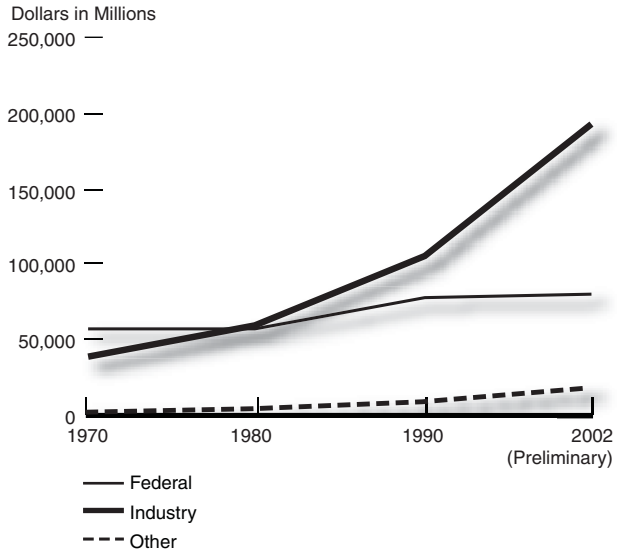
Notes: "Women" refers to all women, regardless of minority status. "Minorities" includes women and men.

Advances in Science and Technology

Science and technology influence every aspect of American life. While IT is a major technological force of this era—linking individuals, organizations, and economies around the world—other kinds of scientific and technological advances also are creating significant changes. For example, the rapidly increasing understanding of the human genome is leading to new developments in genetic engineering. For society and government, these developments in science and technology present great opportunities to improve the quality of life, the performance of the economy and the government, and the relationship of government to its citizens. At the same time, the increased development and use of new technologies challenge the government's and the Congress's ability to evaluate their potential and assess their effect on security, safety, privacy, and equity.

Advances in science and technology have been fueled by increases in research and development (R&D) funding by the public and private sectors. As shown in figure 21, R&D funding has increased dramatically over the past 30 years, although the relative federal share of total funding has declined over this period.

Figure 21: Growth in R&D Spending (in Constant 2002 Dollars)

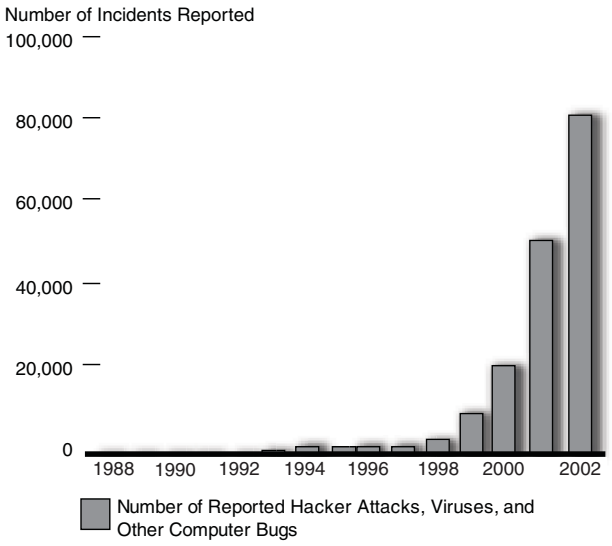


Source: National Science Foundation, Division of Science Resources Statistics.

The positive outcomes from technological developments are well illustrated by IT, which contributed to the substantial gains in productivity that fueled the U.S. economy in the 1990s. Electronic commerce in the United States far outpaces the rest of the world and is expected to grow exponentially over the next few years. IT has begun to alter the way citizens interact with government, making it easier for them to get information and assistance, identify and obtain services, file applications and taxes, and conduct other transactions with government.

Although such advances have opened the workforce to people who were previously barred by physical handicaps or geographic distance, fundamental access to technology will continue to prompt debate over the digital divide—the disparity in the ability of different socioeconomic groups to access and use technology. Other advances in IT raise additional challenges for the nation. The growth of electronic commerce, for example, has made it more difficult to determine the source and character of taxable income and sales, thereby complicating division of the tax base across national, state, and local jurisdictions. Moreover, as organizations become more interconnected, the ability to share data among systems can lead to inappropriate access to medical records, credit histories, and other personal and confidential data. As shown in figure 22, the number of reported hacker attempts, viruses, and other computer bugs exploded in recent years.

Figure 22: Number of Incidents Reported



Source: Carnegie Mellon University, CERT.

Furthermore, the widespread interconnectivity of computer systems with the critical operations and infrastructures they support has also created new vulnerabilities. The nation's telecommunications, power distribution, public health, national defense (including the military's war-fighting capability), law enforcement, financial, government, and emergency services all depend on computer operations. Because financial markets and other critical infrastructure also rely on IT, the United States and world markets can be attacked even without an actual physical assault.

Despite these vulnerabilities, the nation's ability to detect and counter bioterrorism greatly depends on information generated by biomedical research on dangerous, disease-causing microbes and on growing understanding of the immune system's response to these pathogens. This research is critical to the accelerated development of diagnostic tests, vaccines, antivirals, and antimicrobials. Efforts to accelerate biomedical science related to homeland security, in turn, allow for a more rapid response to naturally occurring disease outbreaks.

Furthermore, the improved understanding of diseases and how the human body operates has led to new therapies and treatments and may lead to the elimination or significant control of some diseases. Advances in the biological sciences, such as the mapping of the human genome, are furthering the nation's understanding of disease mechanisms and creating significant opportunities for new

approaches to medical care. Advances in cell biology have accelerated diagnostics and treatments. Rapid developments in the field, including promising research on potential uses for stem cells, have opened the possibility of treatments for a host of disorders that have proved difficult to counter. In addition, genetically modified crops have the potential to dramatically improve the health and nutrition of many of the world's poorest people.

When used in conjunction with medical advances, nanotechnology, which involves manipulating matter at the level of individual atoms, could provide further breakthroughs. For example, advances made by a multiagency nanotechnology research group and others may lead to far-reaching innovations such as drugs able to target specific parts of the body at a given time. However, the effects of nano-sized materials on human tissues are unknown and the technology's unforeseen economic consequences could lead to widespread employment disruptions.

Other biomedical advances raise concerns as well. Although they hold great promise for improving health care, the affordability of new diagnostic and treatment methods is becoming a growing issue for federal and state health care programs. Newer treatments may not reach poorer countries, where even treatments currently available in the United States are out of reach because of their costs. Additionally, advances in biotechnology raise a number of difficult ethical and legal questions that society has not had to address before. For example, the rapid progress of the Human Genome Project opens the possibility of identifying a genetic predisposition for diseases in individuals and, thereby, the opportunity for preventive interventions. At the same time, this information may make people more vulnerable to discrimination by employers and insurance companies.

Measuring the Quality of Life

A variety of economic, environmental, and social indicators suggest that in some respects, the quality of life for Americans has improved over the past several decades. Large segments of the population continue to enjoy greater economic prosperity than ever before. In 2002, over 94 percent of the labor force was employed and the median annual household income was over $42,000. More than two-thirds of American households own their own homes, and children are graduating from high school and going on to college at record rates. The quality of the physical environment has also improved, with air and water pollution declining over the last couple of decades and larger numbers of hazardous waste sites cleaned up.

Americans are also living longer, with the average life expectancy at birth now up to 77 years, a trend likely to continue with advances in medicine. Further, mortality rates have continued to decline in recent years, both in general and for some of the nation's leading causes of death, such as heart disease and stroke. In the last decade, the well-being of many Americans has been enhanced through the dramatic increase in the availability of new drug therapies, such as those for treatment of high cholesterol. In fact, since the mid-1990s, an average of 100 new drugs have been approved annually. Recent medical advances, such as mapping the human genome and researching the use of vaccines for certain types of cancer, may lead to continued improvements in the quality of life for the nation's population.

However, improvements have not been without cost, and rates of improvement can be slowed and certain resource trade-offs sharpened by a prolonged economic downturn. The nation's spending on health care, for instance, doubled from 1990 through 2000, and this growth is expected to continue through 2010. For the federal government, these trends are of enormous consequence to the future scope and coverage of the Medicare and Medicaid programs, as well as the defense and veterans' health care systems—two of the largest health care systems in the world.

Despite the effort and expense of achieving and maintaining these improvements in quality of life, the improvements have not been evenly distributed across the population. In 2002, more than 43 million Americans did not have health insurance, and since then additional numbers have lost Medicaid benefits as states, faced with significant budget deficits, discontinued coverage for certain individuals. Unemployment rates for African Americans and Hispanic Americans were nearly twice the rate for white Americans. These groups also include proportionally fewer college graduates, their

average income levels are considerably lower, they are less likely to have health insurance, and their poverty rates are more than double those of white Americans. Evidence also points to regional disparities. For example, a lack of adequate infrastructure, housing, and safe water contribute to a myriad of health and economic problems to many living along the U.S.-Mexico border. Violent crime rates remain high in certain geographic areas and for certain parts of the population, although they have fallen considerably across the nation as a whole. Affordable housing remains out of reach for many in the Northeast, northern California, and Hawaii.

Moreover, prosperity itself has placed greater stresses on the quality of life. Greater economic activity, for example, is producing more air and highway traffic and heightening concerns about safety and environmental quality. Families are struggling to balance the demands of work and home and to find and pay for good day care. Parts of the country that have seen rapid development—particularly the Southeast and Southwest—are facing increased competition for water, land, and other natural resources. Population and economic growth also create demand for new transportation and other physical infrastructure and place strains on existing capacity.

In the future, the need for new investments will increasingly come into competition with other national priorities, including spending on Social Security, Medicare, and Medicaid as well as on national preparedness to confront security threats, thus creating difficult budgetary choices for the federal government. To assist in making these difficult trade-offs, decision makers would benefit from tools that indicate where the nation stands in improving the quality of life for all citizens. These indicators would help decision makers identify areas that warrant relatively greater or lesser attention and resources and help ensure that all citizens are beneficiaries of gains made in the nation's quality of life.

A number of efforts are under way around the world to develop comprehensive national indicators systems that help leaders, professionals, educators, and the public reflect on key quality of life issues. For example, Germany, France, Australia, Canada, and a number of other countries have developed detailed sets of national indicators. In fact, an international group of measurement practitioners and researchers maintain that while indicator systems should be comprehensive, they should also be designed to provide easily digestible, user-friendly, and timely information.

The United States also has established a wide variety of comprehensive and specialized national, regional, and local indicator systems. The most developed of these systems focus on the economy, the environment, and key social areas, such as health care. There is a growing consensus, however, that the establishment of a comprehensive portfolio of key national performance indicators is needed to support informed public debate and decisions within and between different levels of government and society.

To that end, the Comptroller General—in cooperation with the National Academies—held a forum in February 2003 with national leaders and experts to explore whether and how to establish a portfolio of national indicators for the United States. The participants generally agreed that developing a key national indicator system is important and complex. Such an effort will require applying "lessons learned" from past efforts and building upon many of the efforts currently under way. In this regard, GAO will continue to work with the Congress and a number of public and private sector institutions to facilitate continuing dialogue and work on how to improve the amount of information that can be brought to bear on determining Americans' overall quality of life.

Diverse Governance Structures and Tools

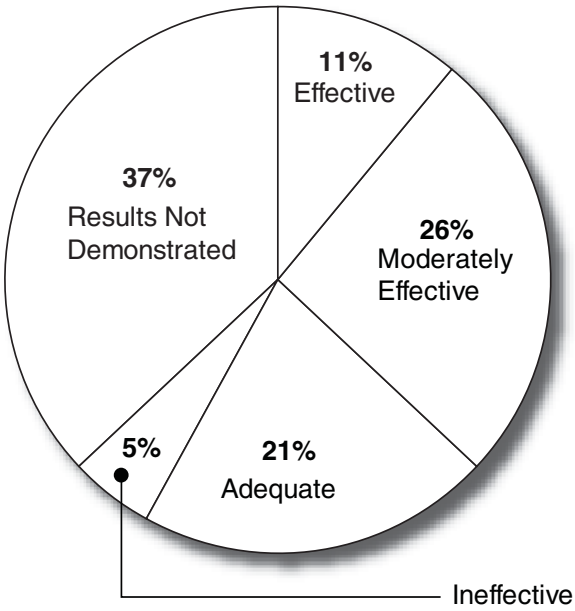
As the pace of change accelerates in every aspect of American life, government is faced with new and more complex challenges. The demographic pressures, emerging scientific and technological changes, and emergent diverse security threats are among the forces that will test the relevance and effectiveness of current governmental programs and tools. As the federal role has grown in addressing a wide range of needs and wants, the public has come to expect effective performance from the public sector.

To deliver on these expectations, the nation's system will be pressed to adapt policy-making processes and management systems to address the implications of the previously noted themes for public policy outputs and outcomes. First, the capacity of the system to address these emerging issues will be based on a policy process that has sufficient foresight to address the longer-term forces shaping the nation's policies and choices. As discussed earlier, GAO's long-term budget model shows that absent reforms on the spending or revenue sides of the budget, higher retirement and health care costs associated with baby boomers' retirement will crowd out flexibility within the budget to address important national needs and eventually lead to unsustainable levels of deficits and public debt. (See figs. 3 and 4.) Waiting to address these forces could require precipitous policy actions that would have disruptive consequences on the lives of retirees and workers alike. Rather, addressing these pressures earlier through timely actions to reform Social Security and health care programs and policies that boost long-term savings and growth can provide time for social adjustments to policy change while helping future generations stave off economic decline and reclaim a larger measure of fiscal flexibility.

Second, these long-term fiscal pressures and other emerging forces will test the capacity of the policy process to reexamine and update priorities and portfolios of federal programs and policies. A process that only considers incremental changes to existing policies will constrain the nation's capacity to both respond to the fiscal challenges and to make government more relevant for the 21st century. The base of existing fiscal commitments and programs will need to be addressed periodically so that emerging needs can be addressed while outdated and unsustainable programs can be either reformed or eliminated.

Third, the reexamination of existing commitments calls for the development of systematic indicators on the performance and costs of federal programs. A performance-based process can help the nation reprioritize by identifying those programs for which performance falls below expectations and costs perennially exceed projections, giving the nation the opportunity to improve program delivery or reallocate scarce funds to higher priority programs with better performance prospects. The foundation for performance-based policy making has already been established through 1990s reforms in performance, financial, and information management. Agencies are now developing performance goals and plans and more systematic and reliable information is available on costs and performance. However, much remains to be done in developing performance information that is useful to policymakers in evaluating the efficacy of existing programs. For instance, using the Program Assessment Rating Tool (PART), the Office of Management and Budget (OMB) concluded that performance measures and data were insufficient for making a judgment about the effectiveness of about 40 percent of approximately 400 programs rated in the fiscal year 2004 and 2005 budgets, cumulatively. (See fig. 23.)

Figure 23: Cumulative PART Results from the President's Fiscal Year 2004 and 2005 Budgets

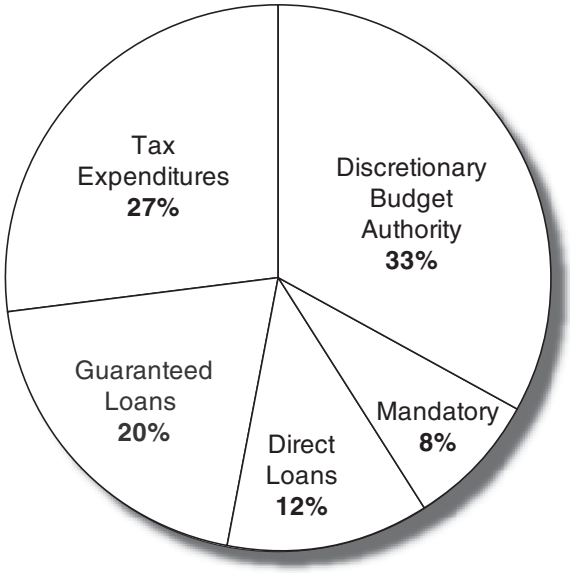


Source: GAO analysis of data from the Office of Management and Budget.

Fourth, promoting a more strategic focus on the broad goals achieved by portfolios of government programs is essential to bringing about a results-oriented debate reexamining government roles and responsibilities. Numerous federal programs and tools are involved in addressing the important policy goals in mission areas that are the focus of most policy debates. For example, as figure 24 illustrates, for the education and labor budget function, a wide range of discretionary, mandatory, credit, and tax expenditure programs are involved in addressing federal policy goals. The policy process

itself must have the capacity to transcend the narrow focus on specific programs and agencies to address how portfolios of programs and tools contribute to policy goals. Assessing the coherence of all related policy tools to ascertain whether they are aligned and relevant for a changing society will be a critical task in rethinking and updating the federal government's role.

Figure 24: Relative Reliance on Policy Tools for the Education and Labor Budget Function, Fiscal Year 2000

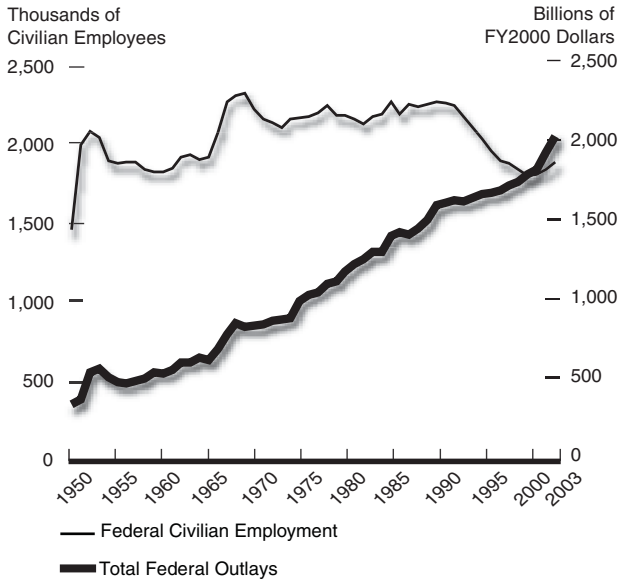


Source: GAO analysis of data from the Office of Management and Budget

The nation's capacity to address broad mission areas can be enhanced by the development of key national indicators focused on the broadest levels of policy aspirations in its system, for example, improving national health outcomes, reducing crime, or improving national educational progress. The development of such indicators can prompt a healthy national dialogue among key stakeholders to establish consensus on goals and to reach agreement on a set of indicators to measure current performance and track progress.

Fifth, redefining performance goals and indicators must be a national, not a strictly federal, initiative, because important national performance goals involve a broad range of federal, state, and local governmental, nonprofit, and for-profit organizations and even international organizations. Figure 25 indicates the growing involvement of third parties in federal programs. Since at least the 1960s, the number of federal employees has dropped even as federal outlays have risen, partly because the dollars that fund federal programs are increasingly flowing to nonfederal entities. Promoting effective partnerships with third parties in the formulation and design of complex national initiatives will prove increasingly vital to achieving successful policy outcomes in the years ahead. Protecting the nation from the threat of terrorism, for instance, will call for a concerted effort by all three levels of government as well as key private sector leaders responsible for critical infrastructure and resources.

Figure 25: Federal Civilian Employment and Outlays, Fiscal Years 1950–2003



Source: Office of Management and Budget.

Note: Executive branch civilian employees, excluding those in the U.S. Postal Service.

This growing interdependence has important ramifications for governance and accountability. The public rightly expects to hold the federal government accountable for achieving important national outcomes. Certainly, involving state and local governments and other types of organizations in the federal mission can add new capacities and efficiencies and can promote responsiveness to a wider range of local interests. However, unique accountability challenges arise as well, both from the involvement of independent interests operating under their own sovereignty and from the reliance on ever more complex networks to deliver federal services. The challenge for the federal government

will be to design, select, and manage the various tools of governance—regulations, grants, tax preferences, or loans—to prompt these independent interests to work together in defining and pursuing common national goals. More broadly, as the nation manages through partnerships across boundaries, the fiscal and management challenges faced by each level of government have become increasingly intertwined. Going forward, the performance and fiscal capacity of the public sector as a whole will become more relevant in determining how successful the nation will be in addressing important national policy goals. Successful partnerships will entail refocusing accountability and metrics to capture a more integrated perspective on the efforts and accomplishments achieved by all actors working in partnerships across conventional government or private sector boundaries.

Finally, the management systems and processes in federal agencies will have to undergo fundamental changes to respond effectively to the daunting challenges facing the nation. Nothing less than a transformation in the people, processes, and technology used to address public goals will be necessary to address the demanding policy goals facing the nation in a time of rapid change. Ultimately, the federal government needs to create a culture that moves from

- outputs to results,
- stovepipes to matrixes,
- hierarchical to flatter and more horizontal organizations,
- an inward to an external focus on citizens and customers,
- reactive to proactive approaches,
- avoiding risk to managing risk, and
- protecting "turf" to forming partnerships.

This transformation will require fundamental changes in culture within the federal government. Top leadership involvement and clear lines of accountability for making improvements will be necessary governmentwide. Organizational frameworks will have to be redefined to accommodate the adaptability needed to address emerging public policy challenges and leverage the partners and stakeholders who will prove to be essential to implementing needed reforms. Building on the evolving agenda of reforms in financial, performance, and information management will be necessary to establish the accountability mechanisms to track results. However, strategic human capital management will be the centerpiece of any serious change management initiative. The people working for government are the most important asset in addressing the emerging challenges facing the nation. The aging of the federal workforce as well as the growing competition for bright new entrants makes it imperative that the federal government equip itself with new tools necessary to recruit, retain, and reward talented workers. A consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance is essential. Effective changes can only be made and sustained through the cooperation of leaders, union representatives, and employees throughout an organization.

Goal 1:
Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-being and Financial Security of the American People

In keeping with GAO's mission to support the Congress in carrying out its constitutional responsibilities, GAO's first strategic goal focuses on several aspirations of the American people that were defined by the founding fathers: to "establish justice, insure domestic tranquility, … promote the general welfare, and secure the blessings of liberty to ourselves and our posterity …" The nation's aging and more diverse population and rapid technological change and Americans' desire to improve quality of life have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will crowd the capacity of a smaller generation of workers to finance the competing needs and wants brought to the federal doorstep.

The first goal in this updated plan, therefore, continues to be to help the Congress and the federal government address the challenges that affect the well-being and financial security of the American people. The stakes involved with the federal policies and programs covered under Goal 1 are high, as the benefits have become critical to the well-being of families, businesses, state and local governments, and other key sectors of the nation's economy and society. Moreover, as the nation moves to address the challenges of homeland security, it is becoming apparent that a wide range of domestic policies and programs are relevant to protecting the nation against terrorist threats. At the same time, the reemergence of deficits should prompt greater scrutiny of the performance and costs of many of these programs, and GAO expects to be a major contributor to these debates through its audit and evaluation work.

GAO's objectives for this goal are to support congressional and federal efforts on

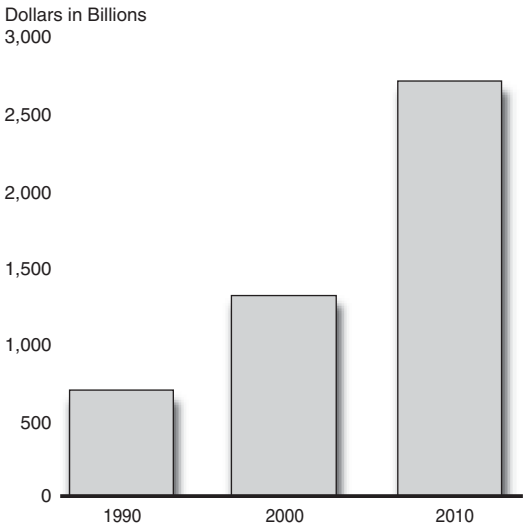
- the health needs of an aging and diverse population;
- the education and protection of the nation's children;
- the promotion of work opportunities and the protection of workers;
- a secure retirement for older Americans;
- an effective system of justice;
- the promotion of viable communities;
- responsible stewardship of natural resources and the environment; and
- a safe, secure, and effective national physical infrastructure.

Strategic Objective:

The Health Needs of an Aging and Diverse Population

Issue: Total health care spending in the United States from all sources—public and private—continues to increase at a breathtaking pace. From 1990 through 2000, spending nearly doubled from $696 billion to $1.3 trillion and by 2010 is estimated to more than double again to $2.7 trillion. (See fig. 1.1.) This unrelenting growth is producing a health care sector that continues to claim an increasing share of the nation's GDP—about 12 percent in 1990 versus an estimated 17 percent in 2010.

Figure 1.1: Total National Health Care Spending, 1990–2010

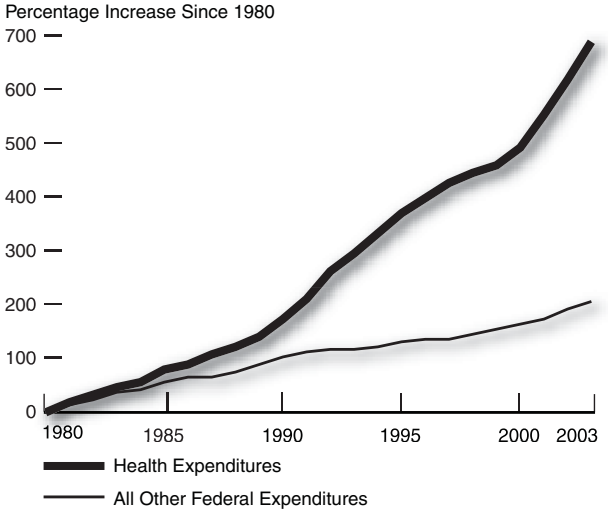


Source: Department of Health and Human Services, Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Note: The figure for 2010 is projected. All dollars are nominal.

Not surprisingly, health care spending has been one of the most rapidly rising elements of federal spending, growing three times faster than the rest of the federal budget over the last 20-plus years. (See fig. 1.2.) Expenditures on health-related programs are one of the largest components of federal spending, totaling an estimated $468 billion in fiscal year 2002, or about 23 percent of all federal spending that year. Health care also accounts for significant federal tax expenditures, with $108.5 billion in forgone revenues projected for 2003 because of employer contributions to medical care and medical insurance. The cost pressures of serving a growing population—particularly those 65 and older—are compounded by scientific advances in medical treatments, which can blur the lines between needs and wants and make it difficult to reasonably assess what society can afford.

Figure 1.2: Growth of Federal Health Expenditures, 1980–2003



Source: Office of Management and Budget.

Note: The 2003 number is an estimate.

Of particular concern is the growth in Medicare expenditures, which are estimated to total about $269 billion for fiscal year 2003. Even without considering the financial effects of its new prescription drug benefit, Medicare is expected to nearly double its share of the economy by 2030, competing with other spending and economic activity of value. Indeed, one part of Medicare, the Medicare Hospital Insurance trust fund, is projected to begin running a deficit in 2013 and to be depleted by 2026. Also of concern are issues of (1) modernizing Medicare's management structure, payment policies and meth-

odologies, and benefits package and (2) reducing Medicare's administrative burden on providers. Moreover, because of its size and complexity, Medicare is inherently difficult to manage. About 50 insurance companies process and pay approximately 1 billion claims annually to over 1 million health care providers. Consequently, the program is a target for fraud, waste, and abuse, and effective oversight is critical to protecting program dollars and promoting efficient program operations.

Although the introduction of competitive principles to health care helped to contain medical care cost increases for several years, costs are increasing significantly once again as is the number of Americans without health insurance. These cost increases, in concert with the weak economy the past several years, have important implications for federal health care programs and outlays and for the availability of employer-sponsored health insurance. Many employers have reportedly been considering or have actually made changes in the generosity of their health insurance benefits. Moreover, the public is concerned about the quality of care, consumer protection mechanisms, and the availability of information to allow purchasers to make informed insurance choices.

The government also must address pressing issues in its own system of hospitals and clinics. The Department of Veterans Affairs (VA)—one of the nation's largest health care systems—spends about $23 billion a year to provide health care to approximately 4.2 million veteran patients. Yet, much of VA's physical infrastructure is obsolete and burdened with excess capacity. The Department of Defense's (DOD) health care system spends about $24 billion annually to support both direct and civilian health care to about 8.7 million eligible beneficiaries. Pressure is mounting to integrate aspects of the two systems to increase their efficiency and effectiveness.

Other areas of concern are the efficiency and effectiveness of the government's public health programs, including those administered by the National Institutes of Health, the Food and Drug Administration, the Centers for Disease Control and Prevention, and the Health Resources and Services Administration. These programs support and conduct research; provide grants to states for public health programs, such as maternal and child health services and AIDS prevention and treatment; and conduct regulatory oversight of the United States' new drug and medical device research. Questions have been raised about the government's ability to ensure the necessary protection of patients in research as well as to safeguard the public in the review of new pharmaceuticals, medical devices, and food products. Additionally, the changing nature of public health threats domestically and internationally, such as HIV infection, SARS, and other emerging infectious diseases, poses significant challenges for the government. As diseases such as HIV and tuberculosis have become pandemics, the effectiveness of international health programs to prevent and adequately treat populations in developing countries is a growing concern. Governments' ability to help surmount shortages of certain prescription drugs and vaccines is a worldwide concern as well.

The threat of terrorists using biological weapons of mass destruction, such as anthrax and smallpox, has raised concerns about the nation's ability to adequately respond to bioterrorist attacks. This has heightened concern about the adequacy of trained personnel, laboratory capacity, disease surveillance systems, and coordinated communication systems among state and local emergency responders. Greater attention has been given to state and local communities' capacity to develop coordinated plans for dealing with a potential biological attack and to develop emergency response systems linking hospitals, emergency rooms, health personnel, and fire and police efforts to respond to any form of terrorism.

Finally, the baby boom generation will undoubtedly place increasing pressure on the Medicaid program for which the joint federal/state expenditures in fiscal year 2003 are estimated at $275 billion—more than those of Medicare. Medicaid helps to pay for nursing home and other community-based forms of long-term care services. Yet meeting an increasing demand for such services at a time when many states are in severe financial difficulty and the federal government is once again operating at a deficit will pose significant challenges for federal and state decision makers, with important implications for the services offered by each state. At the other end of the population spectrum are millions of uninsured children whose families have no health insurance. Medicaid and the State Children's Health Insurance

Program help cover the health insurance costs of these low-income Americans. However, the recent economic downturn has led to declining state revenues and to states taking, or considering taking, actions to reduce access to care for this vulnerable population, thereby contributing to an increase in the number of uninsured. Accounting for and overseeing these two programs represents a formidable challenge for the federal government because of the variation in state policies, procedures, and delivery systems. In particular, Medicaid's size and complexity make it vulnerable to fraud, waste, and abuse, making effective federal oversight critical.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- evaluate medicare reform, financing, and operations;
- assess trends and issues in private health insurance coverage;
- assess actions and options for improving VA's and DOD's health care services;
- evaluate the effectiveness of federal programs to promote and protect the public health;
- evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism;
- evaluate federal and state program strategies for financing and overseeing long-term health care; and
- assess state experiences in providing health insurance coverage for low-income populations.

Strategic Objective:

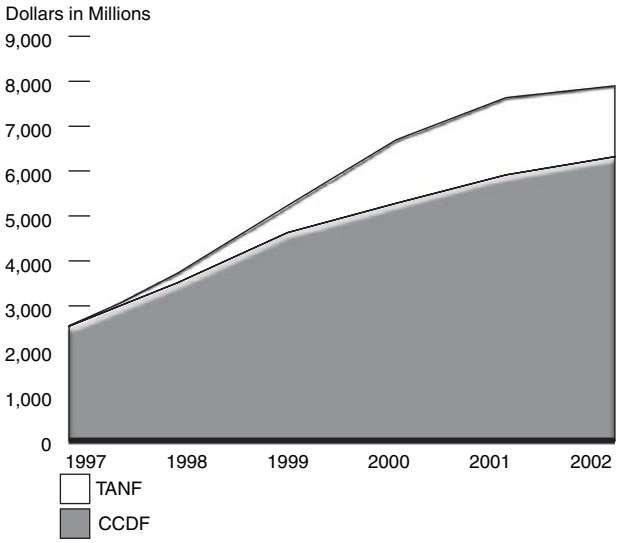
The Education and Protection of the Nation's Children

Issue: Educating and protecting children are important to the continued vitality of this democratic society and to its long-term ability to compete in a global marketplace. To this end, the federal government invests more than $110 billion per year in programs that foster the development, education, and protection of children from infancy through elementary and secondary school and postsecondary education. Although federal spending is only about 7 percent of total spending on elementary and secondary education, requirements in recent legislation have increased the federal government's role in ensuring that all children have the opportunity to meet high academic standards from kindergarten through high school. The government's postsecondary efforts provide access to higher education for all through the use of loans, grants, and other financial tools, while protecting the financial interests of taxpayers.

The federal government invests over $11 billion in early education and care programs for children under age 5, primarily through six major Department of Health and Human Services (HHS) and Department of Education programs. These programs, including Head Start, are geared principally toward disadvantaged children from infancy to age 5—a developmental period during which early investment may lead to better performance in school years. Beyond inherent concerns about fragmentation and overlap among these programs, there is also concern about their effectiveness. Although HHS and Education are sponsoring research on some of these programs, little is known about their ultimate effect, especially on school readiness and early literacy skills—two areas at the center of the federal education focus. Federal investment in child care has been growing, in part to support low-income mothers who have entered the workforce after welfare reform. (See fig. 1.3.) Policymakers at the federal and state levels are concerned about the cost, quality, and availability of child care. Major early childhood programs—Head Start, the Child Care and Development Fund (CCDF), and the Individuals with Disabilities Education Act (IDEA)—are being reauthorized. Two addi-

tional programs, the Child and Adult Care Food Program and the Special Supplemental Nutrition Program for Women, Infants, and Children, provide nutritious meals or support good nutrition for children in day care facilities and for certain groups of low-income, nutritionally at-risk women, infants, and children. Both programs face challenges in delivering high-quality nutrition services and meeting program requirements.

Figure 1.3: Growth of Federal Investment in Child Care, Fiscal Years 1997–2002

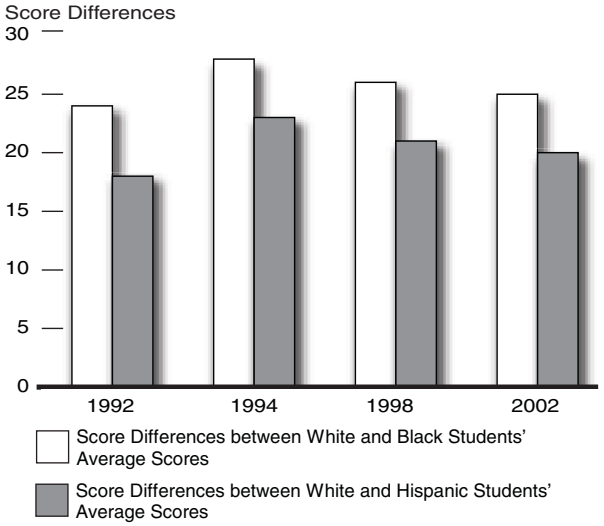


Source: Department of Health and Human Services, Administration for Children and Families.

Note: CCDF amounts include dollars states transferred from Temporary Assistance for Needy Families (TANF) programs to CCDF as allowed under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The amounts shown for TANF include only those TANF funds expended for child care.

Federal elementary and secondary school programs have traditionally provided opportunities for children from disadvantaged families. However, recent legislation, the No Child Left Behind Act, has increased the federal role through requirements that apply to all public schools and students. The United States places a high priority on educating children at the elementary and secondary levels and has increased the federal investment from over $20 billion in fiscal year 2000 to about $35 billion in fiscal year 2003. This increased investment in recent years has been accompanied by an increased emphasis on accountability for schools to raise all students to proficient levels in math, reading, and science and has placed additional requirements on states for student testing and teacher qualifications. It also mandated actions for schools at which students' performance does not sufficiently improve. All students—including those from poor families, with limited English proficiency, and with disabilities—are expected to meet challenging academic standards. However, an achievement gap exists between different groups of students, for example between white and African American students and between white and Hispanic American students. (See figs. 1.4 and 1.5.)

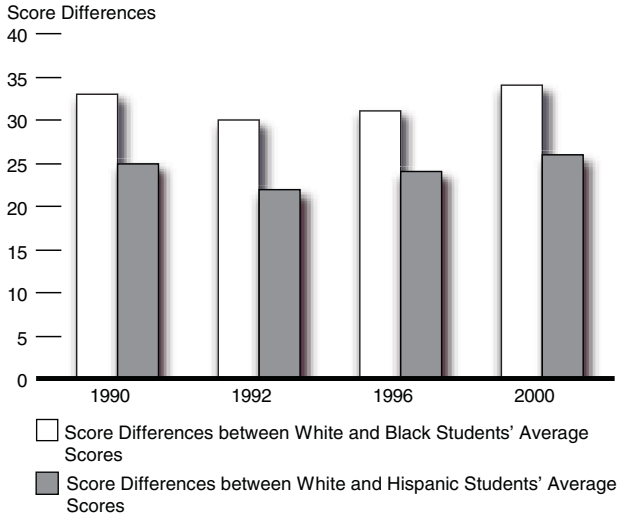
Figure 1.4: Achievement Gaps in Reading, Grade 12



Source: National Center for Education Statistics, National Assessment of Educational Progress, *The Nation's Report Card: Reading 2002*.

Note: Scores for 1992 through 1998 reflect testing situations in which accommodations were not permitted. Scores for 2002 reflect a testing situation in which accommodations were permitted.

Figure 1.5: Achievement Gaps in Math, Grade 12



Source: National Center for Education Statistics, National Assessment of Educational Progress, *The Nation's Report Card: Reading 2002.*

Dissatisfied with this continued achievement gap, policymakers are exploring a variety of school reform initiatives and strategies to improve school performance, improve teaching, reduce student dropout rates, and enhance educational options for the nation's children. Helping states to meet these requirements requires a larger role for the Department of Education in providing support and oversight. For special education students, the reauthorization of IDEA has focused on several major issues—the federal funding contribution, paperwork burden, teacher shortages, identification of children for special education services, and alignment of the No Child Left Behind Act requirements with the needs of children with disabilities. In addition, the National School Lunch and School Breakfast Programs are school-based efforts to provide students with nutritionally balanced meals, often at low or no cost. Recent data on the increase in the percentage of children who are overweight and the attendant health problems has highlighted the importance of providing students with nutritious foods and creating a healthy eating environment in schools.

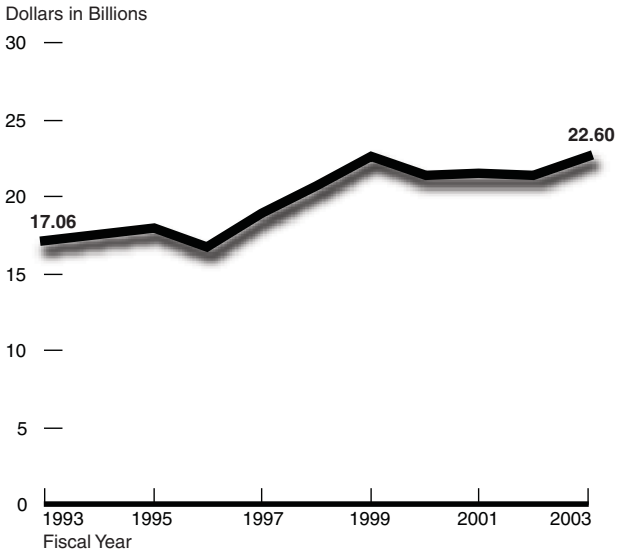
The nation also needs to be concerned about protecting its children and ensuring that families have the financial means to provide for their children's needs. Each year, an estimated 900,000 children are found to be the victims of abuse and neglect by their parents, relatives, or other caregivers. Tragically, approximately 1,300 children die each year from abuse and neglect. While responsibility for investigating reports of abuse and neglect and providing services to families falls primarily to state child protective service agencies, the federal government invests almost $8 billion annually to provide care for children who need placement outside their homes, services to help keep families together or to reunite them, and training and research activities to improve child welfare services nationwide. In 1997, the Congress enacted the Adoption and Safe Families Act with two primary goals: (1) to ensure that consideration of children's safety is paramount in child welfare decisions, so that children are not returned to unsafe homes, and (2) to ensure that necessary legal procedures occur expeditiously, so that children who cannot return home may be placed for adoption or another permanent arrangement quickly. HHS has also established a new review system—known as Child and Family Services Reviews—to monitor state compliance with federal child welfare laws. Moreover, nearly 20 million children live with only one of their parents. To help obtain the financial support noncustodial parents owe their children and to help single-parent families achieve or maintain economic self-sufficiency, the Congress established a joint federal/state child support enforcement program in 1975. The program helps locate noncustodial parents, establish paternity, establish child support obligations, and collect child support. Provisions in the 1996 welfare reform legislation strengthened and improved child support enforcement. For example, to improve efforts to track delinquent parents across state lines, the law established the National Directory of New Hires—a national system that includes personal and employment information on all newly hired employees—and the Federal Case Registry—a system that contains data from child support cases.

Beyond providing for basic educational needs, a competitive national economy depends, in part, on effectively preparing workers to compete in the labor force. To this end, the federal government currently provides approximately $63 billion annually to enhance the quality of and access to postsecondary, vocational, and adult education. In particular, federal grant and loan programs provide financial aid to make college more affordable and accessible for millions of Americans. At over $11 billion, the Pell Grant helps to ensure access to higher education for low-income undergraduate students. In addition, the government's investment in supporting college students with direct loans and

loan guarantees results in over $44 billion of new loans annually. Of growing significance, the federal government also provides over $12 billion in higher education subsidies for students or their families through several tax benefits, such as the Hope and Lifetime Learning tax credits and the deferral of tax on the earnings of contributions to qualified state tuition programs.

A major concern about the federal government's investment in postsecondary education is the government's exposure to significant losses. While student loan default rates have decreased in recent years, student loan defaults still cost the federal government billions of dollars each year. For example, in fiscal year 2000, default costs for the Federal Family Education Loan Program were about $1.4 billion, while defaults under the Federal Direct Loan Program exceeded $600 million. The cumulative principal amount outstanding from defaulted student loans stood at about $22 billion in fiscal year 2001. (See fig. 1.6.) Due in part to concerns about Education's ability to efficiently manage the student loan and grant programs and their vulnerability to fraud, waste, abuse, and mismanagement, GAO has added the student loan programs to the high-risk list. Reducing fraud and error in and improving the management of these programs is also part of the President's Management Agenda.

Figure 1.6: A Growing Balance of Defaulted Loans Is Subject to Collection, 1993–2003



Source: Department of Education, Budget Service.

Note: Balances include defaulted loans under both the Federal Family Education Loan and Federal Direct Loan Programs.

Furthermore, legislation key to higher education issues is scheduled for reauthorization. The Higher Education Act, the Adult Education and Family Literacy Act, and the Carl D. Perkins Vocational and Technical Education Act are all due to be reauthorized in the near future. The Congress will be debating several key issues, including the rising costs of college, how to help students and families finance these costs, institutional accountability for educational costs and quality, how best to provide for a skilled workforce, and Education's management of the federal investment in postsecondary education.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- analyze the effectiveness and efficiency of early childhood education, care, and nutrition programs in serving their target populations;
- assess options for federal programs to effectively address the educational and nutritional needs of elementary and secondary students;
- determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations; and

- identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services.

Strategic Objective:

The Promotion of Work Opportunities and the Protection of Workers

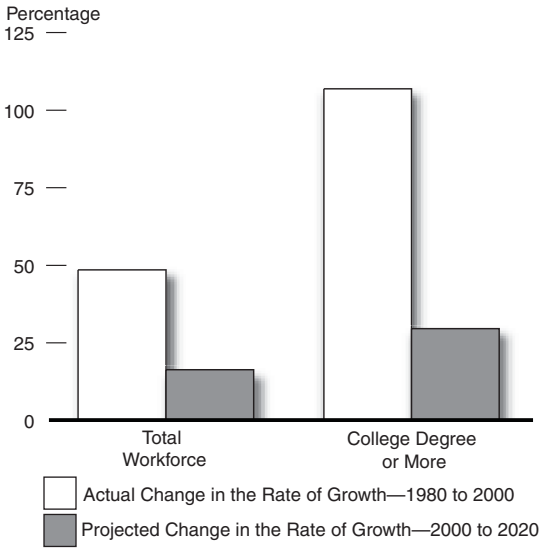
Issue: A strong national economy depends, in part, on a productive workforce. Developing that workforce includes effectively preparing youth and new workers to compete in the labor force, efficiently helping employers locate qualified job candidates, providing a work environment that safely promotes productivity, finding ways to help workers when they become unemployed, and providing assistance to workers with disabilities. To this end, the federal government currently invests more than $150 billion annually to help new entrants to the workforce, support those who have been laid off from their jobs and assist them in becoming reemployed, assist and rehabilitate workers with injuries or disabilities, help employers hire enough highly skilled workers, and protect employees' rights to fair and safe workplaces without unduly burdening employers. In addition, federal policies for providing income support for the low-income population have increasingly focused on promoting work in exchange for government assistance, but changes in the economy have created significant challenges to supporting low-skilled, low-income families as people leave welfare and enter the workforce.

A struggling economy and a large projected decline in the growth rate of the workforce present critical challenges for maintaining the nation's productivity. While economic recovery is under way, a slower rate of labor force growth will present challenges to the continued growth of the nation's economy. As the demand for skilled labor increases with the expansion of the economy, researchers warn that, unlike in the past when economic growth was fueled in part by increases in the size and skill of America's workforce, over the next two decades the potential for shortages of skilled workers could present mounting challenges for productivity and economic growth. At the same time the baby boom generation begins to retire, there will be fewer native-born workers entering the labor force to take their place. Tapping into all possible labor sources will be important, and policymakers may need to look for more ways to support employing workers with disabilities, to encourage seasoned workers to remain in the workforce longer, to help welfare recipients leave welfare for work, and to assist low-wage workers in retaining and advancing in their jobs. Additionally, the nation may need to consider how well current immigration policies work in addressing demands for workers.

Technology, changes in the organization of work, and increasing global interdependence—in which not only production but also some portions of the service sector are being outsourced overseas—are redefining the labor market for workers and employers. Federal employment, worker protection, and disability programs must deal with these new challenges, in addition to encouraging a commitment to lifelong learning. Because of technological changes and global competition, employers will need workers with greater skills. In the past, employers were able to take advantage of new technologies, in part, because new workers were more educated than the retiring workers. However, over the next 20 years, the growth in the labor force is expected to slow dramatically, as are the proportions of the labor force with education beyond high school and with college degrees. For example, as shown in figure 1.7, some experts project that the labor force will grow only 16.4 percent from 2000 through 2020—barely a third of the nearly 50 percent rate of expansion from 1980 through 2000. These changes raise numerous issues regarding the adequacy of efforts to ensure that employers will have the workers they need. Various changes in the workforce and workplace also raise issues about the adequacy of efforts to ensure that workers have safe, healthy, and productive work-

places. Regulations and activities designed to ensure workplace safety and health must be revised to accurately reflect the technological changes of the recent past. At the same time, changes in technology and the labor force have created new opportunities for some people with disabilities to remain at or return to work, yet the labor force participation rate of people with disabilities has remained quite low. Moreover, federal disability programs remain mired in concepts from the past and are poorly positioned to provide meaningful and timely support for Americans with disabilities. The Congress and the administration face challenges as they redefine the role of public policies to help employers and workers enhance productivity and increase earnings while also protecting workers' rights.

Figure 1.7: Changes in the Actual and Projected Growth Rates for the Labor Force, 1980–2020



Source: The Aspen Institute.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess the effectiveness of federal efforts to help adults leave welfare for work and to assist other low-income individuals;
- analyze the impact of programs designed to maintain a skilled workforce and ensure that employers have the workers they need;
- assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing work environment; and
- identify ways to improve federal support for people with disabilities.

Strategic Objective:

A Secure Retirement for Older Americans

Issue: For the last 60 years, the retirement security of older Americans has been a central concern of American society. The Congress enacted Social Security and the post-World War era saw the development and expansion of a private-employer-provided pension system. Later, new tax-preferred vehicles were created to encourage individuals to increase their personal retirement savings.

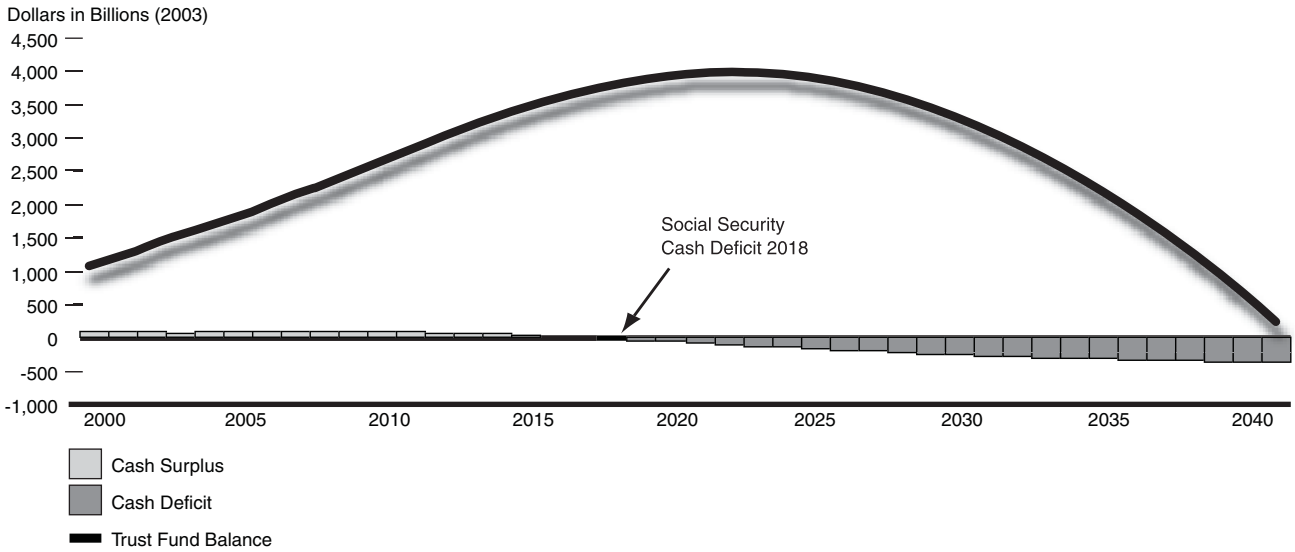
The nation has also changed dramatically in other ways. For example, women, especially married women, have entered the labor force in growing

numbers, with their 2000 labor force participation rate almost doubling to over 60 percent since 1960. As the growth in the number of single parent households illustrates, there has been a substantial increase in the diversity of structure of American households. Finally, as the baby boomers approach retirement and as life expectancy continues to increase, the American population has aged. The percentage of the population age 65 and older is projected to reach 20 percent by 2025, up from less than 12 percent in 2000.

All of these developments have important consequences for the retirement security of American workers and their families. For example, the aging of the population poses important challenges for the future of Social Security, the program that continues to serve as the foundation of the nation's retirement income system. Because of these changes in workforce participation and longevity, people—particularly women—on average, will be spending an increasing number of years in retirement and thus will receive benefits longer. In addition, it means that the ratio of workers to retirees is expected to decline, with fundamental implications for Social Security, the federal budget, and the national economy. Although Social Security payroll tax revenues exceed benefit expenditures today, projections suggest that beginning in 2018, spending will exceed revenues by growing proportions and that in 2042 the Social Security trust funds will be depleted. (See fig. 1.8.) Action must be taken in the near term to restore solvency and sustainability to the Social Security system, particularly as other, even more urgent priorities present claims on public funding and legislative agendas.

Although there is an emerging consensus about the need to address the long-term fiscal problems of the Social Security program, there remains considerable debate on both the timing and the nature of such reform. The Congress has discussed many of these issues and is continuing these policy deliberations. Such reform would have major consequences for the federal budget, for the long-term economic growth of the country, and particularly for retirement income adequacy, given that Social Security is the sole source of income for one-fifth of the elderly.

Figure 1.8: Social Security Trust Fund Faces Insolvency in 2042



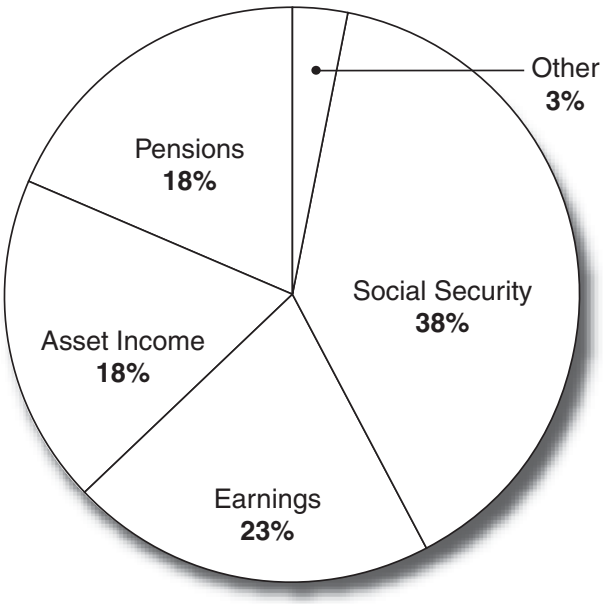
Source: GAO analysis of Social Security Administration data.

Note: Data taken from the Office of the Actuary's 2003 intermediate assumptions from the *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.

Besides reforming Social Security in ways to ensure its financial viability and enhance its contribution to retirement income, it will also be necessary to foster the growth of other sources of retirement income. For example, pensions are another key element in the nation's approach to ensuring adequate retirement income, constituting 18 percent of retirement income in the United States. (See fig. 1.9.) Nonethe-

less, tens of millions of U.S. workers have no individual pension coverage, placing them at risk during their retirement years. Only about half of the nation's workers are covered by employer pensions, and 48 percent of retirees do not receive any pension income. Determining the best way to increase pension coverage represents a continuing policy concern.

Figure 1.9: Sources of Income in the United States for Those Age 65 and Over, 2001



Source: Social Security Administration, *Annual Statistical Supplement, 2002.*

Note: "Pensions" includes private pensions and annuities; government employee pensions; Railroad Retirement; and individual retirement account, Keogh, and 401(k) payments.

Some workers with pensions are experiencing a new kind of coverage as a growing number of employers move away from traditional defined benefit plans to defined contribution plans. Furthermore, some employers are shifting from traditional defined benefit plans to "hybrid" systems that retain the defined benefit structure while adopting certain features of defined contribution plans. These plans place greater responsibility on workers themselves to make prudent investment decisions about their retirement savings, but do not always provide workers access to the accurate and reliable information necessary for such decisions. Such changes will pose new challenges to workers, government regulators, and policymakers.

A still significant number of workers continue to be covered by defined benefit plans offered by individual employers. Benefits provided by these plans are partially insured by the Pension Benefit Guaranty Corporation (PBGC). After fluctuating over the last decade, the single employer insurance program now has a large and growing accumulated deficit. The program has moved from a $9.7 billion accumulated surplus in 2000 to a $3.6 billion accumulated deficit in fiscal year 2002.

The termination of large underfunded pension plans of bankrupt firms in troubled industries like steel or airlines was the major cause of the deficit. Declines in the stock market and interest rates and certain weaknesses in the current funding rules contributed to the severity of the plans' underfunded condition. Furthermore, the degree of underfunding in the private pension system has increased dramatically and additional severe losses may be on the horizon. Continued problems in volatile or declining industrial sectors could lead to additional corporate bankruptcies and consequent plan terminations, increasing PBGC's financial liabilities. PBGC currently estimates that it faces $35 billion in unfunded vested benefits exposure, which ultimately might become program losses.

However, these factors mask broader trends that pose serious program risks. For example, the program's insured participant base continues to shift away from active workers, falling from 78 percent of all participants in 1980 to 53 percent in 2000. In addition, the program's risk pool has become concentrated in industries affected by global competition and the movement from an industrial to a knowledge-based economy. In 2001, almost half of all program-insured participants were in plans sponsored by firms in manufacturing industries, a sector that has had virtually no employment growth in the last half century. The result is a potentially escalating agency vulnerability as PBGC struggles to insure what is at best a moribund and increasingly risky segment of the pension universe. In response to the cumulative effect of these trends on the financial vulnerability of this agency and the potentially severe adverse consequences for workers' benefits and the federal government, GAO placed PBGC's single-employer insurance program on its high-risk list in July 2003.

Long-term weaknesses in the solvency of the Social Security program and the sustained lack of pension coverage for half of the labor force necessitate that workers depend on their own retirement savings to cover these gaps. Yet, despite these potential shortfalls, personal savings rates continue to hover at historically low levels. Current economic uncertainties may exacerbate this trend, threatening the prospects for individuals' future retirement income as well as the nation's future economic growth.

Finally, earnings from employment are already a key component of retirement income, accounting for 24 percent of aggregate retiree income in 2002. Employment-related earnings, particularly when generated by extending the labor force of seasoned workers, could potentially play a more prominent role in future retirement security. Current workers are healthier than past generations and are more willing to work in retirement. Increased labor force participation can reduce the fiscal pressures on Social Security, contribute to economic growth by mitigating potential occupational bottlenecks, and bolster labor force growth. However, most employers have not yet met this challenge by establishing alternative work and schedule arrangements, nor has the government developed the complementary policies to encourage employers and workers to move in this direction.

The health needs of an aging population and society's ability and willingness to fund those needs are other key issues in national retirement policy. The availability of health insurance is a major consideration in seasoned workers' employment and retirement decisions as well as in employers' decisions to hire such workers. In particular, the long-term erosion of employer-provided health benefits for retired workers age 55 to 64 who are ineligible for Medicare is a disturbing trend. In addition, some of these workers, especially low-wage workers, may have to look to Medicaid, the health insurance program for the poor, for assistance. Yet a serious related concern is the projected rapid rise in Medicaid expenditures. The Congressional Budget Office (CBO) estimates that total national expenditures for Medicaid will increase from $158 billion in fiscal year 2003 to $360 billion in 2013, a 128 percent increase. GAO is taking a comprehensive view of the issues facing older Americans and their financial security, including not only their retirement income but also health insurance access and affordability and the interaction of all of these concerns with the general retirement decision.

The demographic, economic, and social developments affecting the nation also have important consequences for how the Social Security Administration conducts its business. In particular, the Social Security number (SSN), once an internal marker for the agency to record contributions and pay benefits, is now virtually a universal identifier, used by public agencies at all levels of government and private business entities of all sizes and from many different economic sectors. The SSN's wide use, besides raising many serious privacy issues, has also put citizens throughout the nation at risk of identity theft, fraud, and other types of illegal activity. How to use the SSN in a way that ensures effective agency operations, prevents its illegal use, and protects the privacy of U.S. citizenry is one of the greatest 21st century challenges facing the Social Security Administration.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

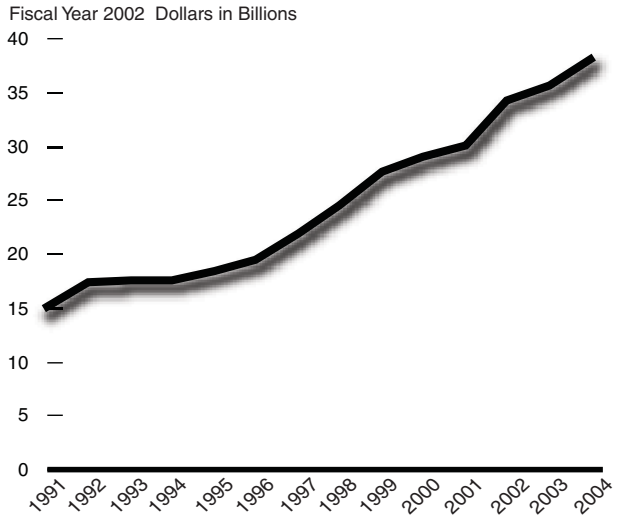
- assess the policy challenges facing the future of the Social Security system and the need for reform;
- bolster retirement security by identifying opportunities to foster greater pension coverage, raise personal saving, and increase the employment earnings of seasoned workers;
- identify opportunities to improve the ability of government agencies to administer and protect workers' retirement benefits; and
- assess the role of the Social Security number in improving government operations, minimizing fraud and abuse, and protecting citizens from identity theft and other illegal activity.

Strategic Objective:

An Effective System of Justice

Issue: Spending on the administration of justice continues to grow. In constant 2001 dollars, federal spending will be about $38 billion in fiscal year 2004, up from about $15 billion in 1991. (See fig. 1.10.) Most of the increase has been to accommodate a shift in focus at the federal level from helping local governments control crime to emphasizing more distinct federal responsibilities, such as controlling illegal immigration and, more recently, preventing terrorist attacks.

Figure 1.10: Federal Outlays for the Administration of Justice, 1991–2004



Source: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2004.*

Note: The 2003 and 2004 numbers are estimates. These data reflect OMB budget data for the "administration of justice" budget function.

During the past several years, overall crime levels have been reduced. For example, preliminary data for 2002 from the Federal Bureau of Investigation's (FBI) Uniform Crime Reporting Program indicate a 0.2 percent decrease in the nation's Crime Index from the 2001 figure. Nevertheless, the Congress and the public remain concerned and look to the federal government for leadership on how to control domestic and transnational crime, including terrorism, while protecting civil liberties; to reduce illegal drug use; to protect the nation's borders; and to control prison costs. The USA Patriot Act, passed in October 2001, significantly expanded federal law enforcement and investigative authority and, with billions of dollars in additional funding, greatly increased the federal counterterrorism role. In addition, the newly created Department of Homeland Security (DHS) is expected to coordinate the executive branch's efforts to detect, prepare for, prevent, respond to, and recover from terrorist attacks within the United States. Many of these functions are the primary roles of law enforcement at the federal, state, and local levels—which heightens the importance of effective coordination and cooperation. Also, the Justice Department has begun to restructure the FBI and is in the process of redefining its mission and priorities in light of the increased focus on antiterrorism.

Passage of the Homeland Security Act of 2002 moved several major federal law enforcement agencies around—the Secret Service, the Immigration and Naturalization Service (INS), the U.S. Customs Service, the Coast Guard, the Federal Protective Service, and the Federal Law Enforcement Training Center all moved to the new DHS. In addition, the Bureau of Alcohol, Tobacco, and Firearms moved from the Department of the Treasury to Justice, leaving Treasury virtually no law enforcement functions. While the movement of these agencies into their new units presents management challenges, it also raises concerns about the impact the transfers will have on agencies' ability to perform their missions. These concerns, as well as the sheer size of the undertaking, the fact that DHS's proposed components already faced a wide array of existing challenges, and the prospect of serious consequences for the nation should DHS fail to address its management challenges and program risks adequately, led GAO to add the implementation and transformation of the new department to the list of high-risk areas in 2003.

After several years of mandatory minimum sentencing, "three strikes and you're out" laws, and truth-in-sentencing grants, federal and state prisons are overcrowded. The size of the prison population will be the subject of increasing public debate as these policies' cost to the public escalates. Moreover, in constant 2002 dollars, the federal judiciary's fiscal year 2004 spending, estimated at about $5.5 billion, will be more than double its fiscal year 1991 spending of about $2.5 billion. In addition, the judiciary has faced an imbalance in its workload in recent years, particularly its criminal caseload, with some courts facing much higher workloads than others. Thus, the judiciary faces a major challenge in determining how to use its resources efficiently and effectively to address such workload imbalances and to coordinate its strategy with other affected agencies, particularly along the southwest border. Also, the number of prisoners being released from federal prisons is growing rapidly, making successful reintegration an increasingly important issue.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- identify ways to improve federal agencies' ability to prevent and respond to terrorism and other major crimes,
- assess the effectiveness of federal programs to control illegal drug use,
- assess federal efforts to enforce immigration and customs laws, and
- assess the administrative efficiency and effectiveness of the federal court and prison systems.

Strategic Objective:

The Promotion of Viable Communities

Issue: The economic and social well-being of communities is key to the nation's overall growth and prosperity. Yet the viability of many of America's communities is threatened by a variety of ills, including high levels of long-term unemployment, inadequate retail activity, a deteriorating housing stock, and other economic and social problems. For decades, federal, state, and local governments and the private and nonprofit sectors have sought ways to revitalize distressed communities. The federal government alone operates well over 100 programs that offer communities grants, loans, loan guarantees, and special tax incentives designed to assist distressed areas—for example, Community Development Block Grants that communities can use for a variety of infrastructure and capacity-building needs and Empowerment Zones that are intended to encourage investment in targeted areas.

Despite these efforts, no simple answer has been found to the question of how best to revitalize America's distressed communities, in part because of the difficulty of measuring the factors that actually cause communities to improve. Also, the issue of how best to deliver aid is complicated by the need to strike a balance between the goals of the federal government and those of state and local governments and nonprofit organizations, which administer a large share of federal dollars for community and economic development.

Small businesses, which employ more than half the nation's workforce, are key to economic growth in many communities. The Small Business Administration (SBA), with a portfolio of loans worth more than $50 billion, is the nation's single largest financial backer of small businesses and provides management and technical assistance to about 1 million small business owners annually. SBA also has oversight responsibility for federal contracting goals for small and minority-owned businesses. Because SBA has undertaken numerous initiatives to address management issues that affect the agency's performance, the Congress needs up-to-date assessments of its performance.

To promote home ownership, a key element of a vibrant community, the federal government provides mortgage assistance through mortgage guarantees provided by the Federal Housing Administration and VA and guarantees of mortgage securities by the Government National Mortgage Association. It also provides a federal charter and other direct and indirect benefits to three government-sponsored enterprises (GSE)—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—that support the mortgage market. Recently, the effectiveness of the regulatory structure for GSEs has been called into question. The federal government also promotes home ownership through tax incentives and requirements placed on mortgage market participants. It must balance the benefits of increasing home ownership, especially among the underserved, against the financial risk taken on directly (through mortgage guarantees) or indirectly (through GSEs).

Since the late 1970s, the federal government has provided over $100 billion to help prepare for disasters and to assist disaster victims and their communities. In response to the recent terrorist attacks, billions of dollars have already been appropriated for recovery and relief efforts. Establishing an efficient and cost-effective approach to disaster assistance is difficult in the face of pressures to provide relief for disaster victims. However, approaches that provide incentives for preventive activities and foster private insurance coverage are two avenues that both the Federal Emergency Management Agency (FEMA) and the Congress are interested in exploring.

The Department of Housing and Urban Development (HUD) administers rental housing assistance programs to help families with lower incomes reside in safe, decent, and affordable housing. HUD's rental assistance programs remain at high risk of waste and abuse, in part because HUD faces numerous management challenges in human capital, contract management, and IT. Also, HUD and the Department of Agriculture's Rural Housing Service, which oversees rural rental housing programs, face challenges in ensuring that federally assisted properties are physically and financially sound and administered in a way that best serves the needs of low-income households.

Performance Goals: To support the Congress and the federal government in their efforts to address these issues, GAO will assess

- federal community and economic development assistance and its impact on communities;
- the effectiveness of federal initiatives to assist small and minority-owned businesses;
- how the federal government can balance the promotion of home ownership with financial risk;
- federal efforts to enhance national preparedness and capacity to respond to and recover from natural and man-made disasters; and
- how well federal programs that support affordable rental housing meet objectives, manage financial risk, and improve recipients' well-being.

Strategic Objective:

Responsible Stewardship of Natural Resources and the Environment

Issue: The nation's natural resources and the systems associated with their use are under widespread and increasing stress, generating intense debate and posing daunting challenges to policymakers at all levels of government. In large part, this is the consequence of the country's growing population and economy and attendant increased demands on a finite resource base. Accommodating these demands runs headlong into long-standing legislation aimed at protecting the country's resources in a healthy state for the good of current and future generations. Likewise, how policymakers resolve this balance has global consequences because the United States is the world's single largest consumer of energy and other resources and

is increasingly seen as out of step with international efforts to limit resource use and associated pollution.

The body of work set forth in this strategic objective is designed to address these and other issues in several natural resource areas, as well as related terrorist threat matters. On the latter point, it is noted that the 14 critical infrastructure sectors listed in President's Decision Document, "National Strategy for Homeland Security," include 6 in the natural resource areas addressed in this strategic objective—food (except meat and poultry), energy, water, chemical industry and hazardous materials, agriculture, and meat and poultry.

In recent decades, the United States has experienced multiple energy crises—the 2003 electricity blackout affecting much of the country was a notable example—and remains perpetually on the cusp of critical supply/demand imbalances. Without applying prudence and foresight in crafting the nation's strategic energy plan, electricity, natural gas, heating oil, and gasoline markets can be thrown into turmoil at any time. The challenge is further complicated by the global nature of many energy markets and growing doubts about the long-term sustainability of policies that demand increased production from the existing energy mix. Furthermore, strategies must now incorporate greater attention to the means of protecting a massive energy infrastructure that encompasses 5,000 power plants, 204,000 miles of high voltage transmission lines, and nearly 3 million miles of oil and gas pipelines. Finally, energy strategies must consider the environmental consequences of energy choices, as illustrated by issues surrounding the potential reemergence of the nuclear power industry. While increased nuclear power capacity would obviously buttress electricity supplies and help reduce harmful emissions, continuing questions remain about where and how to store the byproduct radioactive waste in an environmentally sound manner, as well as how to secure the plants and waste sites against possible future attacks.

More than ever, the country's lands and waters are under increasing stress. This is evidenced by rapidly dwindling open spaces, declining biodiversity, depleted aquifers, and collapsing fisheries—the unintended consequences of economic growth and the need to sustain the lifestyle of a growing population. Reconciling and balancing the demands of often competing objectives—economic growth for today versus natural resource protection for the future—is a major challenge facing the American public and its elected leaders. The heated debate on possible future oil development in the Arctic National Wildlife Refuge in Alaska presents this issue in microcosm. In this case, the issue pertains to the use of federal lands, which constitute about 30 percent of the country's total land surface, but similar controversies exist over privately held lands affected by federal law and regulations. The use of the nation's waters presents equally sobering challenges, as pollutants and overfishing rapidly deplete coral reefs and offshore fisheries, while competition over rights to fresh water supplies grows among various interests, such as agriculture, communities, utilities, wildlife, and recreational users. Even under normal conditions, water managers in 36 states expect water shortages to occur within the next 10 years. If such shortages actually occur, they could have severe economic, environmental, and social impacts.

The increasing globalization of natural resource issues also affects environmental protection matters, as seen in the federal government's discussions with other governments about global warming and what should be done about it. Such discussions add a new layer of complexity to the already difficult question of how to sustain economic growth when the engines of that growth—factories, cars and trucks, fertilizers, and electricity-generating plants—often adversely affect air and water quality and can change climates in potentially catastrophic ways. Another factor in attaining federal air and water quality goals is that land use practices, often resulting in "urban sprawl," are controlled mainly by local governments and private owners. Moreover, the federal government relies upon state and local governments for inspection and enforcement actions.

Also, significant challenges remain in cleaning up the country's hazardous and radioactive waste sites. Today, an estimated 60 million Americans live within 4 miles of a hazardous site, and radioactive waste from weapons production still needs to be cleaned up at Department of Energy (DOE) sites in 13 states. These sites' continued existence poses not only potential health and safety problems, but also fiscal and economic problems as well. Delayed

cleanup results in higher price tags for eventual cleanup and in stunted economic development in the affected communities. Potential terrorist attacks underline the need for steps to ensure the security of hazardous and radioactive materials during storage, transportation, and disposal.

Finally, with the recent passage of the 2002 Farm Bill, the Congress continues to debate the direction of U.S. farm policy in areas such as the role of agriculture in land conservation, wildlife habitat protection, and energy production efforts. Food safety and security lie at the forefront of concerns about the country's agricultural resources, an urgent matter given the potential for, and the consequences of, agricultural bioterrorism. Besides this troubling matter, a whole range of other food safety issues, while less ominous, nevertheless pose serious questions. These include questions about the adequacy of the government's devolution of food inspection authority and its efforts to implement a "farm-to-table" food safety approach. At the same time, a number of countries have raised concerns about the safety of U.S. genetically modified crops and foods—a matter of growing importance given the significant role that food exports play in the U.S. economy.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will assess

- the nation's ability to ensure reliable and environmentally sound energy for current and future generations;
- federal strategies for managing land and water resources in a sustainable fashion for multiple uses;
- environmental protection strategies and programs;
- efforts to reduce the threats posed by hazardous and nuclear wastes; and
- federal programs' ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage.

Strategic Objective:

A Safe, Secure, and Effective National Physical Infrastructure

Issue: The nation's economic vitality and the quality of life of its citizens depend significantly on the soundness, security, and availability of its physical infrastructure. Transportation and telecommunications systems, for instance, provide the superstructure for the nation's economic engine, facilitating the movement of people, goods, and information. The nation faces major challenges in improving both efficiency and safety in the movement of people and goods. The nation relies heavily on its postal system for efficient mail delivery service. And thousands of federal facilities house and support staff and the other assets needed to provide services to the American people.

In both the short and long term, the nation faces important infrastructure challenges as federal, state, and local governments confront new demands brought on by changes in national security, demographics, technology, and lifestyles. The challenges are complex, cutting across many interrelated issues, and require coordinated intergovernmental responses.

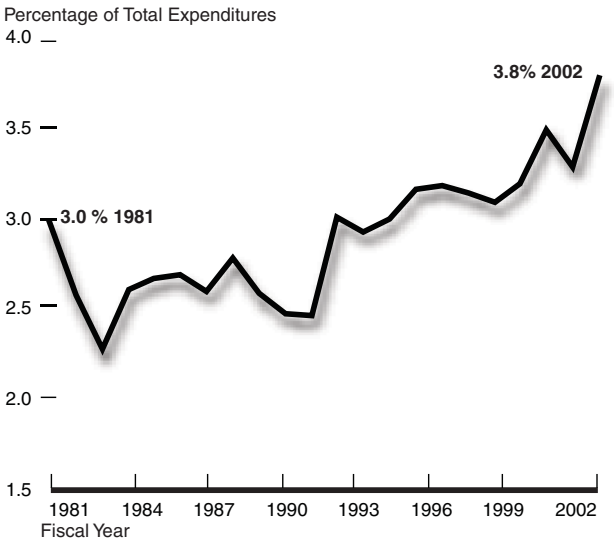
For example, the nation's commercial passenger airlines, which were experiencing financial difficulties even before the terrorist attacks of September 11, 2001, now face unprecedented financial losses stemming from reduced air travel, raising debate over the appropriate federal response. Also, long-term trends indicate that increasing numbers of motorists are encountering increasingly congested highways, while bottlenecks have escalated for freight transportation at intermodal connection points.

Suburban growth has raised demands for new roads, water and sewer systems, and access to telecommunications. At the same time, existing communities are demanding that the environment and their citizens' quality of life not be harmed by this growth.

The cost of maintaining and modernizing its infrastructure is only one concern of a U.S. Postal Service that faces growing financial, operational, and human capital challenges. In addition, the deregulated transportation and telecommunications industries require continuous oversight to help ensure that firms have a level playing field on which to compete and that consumers receive the intended benefits of deregulation.

The responses of the federal government and other levels of government to these infrastructure challenges will have important consequences for the nation's future because of their effects on the quality of life and their significant costs. Since 1990, nondefense spending on infrastructure has nearly doubled and, as figure 1.11 shows, has become a significantly larger portion of total spending—largely the result of the previous two surface transportation reauthorizations.

Figure 1.11: Nondefense Federal Spending on Infrastructure as a Percentage of Total Expenditures, 1981–2002 (in Constant 2002 Dollars)



Source: Office of Management and Budget, *Budgets of the United States Government* for fiscal years 1981 through 2004.

During the latter years of this period, the federal government enjoyed budget surpluses. With the return to large federal deficits forecast in the upcoming years, decision makers will be faced with difficult choices on how to allocate funding among infrastructure needs and other demands in an increasingly tight budget environment. Given limited resources, decision makers must choose investments that promise to be most cost-effective and targeted to address national infrastructure needs. These choices must be supported by credible data on needs and costs, performance information and measures highlighting outcomes from existing programs, and a budget process prompting a more explicit focus on investment spending across agencies.

It is therefore essential for government at all levels to have the information needed to make well-informed decisions about how to allocate funds among competing priorities, evaluate the challenges to determine which solutions are most cost-effective, and implement these solutions as efficiently and effectively as possible.

Performance Goals: To support efforts by the Congress and the federal government to address these efforts, GAO will assess

- strategies for identifying, evaluating, prioritizing, financing, and implementing integrated solutions to the nation's transportation infrastructure challenges;
- the impact of transportation and telecommunications policies and practices on competition and consumers;
- the federal government's role in fostering and overseeing telecommunications in the public interest;
- efforts to improve safety in moving people and goods across the nation's transportation system;
- efforts to improve security in all transportation modes;
- the U.S. Postal Service's transformation efforts to ensure its viability and accomplish its mission; and
- federal efforts to plan for, acquire, manage, maintain, secure, and dispose of the government's real property assets.

External Factors That May Affect Achievement of Goal 1

Any significant changes in the major forces shaping the United States discussed earlier in this plan will affect GAO's ability to meet its goals and objectives. Already, the terrorist attacks of September 11, 2001, have brought about major changes in the nation's public policy agenda. Domestic policy and programs have become more intertwined with the nation's security challenges, as the threats penetrate the nation's borders. Each major objective in this plan has been changed to reflect the implications to GAO's work of the terrorism threat in those areas.

However, much uncertainty remains. The scope of the threat itself could shift in unforeseen ways. As the specific nature of the threats continues to be defined, the consequences for domestic programs and priorities are still unfolding. In some respects, federal, state, and local governments are just beginning the process of defining the most vulnerable facilities, areas, and services and designing effective strategies to both mitigate known threats and prepare the nation to respond. As this process unfolds, GAO will be called upon to help define effective counterterrorism strategies as well as to identify other programs and activities that are candidates for de-emphasis or reductions based on long-standing problems with their performance.

The fiscal underpinnings for domestic policies and programs are also shifting in ways that are still unclear. Deficits have once again emerged and will become a major factor influencing budget debates as well as deliberations over program reauthorizations and reform. The short-term deterioration of the fiscal outlook will serve to further weaken the long-term fiscal outlook, which is already unsustainable because of the aging of the population. In fact, the baby boom retirement is now reflected in the 10-year budget outlook, as manifested by reduced Social Security surpluses and a slowing of the growth of the labor force. Ultimately, renewed fiscal discipline will be increasingly discussed as a way to restore the budget to balance and better promote the level of savings necessary to prepare the nation for the longer-term challenges of an aging society. Unlike the 1990s, when the budget was balanced in large part with cuts to defense, this time, fiscal balance will have to be achieved by addressing other parts of the budget, possibly including many of the areas covered in goal 1. Recent fiscal pressures in state governments may also prompt a consideration of the fiscal partnerships for major federal programs that depend on states for program delivery and financing.

Goal 2:
Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence

The nature of the threats to national and international security and the means of attack have changed significantly in the post-Cold War era, and even more so since the terrorist attacks of September 11, 2001. The nation must assess and defend against a wide range of means and methods of attack against U.S. interests both at home and abroad. Adversaries are more likely to strike vulnerable civilian or military targets at home and overseas in nontraditional ways to avoid direct confrontation with U.S. military forces or their allies on the battlefield. Nonetheless, the United States faces the challenge of transforming its military capabilities to maintain its technological edge and capabilities while executing a global war on terrorism, recognizing that military power alone cannot respond to today's new threats. Responding to today's threats requires new rules and new roles for all levels of government, best represented by the federal government's structural changes associated with creation of DHS.

As the world grows increasingly interconnected through more open markets and rapidly developing technology, the globalization of markets has created new opportunities for the nation as a whole and for American producers and consumers. At the same time, the United States is facing increasing challenges and threats to its security and economy from sources that range from terrorism to regional conflicts to instability sparked by adverse economic conditions, corruption, ethnic hatred, nationalism, and disease. In today's environment, advancing and protecting U.S. international interests has required interventions abroad to address terrorism at its roots or other interventions to make or keep the peace. While seeking to anticipate and address emerging threats to the nation's security and economy, the federal government also tries to promote foreign policy goals, sound trade policies, and other strategies to advance the interests of the United States and those of U.S. trading partners and allies in every corner of the world. In light of the globalization, technology, and security trends, the second goal of GAO's strategic plan is to help the Congress and the federal government respond to changing security threats and the challenges of global interdependence.

GAO's specific objectives are to support congressional and federal efforts to

- respond to emerging threats to security,
- ensure military capabilities and readiness,
- advance and protect U.S. international interests, and
- respond to the impact of global market forces on U.S. economic and security interests.

Strategic Objective:

Respond to Emerging Threats to Security

Issue: The nature of the threats to national and international security and the means of attack have changed significantly in the post-Cold War era. Threats stem from differences in national or state ideologies and geopolitical, economic, and strategic considerations and now, increasingly, from religious conflicts and the aims of non-state-sponsored groups. Adversaries are more likely to strike vulnerable civilian or military targets at home and overseas in nontraditional ways to avoid direct confrontation with U.S. military forces or their allies on the battlefield.

The nation must assess and defend against a wide range of means and methods of attack, ranging from unconventional means to conventional weapons to weapons of mass destruction. International access, global interdependencies, interconnected and less diverse systems, and rapid technological change make such threats more viable and decrease the effectiveness of physical borders in ensuring security. The continuing proliferation of weapons of mass destruction increases concerns that terrorists or a rogue regime could threaten the United States or its allies with nuclear, chemical, or biological attack.

These threats put at risk the nation's values, economic interests, way of life, and the personal security of its citizens at home and abroad. National strategies propose homeland security and combating terrorism initiatives to address these threats, yet their implementation and their associated costs, both direct and indirect, remain unclear. Decision-making approaches based on risk analysis and cost-benefit effectiveness and the alignment of federal funding with state, local, and private sector investments are still works in progress. In the international arena, U.S. efforts to prevent the proliferation of weapons of mass destruction directly support domestic homeland security missions, yet much remains to be done.

Preparing and responding to emerging security threats will entail a national effort involving defense and domestic federal agencies and programs; state, local, and regional governments and organizations; the private sector; and the international community. At the federal level, the effectiveness of major structural changes to provide leadership will be important. The primary mission of DHS is to prevent, reduce vulnerability to, and aid in recovery from domestic terrorist attacks. Homeland security will require an effective DHS implementation and the efforts of other federal agencies, such as the FBI and the intelligence community. Responsibility for oversight and coordination across the executive branch, for example, with the Executive Office of the President, is still evolving.

Moreover, homeland security is, in large part, dependent on the efforts of state and local governments and the private sector. Internationally, the cooperation of the United States and its allies is needed to prevent terrorists and others from using dangerous weapons to carry out threats to the nation's security. In addition, long-term success in homeland security will mean seamlessly integrating homeland security concepts into normal business decisions and practices across government and within the areas of the private sector responsible for critical infrastructures and key assets, so that efforts are sustainable over the long term and balanced with important non-homeland-security objectives.

Performance Goals: To support congressional and federal decision making on national preparation for and response to emerging threats to security, GAO will

- assess federal homeland security management, responsibility, effectiveness, and achievement of mission goals;
- identify ways to strengthen strategies related to homeland security and their implementation;

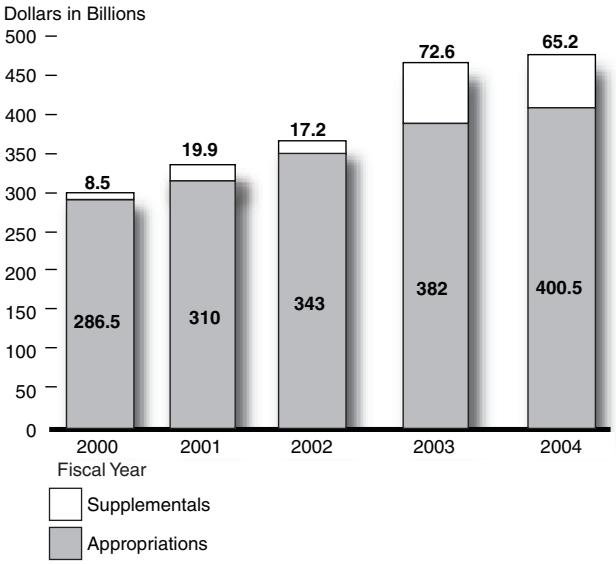
- evaluate homeland security resource priorities, costs, and approaches to stimulate desired investments;
- identify opportunities to embed homeland security concepts in ongoing national initiatives;
- evaluate ways to strengthen government information security and protect computer and telecommunications systems that support the nation's critical infrastructures; and
- assess the effectiveness of U.S. and international efforts to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies.

Strategic Objective:

Ensure Military Capabilities and Readiness

Issue: In contrast to the downward trend in defense spending during the last decade, this first decade of the new century has already seen a significant upward trend in authorized defense spending. After dropping below $300 billion in prior years, total defense budget authority increased to about $360 billion in fiscal year 2002 and will exceed $400 billion in fiscal years 2003 and 2004, including substantial supplemental funding to support ongoing military operations. (See fig. 2.1.) As the new decade began, some increases in funding authority were approved to enhance operational maintenance, quality-of-life programs, pay raises, and improvements to crumbling facilities. Since September 2001, more significant increases in annual budget authority and supplemental appropriations have been approved to respond to the war on terrorism, including funding for Defense operations in Afghanistan and Iraq. Major increases have also been approved for weapon systems acquisition and modernization.

Figure 2.1: Total Defense Appropriations and Supplemental Funding for Fiscal Years 2000 through 2004, as of January 2004



Source: Congressional Research Service.

Notwithstanding the ongoing war on terrorism, DOD has continued to focus on implementing the results of the 2001 Quadrennial Defense Review, which charted a new defense strategy that emphasized homeland security, military transformation, joint operations, and advanced war-fighting capabilities related to IT, intelligence, and space operations. Follow-on studies were begun to more precisely define how existing DOD programs and priorities would change in light of the changing security environment and increased emphasis on homeland security.

Perhaps the most significant of the follow-on studies are those involving the ongoing reassessment of U.S. force structure and capabilities and of overseas presence and basing. The former has the potential for significant change in organization of forces and deployment planning. The latter has the potential for significant changes in the numbers and locations for U.S. bases overseas in keeping with the revised global military posture called for in the report of the Quadrennial Defense Review. That report called for developing a basing system that provides greater flexibility for U.S. forces in critical areas of the world, placing emphasis on additional bases and stations beyond western Europe and northeast Asia, and providing temporary access to facilities in foreign countries that enable U.S. forces to conduct training and exercises in the absence of permanent ranges and bases. The new defense strategy also highlights the criticality of reforming the department's business practices and human capital management, streamlining organizational structures, and eliminating excess infrastructure that unnecessarily diverts resources from other defense priorities. In that light, DOD also recently directed acquisition programs to tailor their strategies so that weapons can be fielded in a timelier manner at a fair and reasonable cost.

The debate about what capabilities DOD must maintain and develop, where they should exist, and to what extent additional defense spending is required will be significantly shaped by the debate over the military's role in homeland security and the augmentation of the civilian agencies' roles in the fight against terrorism. Nonetheless, the Quadrennial Defense Review ties many of these issues together. (See fig. 2.2.)

Figure 2.2: Key Topical Issues Framing the Defense Debate

- Jointness and interoperability
- Capabilities-based strategy versus two major-theater wars
- Force transformation, advanced warfighting capabilities, and training
- Changes in global military presence
- Antiterrorism and force protection
- Chemical and biological defense
- Human capital challenges
- Quality of life and facilities infrastructure
- Weapon systems modernization
- Homeland security
- Guard and reserve roles
- Nuclear stockpile
- Improved business practices

Source: GAO analysis.

There also are pressing issues concerning the defense establishment's program to maintain a safe and reliable nuclear weapons stockpile. This program is administered by the National Nuclear Security Administration (NNSA), a semiautonomous agency established in 2000 within DOE. NNSA faces numerous planning, organizational, procurement, personnel, and security challenges as it administers this $8 billion-a-year program, and questions remain about the impact of its 2002 reorganization plan on its capacity to address these challenges efficiently and effectively.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess DOD's ability to maintain adequate readiness levels while addressing the force structure changes needed in the 21st century;
- assess overall human capital management practices to ensure a high-quality total force;
- assess the ability of weapon system acquisition programs and processes to achieve desired outcomes;
- identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes;

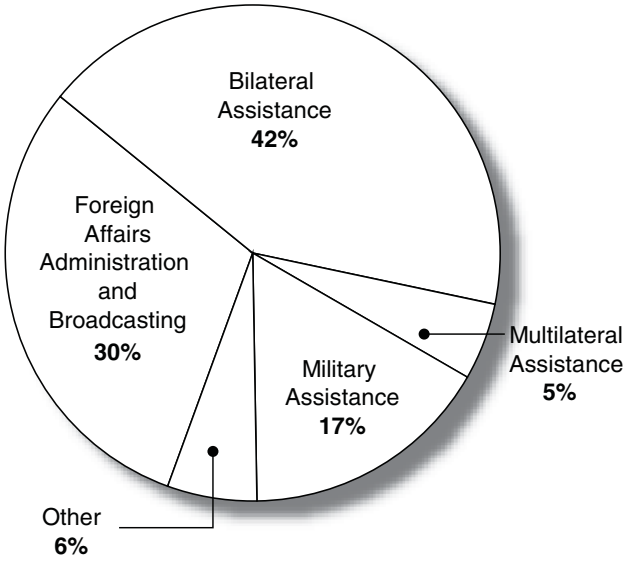
- assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile;
- assess whether DOD and the services have developed integrated systems, procedures, and doctrines to support joint and coalition forces on the battlefield safely and effectively; and
- analyze and support DOD's efforts to improve planning, programming, budgeting, execution, and program performance.

Strategic Objective:

Advance and Protect U.S. International Interests

Issue: Although U.S. leaders agree on the ultimate goal of promoting global peace, prosperity, and stability, and have spent over $27 billion on international affairs (See fig. 2.3), intense debate is occurring over how to achieve that goal.

Figure 2.3: Spending Type for the $27 Billion in Fiscal Year 2002 International Affairs Funds



Source: Department of State.

Conflict interventions to make or keep the peace, stabilize failed states, and end terrorist regimes have dominated recent U.S. foreign policy actions. These interventions are sometimes controversial, both domestically and internationally. They also are often costly: The United States has spent more than $23 billion in the Balkans since the early 1990s. And the costs of military intervention in Afghanistan and Iraq are predicted to be even greater. Such interventions are likely to continue to play a prominent role in stabilizing regions used as staging areas for efforts to undermine or threaten U.S. interests.

U.S. foreign aid to developing countries is critical for advancing U.S. economic and security interests. For example, the United States supports countries trying to adopt democratic and free market structures after conflicts through developmental and humanitarian programs as well as rule-of-law assistance and measures to combat corruption. These countries and regions in transition have combined populations in excess of 2 billion, and they face complex development problems. Ensuring the effectiveness and efficiency of these programs is important because the extent to which countries can successfully make the transition to and maintain democratic governments and market economies will significantly affect U.S. security and economic objectives and, ultimately, the U.S. budget.

Protecting U.S. strategic interests in the face of new tests has presented challenges for alliances established decades ago and raised questions about how the United States should respond to shifting needs and priorities. Terrorist attacks against the United States and interventions in Afghanistan and Iraq have given rise to new U.S.-led coalitions to pursue military, political, and economic efforts to erode terrorists' networks and their sources of support. Traditional alliances continue to evolve. For example, NATO's focus is changing from defending the territory of Western Europe to promoting peace and stability outside of its member countries as it expands its membership eastward. The United States continues to provide bilateral security assistance and

pursue programs that counter transnational threats, like drug trafficking and infectious diseases, in order to foster international security.

Conducting foreign affairs is becoming more complicated as the lines between domestic and international issues blur and the threat of terrorist attacks on U.S. facilities and personnel overseas changes how America does business. About 35 federal agencies have around 19,000 U.S. staff assigned to overseas embassies, and most federal policies have international aspects. The State Department plays a key role in coordinating U.S. policy and programs for regions, countries, or multilateral organizations. To carry out its responsibilities, the State Department operates more than 250 embassies and consulates in over 160 countries. The size and composition of the department's overseas infrastructure and human capital are being questioned, particularly in light of security concerns. Similarly, U.S. participation in multilateral organizations, such as the United Nations, is sometimes debated when questions arise about these organizations' effectiveness and their ability to advance U.S. interests. Also being questioned are the practices for granting entry into the United States and the need to block the entry of terrorists and criminals while at the same time facilitating entry for legitimate travel key to the nation's prosperity. Moreover, attacks on the United States prompted a rethinking of U.S. public diplomacy and public affairs activities and ways to better understand, inform, and influence foreign publics and policymakers.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

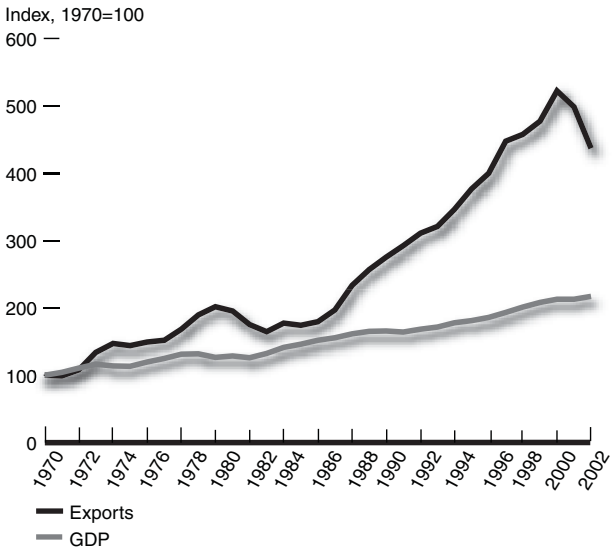
- analyze the plans, strategies, roles, costs, and results of the United States and its allies in conflict interventions;
- analyze the effectiveness and management of U.S. foreign aid and developmental and humanitarian programs and the tools used to implement them;
- analyze the plans, costs, and outcomes of responding to challenges to U.S. strategic interests;
- evaluate the extent to which U.S. interests are effectively served by U.S. participation in multilateral organizations; and
- assess the strategies and management practices for U.S. foreign affairs functions and activities.

Strategic Objective:

Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests

Issue: The increasing interdependence of the world's economies has a significant impact on the national security and the economic well-being of the American people. U.S. exports have grown much faster than the economy. (See fig. 2.4.) Moreover, the United States has been the principal architect of an open world trading system and, as the world's largest exporter of goods and services, has benefited immensely from global trade. But segments of U.S. and world populations have not shared equally in these benefits and may not do so in the future. Moreover, global market forces have made the United States more vulnerable to overseas economic crises. In addition, it has become more difficult for the United States to maintain control over critical technologies and the industrial base on which U.S. economic and military security depends. Also, the United States has faced terrorist threats emanating from some of the least integrated countries in the world as well as health threats from some of the most integrated regions of the world. For policymakers, several aspects of these trends require particular attention.

Figure 2.4: Growth in U.S. Exports Compared to Overall Output (GDP) since 1970



Source: International Monetary Fund data.

Note: The decline in exports that began in 2000 can be attributed to the recent global economic downturn; it is not clear whether this downward trend will continue.

Trade agreements are increasing in number and importance to the U.S. economy. More than 300 international trade agreements affect hundreds of billions of dollars in trade and millions of U.S. jobs. The mutual dependence of international markets and the U.S. economy is expected to increase even further with China's 2001 admission to the World Trade Organization (WTO). In addition, the United States is currently involved in a major regional trade negotiation (the Free Trade Area of the Americas), multilateral negotiations in the WTO, as well as numerous free trade agreements with other partners. Over 10 U.S. agencies have programs to promote U.S. exports. These programs include providing financial assistance through loans, loan guarantees, and grants as well as providing U.S. businesses with information on the export process.

The globalization of the industrial base is driving changes in the way the United States obtains technologies and capabilities to protect its national security interests. As companies increasingly engage in a wide variety of business arrangements across national borders, DOD is seeking new ways to benefit from the competitive sources and innovative technologies that a diverse industrial base may provide. For example, the department is partnering with foreign countries to develop major weapon systems, such as the Joint Strike Fighter aircraft program. Although globalization has the potential to speed innovation and reduce costs, it also carries potential threats to the technological superiority of the U.S. military and may require new approaches to protect national security interests.

Global financial health and the maintenance of the world financial system are critical to long-term U.S. objectives and cornerstones of U.S. foreign policy. Financial crises in Argentina, Mexico, Asia, Russia, and elsewhere have raised questions about what can be done to prevent, solve, or contain the spread of regional financial crises and what can be done to reduce the debt burden on poor countries. International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, are at the center of efforts to address financial crises. The United States is the major contributor to the IMF and relies heavily on it and the World Bank to promote world economic health. The operations and transparency of these institutions have come under increased scrutiny.

Overseeing financial institutions and markets in the 21st century is a growing challenge. Trillions of dollars flow through the nation's financial institutions and markets, including the investments and retirement savings of working households. The globalization of financial firms and markets, coupled with continuing advances in technology, have created opportunities to improve the speed and efficiency of market operations. But these advances also provide new opportunities for illegal market activities and may broaden the scope of financial crises or cause them to spread more rapidly. The creation of new products and the increasing importance of new market participants continue to pose challenges to existing regulatory frameworks and oversight programs. Innovations such as the increasing use of Internet-based financial activities also present new regulatory challenges. While these innovations can benefit U.S. markets and investors, they also expose individuals to increased risks and potential fraud.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- analyze how U.S. interests are served through trade agreements and U.S. programs,

- improve understanding of the effects of a global industrial base on U.S. national security interests,
- assess how the United States can influence improvements in the world financial system,
- assess the ability of the financial services industry and its regulators to maintain a stable and efficient financial system in the face of market change and innovation, and
- assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial markets.

External Factors That May Affect Achievement of Goal 2

Other factors, in addition to those discussed earlier, could affect GAO's ability to achieve this goal. First, as the United States plans and executes its short- and long-term responses to recent terrorist attacks on the homeland, concerns about operational security are likely to be emphasized both at home and abroad. Consequently, it may be more difficult to obtain and report on information related to operations and readiness. Moreover, continuing instability in Afghanistan and Iraq may hamper our ability to evaluate U.S. activities in those countries. GAO reports dealing with these areas may be more subject to national security classification than in the past, which could limit the release of information. Further, historically GAO's access to the intelligence community for audit and information purposes has been limited. Continuation of this practice could hamper GAO's ability to fully assess progress in addressing the full range of homeland and national security issues.

Second, GAO has not historically had authority to access or inspect records, documents, or other materials held by other countries and at multilateral institutions that the United States works with to protect and advance its interests. Accordingly, GAO's ability to conduct thorough analyses of some issues is affected by the level of openness and voluntary cooperation. Continued cooperation from the executive branch in obtaining access to international organizations and foreign governments is important; in this light, GAO is developing a set of protocols to facilitate its access. Nonetheless, other changes in the international environment and unanticipated geopolitical crises could affect GAO's strategy and objectives. GAO will monitor international events, work closely with its congressional clients, and maintain broad-based staff expertise so that it can quickly adjust its work focus to meet emerging needs.

Goal 3:
Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges

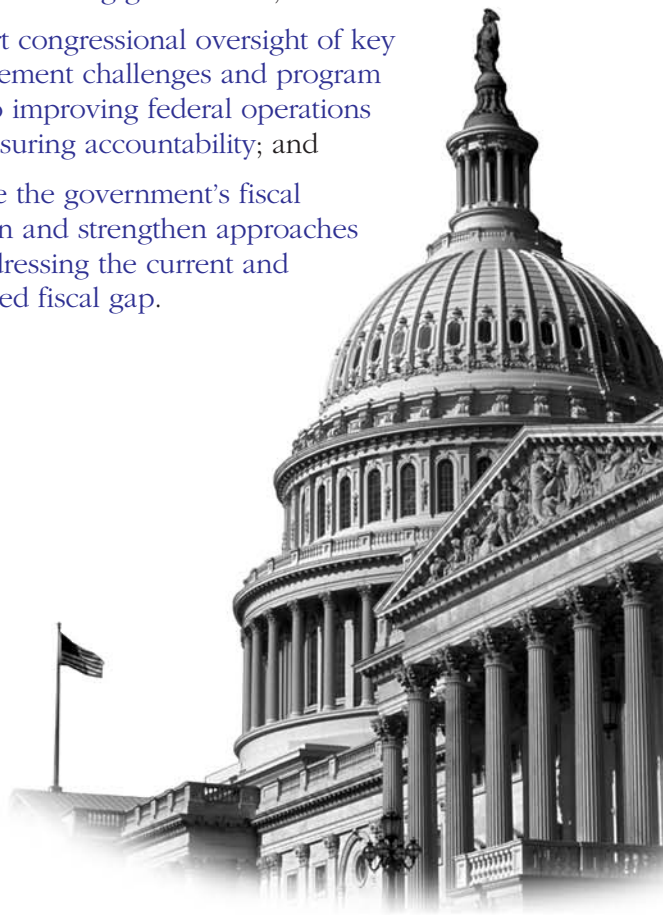
The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the 21st century. Major trends—such as diffuse security threats, increasing interconnectedness of global markets and economies, and rapid technological advances—drive the need for federal agencies to transform their cultures and operations. In view of the broad trends and growing fiscal pressures, the federal government needs to engage in a fundamental reexamination of what government does, how it does business, and in some instances who does the government's business.

The federal government will need to work more closely with other governments, nongovernmental organizations, and the private sector—both domestically and internationally—to achieve results. In reassessing federal missions and strategies, the federal government must examine the entire mix of policy tools available to address national objectives. Because the public expects demonstrable results from the federal government, government leaders need to increase strategic planning, address management challenges and high-risk issues, use integrated approaches, enhance their agencies' results orientation, and ensure accountability. Examining existing programs and operations for potential cost savings can create much needed fiscal flexibility to address emerging needs. Moreover, addressing today's priorities must be balanced against the long-term fiscal pressures of financing existing programs and operations.

This third strategic goal guides GAO in its efforts to help transform the federal government's role and how it does business to meet 21st century challenges. The accompanying strategic objectives focus on the comprehensive reassessment necessary to position the government to take advantage of emerging opportunities and meet strategic challenges. Specifically, GAO focuses on the government's role in achieving national goals in an increasingly networked environment and its ability to deliver, and account for, high performance.

To ensure that GAO helps transform the role of government and how it does business to meet 21st century challenges, it has established strategic objectives to

- reexamine the federal government's role in achieving evolving national objectives;
- support the transformation to results-oriented, high-performing government;
- support congressional oversight of key management challenges and program risks to improving federal operations and ensuring accountability; and
- analyze the government's fiscal position and strengthen approaches for addressing the current and projected fiscal gap.



Strategic Objective:

Reexamine the Federal Government's Role in Achieving Evolving National Objectives

Issue: Within the context of the major trends and long-term fiscal imbalance, evaluating the role of the government and the programs it delivers is key to determining how to best position the federal government for the 21st century. With the government facing an array of complex challenges and opportunities, a strategic long-term view is critical in considering how best to design programs to manage effectively across boundaries and meet the nation's needs and priorities today and in the future. Policymakers will need forward-looking information to set the stage for early warnings about emerging threats and make informed choices about effective government responses.

As the pace of change accelerates in every aspect of American life, policymakers and the public need more and better information to assess where the nation is and where it is going. In this regard, developing key national indicators for the United States can help policymakers assess the overall position and progress of the nation in key areas, frame strategic issues, and support informed public debate and decisions within and between levels of government and the United States as a whole.

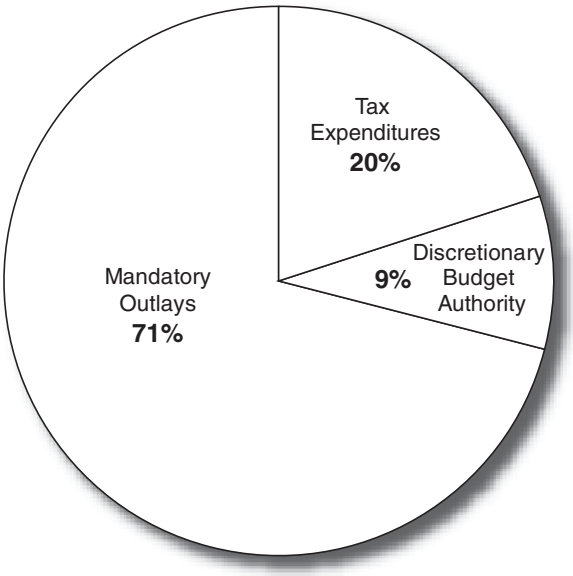
Addressing the nation's strategic challenges increasingly depends on the joint efforts of all levels of government and the interactions and interdependencies between the various actors, policy tools, and management functions. (See fig. 3.1.) In most federal mission areas—from low-income housing to food safety to higher education assistance—national goals are achieved through the use of various policy tools, such as direct spending, grants, loans and loan guarantees, insurance, tax preferences, and regulations. For example, as figure 3.2 shows, in fiscal year 2003, the federal government relied on a mix of entitlement and discretionary spending, tax preferences, and loan guarantees in delivering Medicare and federal health care. Any assessment of federal missions and strategies must look at the tools that the federal government uses and the participation of other organizations in achieving national objectives.

Figure 3.1: Policy Tools, Actors, and Management Functions That Influence Successful Government Performance

Tools	Actors	Management
Direct services	Executive agencies	Strategic planning
Grant-in-aid	State and locals	Performance management
Contracting	Foreign government	Human capital
Credit and insurance	GSEs	Budgeting
Tax expenditures	Nonprofits	Financial management
User fees	Contractors	IT management
Regulation	Faith-based for profits	Acquisitions and sourcing

Source: GAO analysis.

Figure 3.2: Relative Reliance on Policy Tools in Health Care, Fiscal Year 2003



Source: GAO analysis of data from the Office of Management and Budget.

Note: Loan guarantees accounted for about $104 million, or about 0.02 percent, of the approximately $591 billion in total federal health care resources.

Although policy tools have proliferated in recent decades, knowledge of how to design and manage the federal policy tool set has not kept pace. Policymakers need a better understanding of how individual policy tools operate, how to measure their performance and effectiveness, which actors participate in implementing various tools, and what features are necessary to ensure accountability and oversight.

The effectiveness of federal programs has increasingly become dependent on state and local management and resources as well as constructive interactions between federal, state, and local actors, including private and nonprofit entities. The intergovernmental system is being tested by a complex array of specific short- and long-term challenges. Federal, state, and local governments are facing daunting problems in managing programs involving numerous actors inside and outside of government in areas ranging from homeland security to education to health care. Moreover, the unique advantages of a federal system—the flexibility and capacity to respond to local needs—are challenged by long-term trends such as advances in technology and communications that span state and national boundaries and inspire calls for consistent national regulatory and tax policies.

Performance Goals: To support the Congress in reexamining the federal government's role in achieving evolving national objectives, GAO will

- examine emerging challenges and opportunities to position the federal government for the 21st century,
- develop new resources and approaches that can be used to assess the nation's position and progress,
- explore ways to evaluate the effectiveness of the entire set of policy tools that the federal government uses to achieve national objectives, and
- assess how involvement of state and local governments and nongovernmental organizations affects federal program implementation and achievement of national goals.

Strategic Objective:

Support the Transformation to Results-Oriented, High-Performing Government

Issue: The overarching trends and long-term fiscal challenges facing the nation drive the need to change how the government does business in the 21st century. To become high-performing organizations (HPO), agencies must transform their cultures to respond to the transition that is taking place in the federal government's role. By building fundamental management capacity, the federal government can improve its performance and deliver economical, efficient, and effective programs and services that the American people need in a cost-effective and fiscally sustainable manner. Focusing

on accountable, results-oriented management can help the federal government operate effectively within a broad network that includes other governmental organizations, nongovernmental organizations, and the private sector.

As part of its transformation efforts, the federal government needs to create a culture that moves from outputs to results, stovepipes to matrixes, hierarchical to flatter and more horizontal structures, an inward to an external focus, micromanagement to employee empowerment, reactive behavior to proactive approaches, avoiding new technologies to embracing and leveraging them, hoarding knowledge to sharing knowledge, avoiding risk to managing risk, and protecting "turf" to forming partnerships. (See fig. 3.3.) People are an organization's most important asset, and strategic human capital management should be the centerpiece of any effort to transform the cultures of government agencies. A focus on results, not just of the organization but of its contribution to national goals, is essential. In establishing a results-oriented culture that can reach its full potential, the organization and its leaders need to carefully select the best solution for the organization in terms of structure, systems, and processes. Information is an important asset that needs to be appropriately and effectively managed. Vital to successful transformation will be building the management capacity of federal agencies to support new ways of doing business—including financial, IT, and acquisition management. Though progress is being made on many fronts, much remains to be done.

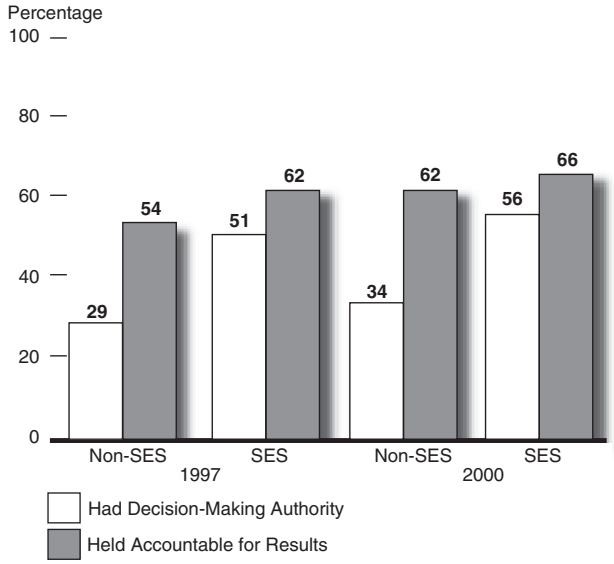
Figure 3.3: Cultural Changes and Key Practices Necessary for Successful Transformation

Source: GAO analysis.

Today's federal human capital strategies are not suited to meet current and emerging challenges or to drive needed transformation across the federal government. GAO has designated strategic human capital management as a governmentwide high-risk area, and this is also one of the President's governmentwide management reform initiatives. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of a rapidly changing and knowledge-based environment. In the past 2 years, significant progress has been made, particularly on agency-specific human capital reforms and the provision of certain flexibilities. However, much remains to be done to build an effective human capital infrastructure. As new authorities and flexibilities are provided, it will be vital to have the institutional infrastructure in place to use 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 and 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.

Agencies are confronted with long-standing and substantial challenges to becoming more results-oriented. During the past decade, the Congress has sought to instill a greater focus on results and accountability by enacting a statutory framework with the Government Performance and Results Act of 1993 (GPRA) as its centerpiece. GAO's work has shown significant growth in the number and types of results-oriented performance measures called for in GPRA. Managers' perceptions of being held accountable for results also have grown. (See fig. 3.4.) On the other hand, weaknesses persist in a number of areas. Progress in building organizational cultures to create and sustain a focus on results has been uneven. For example, the extent to which top leadership is perceived as demonstrating a strong commitment to achieving results is a persistent weakness. (See fig. 3.5.) Further, performance information is not being used to its fullest extent in key management activities. To help agencies effectively manage their resources and link resource decisions to results, agencies and the Congress need credible, rigorous evaluations to assess whether current programs and policies remain relevant, appropriate, and effective. Top leadership commitment is crucial to instilling a results-oriented culture. Although the President's Management Agenda—with its emphasis on results-oriented practices—is an important step, more needs to be done to imbed these practices into government operations.

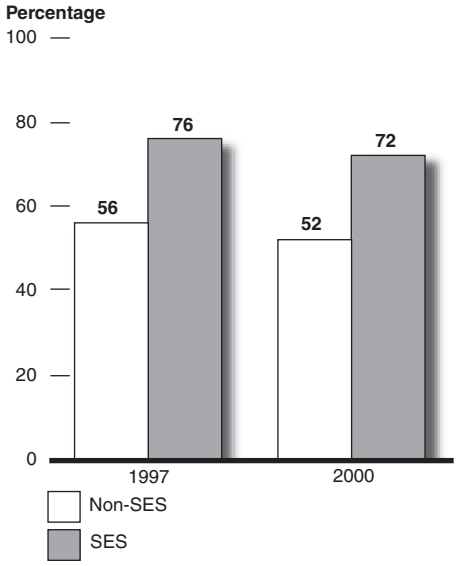
Figure 3.4: Extent to Which Managers Believe They Have Needed Decision-Making Authority and Are Held Accountable for Results, 1997 and 2000



Source: GAO survey data.

Note: "Needed" decision-making authority refers to the authority Senior Executive Service (SES) and non-SES managers responding to the survey believe managers at their level need to help their agencies accomplish their strategic goals.

Figure 3.5: Extent to Which Top Leadership Is Perceived as Demonstrating a Strong Commitment to Achieving Results, 1997 and 2000



Source: GAO survey data.

Notes: Survey respondents were both SES members and non-SES members. "Top leadership" refers to the leadership of the agencies in which the respondents serve.

Evaluating the role of government and the programs it delivers must be done within the context of the major trends and long-term fiscal challenges it faces. This is an opportune time for the Congress to carefully consider how to make needed changes in the short term to help agencies effectively manage their resources and link resource decisions to results, as well as to work toward a comprehensive and fundamental reassessment of what the government does, how it does business, and who does the government's business. Agencies and the Congress need credible evaluative, analytical, and financial information to assess whether current programs and policies remain relevant, appropriate, and effective.

Successfully transforming how the government does business depends on building high-performing organizations that network with key partners both across and outside the government. Improved performance has been a primary goal of several recent restructurings—formation of DHS, reorganization of the FBI, and modernization of the Internal Revenue Service. 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. However, past government experience in reorganization has yielded mixed results. Future success will depend on identifying and implementing best practices of high-performing organizations operating in a complex, networked environment. Critical organization elements—structure, systems, and practices—must support achieving high performance.

Information is a vital resource that needs to be properly managed. The growth in electronic information, as well as new security threats facing the nation, highlight challenges to the effective collection and dissemination of information that agencies need to take into account in developing new programs. While it is important to enhance the government's use of new technologies to improve the collection and dissemination of government information, it is also important that this information—especially that collected for statistical purposes—meets the current needs of federal programs and policymakers. In areas in which the U.S. economic and social structure is undergoing major change, statistical agencies need to respond to these changes with relevant data on a timely basis.

Timely, accurate, and useful financial information is essential for making operating decisions day to day; supporting results-oriented management approaches; and managing the government's operations more efficiently, effectively, and economically. Yet, the federal government's financial management has suffered from neglect, and financial systems have serious shortcomings.

IT is a key element of management reform efforts that can dramatically reshape government to improve performance and reduce costs. However, numerous poorly managed IT systems have produced multimillion-dollar cost overruns, schedule slippages, and poor results. Further, poor information security remains a high-risk area across the federal government with potentially devastating consequences. Electronic government offers many opportunities to better serve the public and reduce costs, but the federal government has not reached its full potential in this area.

Effective acquisition management plays a key role in creating and sustaining high-performing organizations. Despite reforms to transform the federal acquisition process, the government still does not have a world-class purchasing system. All too often, many of the products and services the government buys cost more than expected, are delivered late, or fail to perform as anticipated. Encouragement of strategic contracting approaches that seek greater efficiencies as well as improvements in management and accountability are needed to produce better outcomes. Agencies are considering other approaches for achieving greater efficiency and effectiveness in their operations, including appropriate use of contracts with the private sector. After a yearlong study, the Commercial Activities Panel developed a set of principles to be used in addressing sourcing decisions and recommended the public and private sectors compete for the opportunity to perform commercial functions. Competitions can be based on the established framework of the Federal Acquisition Regulation. OMB published changes to Circular A-76 that are generally consistent with the panel's recommendations. However, this competitive sourcing initiative is a major change in the way government agencies operate, and successful implementation of the circular's provisions will require that adequate support be available to federal agencies and employees. GAO will follow developments in this area closely.

Performance Goals: To support the transformation to a results-oriented, high-performing government, GAO will

- analyze and support efforts to improve the human capital infrastructure key to the successful transformation of the government;
- assess efforts to improve results-oriented management across the government;
- analyze and support efforts to build high-performing organizations;
- identify ways to improve the collection, dissemination, and quality of federal information;
- identify ways to improve financial management infrastructure capacity to provide useful information for managing results and costs day to day;
- assess the government's planning, implementation, and use of IT to improve performance and modernize federal programs and operations; and
- identify ways to improve how federal agencies acquire goods and services.

Strategic Objective:

Support Congressional Oversight of Key Management Challenges and Program Risks to Improving Federal Operations and Ensuring Accountability

Issue: Strong, visionary, and persistent leadership will be needed to address today's challenges and prepare the nation for the future. Congressional leadership will play a vital role in achieving a broad transformation of the government. Congressional oversight is needed to ensure that agencies continue to build their fundamental management capabilities, resolve high-risk areas, and address major management challenges to effectively address the nation's most pressing priorities and to take advantage of emerging opportunities.

The 2003 Performance and Accountability and High-Risk Series reports designate high-risk areas and describe over 100 major management challenges. GAO's 2003 high-risk list identifies 26 high-risk areas, as shown in figure 3.6. Continued persistence and perseverance in addressing these high-risk areas and agencies' major management challenges will ultimately yield significant benefits. Although effectively addressing some of these issues will require time, finding lasting solutions could potentially save billions of dollars, improve service to the American public, strengthen public trust in the national government, and ensure the ability of government to deliver on its promises. More remains to be done to ensure that the government has the capacity to deliver on its promises and meet current and emerging needs.

Figure 3.6: GAO's 2003 High-Risk List

2003 high-risk areas	Year designated high risk
Addressing Challenges in Broad-based Transformations	
Strategic Human Capital Management [a]	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook [a]	2001
Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures	1997
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs [a]	2003
Federal Real Property [a]	2003
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
Reducing Inordinate Program Management Risks	
Medicare Program [a]	1990
Medicaid Program [a]	2003
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
DOD Support Infrastructure Management	1997
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Student Financial Aid Programs	1990
Pension Benefit Guaranty Corporation Single-Employer Insurance Program [a]	2003
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Source: GAO.
[a]Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

As part of the drive to improve performance, agencies are increasingly being called on to demonstrate that their programs are conducting research that is relevant, of high quality, and producing results. As part of the President's Management Agenda, for example, OMB is focusing on developing objective criteria that agencies can use to select, fund, and manage their R&D programs. According to the fiscal year 2004 budget, 12 of the top 13 agencies conducting R&D are using OMB's PART, which contains criteria for R&D investments. Science and technology investments are critically important in improving the quality of life and the performance of the economy in areas that include health care, defense, energy, and the environment.

However, the increased development and use of new technologies presents challenges to the Congress in evaluating their potential and assessing the effects on security, safety, privacy, and equity. For example, despite many successes in the exploration of space, the loss of life, unsuccessful missions, and

unforeseen cost overruns have recently increased the level of concern over the benefits of space exploration, particularly with regard to manned activities. Congressional oversight is critical in ensuring that the substantial federal investment in science and technology is allocated effectively and that intellectual property rights are protected here and abroad.

The federal government has a stewardship obligation to safeguard the use of taxpayer funds; prevent fraud, waste, and abuse; and ensure financial accountability. While there has been important progress, agencies are still working toward the goals established in financial management reform legislation, such as the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. Widespread financial management system weaknesses, poor record keeping and documentation, weak internal controls, and a lack of information have prevented the government from having the information needed to effectively and efficiently manage operations or accurately report a large portion of its assets, liabilities, and costs. Continued oversight is needed to ensure that agencies take steps to continuously improve internal controls and underlying financial and management information systems to ensure that executive branch managers and congressional decision makers have reliable, timely, and useful information to ensure accountability; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources.

Performance Goals: To support congressional oversight of key management challenges and risks to federal operations and accountability, GAO will

- highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies,
- assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property, and
- identify ways to strengthen accountability for the federal government's assets and operations.

Strategic Objective:

Analyze the Government's Fiscal Position and Strengthen Approaches for Addressing the Current and Projected Fiscal Gap

Issue: The federal budget is the principal annual vehicle through which the Congress and the President balance competing views about the allocation of federal resources, accountability for those resources, and the allocation of responsibility between the public and private sectors and among levels of government. After 4 years of budget surpluses, the nation again is facing large and growing budget deficits. This comes as the squeeze on the federal budget from the impending retirement of the baby boom generation is becoming more apparent.

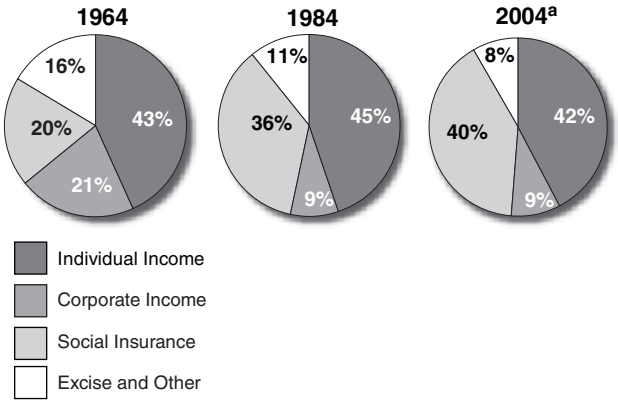
GAO's long-term budget model has consistently suggested that without changes to the major retirement and health care programs, the nation will ultimately have to choose between escalating federal deficits and debt, significant tax increases, and dramatic budget cuts in other areas. Under CBO's current 10-year budget and economic outlook, economic growth is projected to be half a percentage point lower on average after 2008 when the leading edge of the baby boom generation becomes eligible for early retirement, while growth in entitlement spending is projected to accelerate. As such, it will be increasingly difficult to address today's urgent needs without unduly exacerbating the nation's long-term fiscal challenges.

While Social Security and Medicare dominate the long-term outlook, they are not the only federal programs or activities that bind the future. Indeed, the federal government undertakes a wide range of programs, responsibilities, and activities that obligate it to future spending or create expectations for spending. Making government fit the challenges of

the future will require not only dealing with the drivers—entitlements for the elderly—but also looking at the range of other federal activities. However, the budget controls instituted to achieve balance in the past have expired, and no agreement has been reached on the appropriate structure or process for focusing on the fiscal challenges that now move to center stage.

To understand the context for near-term budget decisions more fully, it is important to look at trends in revenue sources and the distribution of expenditures. These trends show (among other things) growth in the relative share of revenues derived from employment taxes, such as those for Social Security (Old-Age Survivors and Disability Insurance), and a dramatic change over time in composition of spending, with a growing share devoted to health and interest on the debt, as shown in figures 3.7 and 3.8.

Figure 3.7: Composition of Federal Receipts by Source, Fiscal Years 1964, 1984, and 2004

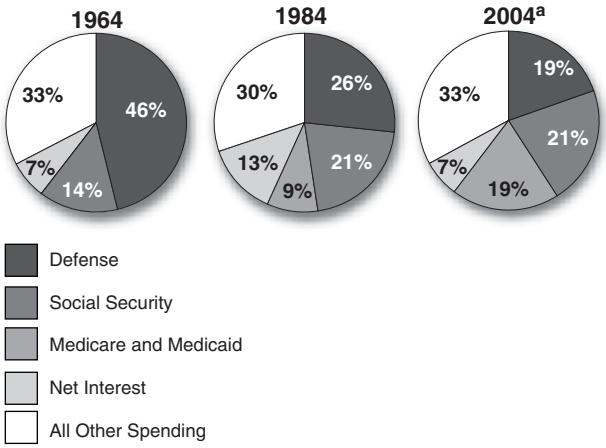


Source: GAO analysis of data from the Office of Management and Budget.

Note: Numbers do not add to 100 percent due to rounding.

[a]Current services estimate.

Figure 3.8: Composition of Federal Spending by Budget Function, Fiscal Years 1964, 1984, and 2004



Source: GAO analysis of data from the Office of Management and Budget.

[a]Current services estimate.

In rethinking federal fiscal policy and preparing for the long-term budgetary challenges, policymakers have the opportunity to reexamine what the federal government does and how it finances those activities. American taxpayers annually pay about $2 trillion in taxes to fund the federal government. The federal tax system includes numerous tax provisions intended to influence taxpayers' behavior throughout the economy, but little is known about the effects of many of these provisions. Given the size and complexity of the federal tax code, the Congress remains interested in tax reform, particularly its simplification.

As the nation's chief tax collector, the Internal Revenue Service (IRS) interacts with more Americans than any other government agency, and compliance with tax laws is a significant burden imposed on businesses and individuals. IRS is in the midst of implementing major legislatively mandated reforms in how the nation's tax system is administered, and congressional interest remains focused on IRS's progress.

In light of the long-term fiscal challenges, policymakers need to reexamine, reassess, and reprioritize the federal government's programs, policies, and activities. One key to making resource decisions is having reliable, useful, and timely information routinely available. Such information is also necessary to ensure accountability and to improve

the economy, efficiency, and effectiveness of government actions that have a direct effect on achieving a more results-oriented government.

Performance Goals: To analyze the government's fiscal position and identify ways to strengthen approaches for financing the government, GAO will

- analyze the long-term fiscal position of the federal government,
- analyze the structure and information for budgetary choices and explore alternatives for improvement,
- contribute to congressional deliberations on tax policy,
- support congressional oversight of federal tax administration, and
- assess the reliability of financial information on the government's fiscal position and financing sources.

External Factors That May Affect Achievement of Goal 3

Significant changes in the major forces shaping the United States discussed earlier in this plan will affect GAO's ability to meets its goals and objectives. Efforts to improve the government's performance and accountability could be affected by (1) the heightened priorities assigned by the administration and agency management to national defense and homeland security, (2) the capacity within agencies to develop and use performance and cost information effectively to make improvements, (3) the level and management of resources provided for needed investments in agencies' management systems, and (4) the worsening fiscal position of the government as it is affected by both the economy and policy decisions. GAO will emphasize the importance of improved business practices and useful performance and cost information to better ensure the cost-effective use of federal resources.

Goal 4:
Maximize the Value of GAO by Being a Model Federal Agency and a World-class Professional Services Organization

To successfully carry out its responsibilities to the Congress for the benefit of the American people, GAO in its work must be professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced. GAO should also lead by example. The focus of goal 4 is to make GAO a model organization—one that is client and customer driven, has strategic leadership focused on achieving results, leverages its institutional knowledge and experience, continuously enhances the services that support its engagements, and is regarded as an employer of choice. Strategic human capital management is key to these transformation efforts.

In this respect, the focus of goal 4 for the period 2004 through 2009 is largely unchanged from the previous plan. GAO has, however, made some refinements. Most significantly, GAO has refined its strategic objectives and supporting performance goals to make them more results-oriented and measurable.

To accomplish its goal of being a model federal agency and a world-class professional services organization, GAO has established strategic objectives to

- continuously improve client and customer satisfaction and stakeholder relationships,
- lead strategically to achieve enhanced results,
- leverage GAO's institutional knowledge and experience,
- continuously enhance GAO's business and management processes, and
- become a professional services employer of choice.

Strategic Objective:

Continuously Improve Client and Customer Satisfaction and Stakeholder Relationships

Issue: GAO interacts and works with a diverse set of external clients and internal customers. GAO's principal client is the Congress, but its work is also important to other stakeholders, including federal and nonfederal agencies and organizations, and international institutions. GAO's internal customers are its staff who deliver quality service to its clients. Therefore, being a model agency depends on both determining and meeting the requirements of GAO's clients and internal customers.

For congressional clients, GAO will update its understanding of their needs and expectations, measure their satisfaction with GAO's work, and act on the resulting feedback. GAO will also refine its protocols for working with its congressional clients to better address their needs and expectations. In addition, GAO plans to use enhanced technology to provide its congressional clients with better access to GAO information and products and to improve the quality and timeliness of GAO products and services.

For internal customers, GAO will survey staff satisfaction with engagement support and other business processes, identify the services most requiring improvement, implement best practices to effect these needed improvements, and measure the impact of improvement efforts. GAO also plans to improve communication with GAO managers and staff on changes to engagement services.

For external stakeholders, GAO plans several efforts to strengthen relationships with major stakeholder groups. GAO will refine its protocols for conducting agency reviews to better manage stakeholder expectations. GAO also plans to develop and implement clear, consistent, and transparent protocols to govern interactions with international organizations. GAO will also strengthen its relationship with the press and the public by increasing the accessibility of GAO's products.

Performance Goals: To support the objective to improve client and customer satisfaction and stakeholder relationships, GAO will

- strengthen communication with congressional clients and more broadly measure their satisfaction with GAO's work;
- assess internal customer satisfaction with GAO services and processes and implement and measure improvement efforts; and
- strengthen relationships with GAO's stakeholders and increase the accessibility of GAO's products.

Strategic Objective:

Lead Strategically to Achieve Enhanced Results

Issue: GAO will strengthen its strategic leadership to better integrate the agency's financial, human capital, and information resources for achieving enhanced results. To accomplish this objective, GAO will build on its established base of strategic planning, sound financial management, performance management, IT best practices, and leadership initiatives. GAO will also need to refine certain functions to ensure their strategic alignment. GAO will work to better align succession planning, workforce planning, staff utilization, and appraisal and compensation systems with its strategic objectives.

Performance Goals: To support the objective to lead strategically to achieve enhanced results, GAO will

- integrate planning, budgeting, and performance measurement to achieve enhanced results;
- strengthen GAO's strategic human capital management to achieve enhanced results;
- ensure exemplary practices and systems in GAO's fiscal operations; and
- strengthen IT governance practices and processes to achieve strategic results.

Strategic Objective:

Leverage GAO's Institutional Knowledge and Experience

Issue: GAO is a knowledge-based professional services organization. As a large number of GAO's more senior employees reach eligibility for retirement, GAO needs to identify and implement strategies for retaining this knowledge and expertise and increasing organizational knowledge sharing. GAO plans to develop an integrated approach for identifying, managing, and sharing the organization's information and intellectual assets. GAO plans to use its greatly enhanced electronic and Web-based technologies to support this objective. Further, GAO intends to identify ways to enhance knowledge sharing with other national and international accountability and professional organizations.

Performance Goals: To support the objective to leverage GAO's institutional knowledge and experience, GAO will

- maximize the collection, use, and retention of essential organizational knowledge;
- increase GAO's knowledge-sharing capability; and
- enhance knowledge sharing with other national and international accountability and professional organizations.

Strategic Objective:

Continuously Enhance GAO's Business and Management Processes

Issue: GAO, as the federal government's accountability organization, undertakes engagements to evaluate the economy, efficiency, and effectiveness of a wide range of federal policies and programs to assist the Congress and benefit the American taxpayer. By continuously assessing and enhancing the processes and services that support its own engagements, GAO can maximize its value to the Congress and the public.

Performance Goals: To support the objective to continuously enhance GAO's business and management processes, GAO will

- improve engagement support services and
- use enabling technology to improve GAO's crosscutting business processes.

Strategic Objective:

Become a Professional Services Employer of Choice

Issue: To be a model organization, GAO must become an employer of choice—one that attracts, retains, motivates, and rewards excellent employees and is considered one of the best places to work. GAO intends to build and maintain a work environment that is fair, unbiased, and inclusive and that offers the opportunity for all employees to realize their full potential. The agency is committed to providing its employees with the tools, technologies, and systems that promote collaboration and productivity and a safe and secure workplace. The agency will also continue to enhance its offerings of family-friendly and work/life programs and provide superior training for its new hires to improve employee satisfaction with working at GAO.

Performance Goals: To become a professional services employer of choice, GAO will

- promote an environment that is fair and unbiased and that values opportunity and inclusiveness;
- provide GAO staff with tools, technology, and a world-class working environment;
- provide a safe and secure workplace;
- enhance employee views about GAO; and
- improve the development and experiences of newly hired staff.

External Factors That May Affect Achievement of Goal 4

The availability of resources could affect GAO's timely achievement of objectives under this goal. Specifically, the agency envisions relying, to a great extent, on in-house expertise as it develops the necessary strategies, policies, and process changes identified with each of the five strategic objectives. This approach will require GAO to apply the knowledge, skills, and abilities of its current staff to the diversity of strategic needs identified in the plan. However, in-house expertise alone will not be enough to fully accomplish GAO's objectives. This is especially true with regard to GAO's human capital, business process, knowledge management, and enabling technology initiatives. To bring a fresh perspective, subject matter expertise, and knowledge of best practices to these issues, GAO will need to rely on assistance from external consultants and contractors. In the event that its planned resources need to be diverted to respond to changing national priorities or cannot be made available because of changing budget priorities, GAO's ability to achieve its stated objectives could, at a minimum, be delayed.

GAO will work closely with its oversight and appropriations committees to help ensure that it remains responsive to its clients' needs and changing national priorities and that needed resources are available to address emerging contingencies.

Performance Measures and Evaluations

In updating this plan, GAO relied on a variety of information sources about past performance to determine priorities for the future. GAO will continue to rely on these sources and other evaluations to judge its progress on its strategic goals and objectives over the period of this plan. GAO intends to continue refining its performance indicators as part of a balanced scorecard approach to performance measurement that focuses on the agency's clients, results achieved, and employees.

Key Performance Measures

GAO uses both quantitative and qualitative performance measures to assess progress in achieving its strategic goals and objectives. Collectively, these measures help demonstrate the degree to which GAO

- provides timely, quality service to the Congress and the federal government so that they can respond to current and emerging challenges and
- helps the government meet 21st century challenges by transforming its role and its ways of doing business.

To assess GAO's progress toward achieving its external strategic goals (that is, goals 1, 2, and 3) and their objectives, the agency uses two types of quantitative measures. First, GAO assesses its efforts to provide support to the Congress and the federal government in terms of the number of recommendations GAO has made, the percentage of its products that contain recommendations, the percentage of recommendations implemented, the number of hearings at which GAO experts have testified before the Congress, and the timeliness of its products. Second, GAO goes beyond these measures of services it provided to assess the results or outcomes of the services it has provided. GAO does this by tabulating both the financial benefits and other improvements to government programs and services that result when action is taken in response to information and recommendations from GAO. GAO sets performance targets for all of these quantitative measures annually and compares its actual performance with the targets.

Quantitative Measures for GAO's External Strategic Goals (Goals 1, 2, and 3)

Financial benefits that are documented as either directly attributable to, or significantly influenced by, GAO's work. These include reductions in annual operating costs of federal programs or activities; reductions in the costs of multiyear projects or entitlements; and increased revenues from debt collection, asset sales, and changes in tax laws or user fees.

Other benefits that flow from GAO's work but cannot be measured in dollar terms. These include instances in which GAO provided information to the Congress that resulted in statutory or regulatory changes, instances in which GAO recommended actions that caused federal agencies to improve services to the public, and instances in which GAO's work led to improved core business processes throughout the government.

Testimonies delivered, or the number of hearings at which GAO experts testified. This serves as a measure of direct support to the Congress.

Recommendations made and **those subsequently implemented** to correct the underlying causes of problems that impede government efficiency and effectiveness. These are measured in terms of (1) the number of recommendations made, (2) the percentage of products containing recommendations, and (3) the percentage of recommendations implemented 4 years after they were made.

Timeliness of GAO's products. This is measured by the extent to which products are delivered to clients by agreed-upon dates.

To complement GAO's annual quantitative measures, the agency sets multiyear qualitative performance goals for each of its strategic objectives that help it assess whether it has done the work it planned to do for its congressional clients. These performance goals reflect the breadth and depth of GAO's work, and each includes a set of key efforts to be undertaken during the first 2 years of this plan: fiscal years 2004 and 2005. Potential outcomes are also listed for each performance goal to highlight the improvements that may result if the Congress and the federal government use the

information and recommendations GAO provides. Annual reports on GAO's progress toward its goals and objectives and updates to its plan are also posted at http://www.gao.gov/sp.html.

GAO will measure its success in meeting its qualitative performance goals by having senior managers assess the extent to which GAO does the work the key efforts describe for each goal. As part of their assessment, senior managers consider all of the information provided and recommendations made for each key effort and then determine whether the overall body of work produced adequately achieves or addresses the related performance goal.

For its fourth strategic goal—which calls for GAO to become a model federal agency and a world-class professional services organization—the agency also relies on qualitative measures to assess its progress in making the internal improvements necessary to achieve that goal and its objectives. As with GAO's external strategic objectives, each objective under the internal strategic goal has a set of qualitative performance goals with key efforts that will be assessed after 2 years. Senior managers responsible for this strategic goal also judge whether the performance goals have been met based on the work done on the goals' key efforts.

GAO is continuing to refine its measures, working toward a balanced scorecard that evaluates performance based on three key perspectives: GAO's clients, GAO's results, and GAO's people. The agency plans, for instance, to establish a client feedback measure and indicators that assess its efficiency and effectiveness in supporting its staff in their efforts to serve GAO's clients and the American people.

Evaluations

For the purposes of this plan, GAO used several periodic evaluations to help review and revise its strategic objectives. One of the essential steps in the planning process for goals 1, 2, and 3 was an evaluation of actions taken by federal agencies and the Congress in response to GAO's recommendations. GAO actively monitors the status of open recommendations and uses the results of its analysis to determine the need for further work in an area. If, for example, an agency has not undertaken a recommended action that GAO considers still valid and worthwhile, GAO may decide to pursue further action with agency officials or congressional committees or to undertake additional work.

Another major evaluation GAO used to inform the update of the strategic objectives under goals 1, 2, and 3 was the January 2003 edition of GAO's biennial *Performance and Accountability Series: Major Management Challenges and Program Risks*. This series addresses a range of challenges and opportunities to enhance performance and accountability governmentwide and at 21 agencies. A companion volume provides a status report on those major government operations considered high risk because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. The series is, among other things, a valuable planning tool for GAO, helping it identify those areas in which its continued efforts are needed to maintain the focus on important policy and management issues facing the nation.

GAO also used a number of studies and evaluations to help review and update the strategic objectives on improving its internal operations under strategic goal 4. These studies and evaluations include

- an assessment of its administrative processes and ways to determine internal customers' satisfaction;
- a survey of employees' views about their work environment;
- a survey of employees' skills and work preferences;
- an ongoing review of GAO's workforce and the agency's future needs for skilled mission and support staff as well as for senior managers;
- an evaluation of the practices and procedures analysts use to develop core products and whether these practices adhere to policies that ensure the quality of GAO's engagements and products;
- an extensive study of GAO's training and curriculum strategies;
- a comprehensive assessment of GAO's building security and safety, especially in the event of a major disaster or national security incident; and
- a security evaluation of GAO's IT systems.

Finally, GAO's Office of the Inspector General evaluates the administration of the agency, including an assessment of key performance measurements. The Inspector General's evaluations are useful for ensuring that GAO's operations are efficient and economical and serve as additional input for updating the objectives under strategic goal 4.

A number of planned evaluations should benefit GAO's future strategic planning efforts. In fiscal year 2003, GAO again reported—as it will do every 2 years—on federal agencies' major management challenges and high-risk areas, publishing analyses that, among other things, serve to identify areas for continued GAO efforts. As outlined in the discussion of strategic goal 4, GAO also plans to evaluate in fiscal years 2004 and 2005 the (1) agency's readiness for an assessment of its engagement policies and quality control practices by a team of external peer reviewers and (2) effectiveness of a number of its core and support processes to enhance their usefulness and improve efficiency.

Consultations and Relationships with Others

Because achieving its strategic goals and objectives also requires strategies for coordinating with other organizations with similar or complementary missions, GAO

- uses advisory panels and other bodies to inform its strategic and annual work planning and
- initiates and supports collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

These two types of strategic working relationships allow GAO to extend its institutional knowledge and experience and, in turn, to improve its service to the Congress and the American people.

Through newly established forums and a number of ongoing advisory boards and panels, GAO gathers information and perspectives for its strategic and annual performance planning efforts. Ongoing advisory boards and panels also support strategic and annual work planning by alerting the agency to issues, trends, and lessons learned across the national and international audit community that should factor into GAO's work. These groups include the Comptroller General's Advisory Board, the 40 members of which represent both the public and private sectors and have broad expertise in areas related to GAO's strategic objectives. The board meets with GAO leadership annually to share its views on GAO's strategic direction and specific initiatives. Through the National Intergovernmental Audit Forum, chaired by the Comptroller General, and 10 regional intergovernmental audit forums, GAO consults regularly with federal inspectors general and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

Internationally, GAO participates in the International Organization of Supreme Audit Institutions, the professional organization of the national audit offices of 184 countries. The Comptroller General also leads the Global Working Group, in which the heads of GAO's counterparts from 15 countries meet annually to discuss mutual challenges, share experiences, and identify opportunities for collaboration.

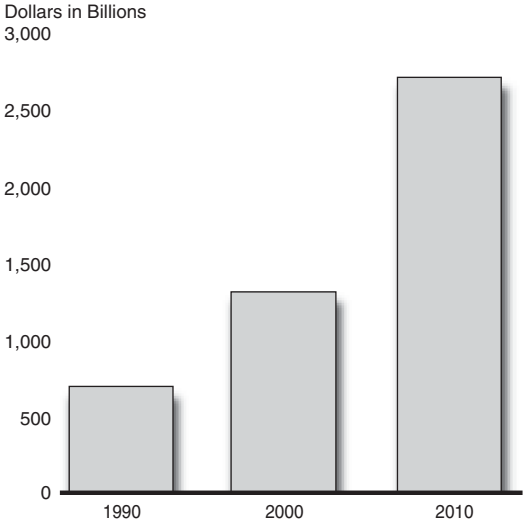
Subject Area Supplements to the Strategic Plan

The supplements to GAO's strategic plan provide greater detail on how the agency intends to fulfill its strategic objectives. For each strategic objective, a supplement provides a brief discussion of the significance of each related qualitative performance goal and its potential outcomes and also lists each performance goal's key efforts. The key efforts lay out the work GAO plans to do in fiscal years 2004 and 2005 to help achieve GAO's strategic goals and objectives. GAO will assess whether it achieved the qualitative performance goals at the end of fiscal year 2005.

The Health Needs of an Aging and Diverse Population

Issue: Total health care spending in the United States from all sources—public and private—continues to increase at a breathtaking pace. From 1990 through 2000, spending nearly doubled from $696 billion to $1.3 trillion and by 2010 is estimated to more than double again to $2.7 trillion. (See fig. 1.1.) This unrelenting growth is producing a health care sector that continues to claim an increasing share of the nation's GDP—about 12 percent in 1990 versus an estimated 17 percent in 2010.

Figure 1.1: Total National Health Care Spending, 1990–2010

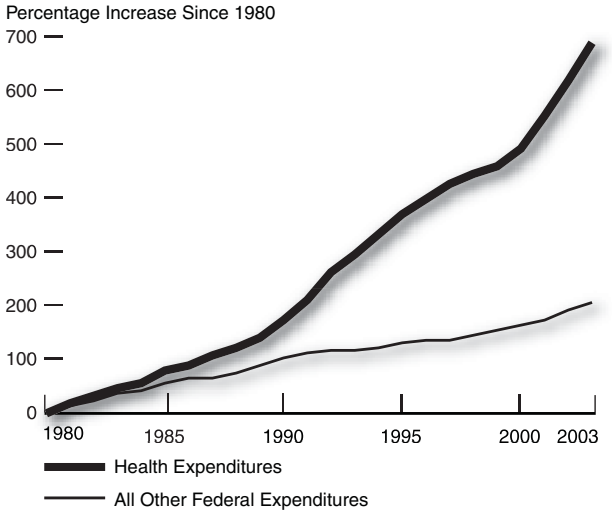


Source: Department of Health and Human Services, Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Note: The figure for 2010 is projected. All dollars are nominal.

Not surprisingly, health care spending has been one of the most rapidly rising elements of federal spending, growing three times faster than the rest of the federal budget over the last 20-plus years. (See fig. 1.2.) Expenditures on health-related programs are one of the largest components of federal spending, totaling an estimated $468 billion in fiscal year 2002, or about 23 percent of all federal spending that year. Health care also accounts for significant federal tax expenditures, with $108.5 billion in forgone revenues projected for 2003 because of employer contributions to medical care and medical insurance. The cost pressures of serving a growing population—particularly those 65 and older—are compounded by scientific advances in medical treatments, which can blur the lines between needs and wants and make it difficult to reasonably assess what society can afford.

Figure 1.2: Growth of Federal Health Expenditures, 1980–2003



Source: Office of Management and Budget.

Note: The 2003 number is an estimate.

Of particular concern is the growth in Medicare expenditures, which are estimated to total about $269 billion for fiscal year 2003. Even without considering the financial effects of its new prescription drug benefit, Medicare is expected to nearly double its share of the economy by 2030, competing with other spending and economic activity of value. Indeed, one part of Medicare, the Medicare Hospital Insurance trust fund, is projected to begin running a deficit in 2013 and to be depleted by 2026. Also of concern are issues of (1) modernizing Medicare's management structure, payment policies and methodologies, and benefits package and (2) reducing Medicare's administrative burden on providers. Moreover, because of its size and complexity, Medicare is inherently difficult to manage. About 50 insurance companies process and pay approximately 1 billion claims annually to over 1 million health care providers. Consequently, the program is a target for fraud, waste, and abuse, and effective oversight is critical to protecting program dollars and promoting efficient program operations.

Although the introduction of competitive principles to health care helped to contain medical care cost increases for several years, costs are increasing significantly once again as is the number of Americans without health insurance. These cost increases, in concert with the weak economy the past several years, have important implications for federal health care programs and outlays and for the availability of employer-sponsored health insurance. Many employers have reportedly been considering or have actually made changes in the generosity of their health insurance benefits. Moreover, the public is concerned about the quality of care, consumer protection mechanisms, and the availability of information to allow purchasers to make informed insurance choices.

The government also must address pressing issues in its own system of hospitals and clinics. The Department of Veterans Affairs (VA)—one of the nation's largest health care systems—spends about $23 billion a year to provide health care to approximately 4.2 million veteran patients. Yet, much of VA's physical infrastructure is obsolete and burdened with excess capacity. The Department of Defense's (DOD) health care system spends about $24 billion annually to support both direct and civilian health care to about 8.7 million eligible beneficiaries. Pressure is mounting to integrate aspects of the two systems to increase their efficiency and effectiveness.

Other areas of concern are the efficiency and effectiveness of the government's public health programs, including those administered by the National Institutes of Health, the Food and Drug Administration, the Centers for Disease Control and Prevention, and the Health Resources and Services Administration. These programs support and conduct research; provide grants to states for public health programs, such as maternal and child health services and AIDS prevention and treatment; and conduct regulatory oversight of the United States' new drug and medical device research. Questions have been raised about the government's ability to ensure the necessary protection of patients in research as well as to safeguard the public in the review of new pharmaceuticals, medical devices, and food products. Additionally, the changing nature of public health threats domestically and internationally, such as HIV infection, SARS, and other emerging infectious diseases, poses significant challenges for the government. As diseases such as HIV and tuberculosis have become pandemics, the effectiveness of international health programs to prevent and adequately treat populations in developing countries is a growing concern. Governments' ability to help surmount shortages of certain prescription drugs and vaccines is a worldwide concern as well.

The threat of terrorists using biological weapons of mass destruction, such as anthrax and smallpox, has raised concerns about the nation's ability to adequately respond to bioterrorist attacks. This has heightened concern about the adequacy of trained personnel, laboratory capacity, disease surveillance systems, and coordinated communication systems among state and local emergency responders. Greater attention has been given to state and local communities' capacity to develop coordinated plans for dealing with a potential biological attack and to develop emergency response systems linking hospitals, emergency rooms, health personnel, and fire and police efforts to respond to any form of terrorism.

Finally, the baby boom generation will undoubtedly place increasing pressure on the Medicaid program for which the joint federal/state expenditures in fiscal year 2003 are estimated at $275 billion—more than those of Medicare. Medicaid helps to pay for nursing home and other community-based forms of long-term care services. Yet meeting an increasing demand for such services at a time when many states are in severe financial difficulty and the federal government is once again operating at a deficit will pose significant challenges for federal and state decision makers, with important implications for the services offered by each state. At the other end of the population spectrum are millions of uninsured children whose families have no health insurance. Medicaid and the State Children's Health Insurance Program help cover the health insurance costs of these low-income Americans. However, the recent economic downturn has led to declining state revenues and to states taking, or considering taking, actions to reduce access to care for this vulnerable population, thereby contributing to an increase in the number of uninsured. Accounting for and overseeing these two programs represents a formidable challenge for the federal government because of the variation in state policies, procedures, and delivery

systems. In particular, Medicaid's size and complexity make it vulnerable to fraud, waste, and abuse, making effective federal oversight critical.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- evaluate medicare reform, financing, and operations;
- assess trends and issues in private health insurance coverage;
- assess actions and options for improving VA's and DOD's health care services;
- evaluate the effectiveness of federal programs to promote and protect the public health;
- evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism;
- evaluate federal and state program strategies for financing and overseeing long-term health care; and
- assess state experiences in providing health insurance coverage for low-income populations.

Performance Goal 1.1.1: Evaluate Medicare Reform, Financing, and Operations

Key Efforts

- Analyze Medicare's financial condition and the potential consequences of program structural reforms
- Evaluate the Centers for Medicare & Medicaid Services' (CMS) management of Medicare, including its implementation of legislative reforms and its service to providers and beneficiaries
- Evaluate Medicare payment methods for health care providers
- Assess the effects of Medicare's payment methods on access to, and quality of, health care services
- Evaluate CMS's safeguards and program controls over provider payments and beneficiary access and quality

Significance

Medicare now finances health care for over 40 million Americans, accounting for almost one-eighth of all federal expenditures. Even without considering the financial effects of the new prescription drug benefit, Medicare is expected to nearly double its share of the nation's economy by 2030, crowding out other government spending and economic activity. Medicare's Hospital Insurance trust fund is projected to begin running a cash deficit in 2013 and to become insolvent by 2026. While structural changes, such as managed care, were intended to introduce market competition to Medicare, with the goal of containing health care use and costs, their implementation and acceptance have been somewhat problematic. In addition to the changes incorporated in the 2003 Medicare legislation, other options to fundamentally reform Medicare have been proposed, such as modernizing the benefits package, restructuring beneficiary cost sharing, and providing incentives for beneficiaries to make cost-effective choices among health plans.

Any structural changes will take time to fully implement. For example, Medicare's new prescription drug benefit for beneficiaries is not effective until 2006. Therefore, it is imperative to continue to concentrate on improving the existing program and refining Medicare's payment methods in ways that reward fiscal discipline while preserving access to care. Effectively managing the Medicare program, including safeguarding its integrity, remains a continuing challenge, in part, because of the program's size and complexity. Since 1990, GAO has designated Medicare as a high-risk program, vulnerable to waste, fraud, abuse, and mismanagement. Because Medicare currently pays out approximately $269 billion annually and is responsible for financing health services delivered by over 1 million providers, it is an especially attractive target for fraud, waste, and abuse, and therefore, good management is critical.

Potential Outcomes

- Better congressional understanding of Medicare's financial condition and program reform proposals, including implications for the budget and for health care
- Improvements in CMS's program management and implementation of legislated Medicare program changes
- Development of more comprehensive, accurate, and timely data for evaluating program performance and services to beneficiaries
- Medicare payment methods that minimize federal costs and promote access to quality medical care
- Reductions in improper payments to health care providers and in unnecessary program expenditures

Performance Goal 1.1.2: Assess Trends and Issues in Private Health Insurance Coverage

Key Efforts

- Analyze potential modifications to federal tax policies and new insurance purchasing arrangements for their impact on the numbers of uninsured, costs of health care services, and implementation challenges for federal and state agencies
- Evaluate trends in, and distribution of, health insurance coverage, including long-term care insurance and employer sponsorship of private health insurance for employees and retirees
- Assess the impact of public and private efforts to achieve compliance with federal and state health insurance standards

Significance

Private health insurance provides coverage for more than 175 million Americans; however, in 2002 more than 43 million individuals did not have health insurance. The federal government has an increasing role in overseeing employer-sponsored health benefits and private insurance coverage both through its traditional roles established by the Employee Retirement Income Security Act of 1974 and the tax code and through more recent federal insurance standards, such as the Health Insurance Portability and Accountability Act of 1996, and tax incentives, such as the Trade Adjustment Assistance Reform Act of 2002.

The Congress continues to consider additional approaches to increase private health insurance coverage, such as new tax incentives for unemployed individuals or purchasing arrangements for small employers. Such new approaches may increase access to health insurance for some individuals or employers but need to be carefully assessed for their budget implications, effects on those already purchasing coverage, and need for effective regulatory oversight.

Strong interactions exist between the private health insurance market and public health insurance programs, including Medicare and Medicaid, with financing innovations in the private or public sector often being adopted by the other sector. The Federal Employees Health Benefits Program, which provides health insurance to more than 8 million federal employees, retirees, and dependents, has sometimes been considered a model for other large employers or public programs, but has also had to address issues of increasing costs. Recent expansion of the Medicare benefit to include outpatient prescription drug coverage may affect employers' continued coverage for their retirees. In addition, the federal government has recently begun offering long-term care insurance to employees, retirees, and their families, which may provide an impetus for the further development of the private long-term care insurance market that has played a relatively small part in financing long-term care services compared to public programs.

The impact of public and private efforts to contain costs or improve access in one sector may lead to unintended consequences for the other. These complex interrelations between federal policy and the private health insurance markets greatly affect the affordability, availability, and quality of insurance coverage that most Americans receive.

Potential Outcomes

- Better congressional understanding of proposals to alter tax treatment of health care insurance costs and to establish new health insurance purchasing arrangements
- More complete congressional understanding of trends in health and long-term care insurance, including changes in private health insurance coverage and the evolving health and long-term care insurance markets
- Better congressional understanding of the impact of public and private efforts to achieve compliance with federal health insurance standards

Performance Goal 1.1.3: Assess Actions and Options for Improving VA's and DOD's Health Care Services

Key Efforts

- Evaluate proposals to restructure or consolidate the Department of Veterans Affairs' (VA) health care system, including proposals on capital asset realignment and resource sharing
- Assess implications of changes to VA and Department of Defense (DOD) health benefits and health care delivery systems
- Assess vulnerability of VA's system to fraud, waste, and abuse
- Examine access to and quality and cost of care provided to VA and DOD beneficiaries
- Review implementation of VA resource allocation and revenue collection systems and budget formulation and execution practices

Significance

VA and DOD operate two of the largest health care systems in the world, together spending about $47 billion a year for health care. Both systems face great challenges. For instance, VA operates and maintains a large portfolio of aged health care assets, primarily buildings that are not effectively aligned with VA's new delivery model, which emphasizes outpatient care delivered closer to where veterans live. VA has opened hundreds of community-based outpatient clinics to increase the number of veterans who have reasonable geographic access to VA-provided outpatient care. As a result of this new delivery model and the influx of new veteran enrollees because of relaxed eligibility standards, VA faces difficult realignment decisions involving resource allocation, capital investments, consolidations, closures, and contracting with local health care providers. These may have significant ramifications for stakeholders, such as medical schools and unions, and for the use of VA's existing resources, primarily because realignments involve a shifting of workload among delivery locations.

Similarly, DOD faces pressures to adapt its health care structure because of changing military threats, a decreased force size, and an evolving health care marketplace, characterized by rising costs and increasing beneficiary concerns about access. In response to these long-standing issues, DOD established its nationwide managed care program, TRICARE, in the mid-1990s. However, beneficiary concerns have continued under TRICARE, as have concerns about the efficiency of the program. Further, concerns have been raised about rising program costs, and beneficiaries continue to complain about poor access to care. These concerns have focused attention on the need for DOD to identify cost reduction measures and alternative approaches for delivering health care.

Potential Outcomes

- More effective and efficient organizational structures and service delivery for both VA and DOD
- Improved understanding of how potential changes affect costs, utilization of services, and retention
- Reductions in unnecessary health care expenditures
- Better understanding of factors that explain VA and DOD variations in access, quality, timeliness of care, and patient safety
- Improved VA budgeting and resource allocation systems that more adequately reflect workload and costs and promote efficiency and optimization

Performance Goal 1.1.4: Evaluate the Effectiveness of Federal Programs to Promote and Protect the Public Health

Key Efforts

- Evaluate the ability of federal public health agencies to detect and counter emerging threats to the nation's health
- Evaluate impediments and barriers to the adequate supply of, and access to, prescription drugs and vaccines
- Assess the regulatory structure for ensuring the safety and efficacy of medical devices, drugs, blood products, and alternative medical therapies
- Evaluate programs targeted at improving the health status of the population
- Evaluate the effectiveness of programs to reduce substance abuse and other high-risk behaviors

Significance

To promote and protect the health of the nation, public health agencies pursue a broad range of activities that tangibly affect the well-being of every American. These include conducting public health surveillance on new and emerging infectious diseases, nationally and internationally; sponsoring and conducting biomedical research; evaluating the effectiveness and safety of pharmaceutical and medical devices; and funding medical treatment for substance abuse. About 90 percent of the National Institutes of Health's annual budget of over $20 billion funds biomedical research, contributing to a dramatic increase in the number of new medical treatments. New technologies and therapies will further test the ability of the Food and Drug Administration (FDA) to ensure the safety and efficacy of foods and dietary supplements as well as new medical products while not unduly delaying the availability of new products to consumers. An additional component is consumer concern about access to affordable prescription drugs. The changing nature of public health threats—including instances of shortages of prescription drugs and vaccines and emerging infectious diseases like severe acute respiratory syndrome (SARS)—requires effective surveillance and prompt action by the Centers for Disease Control and Prevention and other public health agencies at international, federal, state, and local levels. The AIDS epidemic persists in this country and around the world and poses continuing prevention and treatment challenges to public health agencies. Agencies are also funding research to understand the basis for persistent health disparities for minorities, developing effective approaches to preventing disease, and promoting healthy behaviors.

Potential Outcomes

- Increased federal public health agency efforts to counter emerging public health threats
- Improved adequacy of the supplies of essential medications and vaccines and understanding of the impediments to access
- More effective and efficient determination of the safety and efficacy of medical products by FDA
- More effective programs for prevention and treatment of substance abuse and other high-risk behaviors

Performance Goal 1.1.5: Evaluate the Effectiveness of Federal Programs to Improve the Nation's Preparedness for the Public Health and Medical Consequences of Bioterrorism

Key Efforts

- Evaluate the effectiveness of federal programs in ensuring the preparedness of state and local governments for the public health and medical consequences of a bioterrorist attack
- Evaluate identified needs and associated cost projections for federally funded efforts at state and local government levels to improve public health surveillance, training, communication systems, and laboratories for bioterrorism preparedness
- Evaluate the development and acquisition of vaccines and other treatments for biodefense

Significance

The use of anthrax as a weapon of terrorism heightened concern over the public health threats posed by biological terrorism and raised worries that the nation is not adequately prepared to respond to bioterrorist attacks. To improve the nation's preparedness, federal agencies engage in a number of activities aimed at improving detection, treatment, and response, and the Congress has substantially increased funding for these programs. These activities include public health surveillance systems to identify disease outbreaks, development of technologies to more rapidly detect and diagnose infectious agents, and improved communication systems to facilitate sharing information on disease outbreaks.

Federal funding, primarily through the National Institutes of Health, has recently been increased for the development of vaccines, antibiotics, and antivirals to treat diseases that could result from bioterrorism. The Department of Health and Human Services is also expanding the Strategic National Stockpile of essential drugs and equipment that could be deployed to the scene of an outbreak. The department has promoted smallpox vaccination of teams of public health and health care workers who could be deployed in the event of an outbreak and has contracted for a stockpile of smallpox vaccine that could be used to vaccinate the general public. Several federal agencies provide funding to state and local governments for response planning, offer training for emergency response, fund equipment purchases, and maintain response teams that can be deployed in the event of an attack. However, concerns remain that funding may not be directed to the areas of greatest need.

Potential Outcomes

- More effective programs to assist state and local government preparedness efforts
- More effective and efficient allocation of resources for addressing state and local government needs
- Improved access to essential vaccines and other treatments

Performance Goal 1.1.6: Evaluate Federal and State Program Strategies for Financing and Overseeing Long-term Health Care

Key Efforts

- Examine nursing homes' compliance with federal and state quality standards, including the adequacy of federal and state oversight and resources
- Review federal requirements and standards and their use to ensure quality care in community-based, long-term care settings, such as home health arrangements, assisted living facilities, and adult day care
- Analyze public and private payment sources and strategies that finance the continuum of long-term care, including integrated programs for elderly or disabled beneficiaries who are dually eligible for Medicare and Medicaid

Significance

The aging of the baby boomers, combined with medical advances that are contributing to longer life expectancies, will lead to a tremendous increase in the elderly population over the next three decades. In particular, there will be a substantial increase in the number of individuals 85 and older, many of whom will require long-term care services. Financing these services—within the context of evolving service needs and alternative settings for receiving long-term care services—will be a challenge for the baby boomers, their families, and federal and state governments.

After private expenditures (including out-of-pocket spending and long-term care insurance), Medicaid contributes the most for long-term care, covering at least some of the costs for two-thirds of nursing home residents. Many individuals become impoverished, and thus eligible for Medicaid, by "spending down" their assets. Taken together, Medicaid, Medicare, and other public programs contributed more than three-fifths of the $146.2 billion spent on nursing home and home health care in 2001. Private insurance (including long-term care insurance as well as services paid by traditional health insurance) accounted for about 10 percent, with the remainder paid by the elderly, the disabled, or their families.

The long-term care expenditures for the elderly are disproportionately used to purchase nursing home care. There is growing emphasis, however, on delivering services in the community rather than in nursing homes and other institutional settings—not only to the younger disabled but also to elderly individuals. The highly vulnerable nature of the long-term care population underscores the importance of oversight to ensure that providers comply with federal and state quality standards.

Potential Outcomes

- Improved quality of care in nursing homes
- Improved public and private awareness of alternatives to traditional long-term care settings and the federal role in ensuring quality care
- Better congressional understanding of options for financing the increasing costs of long-term care

Performance Goal 1.1.7: Assess State Experiences in Providing Health Insurance Coverage for Low-Income Populations

Key Efforts

- Assess Medicaid and State Children's Health Insurance Program (SCHIP) coverage for vulnerable populations, including children with special health care needs
- Evaluate Medicaid and SCHIP access to and use of services under different service-delivery systems, payment methodologies, and cost-sharing practices
- Evaluate federal oversight of states' implementation of Medicaid and SCHIP, including the use of authority to waive certain statutory provisions

Significance

Two jointly funded federal-state programs that provide health insurance to low-income Americans are vulnerable to the cyclical nature of the economy and to the problems of exploitation endemic to large government programs. Enrollment in Medicaid, a means-tested entitlement program that provides health care coverage to over 40 million low-income individuals, expanded at a rate of about 3 percent per year from 1997 through 2000. States also implemented SCHIP, which was created in 1997 to provide health insurance to uninsured children whose families' incomes were too high to qualify for Medicaid.

However, during the recent economic downturn, states have been faced with declining revenues and, with respect to their Medicaid programs, increased enrollment of nearly 9 percent per year from 2000 through 2003. As a result, states have taken or have considered taking actions that could affect access to care, including curtailing enrollment, reducing benefits, and raising beneficiary cost-sharing requirements.

Federal oversight continues to be essential to ensuring the programs' financial and program integrity. The challenges inherent in overseeing a program of Medicaid's size, growth, and diversity, combined with the open-ended nature of the program's federal funding, puts the program at high risk for waste and exploitation. Accordingly, GAO added Medicaid to its 2003 list of high-risk programs and has focused its work on strengthening the program's operations. GAO work shows, for example, that the federal government has been vulnerable to questionable state Medicaid financing practices, through which some states have generated excessive federal payments without paying their fair share or without assurances that the payments are for covered Medicaid services.

In addition, vigilance must be maintained regarding the appropriateness of allowing states to enhance their flexibility in identifying eligible populations and increasing cost sharing for beneficiaries eligible for Medicaid and SCHIP. GAO's work further shows that some of the federally approved waivers are inconsistent with statutory authority or long-standing administration policy. Federal oversight must balance support of state flexibility in designing and implementing states' programs—which can vary greatly in terms of eligibility rules, benefits offered, and delivery systems—with the need to ensure the appropriate use of federal funds to meet the statutory and regulatory requirements of both programs.

Potential Outcomes

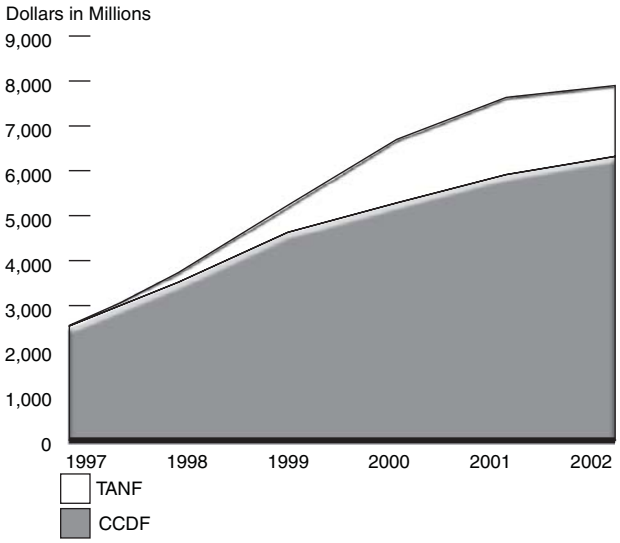
- Greater access to services for eligible beneficiaries
- More efficient and effective delivery of services
- Improved accountability and oversight of federal-state health financing programs serving low-income populations

The Education and Protection of the Nation's Children

Issue: Educating and protecting children are important to the continued vitality of this democratic society and to its long-term ability to compete in a global marketplace. To this end, the federal government invests more than $110 billion per year in programs that foster the development, education, and protection of children from infancy through elementary and secondary school and postsecondary education. Although federal spending is only about 7 percent of total spending on elementary and secondary education, requirements in recent legislation have increased the federal government's role in ensuring that all children have the opportunity to meet high academic standards from kindergarten through high school. The government's postsecondary efforts provide access to higher education for all through the use of loans, grants, and other financial tools, while protecting the financial interests of taxpayers.

The federal government invests over $11 billion in early education and care programs for children under age 5, primarily through six major Department of Health and Human Services (HHS) and Department of Education programs. These programs, including Head Start, are geared principally toward disadvantaged children from infancy to age 5—a developmental period during which early investment may lead to better performance in school years. Beyond inherent concerns about fragmentation and overlap among these programs, there is also concern about their effectiveness. Although HHS and Education are sponsoring research on some of these programs, little is known about their ultimate effect, especially on school readiness and early literacy skills—two areas at the center of the federal education focus. Federal investment in child care has been growing, in part to support low-income mothers who have entered the workforce after welfare reform. (See fig. 1.3.) Policymakers at the federal and state levels are concerned about the cost, quality, and availability of child care. Major early childhood programs—Head Start, the Child Care and Development Fund (CCDF), and the Individuals with Disabilities Education Act (IDEA)—are being reauthorized. Two additional programs, the Child and Adult Care Food Program and the Special Supplemental Nutrition Program for Women, Infants, and Children, provide nutritious meals or support good nutrition for children in day care facilities and for certain groups of low-income, nutritionally at-risk women, infants, and children. Both programs face challenges in delivering high-quality nutrition services and meeting program requirements.

Figure 1.3: Growth of Federal Investment in Child Care, Fiscal Years 1997–2002



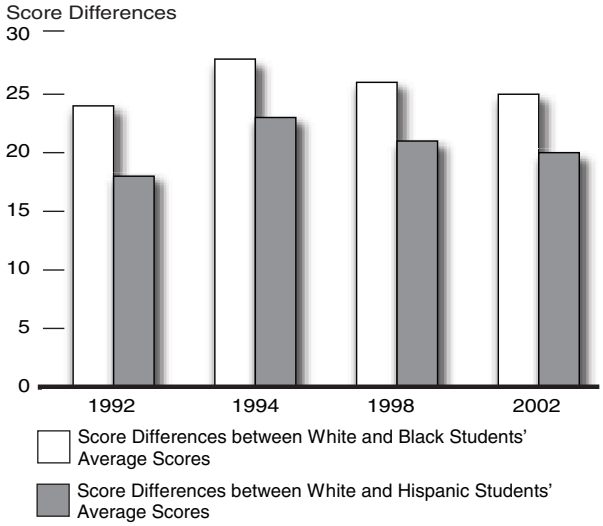
Source: Department of Health and Human Services, Administration for Children and Families.

Note: CCDF amounts include dollars states transferred from Temporary Assistance for Needy Families (TANF) programs to CCDF as allowed under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The amounts shown for TANF include only those TANF funds expended for child care.

Federal elementary and secondary school programs have traditionally provided opportunities for children from disadvantaged families. However, recent legislation, the No Child Left Behind Act, has increased the federal role through requirements that apply to all public schools and students. The United States places a high priority on educating children at the elementary and secondary levels and has increased the federal investment from over $20 billion in fiscal year 2000 to about $35 billion in fiscal year 2003. This increased investment in recent years has been accompanied by an increased emphasis on accountability for schools to raise all students to proficient levels in math, reading, and science and has placed additional requirements on

states for student testing and teacher qualifications. It also mandated actions for schools at which students' performance does not sufficiently improve. All students—including those from poor families, with limited English proficiency, and with disabilities—are expected to meet challenging academic standards. However, an achievement gap exists between different groups of students, for example between white and African American students and between white and Hispanic American students. (See figs. 1.4 and 1.5.)

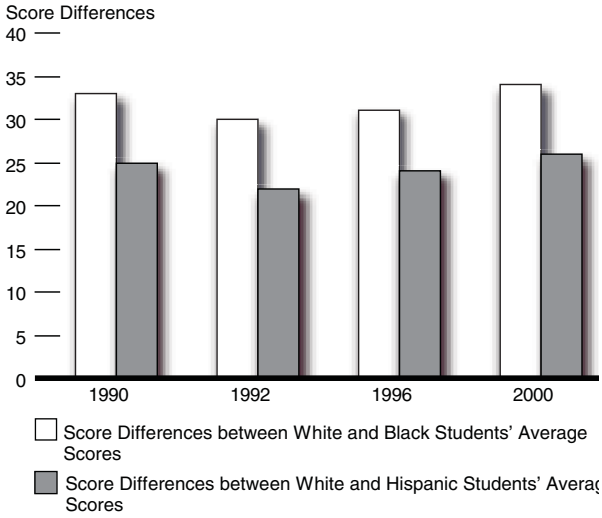
Figure 1.4: Achievement Gaps in Reading, Grade 12



Source: National Center for Education Statistics, National Assessment of Educational Progress, *The Nation's Report Card: Reading 2002.*

Note: Scores for 1992 through 1998 reflect testing situations in which accommodations were not permitted. Scores for 2002 reflect a testing situation in which accommodations were permitted.

Figure 1.5: Achievement Gaps in Math, Grade 12



Source: National Center for Education Statistics, National Assessment of Educational Progress, *The Nation's Report Card: Reading 2002.*

Dissatisfied with this continued achievement gap, policymakers are exploring a variety of school reform initiatives and strategies to improve school performance, improve teaching, reduce student dropout rates, and enhance educational options for the nation's children. Helping states to meet these requirements requires a larger role for the Department of Education in providing support and oversight. For special education students, the reauthorization of IDEA has focused on several major issues—the federal funding contribution, paperwork burden, teacher shortages, identification of children for special education services, and alignment of the No Child Left Behind Act requirements with the needs of children with disabilities. In addition, the National School Lunch and School Breakfast Programs are school-based efforts to provide students with nutritionally balanced meals, often at low or no cost. Recent data on the increase in the percentage of children who are overweight and the attendant health problems has highlighted the importance of providing students with nutritious foods and creating a healthy eating environment in schools.

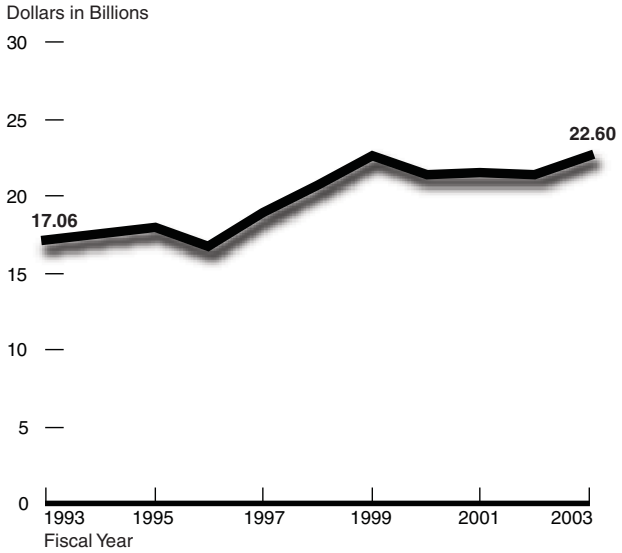
The nation also needs to be concerned about protecting its children and ensuring that families have the financial means to provide for their children's needs. Each year, an estimated 900,000 children are found to be the victims of abuse and neglect by their parents, relatives, or other caregivers. Tragically, approximately 1,300 children die each year from abuse and neglect. While responsibility for

investigating reports of abuse and neglect and providing services to families falls primarily to state child protective service agencies, the federal government invests almost $8 billion annually to provide care for children who need placement outside their homes, services to help keep families together or to reunite them, and training and research activities to improve child welfare services nationwide. In 1997, the Congress enacted the Adoption and Safe Families Act with two primary goals: (1) to ensure that consideration of children's safety is paramount in child welfare decisions, so that children are not returned to unsafe homes, and (2) to ensure that necessary legal procedures occur expeditiously, so that children who cannot return home may be placed for adoption or another permanent arrangement quickly. HHS has also established a new review system—known as Child and Family Services Reviews—to monitor state compliance with federal child welfare laws. Moreover, nearly 20 million children live with only one of their parents. To help obtain the financial support noncustodial parents owe their children and to help single-parent families achieve or maintain economic self-sufficiency, the Congress established a joint federal/state child support enforcement program in 1975. The program helps locate noncustodial parents, establish paternity, establish child support obligations, and collect child support. Provisions in the 1996 welfare reform legislation strengthened and improved child support enforcement. For example, to improve efforts to track delinquent parents across state lines, the law established the National Directory of New Hires—a national system that includes personal and employment information on all newly hired employees—and the Federal Case Registry—a system that contains data from child support cases.

Beyond providing for basic educational needs, a competitive national economy depends, in part, on effectively preparing workers to compete in the labor force. To this end, the federal government currently provides approximately $63 billion annually to enhance the quality of and access to postsecondary, vocational, and adult education. In particular, federal grant and loan programs provide financial aid to make college more affordable and accessible for millions of Americans. At over $11 billion, the Pell Grant helps to ensure access to higher education for low-income undergraduate students. In addition, the government's investment in supporting college students with direct loans and loan guarantees results in over $44 billion of new loans annually. Of growing significance, the federal government also provides over $12 billion in higher education subsidies for students or their families through several tax benefits, such as the Hope and Lifetime Learning tax credits and the deferral of tax on the earnings of contributions to qualified state tuition programs.

A major concern about the federal government's investment in postsecondary education is the government's exposure to significant losses. While student loan default rates have decreased in recent years, student loan defaults still cost the federal government billions of dollars each year. For example, in fiscal year 2000, default costs for the Federal Family Education Loan Program were about $1.4 billion, while defaults under the Federal Direct Loan Program exceeded $600 million. The cumulative principal amount outstanding from defaulted student loans stood at about $22 billion in fiscal year 2001. (See fig. 1.6.) Due in part to concerns about Education's ability to efficiently manage the student loan and grant programs and their vulnerability to fraud, waste, abuse, and mismanagement, GAO has added the student loan programs to the high-risk list. Reducing fraud and error in and improving the management of these programs is also part of the President's Management Agenda.

Figure 1.6: A Growing Balance of Defaulted Loans Is Subject to Collection, 1993–2003



Source: Department of Education, Budget Service.

Note: Balances include defaulted loans under both the Federal Family Education Loan and Federal Direct Loan Programs.

Furthermore, legislation key to higher education issues is scheduled for reauthorization. The Higher Education Act, the Adult Education and Family Literacy Act, and the Carl D. Perkins Vocational and Technical Education Act are all due to be reauthorized in the near future. The Congress will be debating several key issues, including the rising costs of college, how to help students and families finance these costs, institutional accountability for educational costs and quality, how best to provide for a skilled workforce, and Education's management of the federal investment in postsecondary education.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- analyze the effectiveness and efficiency of early childhood education, care, and nutrition programs in serving their target populations;
- assess options for federal programs to effectively address the educational and nutritional needs of elementary and secondary students;
- determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations; and
- identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services.

Performance Goal 1.2.1: Analyze the Effectiveness and Efficiency of Early Childhood Education, Care, and Nutrition Programs in Serving Their Target Populations

Key Efforts

- Evaluate the operation and management of major federal early childhood education, child care, and nutrition programs
- Analyze the cost, coordination, and availability of child care for low-income families
- Evaluate the design and performance outcomes of major federal early childhood education, child care, and nutrition programs

Significance

The federal government spends more than $11 billion on early education programs for children under age 5, primarily for six major programs, including Head Start. New federal initiatives are emphasizing the importance of helping all children develop school readiness skills, including early reading skills. However, the effect of early childhood programs on helping children prepare to enter school is still being debated.

GAO's work led to a mandated study of Head Start, which, with funding of over $6.5 billion in fiscal year 2002, is the largest federal early childhood education program. Early childhood education services are provided through other programs, such as Title I, the primary focus of which traditionally has not been early childhood. This type of program has not been evaluated for its effect on a child's readiness for school.

Child care is viewed as both a vital support to working families for achieving and maintaining self-sufficiency and a vehicle for helping prepare young children for school. With welfare reform placing greater emphasis on returning former welfare recipients to work, the cost and availability of child care has become an even more important issue than in the past. Because states and localities play the primary role in ensuring that a basic level of quality child care exists and because individual states approach this task differently, concerns have also arisen about the quality of services being bought with federal money.

The two child nutrition programs that target low-income or at-risk children—the Child and Adult Care Food Program (CACFP) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)—help ensure that children receive nutritious meals to support their overall development and well-being. CACFP is vulnerable to fraud and abuse, and state agencies that administer the program are responsible for implementing regulations to promote program integrity. The WIC program faces a number of challenges, including coordinating its nutrition services with health and welfare programs undergoing considerable change, assessing the effect of nutrition services, and meeting increased program requirements.

Potential Outcomes

- More effective use of federal funds aimed at improving the education, care, and nutrition of low-income children
- Greater assurance that the federal investment in early childhood education, child care, and nutrition programs is achieving positive results
- Informed congressional and agency decisions about ways to improve the management of key early childhood education, child care, and nutrition programs

Performance Goal 1.2.2: Assess Options for Federal Programs to Effectively Address the Educational and Nutritional Needs of Elementary and Secondary Students

Key Efforts

- Analyze the effectiveness and efficiency of federal reform efforts to improve performance and close achievement gaps for different types of students, including special education students
- Analyze the contribution of federal programs to improving school performance through enhancing the quality and quantity of teachers, upgrading the school environment (including safety and nutrition), and assessing options for parents in the education of their children
- Analyze the contribution of federal education programs to improving the self-sufficiency and success of teenagers as they make the transition to adulthood
- Evaluate the adequacy of management structures, processes, and controls for federal elementary and secondary education and nutrition programs for ensuring program integrity

Significance

Americans have placed a high priority on educating their children and preparing them to become self-sufficient adults and productive workers. For these reasons, the federal government invested about $35 billion in federal funds in elementary and secondary education in fiscal year 2002. This investment was coupled with new federal requirements aimed at improving student and school performance and teacher qualifications. Meeting these requirements will be challenging for schools, in part because of the growing number of disadvantaged students. These students, such as those from poor families, with disabilities, or with limited English proficiency, generally have not performed as well as other groups of children on tests. With the signing of the Elementary and Secondary Education Act in 2002, also known as the No Child Left Behind Act, the Congress has instituted requirements to facilitate the elimination of this achievement gap, and policymakers are exploring ways to improve teaching and enhance educational options.

The Congress is now expanding these principles to the reauthorization of the Individuals with Disabilities Education Act. The Congress is also interested in how the Department of Education supports elementary and secondary education programs. In addition, recent threats to the United States underscore the continuing concern of parents and policymakers with students' school environment, including school safety and building quality.

Finally, the increase in overweight children and concerns about their current and future health and well-being have focused attention on the federally supported school meal programs, since schools are well positioned to positively influence what children eat. Concerns have been raised about the nutritional content of the meals served as well as the types and effectiveness of nutrition education offered and the availability of non-nutritious foods in schools.

Potential Outcomes

- More effective services provided to different types of at-risk students so that they are more likely to improve school performance
- Better congressional understanding of the resources needed for a world-class education system

- Better congressional understanding of transition issues for teenagers and the role the federal government can play in their transition to adulthood
- Administrative and potential legislative actions to improve elementary and secondary education programs and a reduction in fraud, waste, and abuse in elementary and secondary education programs
- A better understanding of the steps needed to promote a nutritionally healthy school environment

Performance Goal 1.2.3: Determine the Effectiveness and Efficiency of Child Support Enforcement and Child Welfare Programs in Serving Their Target Populations

Key Efforts

- Determine whether federal, state, and local child support enforcement programs are achieving program goals efficiently
- Determine whether federal, state, and local child welfare programs are effectively using their resources to meet safety, permanency, and well-being goals for children
- Assess federal and state efforts to use information management technology and to safeguard sensitive child support enforcement information

Significance

The United States has nearly 3 million children at risk of abuse and neglect each year. An increasing number of these children will be removed from their homes and many will not be able to return safely. Concerns about children's safety and long stays in foster care without being placed in permanent homes culminated in the passage of the Adoption and Safe Families Act of 1997. Policymakers are now concerned about whether outcomes for children have improved, whether federal oversight ensures that state-reported data are reliable, and how financial resources can be used more effectively.

Moreover, about 27 percent of all children in this country live in one-parent households, and many of these families need child support to help them achieve or maintain economic self-sufficiency. Provisions in the 1996 welfare reform legislation strengthened and improved state child support collection activities. Nonetheless, in fiscal year 2002, there were about 16 million child support cases and more than $92 billion was owed in unpaid child support. Policymakers continue to have questions about the program's ability to increase collections; the effectiveness of new enforcement tools; how new databases are used, particularly in light of privacy concerns; and whether federal funds have been used effectively.

Potential Outcomes

- More effective use of federal funds for providing necessary services and assistance to children at risk or who have been the victims of abuse and neglect and for increasing child support collections and improving other child support services
- Enhanced support and coordination among federal, state, and local entities responsible for child support enforcement
- Greater success in using available resources to ensure positive outcomes for abused and neglected children
- Improved support and coordination among federal, state, and local entities responsible for child welfare
- Informed congressional and agency decisions regarding (1) sharing/giving access to sensitive and personal information and (2) establishing adequate safeguards that minimize the risk of improper disclosure of sensitive and personal information
- Greater assurance that the federal investment in information systems is achieving positive results and providing useful information for congressional decision making

Performance Goal 1.2.4: Identify Opportunities to Better Manage Postsecondary, Vocational, and Adult Education Programs and Deliver More Effective Services

Key Efforts

- Assess the efficiency and effectiveness of programs designed to promote access to and affordability of postsecondary education for students
- Evaluate the federal role in ensuring quality in the management of postsecondary (especially student financial aid), vocational, and adult education programs
- Assess the extent to which federal postsecondary, vocational, and adult education programs address the skills needed in the 21st century's knowledge-based economy
- Assess implications of heightened homeland security for student visa programs, educational institutions, and students

Significance

The federal government uses several tools to ensure access to postsecondary education and lifelong learning, including Pell Grants, student loans, tax benefits, state and local grant programs, funding to improve the quality of institutions that serve high proportions of minority and disadvantaged students, and funding to provide services to help disadvantaged students to enter and complete college. While postsecondary education clearly results in a more enlightened citizenry and strengthens the nation's democracy, it also demonstrably improves the nation's workforce and the quality of life for the nation's workers. Recent U.S. Census Bureau data reveal that over a work life, earnings of a worker with a bachelor's degree will exceed those of a worker with a high school diploma by as much as $1 million. In addition to supporting a traditional college education, the Department of Education and other agencies also administer programs for vocational education, occupational training, and adult basic education that may aid at-risk youth and other vulnerable populations' transition to the workplace.

While the federal investment in postsecondary education is significant, several factors confound the nation's efforts to support postsecondary goals. Students and their families face escalating educational costs, postsecondary enrollments are projected to increase in the next decade, and fiscal and budgetary pressures will constrain the federal and state governments' ability to support higher education. In addition, while federal grant and loan programs have been successful in providing students with money for postsecondary education and increasing the participation of disadvantaged students, they have been less successful in protecting the financial interests of U.S. taxpayers. As a result, Education's student loan programs have remained on GAO's high-risk list for over a decade.

In recent years, however, Education has implemented reforms that have improved its management of student financial aid programs. The Higher Education Act, the Adult Education and Family Literacy Act, and the Carl D. Perkins Vocational Technical Education Act are due to be reauthorized in the near future. The Congress will be debating several key issues, including the rising costs of college, how to help students and their families finance these costs, institutional accountability for educational costs and quality, how best to provide for a skilled workforce, and Education's management of the federal investment in postsecondary education. Key adult and vocational education issues include the extent to which needed basic reading, mathematics, English, and workplace skill building are available and schools are staffed with teachers who are qualified to serve the programs' clientele and the extent to which these programs are held accountable for achieving desired results.

Potential Outcomes

- Increased participation of disadvantaged students in postsecondary education via better use of federal resources
- Informed congressional and agency decisions on ways to improve the management of student financial assistance and other postsecondary, vocational, and adult education programs
- Increased efficiency and effectiveness of federal postsecondary, vocational, and adult education programs in addressing current and future skills needs
- Informed decision making on balancing the need to monitor foreign students with the benefits of their enrollment in the nation's institutions of higher education

The Promotion of Work Opportunities and the Protection of Workers

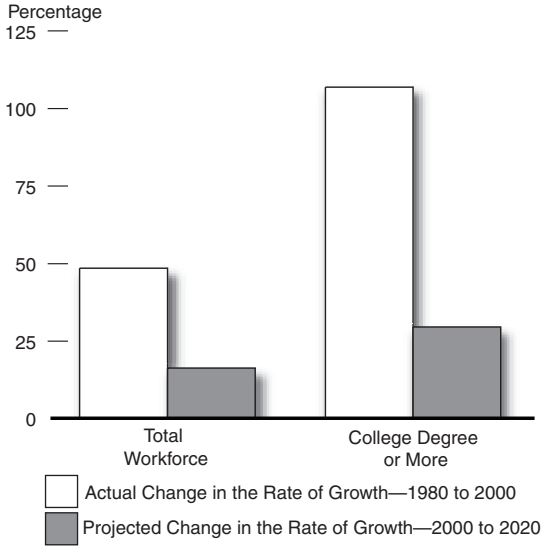
Issue: A strong national economy depends, in part, on a productive workforce. Developing that workforce includes effectively preparing youth and new workers to compete in the labor force, efficiently helping employers locate qualified job candidates, providing a work environment that safely promotes productivity, finding ways to help workers when they become unemployed, and providing assistance to workers with disabilities. To this end, the federal government currently invests more than $150 billion annually to help new entrants to the workforce, support those who have been laid off from their jobs and assist them in becoming reemployed, assist and rehabilitate workers with injuries or disabilities, help employers hire enough highly skilled workers, and protect employees' rights to fair and safe workplaces without unduly burdening employers. In addition, federal policies for providing income support for the low-income population have increasingly focused on promoting work in exchange for government assistance, but changes in the economy, have created significant challenges to supporting low-skilled, low-income families as people leave welfare and enter the workforce.

A struggling economy and a large projected decline in the growth rate of the workforce present critical challenges for maintaining the nation's productivity. While economic recovery is under way, a slower rate of labor force growth will present challenges to the continued growth of the nation's economy. As the demand for skilled labor increases with the expansion of the economy, researchers warn that, unlike in the past when economic growth was fueled in part by increases in the size and skill of America's workforce, over the next two decades the potential for shortages of skilled workers could present mounting challenges for productivity and economic growth. At the same time the baby boom generation begins to retire, there will be fewer native-born workers entering the labor force to take their place. Tapping into all possible labor sources will be important, and policymakers may need to look for more ways to support employing workers with disabilities, to encourage seasoned workers to remain in the workforce longer, to help welfare recipients leave welfare for work, and to assist low-wage workers in retaining and advancing in their jobs. Additionally, the nation may need to consider how well current immigration policies work in addressing demands for workers.

Technology, changes in the organization of work, and increasing global interdependence—in which not only production but also some portions of the service sector are being outsourced overseas—are redefining the labor market for workers and employers. Federal employment, worker protection, and disability programs must deal with these new challenges, in addition to encouraging a commitment to lifelong learning. Because of technological changes and global competition, employers will need workers with greater skills. In the past, employers were able to take advantage of new technologies, in part, because new workers were more educated than the retiring workers. However, over the next 20 years, the growth in the labor force is expected to slow dramatically, as are the proportions of the labor force with education beyond high school and with college degrees. For example, as shown in figure 1.7, some experts project that the labor force will grow only 16.4 percent from 2000 through 2020—barely a third of the nearly 50 percent rate of expansion from 1980 through 2000. These changes raise numerous issues regarding the adequacy of efforts to ensure that employers will have the workers they need. Various changes in the workforce and workplace also raise issues about the adequacy of efforts to ensure that workers have safe, healthy, and productive workplaces. Regulations and activities designed to ensure workplace safety and health must be revised to accurately reflect the technological changes of the recent past. At the same time, changes in technology and the labor force have created new opportunities for some people with disabilities to remain at or return to work, yet the labor force participation rate of people with disabilities has remained quite low. Moreover, federal disability programs remain mired in concepts from the past and are poorly positioned to provide meaningful and timely support for Americans with disabilities. The Congress and the administration face challenges as they redefine the role of public policies to

help employers and workers enhance productivity and increase earnings while also protecting workers' rights.

Figure 1.7: Changes in the Actual and Projected Growth Rates for the Labor Force, 1980–2020



Source: The Aspen Institute.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess the effectiveness of federal efforts to help adults leave welfare for work and to assist other low-income individuals;
- analyze the impact of programs designed to maintain a skilled workforce and ensure that employers have the workers they need;
- assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing work environment; and
- identify ways to improve federal support for people with disabilities.

Performance Goal 1.3.1: Assess the Effectiveness of Federal Efforts to Help Adults Leave Welfare for Work and to Assist Other Low-Income Individuals

Key Efforts

- Analyze and highlight key issues associated with the changing social services environment under welfare reform, including access to services, effects on special populations, and interactions among programs
- Assess state and federal efforts to promote employment for welfare recipients and other low-income adults while ensuring assistance for those in need
- Assess federal and state oversight and management of welfare reform and federal programs to support or serve low-income workers and other individuals and ensure program integrity

Significance

The welfare reform legislation of 1996 made sweeping changes to key national policies affecting low-income individuals, including creating the Temporary Assistance for Needy Families (TANF) block grant and modifying aspects of the Food Stamp program. Key goals of the $16.5 billion TANF block grant include ending welfare dependency by promoting work and marriage, reducing out-of-wedlock pregnancies, and promoting two-parent families. In addition, it devolved much responsibility for welfare policies to state and local decision makers and provided them added flexibility in designing and administering these programs. Key features of the TANF program, including its increased emphasis on employment and state flexibility, are expected to remain in place as the Congress considers reauthorization in 2003.

The 1996 welfare reform legislation also provided options for increased state flexibility for the $19 billion Food Stamp program, and that program's 2002 reauthorizing legislation provided states additional flexibility options. As states initially implemented welfare reform during the strong economic growth of the late 1990s, TANF and food stamp caseloads fell dramatically, and states increasingly focused on providing TANF-funded services in ways that supported the work efforts of adults. States now operate these programs in a dramatically different environment—higher unemployment; significant budget shortfalls; and, in many states, increasing TANF and food stamp caseloads. As a result, states may face significant challenges in sustaining and building upon recent welfare reforms, which include moving those remaining on the welfare rolls into jobs, helping former welfare recipients and other low-income workers maintain their jobs and advance, and helping those who have lost their jobs and once again need income support. Similarly, rising caseloads, budget shortfalls, and recent program changes present states with challenges as they administer the Food Stamp program, which plays a vital role in both supporting low-income families as they enter and stay in the workforce and providing needed food assistance to those who are not working for a variety of reasons.

Finally, this current environment heightens the already important need to ensure that programs achieve their goals and that only eligible individuals and families receive benefits. Federal, state, and local officials will need to take further steps to reduce waste, fraud, and abuse and increase program effectiveness and efficiency in the TANF and Food Stamp programs.

Potential Outcomes

- Better congressional understanding of how significant changes to the social services environment have affected the status of families, special populations, and program coordination and service delivery
- More effective federal and state strategies for supporting low-income families and reducing their need for welfare
- Increased efficiency, effectiveness, and integrity of programs such as TANF, federal food assistance, and income support programs

Performance Goal 1.3.2: Analyze the Impact of Programs Designed to Maintain a Skilled Workforce and Ensure That Employers Have the Workers They Need

Key Efforts

- Assess the effectiveness of federal efforts to support the development of career pathways for youth and other workers that link lifelong learning with workforce development activities
- Assess the effectiveness of efforts to address anticipated labor force shortages and maintain the size and quality of the labor force to meet employers' changing needs
- Assess the effectiveness and viability of federally supported efforts to assist dislocated workers through financial assistance (such as unemployment insurance), job search assistance, and opportunities for skill upgrades
- Assess federal and state oversight and management of employment and training programs, including accountability systems in a decentralized and increasingly integrated workforce development system

Significance

While the federal government has long invested in a range of employment and training programs for both new job seekers and those who have been laid off from their jobs, the Workforce Investment Act of 1998 sought to improve these programs and create a coherent nationwide service-delivery system. Under the act, the emphasis for federally funded workforce development services has shifted to providing a full range of programs, and services now include postemployment training and assistance. There has also been a shift in what workers need, with an emphasis on job search assistance and case management in addition to training. Despite these efforts, some employers still struggle to find the skilled workers that they need. The availability of a skilled workforce to meet employers' needs will be critical to the nation's prosperity as the economy struggles to rebound from a recession and shrink unemployment.

Unemployment insurance—the nation's support program for newly unemployed workers—may not be well positioned to provide the financial support needed to sustain many unemployed workers. Low-wage workers may be particularly hard hit—many may find that they are not covered by their state's unemployment insurance system and their opportunities for employment and job advancement may be limited.

Increasingly, the jobs that are available require sophisticated skills, often far more sophisticated skills than many of these individuals possess. Additionally, emerging long-term challenges are expected based on slower growth rates projected for the numbers of workers entering the workforce and attaining college degrees. Given demographic changes in the workforce, new strategies will be needed to address labor shortages, especially of skilled workers. Utilizing the available pool of seasoned workers as well as providing additional workforce training for youth and other underutilized populations may be considered to address these shortages. In addition, it would be useful to reexamine the role of immigration policies in supplying temporary and permanent foreign workers to meet labor market needs while also determining whether these policies ensure that adequate protections are in place for American workers. In light of these challenges, opportunities exist for policymakers and employers to work together to upgrade the skills of the workforce and contribute to the nation's economic recovery.

Potential Outcomes

- Employment and training programs that are comprehensive, coordinated, and easily accessible to employers and job seekers

- Enhanced ability of job training programs to provide training that matches employers' needs while enhancing the job opportunities, wage potential, and job retention for America's workers
- Increased efficiency and improved financial management in the delivery of federal employment and training programs, including improved systems for assessing the Workforce Investment Act's performance
- Improvements in services for workers who have lost their jobs, including the provision of unemployment insurance benefits

Performance Goal 1.3.3: Assess the Success of Various Enforcement Strategies to Protect Workers While Minimizing Employers' Burden in the Changing Work Environment

Key Efforts

- Analyze how technological, economic, and national security issues are affecting the workplace, the protections afforded to workers, and efforts to regulate these protections
- Highlight the results and lessons learned from efforts to enhance worker safety and health through nontraditional methods, such as voluntary compliance and employer incentives
- Assess federal and state oversight and management of efforts to ensure safer workplaces and healthier workers

Significance

Technological advances, unprecedented economic growth, and low unemployment rates created a situation in the 1990s in which employers were willing to go to great lengths to get and keep qualified workers. For example, employers paid competitive wages and benefits, allowed alternative work schedules, or provided employment that was not only free from serious hazards but had numerous amenities for workers, such as day care centers or health clubs.

More recently, however, the economic downturn, changes in the demographics and skill sets of available workers, and continued threats to national security are changing how employers and workers view the workplace. Employers may be less willing to expend the resources necessary to get and keep workers, or even provide basic workplace protections, if they are faced with financial constraints and qualified workers are readily available either as a result of higher unemployment or immigration of workers to the United States.

In addition, changes in workplace arrangements and conditions—such as the increasing use of independent contractors who do not qualify for employer-provided pensions or health care benefits—are calling into question the adequacy of protections for today's workers and the burdens that employers face in trying to provide these protections. Workers may be less able to think productively and creatively if they do not feel safe in the workplace and think their employers are not devoting sufficient resources to protecting their health and safety. However, the level of protection that employers should provide in response to external threats to workers' safety, such as threats to national security, is unclear.

Now more than ever, it is important to maintain the balance between ensuring the safety and health of workers and minimizing burdens for employers. In that respect, federal and state enforcement authorities, which for years have largely been able to focus their efforts on the most dangerous or exploitative employers, now may have to rethink what types of workplace safety issues are paramount. It is clear that regulations and activities designed to ensure workplace safety and health must be revised to accurately reflect not only the technological changes of the recent past, but also the potential repercussions from recent national events. No consensus exists, however, on the types of revisions that would result in the most efficient ways of protecting workers and minimizing employers' burden in the 21st century.

Potential Outcomes

- Better informed congressional and agency decisions on the types of changes needed in regulations and enforcement policies to address current work arrangements and workplace conditions
- Enforcement and other strategies, such as voluntary compliance programs, that result in safer workplaces and healthier workers while eliminating unnecessary burdens for employers
- Increased efficiency and financial management in the delivery of worker protection programs and policies

Performance Goal 1.3.4: Identify Ways to Improve Federal Support for People with Disabilities

Key Efforts

- Evaluate the adequacy of actions that federal disability programs have taken to modernize their programs so that they are in line with the current status of law, science, medicine, technology, and labor market conditions
- Evaluate the adequacy of management processes and controls of federal disability programs for ensuring program integrity, including those related to improving the accuracy, timeliness, and consistency of disability decisions
- Assess the effectiveness and efficiency of federal and other efforts, including those in other countries, to improve access to public accommodations, benefits, services, and activities, including those that promote movement into the workforce for people with disabilities
- Assess the effectiveness and efficiency of benefits and services provided by the federal worker compensation program and other worker compensation programs, including those in other countries, to improve the rehabilitation and return to work of injured workers

Significance

Federal disability programs have experienced significant growth over the past decade and are expected to grow even more steeply as more baby boomers reach their disability-prone years. In particular, the Social Security Administration (SSA) and VA oversee five major disability programs that provide cash assistance to individuals with physical or mental conditions that reduced their earning capacity, collectively paying more than $100 billion in cash benefits to more than 13 million beneficiaries in 2001.

Paradoxically, recent scientific advances as well as economic and social changes have redefined the relationship between impairments and work. Advances in medicine and technology have reduced the severity of some medical conditions and have allowed individuals to live with greater independence and function in work settings. Moreover, the nature of work has changed in recent decades as the national economy has moved away from manufacturing-based jobs to service- and knowledge-based employment.

However, federal disability programs remain mired in concepts from the past and are poorly positioned to provide meaningful and timely support for workers with disabilities. Indeed, SSA and VA are struggling to provide accurate, timely, and consistent disability decisions to program applicants. For these reasons, GAO has added modernizing federal disability programs to its 2003 high-risk list. GAO's designation of SSA's disability programs as high risk can serve as a catalyst to bring together the partners needed to resolve these long-standing problems. As previously stated, as the primary manager of multibillion-dollar programs and as the entity with fiduciary responsibility for the trust funds, SSA must take the lead in forging the partnerships and cooperation that will be needed in reorienting federal disability programs.

Potential Outcomes

- Improvement in current and future service-delivery structures and practices
- Administrative and legislative actions to improve the timeliness, accuracy, and consistency of disability decisions for program applicants
- Reduced fraud, waste, and overpayments in disability programs

A Secure Retirement for Older Americans

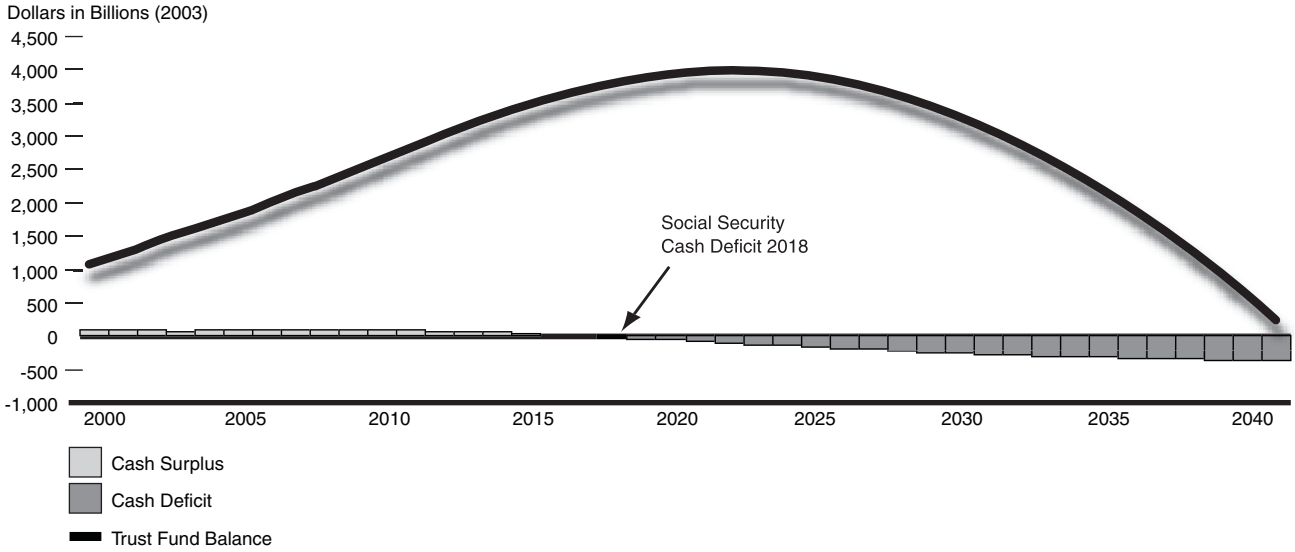
Issue: For the last 60 years, the retirement security of older Americans has been a central concern of American society. The Congress enacted Social Security and the post-World War era saw the development and expansion of a private-employer-provided pension system. Later, new tax-preferred vehicles were created to encourage individuals to increase their personal retirement savings.

The nation has also changed dramatically in other ways. For example, women, especially married women, have entered the labor force in growing numbers, with their 2000 labor force participation rate almost doubling to over 60 percent since 1960. As the growth in the number of single parent households illustrates, there has been a substantial increase in the diversity of structure of American households. Finally, as the baby boomers approach retirement and as life expectancy continues to increase, the American population has aged. The percentage of the population age 65 and older is projected to reach 20 percent by 2025, up from less than 12 percent in 2000.

All of these developments have important consequences for the retirement security of American workers and their families. For example, the aging of the population poses important challenges for the future of Social Security, the program that continues to serve as the foundation of the nation's retirement income system. Because of these changes in workforce participation and longevity, people—particularly women—on average, will be spending an increasing number of years in retirement and thus will receive benefits longer. In addition, it means that the ratio of workers to retirees is expected to decline, with fundamental implications for Social Security, the federal budget, and the national economy. Although Social Security payroll tax revenues exceed benefit expenditures today, projections suggest that beginning in 2018, spending will exceed revenues by growing proportions and that in 2042 the Social Security trust funds will be depleted. (See fig. 1.8.) Action must be taken in the near term to restore solvency and sustainability to the Social Security system, particularly as other, even more urgent priorities present claims on public funding and legislative agendas.

Although there is an emerging consensus about the need to address the long-term fiscal problems of the Social Security program, there remains considerable debate on both the timing and the nature of such reform. The Congress has discussed many of these issues and is continuing these policy deliberations. Such reform would have major consequences for the federal budget, for the long-term economic growth of the country, and particularly for retirement income adequacy, given that Social Security is the sole source of income for one-fifth of the elderly.

Figure 1.8: Social Security Trust Fund Faces Insolvency in 2042

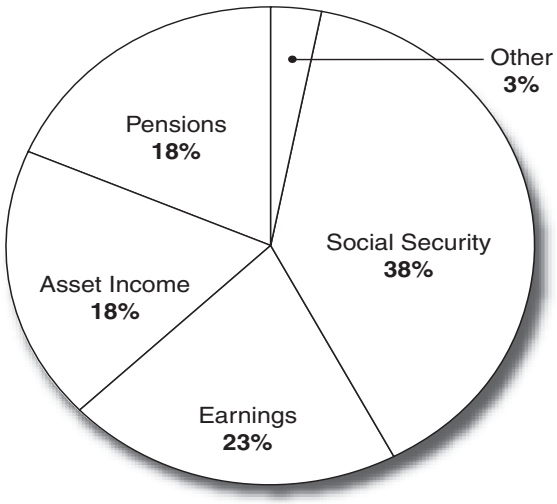


Source: GAO analysis of Social Security Administration data.

Note: Data taken from the Office of the Actuary's 2003 intermediate assumptions from the *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.

Besides reforming Social Security in ways to ensure its financial viability and enhance its contribution to retirement income, it will also be necessary to foster the growth of other sources of retirement income. For example, pensions are another key element in the nation's approach to ensuring adequate retirement income, constituting 18 percent of retirement income in the United States. (See fig. 1.9.) Nonetheless, tens of millions of U.S. workers have no individual pension coverage, placing them at risk during their retirement years. Only about half of the nation's workers are covered by employer pensions, and 48 percent of retirees do not receive any pension income. Determining the best way to increase pension coverage represents a continuing policy concern.

Figure 1.9: Sources of Income in the United States for Those Age 65 and Over, 2001



Source: Social Security Administration, *Annual Statistical Supplement, 2002.*

Note: "Pensions" includes private pensions and annuities; government employee pensions; Railroad Retirement; and individual retirement account, Keogh, and 401(k) payments.

Some workers with pensions are experiencing a new kind of coverage as a growing number of employers move away from traditional defined benefit plans to defined contribution plans. Furthermore, some employers are shifting from traditional defined benefit plans to "hybrid" systems that retain the defined benefit structure while adopting certain features of defined contribution plans. These plans place greater responsibility on workers themselves

to make prudent investment decisions about their retirement savings, but do not always provide workers access to the accurate and reliable information necessary for such decisions. Such changes will pose new challenges to workers, government regulators, and policymakers.

A still significant number of workers continue to be covered by defined benefit plans offered by individual employers. Benefits provided by these plans are partially insured by the Pension Benefit Guaranty Corporation (PBGC). After fluctuating over the last decade, the single employer insurance program now has a large and growing accumulated deficit. The program has moved from a $9.7 billion accumulated surplus in 2000 to a $3.6 billion accumulated deficit in fiscal year 2002.

The termination of large underfunded pension plans of bankrupt firms in troubled industries like steel or airlines was the major cause of the deficit. Declines in the stock market and interest rates and certain weaknesses in the current funding rules contributed to the severity of the plans' underfunded condition. Furthermore, the degree of underfunding in the private pension system has increased dramatically and additional severe losses may be on the horizon. Continued problems in volatile or declining industrial sectors could lead to additional corporate bankruptcies and consequent plan terminations, increasing PBGC's financial liabilities. PBGC currently estimates that it faces $35 billion in unfunded vested benefits exposure, which ultimately might become program losses.

However, these factors mask broader trends that pose serious program risks. For example, the program's insured participant base continues to shift away from active workers, falling from 78 percent of all participants in 1980 to 53 percent in 2000. In addition, the program's risk pool has become concentrated in industries affected by global competition and the movement from an industrial to a knowledge-based economy. In 2001, almost half of all program-insured participants were in plans sponsored by firms in manufacturing industries, a sector that has had virtually no employment growth in the last half century. The result is a potentially escalating agency vulnerability as PBGC struggles to insure what is at best a moribund and increasingly risky segment of the pension universe. In response to the cumulative effect of these trends on the financial vulnerability of this agency and the potentially severe adverse consequences for workers' benefits and the federal government, GAO placed PBGC's single-employer insurance program on its high-risk list in July 2003.

Long-term weaknesses in the solvency of the Social Security program and the sustained lack of pension coverage for half of the labor force necessitate that workers depend on their own retirement savings to cover these gaps. Yet, despite these potential shortfalls, personal savings rates continue to hover at historically low levels. Current economic uncertainties may exacerbate this trend, threatening the prospects for individuals' future retirement income as well as the nation's future economic growth.

Finally, earnings from employment are already a key component of retirement income, accounting for 24 percent of aggregate retiree income in 2002. Employment-related earnings, particularly when generated by extending the labor force of seasoned workers, could potentially play a more prominent role in future retirement security. Current workers are healthier than past generations and are more willing to work in retirement. Increased labor force participation can reduce the fiscal pressures on Social Security, contribute to economic growth by mitigating potential occupational bottlenecks, and bolster labor force growth. However, most employers have not yet met this challenge by establishing alternative work and schedule arrangements, nor has the government developed the complementary policies to encourage employers and workers to move in this direction.

The health needs of an aging population and society's ability and willingness to fund those needs are other key issues in national retirement policy. The availability of health insurance is a major consideration in seasoned workers' employment and retirement decisions as well as in employers' decisions to hire such workers. In particular, the long-term erosion of employer-provided health benefits for retired workers age 55 to 64 who are ineligible for Medicare is a disturbing trend. In addition, some of these workers, especially low-wage workers, may have to look to Medicaid, the health insurance program for the poor, for assistance. Yet a serious related concern is the projected rapid rise in Medicaid expenditures. The Congressional Budget Office (CBO) estimates that total national expendi-

tures for Medicaid will increase from $158 billion in fiscal year 2003 to $360 billion in 2013, a 128 percent increase. GAO is taking a comprehensive view of the issues facing older Americans and their financial security, including not only their retirement income but also health insurance access and affordability and the interaction of all of these concerns with the general retirement decision.

The demographic, economic, and social developments affecting the nation also have important consequences for how the Social Security Administration conducts its business. In particular, the Social Security number (SSN), once an internal marker for the agency to record contributions and pay benefits, is now virtually a universal identifier, used by public agencies at all levels of government and private business entities of all sizes and from many different economic sectors. The SSN's wide use, besides raising many serious privacy issues, has also put citizens throughout the nation at risk of identity theft, fraud, and other types of illegal activity. How to use the SSN in a way that ensures effective agency operations, prevents its illegal use, and protects the privacy of U.S. citizenry is one of the greatest 21st century challenges facing the Social Security Administration.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess the policy challenges facing the future of the Social Security system and the need for reform;
- bolster retirement security by identifying opportunities to foster greater pension coverage, raise personal saving, and increase the employment earnings of seasoned workers;
- identify opportunities to improve the ability of government agencies to administer and protect workers' retirement benefits; and
- assess the role of the Social Security number in improving government operations, minimizing fraud and abuse, and protecting citizens from identity theft and other illegal activity.

Performance Goal 1.4.1: Assess the Policy Challenges Facing the Future of the Social Security System and the Need for Reform

Key Efforts

- Analyze Social Security reform proposals for their effect on the level and distribution of workers' benefits, especially for at-risk populations; on the budget and the economy; and on agency implementation and administration
- Assess the national retirement system reforms other nations have implemented in response to adverse fiscal and demographic trends for their impact on retiree benefits, budgetary and economic effects, and applicability to the United States

Significance

Social Security policy continues to be an important issue facing the nation, requiring near-term action in a context in which safety and security issues necessarily dominate the nation's policy agenda. The Social Security system faces insolvency within the next 40 years, and projections suggest that benefit costs will begin to exceed program revenues much sooner. Policymakers thus face difficult choices today to avoid potentially catastrophic problems later. The main policy choices include increasing program revenues, investing Social Security trust funds in the private sector, reducing benefits, or some combination of the three.

Some analysts call for major structural revisions in the program through the creation of individual retirement accounts for workers, either in addition to the current program or in lieu of some portion of current benefits. All of these policy choices have consequences for retirees' benefits, the federal budget, and long-term economic growth. They also would influence the willingness of employers to offer private pension plans to their employees and the types of plans offered.

These problems are not unique to the United States—virtually all of the advanced industrialized countries are now grappling with similar issues. Many of these nations are also experimenting with innovative solutions to these problems, including ways to encourage workers to retire later, and the success or failure of these initiatives can have important consequences for how the Congress and the President respond to this policy issue in this country.

Finally, the powerful demographic and social changes affecting American society pose challenges to existing Social Security policies and proposed policy changes. For example, long-term trends in longevity and in family and household structure have important equity implications for the structure of Social Security survivor, spousal, and related benefits.

Potential Outcomes

- Greater congressional and public understanding of alternative Social Security reforms and their implications for retiree benefits, trust fund solvency, program sustainability, the budget, and the national economy
- Greater understanding and appreciation for the practical considerations related to the implementation and administration of Social Security reforms as well as the resulting interaction with other retirement systems

Performance Goal 1.4.2: Bolster Retirement Security by Identifying Opportunities to Foster Greater Pension Coverage, Raise Personal Saving, and Increase the Employment Earnings of Seasoned Workers

Key Efforts

- Assess information available to participants about private pensions in the United States and those provided to participants by other national occupational pension systems to identify opportunities to foster the accumulation of retirement saving and to ensure adequate and secure post-retirement income
- Analyze current federal pension and associated tax policies and those of other nations' occupational pension systems to determine their effect on pension plan formation; employee participation; plan coverage; and the adequacy, distribution, and security of benefits
- Assess the effectiveness of current tax and other programs and provisions to encourage workers to expand their individual retirement savings and the interactions of these individual efforts with policies encouraging other forms of retirement and nonretirement saving
- Assess the implications of alternative policies geared to extending the labor force participation of seasoned workers

Significance

The private pension system remains one of the policy cornerstones for ensuring that the nation's workers have adequate retirement income. Nevertheless, tens of millions of U.S. workers—close to half of the labor force—continue to have no individual pension coverage, placing them at risk during their retirement years. The private pension system also continues to evolve: the shift from defined benefit to defined contribution plans presents both risks and opportunities for American workers that can affect retirement income dramatically. Personal saving, another important source of future retirement income, is at a historically low level and could be affected by the enhanced uncertainty of the current economic environment. Reforms to the Social Security system could also affect these other sources of retirement income.

Given the potential for occupational shortages and lower economic growth stemming from a decline in labor force growth, identifying and implementing effective policies to extend the labor force participation of seasoned workers is a critical area for national retirement policy analysis. GAO's work is aimed at improving the linkage between the private pension and Social Security systems, helping to find effective vehicles to encourage personal saving, promoting the voluntary extension of labor force participation of seasoned workers to facilitate economic growth and support the Social Security system, and ensuring adequate retirement income for the American people.

Potential Outcomes

- Greater congressional understanding of proposals for increasing employer and worker participation in the private pension system
- More effective federal strategies and policies to increase the role of private pensions as a source of retirement income for workers
- Improved understanding of alternative strategies to raise personal saving
- Greater awareness of the adequacy of retirement saving among various subgroups
- Greater congressional understanding of the issues facing the implementation of viable alternative employment arrangements that extend the labor force participation of older workers, mitigate potential labor bottlenecks, and encourage economic growth

Performance Goal 1.4.3: Identify Opportunities to Improve the Ability of Government Agencies to Administer and Protect Workers' Retirement Benefits

Key Efforts

- Evaluate pension, pension insurance, and tax oversight programs to determine whether workers' private pension retirement benefits are effectively protected
- Evaluate SSA's service-delivery systems and program operations to determine whether they are being implemented fairly, effectively, efficiently, and securely
- Assess the adequacy and management of public service retirement systems, including the federal, state, and local government employee systems, in serving participants and in protecting and providing benefits

Significance

Social Security, military, federal employee pensions, and private pensions will continue to require effective, performance-based management and oversight by federal agencies, such as SSA, the Office of Personnel Management, PBGC, the Employee Benefits Security Administration, VA, and IRS. The challenges facing PBGC's single employer insurance program, in particular, pose serious financial risks to the federal government, warranting the program's placement on GAO's high-risk list.

State and local government employees also deserve effective benefit protection and program oversight, particularly of those plans that receive preferential tax treatment from the federal government. GAO's work is aimed at enhancing the benefit protections enjoyed by covered workers, improving the quality of service provided to workers and employers, and assessing the effectiveness of the operations of the relevant federal agencies.

Potential Outcomes

- Increased agency administrative and enforcement efficiency to provide better protection to workers' benefits at lower taxpayer expense, thereby improving the security of participants' retirement income
- Greater congressional understanding of factors affecting PBGC's financial condition and regulatory effectiveness
- Improved efficiency and effectiveness of SSA's service delivery and operations
- Improved operations of federal and other public retirement programs

Performance Goal 1.4.4: Assess the Role of the Social Security Number in Improving Government Operations, Minimizing Fraud and Abuse, and Protecting Citizens from Identity Theft and Other Illegal Activity

Key Efforts

- Assess actions to maintain the integrity of the Social Security number (SSN) system and strike an appropriate balance between the security of SSNs and program integrity purposes
- Assess actions to improve the use of SSNs for identity verification and law enforcement purposes

Significance

Terrorism and the resulting prevention efforts have underscored both the weaknesses and strengths of SSA's current SSN identification system. While SSA relies on the number as an essential element of its operations, the number has also become an integral part of daily life for millions of Americans. Public and private employers, hospitals, and individuals now use the number to conduct routine business, obtain drivers licenses and other government documents, and apply for loans and employment as well as for a host of other activities. This development has raised a wide array of serious policy issues, including the increased potential for identify theft and other types of fraud or illegal activity, the degree to which foreign nationals can access federal employment and education programs, and the privacy protection of individuals' personal information. GAO's work on the use of the SSN in American society and agency policies regarding its use seeks to fill a major gap in the policy debates on all these issues.

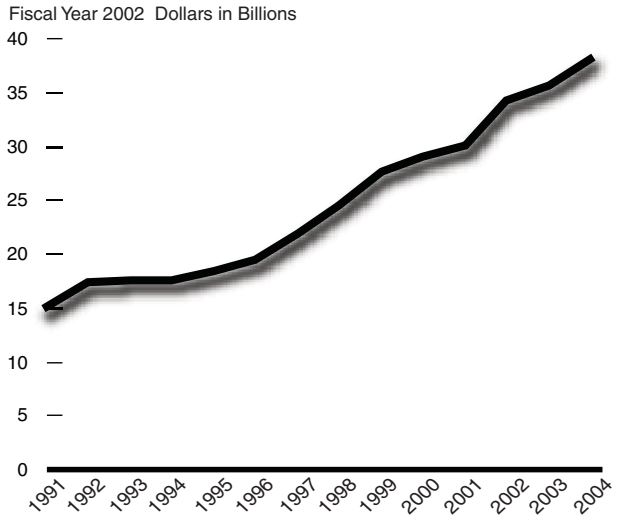
Potential Outcomes

- Improved security of SSNs
- Improved program integrity of public benefit programs
- Improved public safety and homeland security

An Effective System of Justice

Issue: Spending on the administration of justice continues to grow. In constant 2001 dollars, federal spending will be about $38 billion in fiscal year 2004, up from about $15 billion in 1991. (See fig. 1.10.) Most of the increase has been to accommodate a shift in focus at the federal level from helping local governments control crime to emphasizing more distinct federal responsibilities, such as controlling illegal immigration and, more recently, preventing terrorist attacks.

Figure 1.10: Federal Outlays for the Administration of Justice, 1991–2004



Source: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2004.*

Note: The 2003 and 2004 numbers are estimates. These data reflect OMB budget data for the "administration of justice" budget function.

During the past several years, overall crime levels have been reduced. For example, preliminary data for 2002 from the Federal Bureau of Investigation's (FBI) Uniform Crime Reporting Program indicate a 0.2 percent decrease in the nation's Crime Index from the 2001 figure. Nevertheless, the Congress and the public remain concerned and look to the federal government for leadership on how to control domestic and transnational crime, including terrorism, while protecting civil liberties; to reduce illegal drug use; to protect the nation's borders; and to control prison costs. The USA Patriot Act, passed in October 2001, significantly expanded federal law enforcement and investigative authority and, with billions of dollars in additional funding, greatly increased the federal counterterrorism role. In addition, the newly created Department of Homeland Security (DHS) is expected to coordinate the executive branch's efforts to detect, prepare for, prevent, respond to, and recover from terrorist attacks within the United States. Many of these functions are the primary roles of law enforcement at the federal, state, and local levels—which heightens the importance of effective coordination and cooperation. Also, the Justice Department has begun to restructure the FBI and is in the process of redefining its mission and priorities in light of the increased focus on antiterrorism.

Passage of the Homeland Security Act of 2002 moved several major federal law enforcement agencies around—the Secret Service, the Immigration and Naturalization Service (INS), the U.S. Customs Service, the Coast Guard, the Federal Protective Service, and the Federal Law Enforcement Training Center all moved to the new DHS. In addition, the Bureau of Alcohol, Tobacco, and Firearms moved from the Department of the Treasury to Justice, leaving Treasury virtually no law enforcement functions. While the movement of these agencies into their new units presents management challenges, it also raises concerns about the impact the transfers will have on agencies' ability to perform their missions. These concerns, as well as the sheer size of the undertaking, the fact that DHS's proposed components already faced a wide array of existing challenges, and the prospect of serious consequences for the nation should DHS fail to address its management challenges and program risks adequately, led GAO to add the implementation and transformation of the new department to the list of high-risk areas in 2003.

After several years of mandatory minimum sentencing, "three strikes and you're out" laws, and truth-in-sentencing grants, federal and state prisons are overcrowded. The size of the prison population will be the subject of increasing public debate as these policies' cost to the public escalates. Moreover, in constant 2002 dollars, the federal judiciary's fiscal year 2004 spending, estimated at about $5.5 billion, will be more than double its fiscal year 1991 spending of about $2.5 billion. In addition, the

judiciary has faced an imbalance in its workload in recent years, particularly its criminal caseload, with some courts facing much higher workloads than others. Thus, the judiciary faces a major challenge in determining how to use its resources efficiently and effectively to address such workload imbalances and to coordinate its strategy with other affected agencies, particularly along the southwest border. Also, the number of prisoners being released from federal prisons is growing rapidly, making successful reintegration an increasingly important issue.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- identify ways to improve federal agencies' ability to prevent and respond to terrorism and other major crimes,
- assess the effectiveness of federal programs to control illegal drug use,
- assess federal efforts to enforce immigration and customs laws, and
- assess the administrative efficiency and effectiveness of the federal court and prison systems.

Performance Goal 1.5.1: Identify Ways to Improve Federal Agencies' Ability to Prevent and Respond to Terrorism and Other Major Crimes

Key Efforts

- Assess the effectiveness of major federal law enforcement programs
- Evaluate the implementation and effectiveness of federal gun control laws
- Evaluate the management and results of key federal law enforcement grant programs
- Assess the equity in the operation of key segments of the criminal justice system

Significance

Crime, including crime committed by terrorists, is one of the foremost concerns of the American public. To address this concern, the Congress has, among other initiatives, made many crimes federal offenses and increased Justice's budget to investigate and prosecute these offenses. The Congress has also made billions of dollars available to states and localities through grants and other assistance to help them prevent and combat violent crime, drug trafficking, and juvenile delinquency. Other federal law enforcement initiatives include enforcing gun control and civil rights laws and maximizing the use of asset seizure and forfeiture authority. How well federal law enforcement agencies carry out their responsibilities to prevent and respond to acts of terrorism and other major crimes and work with their state and local counterparts is a continuing concern, particularly given the substantial budget increases in nearly every facet of law enforcement operations.

Among the more important issues is how law enforcement agencies carry out these laws. For example, when the Congress gave Justice additional antiterrorism investigative authorities under the USA Patriot Act, the Congress included a sunset provision to enable it to conduct oversight into, among other things, how equitably the department was using the new authorities. Similarly, how well federal law enforcement agencies work with their foreign counterparts is of growing importance, given the increasing opportunities for criminal enterprises to operate transnationally. In addition, because many of the new initiatives assume larger workforces, including the need to incorporate a variety of new special skills, federal law enforcement agencies may find it increasingly difficult to recruit, train, and retain quality officers and support personnel.

Potential Outcomes

- Agencies better positioned for preventing, detecting, and investigating crimes, including terrorism
- Improved agency implementation of controls over illegal acquisition and ownership of guns
- Enhanced agency focus on managing law enforcement grant programs
- More equitable application of the criminal justice system, especially for juveniles, minorities, and aliens
- Agencies better positioned to support multinational responses to transnational crime, including terrorism

Performance Goal 1.5.2: Assess the Effectiveness of Federal Programs to Control Illegal Drug Use

Key Efforts

- Assess the coordination, execution, and evaluation of portions of the National Drug Control Strategy
- Assess the roles, responsibilities, and results of agencies involved in specific supply and demand reduction programs
- Assess the management and effectiveness of U.S. assistance in drug-producing countries

Significance

During the past few years, the Congress participated actively in the debate over the strategy the nation should use to reduce the use of illegal drugs, a criminal activity that, according to the Office of National Drug Control Policy, was estimated to cost the United States socially and economically about $160 billion in fiscal year 2000. Over 50 federal agencies are involved in carrying out the National Drug Control Strategy at an annual cost of about $12 billion. Despite this investment, the demand for and supply of illegal drugs have persisted at very high levels and continued to adversely affect American society in terms of social, economic, and health costs as well as through drug-related violent crime. For example, one key measure—reported use of illicit drugs in the past 30 days—showed increases in each age cohort from 2000 through 2001. Reported use among children aged 12 to 17 increased from 9.7 percent to 10.8 percent. As a result, nearly every appropriations subcommittee and several of the legislative and oversight committees have been involved in various attempts to provide congressional guidance. One issue GAO has highlighted for the Congress and will continue to address is the changes in federal strategy brought about because the Federal Bureau of Investigation (FBI) is playing a narrower role in the drug war; the Drug Enforcement Administration is now focusing more on disrupting and dismantling top-level drug organizations.

Potential Outcomes

- Improved congressional and public understanding of the resources being devoted to achieving national goals and improved performance measures for and results of national drug control efforts
- Agencies better positioned to operate efficient and effective drug control programs
- Better understanding of the obstacles and limitations of drug control efforts
- More efficient and effective programs to interdict illegal drugs before they enter the United States

Performance Goal 1.5.3: Assess Federal Efforts to Enforce Immigration and Customs Laws

Key Efforts

- Evaluate the Department of Homeland Security's (DHS) border enforcement efforts
- Assess implementation of DHS systems for tracking people and cargo entering the United States
- Assess DHS efforts to process aliens' applications for benefits more efficiently
- Assess DHS efforts to enforce immigration laws inside U.S. borders

Significance

In 2003, INS and Customs were merged into DHS. Although their functions have been reorganized into DHS's Bureau of Customs and Border Protection and Bureau of Immigration and Customs Enforcement, the immigration and customs agents and inspectors are still basically enforcing the same laws.

Since the terrorist attacks of September 11, 2001, the Congress and the administration have given more priority to ensuring that people and cargo admitted to the country are not connected with terrorist groups; DHS is developing advanced technologies to check all people and cargo that pass through U.S. ports of entry. In addition, DHS is working with the State Department, foreign governments, and foreign shippers to learn more about people and cargo headed for the United States before they leave foreign shores. Finally, DHS and the Justice Department are applying immigration laws more strictly, especially as they relate to aliens already in the United States. Management of these investments, systems, and processes will continue to challenge DHS as it challenged INS and Customs before the reorganization.

Potential Outcomes

- Agencies better positioned to detect, deter, and prevent illegal entry
- Enhanced options to improve the work site enforcement program
- Enhanced knowledge of the foreign-born population in the United States
- Greater attention to the appropriate use of immigration laws in combating terrorism
- Enhanced capability to provide services to aliens (such as quicker turnaround times and smaller backlogs)

Performance Goal 1.5.4: Assess the Administrative Efficiency and Effectiveness of the Federal Court and Prison Systems

Key Efforts

- Evaluate the federal judiciary's efforts to manage workload
- Assess the Bureau of Prisons' progress in minimizing construction and operational costs

Significance

From fiscal years 1991 through 2004, the cost of federal litigative and judicial activities more than doubled, from about $2.5 billion to about $5.5 billion in constant 2002 dollars. In recent years, the judiciary has faced challenges to handling the increasing workload, particularly in its criminal cases, with some courts facing much higher workloads than others. For example, during the 12-month period ending March 31, 2002, about 27 percent of the 63,515 criminal cases filed in the 94 federal district courts were filed in 5 districts along the Southwest border, reflecting the additional law enforcement resources devoted to interdicting illegal immigrants and drugs there.

Changes in criminal workload affect a variety of judicial resources, including magistrate and district court judges, pretrial and probation officers, defender services, and the clerks of the court, who have recently run out of funds to pay jurors. It also affects other agencies, such as the U.S. Marshals Service, the Bureau of Prisons, and the DHS's Bureau of Immigration and Customs Enforcement, which are responsible for the pretrial detention of those who are not released prior to trial.

Finally, the impending release of thousands of federal inmates will put an enormous strain on community supervision resources, including halfway houses, to try to ensure successful reintegration into everyday life. With respect to the prison system, the federalization of crimes, mandatory minimum sentencing laws, and the war on drugs have resulted in crowded prisons despite massive construction programs in the 1990s. The cost to the public of these policies—once assumed to be a fair price to pay for reduced crime—will be under increased scrutiny as it becomes a more substantial portion of the budget.

Potential Outcomes

- Improved effectiveness of resource management within the federal judiciary
- Enhanced information that provides the Congress a multiagency perspective for appropriations and oversight decision making
- The Bureau of Prisons being better positioned to control the growth in prison construction and operating costs

The Promotion of Viable Communities

Issue: The economic and social well-being of communities is key to the nation's overall growth and prosperity. Yet the viability of many of America's communities is threatened by a variety of ills, including high levels of long-term unemployment, inadequate retail activity, a deteriorating housing stock, and other economic and social problems. For decades, federal, state, and local governments and the private and nonprofit sectors have sought ways to revitalize distressed communities. The federal government alone operates well over 100 programs that offer communities grants, loans, loan guarantees, and special tax incentives designed to assist distressed areas—for example, Community Development Block Grants that communities can use for a variety of infrastructure and capacity-building needs and Empowerment Zones that are intended to encourage investment in targeted areas.

Despite these efforts, no simple answer has been found to the question of how best to revitalize America's distressed communities, in part because of the difficulty of measuring the factors that actually cause communities to improve. Also, the issue of how best to deliver aid is complicated by the need to strike a balance between the goals of the federal government and those of state and local governments and nonprofit organizations, which administer a large share of federal dollars for community and economic development.

Small businesses, which employ more than half the nation's workforce, are key to economic growth in many communities. The Small Business Administration (SBA), with a portfolio of loans worth more than $50 billion, is the nation's single largest financial backer of small businesses and provides management and technical assistance to about 1 million small business owners annually. SBA also has oversight responsibility for federal contracting goals for small and minority-owned businesses. Because SBA has undertaken numerous initiatives to address management issues that affect the agency's performance, the Congress needs up-to-date assessments of its performance.

To promote home ownership, a key element of a vibrant community, the federal government provides mortgage assistance through mortgage guarantees provided by the Federal Housing Administration and VA and guarantees of mortgage securities by the Government National Mortgage Association. It also provides a federal charter and other direct and indirect benefits to three government-sponsored enterprises (GSE)—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—that support the mortgage market. Recently, the effectiveness of the regulatory structure for GSEs has been called into question. The federal government also promotes home ownership through tax incentives and requirements placed on mortgage market participants. It must balance the benefits of increasing home ownership, especially among the underserved, against the financial risk taken on directly (through mortgage guarantees) or indirectly (through GSEs).

Since the late 1970s, the federal government has provided over $100 billion to help prepare for disasters and to assist disaster victims and their communities. In response to the recent terrorist attacks, billions of dollars have already been appropriated for recovery and relief efforts. Establishing an efficient and cost-effective approach to disaster assistance is difficult in the face of pressures to provide relief for disaster victims. However, approaches that provide incentives for preventive activities and foster private insurance coverage are two avenues that both the Federal Emergency Management Agency (FEMA) and the Congress are interested in exploring.

The Department of Housing and Urban Development (HUD) administers rental housing assistance programs to help families with lower incomes reside in safe, decent, and affordable housing. HUD's rental assistance programs remain at high risk of waste and abuse, in part because HUD faces numerous management challenges in human capital, contract management, and IT. Also, HUD and the Department of Agriculture's Rural Housing Service, which oversees rural rental housing programs, face challenges in ensuring that federally assisted properties are physically and financially sound and administered in a way that best serves the needs of low-income households.

Performance Goals: To support the Congress and the federal government in their efforts to address these issues, GAO will assess

- federal community and economic development assistance and its impact on communities;
- the effectiveness of federal initiatives to assist small and minority-owned businesses;
- how the federal government can balance the promotion of home ownership with financial risk;
- federal efforts to enhance national preparedness and capacity to respond to and recover from natural and man-made disasters; and
- how well federal programs that support affordable rental housing meet objectives, manage financial risk, and improve recipients' well-being.

Performance Goal 1.6.1: Federal Community and Economic Development Assistance and Its Impact on Communities

Key Efforts

- Identify approaches and best practices for measuring the impact of community and economic development programs
- Assess the impact of program coordination on targeted communities and residents
- Assess the impact of specific economic development initiatives on communities

Significance

One way the federal government demonstrates its commitment to strong and stable communities is through its numerous and diverse federal economic development assistance programs. More than 100 federal programs provide communities with such assistance in the form of grants, tax incentives, loans, and loan guarantees involving billions of dollars each year. These programs primarily address issues surrounding the living conditions of low- and moderate-income families and the stability of urban and rural American communities. A large share of the federal commitment is administered through state and local governments and nonprofit organizations. As a result, local support and the state of local economies often affect the outcomes of these programs, and achieving program goals may take years. Furthermore, communities face an increasingly complicated governance challenge in bringing together state, regional, and federal players and resources to address issues and concerns that cut across governance boundaries. Thus, federal decision makers face the challenge of finding ways to improve the design and flexibility of federal programs to help communities maintain their quality of life and deliver key services while working with multiple players to meet crosscutting program goals. At the same time, federal agencies must provide enough oversight to ensure that programs meet their goals and comply with federal requirements.

Potential Outcomes

- Improved coordination among federal programs and streamlined delivery of development assistance
- Improved decision making related to the creation or continuation of federal programs
- Better congressional understanding of federal programs' effect on the growth and development of communities

Performance Goal 1.6.2: The Effectiveness of Federal Initiatives to Assist Small and Minority-Owned Businesses

Key Efforts

- Assess the Small Business Administration's (SBA) initiatives to make its programs more efficient, effective, and helpful to small businesses, especially to those businesses least able to access credit markets
- Assess SBA's management initiatives in areas such as organizational alignment, information technology (IT), financial management, and human capital and determine how these improvements may have helped SBA better meet its mission
- Assess the impact of federal contracting policies and practices on small businesses and determine what oversight SBA provides to ensure that federal agencies meet small business contracting goals

Significance

America's small businesses play a critical role in the nation's economy, employing more than half the nation's workforce. Since its inception in 1953, SBA has had a clear mission: to serve the small business sector of the economy by providing financial, technical, and management assistance that helps Americans start, run, and develop their own businesses. SBA is also charged with making sure that small and minority-owned businesses get a fair share of the approximately $200 billion annual federal procurement market. SBA has undertaken a number of initiatives to address problems that have been identified in both programmatic and operational areas, including its business loan guarantee programs, minority business development program, and information systems management. As SBA pursues its mission of maintaining and strengthening the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from natural disasters, the Congress needs up-to-date assessments of SBA's performance.

Potential Outcomes

- Improved SBA assistance to small businesses and better cost-saving measures
- Improved SBA management practices that lead to more results-oriented performance
- Increased knowledge of the effects of federal contracting practices on small businesses and enhanced oversight of federal small business contracting goals

Performance Goal 1.6.3: How the Federal Government Can Balance the Promotion of Home Ownership with Financial Risk

Key Efforts

- Assess the Department of Housing and Urban Development's (HUD) controls to manage risks, including its oversight of the lenders, appraisers, and contractors that participate in its loan insurance programs and property management functions
- Assess the financial risks associated with the activities of government-sponsored enterprises (GSE) and the actions taken by their regulators
- Assess the impact that market and policy changes could have on HUD's insurance funds and the budget
- Evaluate the effectiveness of efforts to enforce fair housing and fair lending laws
- Evaluate the effectiveness of federal programs, tax and other incentives, and requirements that support financing for traditionally underserved segments of single-family housing markets

Significance

The federal government promotes homeownership through various housing finance programs, incentives, and requirements. HUD's Federal Housing Administration, VA's Loan Guaranty Services, and the Department of Agriculture's (USDA) Rural Housing Service (RHS) participate in the primary mortgage market, insuring home mortgages for homebuyers who may otherwise have difficulty obtaining them. These agencies are responsible for managing more than $600 billion in insured home mortgages. In addition, HUD's Government National Mortgage Association, by guaranteeing about $600 billion in mortgage-backed securities, provides liquidity to the housing finance market. The association's guarantees enable lenders of government-insured loans to readily sell their loans, thereby providing additional funds for mortgages for other qualified borrowers.

GSEs—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—are the foundation for home mortgages, providing liquidity to lenders. GSEs are also required to operate in a "safe and sound" manner, but are encouraged to focus on underserved markets. Recently, the effectiveness of the regulatory structure for GSEs has been called into question. The housing finance system supported by these federal agencies and GSEs represents one of the nation's largest financial markets, with significant commitments, obligations, and risks to taxpayers and investors. These entities have long-term commitments, the ultimate costs of which depend on the performance of their underlying mortgages and, in the case of GSEs, the prudence of their management and funding strategies. At the same time, they have a substantial influence on the availability of housing finance, particularly for traditionally underserved markets. The mortgage market has introduced new technologies that help lenders underwrite loans more efficiently and new products that help families finance their homes. And despite the rising homeownership rate, sustaining that level of homeownership may be difficult. For some homebuyers, credit has become more available, but only on terms that might be considered predatory. Also, as lenders move toward financing a higher proportion of home cost, some homeowners have become vulnerable to losing their homes if their incomes fall because of job loss or other crises. Finally, foreclosure rates for federally insured mortgages have been on the rise, partly due to competition from conventional lenders.

Potential Outcomes

- Better management of acquired properties that helps limit the federal government's losses
- Improved administration of HUD's single-family mortgage insurance program

- Improved ability of HUD to ensure adequate capital reserves and funding for its insurance programs
- Improved supervision of the GSEs, enabling them to meet public policy goals while ensuring safe and sound operations
- Improved capital requirements that are more commensurate with the risks posed by the GSEs' operations
- More effective delivery of homeownership opportunities to low- and moderate-income households
- Improved protection for homeowners and homebuyers from predatory and unfair lending practices

Performance Goal 1.6.4: Federal Efforts to Enhance National Preparedness and Capacity to Respond to and Recover from Natural and Man-made Disasters

Key Efforts

- Assess the Federal Emergency Management Agency's (FEMA) and other federal agency efforts to coordinate federal, state, and local disaster preparedness, response, and recovery efforts and ensure efficient, effective, and accountable services at all levels
- Assess the structure, coordination, and cost-effectiveness of FEMA's disaster mitigation activities to reduce the likelihood and potential effects of both man-made and natural disasters
- Assess the cost and benefits of implementing existing disaster-related insurance programs
- Assess the capacity of private insurance markets to supply coverage to protect individuals, families, and businesses from catastrophic losses, and assess federal efforts to support and supplement that protection

Significance

The federal government provided over $100 billion to assist victims of disasters and emergencies during the 1980s and 1990s. To respond to the recent terrorist attacks, FEMA has already been appropriated $40 billion for recovery and relief efforts in New York City, Virginia, and Pennsylvania. The Federal Response Plan, coordinated by FEMA, represents the federal blueprint for responding to all disasters, providing a framework for coordinating the delivery of all federal assistance to state and local governments. The September 11, 2001, attacks have heightened national interest in and concern about the effectiveness of overall federal support to state and local governments in enhancing the planning, mitigation, response, and recovery from disasters—both natural and man-made. Determining how to provide disaster assistance as efficiently and cost effectively as possible is the subject of many national debates.

The Congress and FEMA have increasingly emphasized the importance of mitigation—prevention activities or projects put in place prior to a disaster to reduce losses or to prevent them from occurring—as the most effective means of reducing long-term losses from disasters. However, the process FEMA has used in the past to provide mitigation assistance—making a grant after a disaster based on a percentage of the total costs of the disaster available for discretionary use within a state—may not prepare the nation for disasters in other geographic areas. Although the National Flood Insurance Program was intended to shift the financial burden of flood losses from the federal government to policyholders, it has not fully done so, as the program's expenses over time have exceeded its revenues. As concerns about controlling future disaster spending grow, decision makers are facing new issues regarding the availability and affordability of insurance coverage and mitigation assistance for terrorist incidents as well as natural disasters.

Potential Outcomes

- Improved coordination and more effective federal support of efforts to enhance the capacity of state and local first responders to cope with large-scale disasters
- More responsive, better coordinated, and more efficient and accountable disaster response and recovery efforts
- More effective and economical mitigation strategies and programs for the full range of federal efforts to reduce the likelihood and effect of future disasters
- Increased congressional understanding of the National Flood Insurance Program's coverage of properties in flood-prone areas and possible

measures to improve the program's financial condition

- Increased understanding of the pros and cons of increased federal involvement in providing catastrophic insurance or other forms of backup protection to enhance the capacity of private insurance markets

Performance Goal 1.6.5: How Well Federal Programs That Support Affordable Rental Housing Meet Objectives, Manage Financial Risk, and Improve Recipients' Well-being

Key Efforts

- Assess how current and new rental housing programs can more effectively meet the demand for low-income housing and evaluate the effectiveness of various federal policy tools for reaching program objectives
- Assess federal agencies' efforts to ensure that federally assisted rental housing is effectively managed and remains in good physical and financial condition
- Assess HUD's controls for managing risk in its multifamily housing insurance and property disposition programs, including its oversight of lenders, appraisers, and property management contractors
- Assess how effectively federal programs that support rental housing are used in combination with other community investment and federal assistance programs to promote decent affordable housing and suitable living environments
- Determine how much progress HUD has made in managing high-risk performance and management challenges in its rental housing assistance programs, including in its human capital management and acquisitions practices

Significance

The federal government administers numerous programs, at a cost of about $30 billion annually, to help households with lower incomes secure safe, decent, and affordable rental housing. Some of this assistance is provided to directly maintain or increase the supply of decent rental housing that is affordable to low-income households; for example, HUD financially supports public housing and insures mortgages on privately owned multifamily dwellings, while IRS administers low-income housing credits. Other assistance takes the form of rental payments; both HUD and USDA's RHS provide rental assistance for individual households.

Despite this federal support, less than one-third of the 13 million low-income households eligible for federal housing assistance currently receive it, and a critical shortage exists in the supply of affordable rental units for households with extremely low incomes. Further, existing housing assistance and supportive service programs are faced with the growing and changing needs of special populations, including the elderly, the homeless, and persons with disabilities. Moreover, mechanisms for coordinating housing assistance with other community investment and federal assistance programs are lacking. Both HUD and RHS face challenges in efficiently serving the needs of their target households. HUD's rental assistance programs remain at high risk of waste, abuse, and mismanagement. In fiscal year 2000, for instance, the agency estimates that it made about $2 billion in excess rental assistance payments. Further, HUD's large portfolio of federally insured and HUD-held multifamily housing loans and its inventory of foreclosed multifamily properties carry financial risks and require proper management and oversight. Programmatic improvements depend in part on HUD's successfully meeting its human capital, acquisition, and IT management challenges.

Potential Outcomes

- Improved design, delivery, and impact of programs that support affordable rental housing
- Improved efforts by HUD and RHS to assess and address the physical and financial needs of federally supported rental housing
- Improved HUD management of its multifamily mortgage insurance program and acquired multifamily properties and loans to limit financial losses

- Enhanced efforts to address IT, acquisition management, and human capital issues in HUD's multifamily housing programs
- More and better information for the Congress to use in assessing the costs and impacts of HUD's rental housing assistance programs and operations

Responsible Stewardship of Natural Resources and the Environment

Issue: The nation's natural resources and the systems associated with their use are under widespread and increasing stress, generating intense debate and posing daunting challenges to policymakers at all levels of government. In large part, this is the consequence of the country's growing population and economy and attendant increased demands on a finite resource base. Accommodating these demands runs headlong into long-standing legislation aimed at protecting the country's resources in a healthy state for the good of current and future generations. Likewise, how policymakers resolve this balance has global consequences because the United States is the world's single largest consumer of energy and other resources and is increasingly seen as out of step with international efforts to limit resource use and associated pollution.

The body of work set forth in this strategic objective is designed to address these and other issues in several natural resource areas, as well as related terrorist threat matters. On the latter point, it is noted that the 14 critical infrastructure sectors listed in President's Decision Document, "National Strategy for Homeland Security," include 6 in the natural resource areas addressed in this strategic objective—food (except meat and poultry), energy, water, chemical industry and hazardous materials, agriculture, and meat and poultry.

In recent decades, the United States has experienced multiple energy crises—the 2003 electricity blackout affecting much of the country was a notable example—and remains perpetually on the cusp of critical supply/demand imbalances. Without applying prudence and foresight in crafting the nation's strategic energy plan, electricity, natural gas, heating oil, and gasoline markets can be thrown into turmoil at any time. The challenge is further complicated by the global nature of many energy markets and growing doubts about the long-term sustainability of policies that demand increased production from the existing energy mix. Furthermore, strategies must now incorporate greater attention to the means of protecting a massive energy infrastructure that encompasses 5,000 power plants, 204,000 miles of high voltage transmission lines, and nearly 3 million miles of oil and gas pipelines. Finally, energy strategies must consider the environmental consequences of energy choices, as illustrated by issues surrounding the potential reemergence of the nuclear power industry. While increased nuclear power capacity would obviously buttress electricity supplies and help reduce harmful emissions, continuing questions remain about where and how to store the byproduct radioactive waste in an environmentally sound manner, as well as how to secure the plants and waste sites against possible future attacks.

More than ever, the country's lands and waters are under increasing stress. This is evidenced by rapidly dwindling open spaces, declining biodiversity, depleted aquifers, and collapsing fisheries—the unintended consequences of economic growth and the need to sustain the lifestyle of a growing population. Reconciling and balancing the demands of often competing objectives—economic growth for today versus natural resource protection for the future—is a major challenge facing the American public and its elected leaders. The heated debate on possible future oil development in the Arctic National Wildlife Refuge in Alaska presents this issue in microcosm. In this case, the issue pertains to the use of federal lands, which constitute about 30 percent of the country's total land surface, but similar controversies exist over privately held lands affected by federal law and regulations. The use of the nation's waters presents equally sobering challenges, as pollutants and overfishing rapidly deplete coral reefs and offshore fisheries, while competition over rights to fresh water supplies grows among various interests, such as agriculture, communities, utilities, wildlife, and recreational users. Even under normal conditions, water managers in 36 states expect water shortages to occur within the next 10 years. If such shortages actually occur, they could have severe economic, environmental, and social impacts.

The increasing globalization of natural resource issues also affects environmental protection matters, as seen in the federal government's discussions with

other governments about global warming and what should be done about it. Such discussions add a new layer of complexity to the already difficult question of how to sustain economic growth when the engines of that growth—factories, cars and trucks, fertilizers, and electricity-generating plants—often adversely affect air and water quality and can change climates in potentially catastrophic ways. Another factor in attaining federal air and water quality goals is that land use practices, often resulting in "urban sprawl," are controlled mainly by local governments and private owners. Moreover, the federal government relies upon state and local governments for inspection and enforcement actions.

Also, significant challenges remain in cleaning up the country's hazardous and radioactive waste sites. Today, an estimated 60 million Americans live within 4 miles of a hazardous site, and radioactive waste from weapons production still needs to be cleaned up at Department of Energy (DOE) sites in 13 states. These sites' continued existence poses not only potential health and safety problems, but also fiscal and economic problems as well. Delayed cleanup results in higher price tags for eventual cleanup and in stunted economic development in the affected communities. Potential terrorist attacks underline the need for steps to ensure the security of hazardous and radioactive materials during storage, transportation, and disposal.

Finally, with the recent passage of the 2002 Farm Bill, the Congress continues to debate the direction of U.S. farm policy in areas such as the role of agriculture in land conservation, wildlife habitat protection, and energy production efforts. Food safety and security lie at the forefront of concerns about the country's agricultural resources, an urgent matter given the potential for, and the consequences of, agricultural bioterrorism. Besides this troubling matter, a whole range of other food safety issues, while less ominous, nevertheless pose serious questions. These include questions about the adequacy of the government's devolution of food inspection authority and its efforts to implement a "farm-to-table" food safety approach. At the same time, a number of countries have raised concerns about the safety of U.S. genetically modified crops and foods—a matter of growing importance given the significant role that food exports play in the U.S. economy.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will assess

- the nation's ability to ensure reliable and environmentally sound energy for current and future generations;
- federal strategies for managing land and water resources in a sustainable fashion for multiple uses;
- environmental protection strategies and programs;
- efforts to reduce the threats posed by hazardous and nuclear wastes; and
- federal programs' ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage.

Performance Goal 1.7.1: The Nation's Ability to Ensure Reliable and Environmentally Sound Energy for Current and Future Generations

Key Efforts

- Assess trade-offs among alternative energy choices, principally (1) efforts to increase the supply of energy from all energy sources—fossil (oil, gas, and coal), nuclear, and renewable (wind, solar, biomass, ethanol, photovoltaic, and geothermal) and (2) actions to reduce demand by using energy more efficiently, and consider the effects of emerging energy technologies (e.g., hydrogen) and research and development partnerships (including nuclear research and development) between the federal government and the private sector
- Examine and assess energy security plans and efforts to protect the nation's energy infrastructure from terrorism and other sources of disruption, and reduce U.S. and consumer vulnerabilities to price spikes and supply disruptions
- Determine the impact of federal incentives (including tax credits) on energy supplies, demand, and prices
- Assess reliability, modernization, and other factors affecting the capacity of the energy infrastructure (e.g., nuclear power plants, refineries, oil and gas production platforms, and the electricity transmission grid) to meet likely demand
- Determine the implications of embracing competition and free markets as an alternative means to structure energy markets (including the impacts on federal power marketing administrations, such as the Bonneville Power Administration), and evaluate changing regulatory approaches to ensure that these restructured markets function properly
- Analyze the adequacy of the Department of Energy's (DOE) (including the power marketing administrations and Federal Energy Regulatory Commission) and the Nuclear Regulatory Commission's organization, human capital, and management processes for supporting efficient and effective operations

Significance

The nation's energy system is under stress. In energy markets—such as natural gas, electricity, home heating oil, and gasoline—demand and supply relationships periodically change significantly, resulting in volatile prices. Most recently, the largest electricity blackout in U.S. history, which put 50 million customers in the dark, and the threat of terrorism and its potential to disrupt the energy system has brought a heightened sense of urgency to the task of ensuring the security and reliability of that system. Periodic declines in energy supplies and price volatility burden consumers and the industry and adversely affect economic activity. At the same time, the country's energy choices affect the environment and, in some cases, threaten supplies for future generations. As such, there is growing acceptance that the United States, if it is to resolve these stresses on its energy system, cannot exclusively rely on increased production from the existing energy mix to meet ever-rising levels of consumption. To meet these challenges, the nation may need to consider a more unified and innovative energy strategy that reevaluates the current policy and identifies the available alternatives. Such innovation might include greater use of alternative energy sources (e.g., hydrogen or fusion) and new ways to engage consumers to make informed energy choices (e.g., "smart" meters for electricity consumption), among other possibilities.

Today's preferred energy sources and the methods used to acquire them present formidable challenges in forming a national energy policy because it is important to strike a delicate balance between energy, environmental, and economic needs. Over time, it will also be important to assess worldwide energy practices, explore new research opportunities, and consider new and alternative energy choices that have fewer envi-

ronmental impacts and are more sustainable. The nation and consumers can jointly benefit from emphasis on an energy system in which energy consumption works in tandem with environmental preservation and other societal goals. Because energy remains vital to the health of the U.S. economy and way of life, the decade ahead requires critical policy and investment choices to create an energy system that meets the public's changing needs. In addition, new approaches are needed to protect the nation's energy system and ensure its physical and economic stability.

Potential Outcomes

- Congressional consideration of the full range of realistic projections of supply options with information on the benefits and costs to alternative actions
- Congressional consideration of innovative alternatives to the escalating production and consumption of greater amounts of energy
- More informed congressional funding decisions resulting in effective research spending, more efficient energy use, and budgetary savings
- Improved security of the nation's energy supplies against terrorism and other threats in areas such as the Strategic Petroleum Reserve, the country's energy grid, commercial nuclear power plants, and other energy and related infrastructure
- Greater congressional awareness of how energy market concentration affects the consumer market and of the effectiveness of federal incentives, such as energy tax credits
- Improved federal and private market structures, incentives, and standards to encourage necessary enhancements and modernization of U.S. energy infrastructure
- A more informed debate on alternative energy paths, including a better understanding of related environmental effects
- Improved congressional understanding of transitional issues in restructuring energy markets (such as electricity), market design and monitoring (including balanced rules and enforcement), and implications for the role of federal power marketing administrations
- Improvements in DOE's and the Nuclear Regulatory Commission's organization, human capital, and management processes

Performance Goal 1.7.2: Federal Strategies for Managing Land and Water Resources in a Sustainable Fashion for Multiple Uses

Key Efforts

- Evaluate federal land and water management agencies' progress in coordinating activities, addressing resource issues, and protecting critical environmental and natural resource systems from misuse, negligence, or intentionally harmful acts
- Review federal land management agencies' efforts to develop and implement a strategy to reduce wildfires on federal lands
- Assess federal land management agencies' operational and maintenance needs at national parks, forests, and other facilities
- Analyze federal efforts to obtain a fair market value for minerals and other resources extracted from federal lands, while balancing consumption, conservation, and environmental needs
- Assess federal efforts to manage the nation's rivers, oceans, and marine environments in a way that is cost-effective and balances resource protection with consumption and conservation needs
- Evaluate the federal government's efforts to clarify its relationship with, and meet its responsibilities to, Native Americans and Alaskan Natives
- Analyze federal agencies' efforts to protect threatened and endangered species on federal and nonfederal lands and in bodies of water
- Analyze the adequacy of the land and water resource agencies' organization, human capital, and management processes for supporting the agencies' operations

Significance

Federal policies over land and water resources have for many years been the subject of sometimes bitter conflict. While most land in the United States is privately owned, the resources owned and managed by the federal government are vast—over 650 million acres of land, or 30 percent of the nation's total land surface; over 700 million acres of mineral estate that underlie both federal and other surface ownerships; about 1.75 billion acres of the Outer Continental Shelf; and fisheries extending up to 200 miles offshore. In 2002, the estimated market value of production occurring on public lands was nearly $12.5 billion, and the direct and indirect economic effect of all commercial activities amounted to over $27 billion. Federal laws also affect activities on some private lands by protecting wetlands or critical habitats of threatened or endangered species.

The inherent conflict over federal land use policies has been, first, over which of the current competing needs and uses for resources on federal lands should be addressed and, second, over whether to use resources today or to preserve and sustain them for future generations. Achieving a balance among these forces remains a constant struggle. Amidst this conflict, the nation's land and water resources are showing increasing signs of stress—more catastrophic wildfires, shrinking aquifers, an accelerating rate of extinction of plants and wildlife, destruction of wildlife habitats, and the collapse of many fisheries. Moreover, the risk of terrorist attacks has heightened the need to protect critical natural resource systems not only from natural disasters or negligence, but also from acts to intentionally damage those resources or use them in assaults against the nation's security. In this context of competing demands and security considerations, policymakers will need objective, nonideological information to make rational policy choices and ensure that federal taxpayers benefit from the use of natural resources. How the nation addresses these challenges today will profoundly affect the viability of its natural resources, and the well-being of the public, for generations to come.

Potential Outcomes

- More efficient and effective resource management to better protect the nation's land and water resources and the surrounding environment
- Congressional action on charges for the use of federal resources to facilitate a move toward greater self-sufficiency by the parks, forests, and other entities and to ensure a fair return for the use of public resources
- Governmental steps to better balance production, revenue generation, and conservation of natural resources
- Clearer understanding of the government-to-government relationship between the federal government and Native Americans and Alaskan Natives and of ways to improve programs promoting Indian self-determination and self-sufficiency
- An improved understanding of the political, financial, scientific, and social issues associated with species protection efforts to inform the debate on reauthorizing the Endangered Species Act
- Improvements in natural resources agencies' organization, human capital, and management

Performance Goal 1.7.3: Environmental Protection Strategies and Programs

Key Efforts

- Evaluate current and alternative strategies to improve the quality of the nation's air
- Assess current and alternative approaches for improving the quality of the nation's surface and ground waters
- Examine strategies for ensuring safe drinking water and wastewater treatment for all Americans, including protection from security threats and breaches
- Assess approaches for controlling the harmful effects of pesticides and toxic substances, including protection from security threats and breaches
- Examine the implications of global and transboundary environmental threats, including climate change
- Assess the use of indicators, science-based information, and other data to measure environmental performance, and evaluate alternative and innovative environmental protection approaches
- Analyze the organization, human capital, and management processes for supporting efficient and effective environmental protection

Significance

Americans have long placed a high value on protecting the environment and human health, especially for particularly susceptible groups, such as children and the elderly. During the last three decades, the nation has worked hard to limit the quantities of pollutants that degrade the nation's air, surface and ground waters, and land. The Environmental Protection Agency (EPA) has estimated that pollution control expenditures by all sectors from 1972 through 2000 totaled approximately $2 trillion. Such efforts have yielded impressive results; for example, aggregate emissions of the six principal air pollutants have declined by 25 percent since 1970, and virtually all discharges to the nation's waters from point sources are now controlled.

However, serious problems remain. Urban areas housing millions of Americans still fail to meet air quality standards, particularly during summertime high-ozone periods, and acid rain continues to degrade forests, lakes, and streams, with attendant effects on many wildlife species. An estimated 20,000 impaired water bodies, including parts of such national treasures as the Chesapeake Bay and the Great Lakes, still do not meet quality standards. Improving their status will require addressing heretofore little-regulated nonpoint pollution sources such as agricultural, suburban, and urban runoff. Furthermore, drinking water systems will be hard pressed to meet more stringent standards and address heightened security concerns. Many federal facilities do not fully comply with a number of environmental standards. Moreover, it is difficult to determine when, and how, to best address emerging environmental threats that could involve considerable or irreparable damage, but for which there is currently imperfect information.

Several factors add complexity to the resolution of these issues, including (1) decision-making systems that do not effectively integrate attainment of environmental goals with land use, transportation, energy supply choices, and economic development; (2) economic and technological changes that affect the mix of pollutants emitted as well as the ability and cost to monitor and control emissions; (3) the difficulty in balancing consistent application of environmental laws with flexibility for states to exceed or adapt federal standards to their own needs; (4) escalating concerns about environmental justice and its implications on licensing major pollution sources and the permitting and site selection of waste disposal facilities; (5) the looming demand for billions of dollars over the next decade to replace, rehabilitate, and expand the aging sewage treatment plants necessary for meeting drinking water and surface water quality standards; (6) the transboundary

nature of many pollutants with global effects that require international solutions; and (7) the lack of comprehensive, integrated, quantifiable environmental data with which to measure the success or failure of alternative strategies.

In addition, there is interest in alternatives to traditional regulatory programs, such as those that employ pollutant trading or other market-based mechanisms or place greater control in the hands of state or local authorities.

During the next few years, the Congress will be called upon to address these challenges as it considers reauthorization of major pollution control statutes, including the Clean Air, Clean Water, and Safe Drinking Water acts.

Potential Outcomes

- Congressional use of information, analyses, and recommendations in reauthorizing key statutes, including the Clean Air, Clean Water, and Safe Drinking Water acts
- More efficient administration of existing statutes, including alternative regulatory approaches for controlling air and water pollution and cleaning up waste
- Congressional action to improve the efficiency and effectiveness of environmental programs
- Improvements in programs to control pollutants in drinking water and in wastewater discharges
- Enhanced efficiency and effectiveness of environmental protection, organization, human capital, and management processes

Performance Goal 1.7.4: Efforts to Reduce the Threats Posed by Hazardous and Nuclear Wastes

Key Efforts

- Assess progress in, and potentially less costly alternatives for, identifying, transporting, cleaning up, and disposing of nuclear, ordnance, and other hazardous waste resulting from federal activities
- Evaluate current and alternative strategies for cleaning up abandoned Superfund and other private sector hazardous waste sites and responding to emergency contamination releases
- Assess federal, state, and private sector progress and performance in finding and developing environmentally acceptable sites on which to build essential waste disposal facilities
- Analyze the adequacy of waste cleanup agencies' organization, human capital, and management processes for supporting efficient and effective operations

Significance

Hazardous and nuclear wastes can cause serious environmental damage lasting decades or even centuries. The problems associated with the containment and cleanup of these wastes pose major financial and management challenges to the United States that will continue well into the 21st century. Past practices have allowed health-threatening substances to seep into the land and water at thousands of federally and privately owned sites. Such seepages threaten public health and quality of life nationwide. The federal government spends almost $10 billion annually to address health and environmental threats from Superfund and other private hazardous waste sites, remove and dispose of nuclear wastes from federal nuclear weapons facilities, and clean up hazardous waste at active and formerly used defense facilities. Such activities could ultimately cost the federal government over $300 billion and the private sector hundreds of billions more.

Sound management practices are needed to prioritize and hasten cleanups, control costs, and develop innovative technologies. Cleanup and disposal decisions must also take into account governance issues, such as the rights of states and local communities to control land uses within their borders, and also fiscal issues, such as the need to assess the economic trade-offs between completely cleaning up a contaminated property for reuse or simply restricting future access without complete cleanup. Moreover, terrorist activities have resulted in states and localities facing a new urgency to protect their citizens from dangers associated with the transport and storage of hazardous and nuclear wastes. Globally, other countries face similar concerns and decisions, and Russia has proposed to store nuclear wastes from other countries. Whether deliberating policy options, reauthorizing key statutes, or annually appropriating funds to the various federal cleanup activities, the Congress needs accurate information on the scope of the problem, the effectiveness of existing programs and activities, and the pros and cons of potential alternatives.

Potential Outcomes

- Improved and potentially less costly handling of nuclear, ordnance, and other hazardous waste related to federal activities
- More efficient and effective cleanup of abandoned Superfund and other private hazardous waste sites and responses to emergency contaminations
- A more informed discussion of federal, state, and private options for environmentally acceptable waste disposal sites
- More effective and efficient management of cleanup activities by responsible federal agencies, including DOD, DOE, and EPA

Performance Goal 1.7.5: Federal Programs' Ability to Ensure a Plentiful and Safe Food Supply, Provide Economic Security for Farmers, and Minimize Agricultural Environmental Damage

Key Efforts

- Evaluate the effectiveness and budgetary consequences of federal programs designed to aid farmers in times of declining global crop prices or domestic production, compensate farmers for crop losses, and promote rural development
- Evaluate the outcomes and costs of federal programs designed to minimize the adverse land use and environmental effects of agricultural practices and to promote renewable energy production on agricultural land
- Evaluate federal programs' ability to ensure a safe and wholesome food supply across the full spectrum of food production from the farm to the table, including imported foods, and to guard against agroterrorism
- Analyze the adequacy of USDA's organization, human capital, and management processes for supporting efficient and effective operations

Significance

USDA farm assistance programs and federal food safety oversight play a critical role in ensuring an abundant, affordable, and safe food supply. In fiscal year 2002, USDA spent about $24 billion on a variety of farm assistance programs, including farm loan, price support, disaster assistance, land conservation, and environmental programs. The 2002 Farm Bill continues funding for these programs at more than $20 billion annually through 2007. Although many argue that federal support of farmers is necessary to ensure a plentiful and affordable food supply now and in the future, others question the effect, relevance, and costs of these programs given that most farm assistance goes increasingly to a relatively few large entities. In addition, the recent failure of a major crop insurance company raises concerns about USDA's oversight of this industry and how a failed company should be dissolved to minimize the federal government's financial exposure. The new Farm Bill also places increased emphasis on conserving the land, reducing agriculture's impact on water quality, and promoting renewable energy production on agricultural land. However, questions remain as to how the United States can continue supporting a viable agricultural sector while still meeting its trade agreement commitments. For example, as a member of the WTO, the United States has committed to eliminating export subsidies and reducing tariffs and trade-distorting domestic support. In addition, USDA's ability to effectively deliver farm program assistance continues to be plagued by inefficiencies in its organizational structure and management processes and allegations of racial discrimination in serving farmers and sexual harassment in managing its workforce.

USDA, FDA, and other federal agencies have shared responsibilities for ensuring the safety and security of the U.S. food supply. Although the food supply is generally considered safe, food-borne illnesses continue to threaten the nation's health and tax its medical system. Experts estimate that food-borne pathogens cause 76 million cases of gastrointestinal illnesses, 325,000 hospitalizations, and 5,000 deaths annually. Furthermore, illnesses from just the five principal food-borne pathogens cost about $7 billion in medical expenses and productivity losses each year. Additionally, an outbreak of some animal diseases, such as mad cow disease, can rapidly bring economic havoc to segments of our farm economy.

While the federal government distributes over $1 billion annually to its various agencies to reduce the health and economic consequences of food-borne illnesses, regulatory agencies, in varying degrees, are transitioning to new science-based regulatory strategies that place increasing responsibility on industry for identifying

and controlling risks in the production processes. Although better than the existing outmoded process of preventing food-borne illnesses, these science-based strategies address only a segment of the food production and distribution continuum, and their implementation is inconsistent across the food supply. In addition, scientific and technical advances in the production of food, such as the development of genetically modified foods, place additional responsibilities on the federal food safety agencies. Furthermore, recent events have heightened the awareness that threats to the food supply are a component of terrorism and present new challenges to an already burdened system. Consequently, a new "farm-to-table" approach for food safety and security—one that starts with growers and extends to retailers—is needed to ensure that the full spectrum of food production is safeguarded.

Potential Outcomes

- Improvements in the cost-effectiveness of the Farm Bill's safety net for farmers (farm loan, price support, and disaster assistance programs) and provisions for promoting rural development
- More effective conservation and agricultural programs designed to conserve the land, enhance the environment, and promote renewable energy development
- Better understanding of how to integrate farm program assistance with commitments made under agricultural trade agreements in order to ensure a growing share of global food markets for American farmers and food industries
- Enhanced efforts to address agricultural terrorism and threats from invasive pests and diseases, such as foot and mouth disease
- Enhanced effectiveness of federal food safety programs in addressing safety issues arising from a global food marketplace, changing regulatory approaches, and the threat of terrorism
- Improvements in federal food safety agencies' actions to evaluate and regulate the safety of new technologies, such as genetically modified foods
- Improved USDA organization, human capital, budgetary, and management processes

A Safe, Secure, and Effective National Physical Infrastructure

Issue: The nation's economic vitality and the quality of life of its citizens depend significantly on the soundness, security, and availability of its physical infrastructure. Transportation and telecommunications systems, for instance, provide the superstructure for the nation's economic engine, facilitating the movement of people, goods, and information. The nation faces major challenges in improving both efficiency and safety in the movement of people and goods. The nation relies heavily on its postal system for efficient mail delivery service. And thousands of federal facilities house and support staff and the other assets needed to provide services to the American people.

In both the short and long term, the nation faces important infrastructure challenges as federal, state, and local governments confront new demands brought on by changes in national security, demographics, technology, and lifestyles. The challenges are complex, cutting across many interrelated issues, and require coordinated intergovernmental responses.

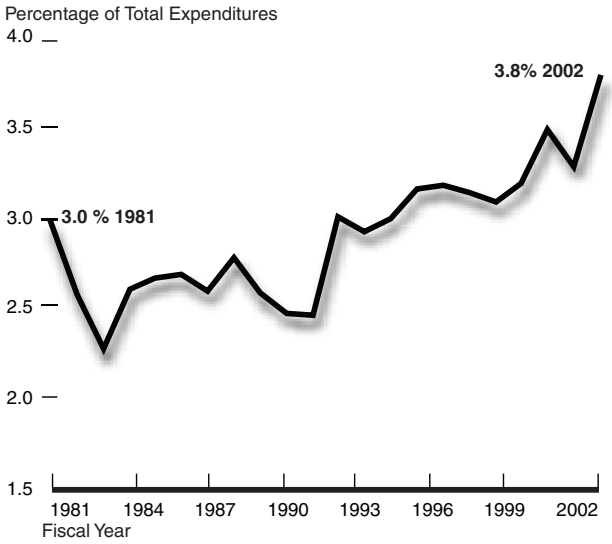
For example, the nation's commercial passenger airlines, which were experiencing financial difficulties even before the terrorist attacks of September 11, 2001, now face unprecedented financial losses stemming from reduced air travel, raising debate over the appropriate federal response. Also, long-term trends indicate that increasing numbers of motorists are encountering increasingly congested highways, while bottlenecks have escalated for freight transportation at intermodal connection points.

Suburban growth has raised demands for new roads, water and sewer systems, and access to telecommunications. At the same time, existing communities are demanding that the environment and their citizens' quality of life not be harmed by this growth.

The cost of maintaining and modernizing its infrastructure is only one concern of a U.S. Postal Service that faces growing financial, operational, and human capital challenges. In addition, the deregulated transportation and telecommunications industries require continuous oversight to help ensure that firms have a level playing field on which to compete and that consumers receive the intended benefits of deregulation.

The responses of the federal government and other levels of government to these infrastructure challenges will have important consequences for the nation's future because of their effects on the quality of life and their significant costs. Since 1990, nondefense spending on infrastructure has nearly doubled and, as figure 1.11 shows, has become a significantly larger portion of total spending—largely the result of the previous two surface transportation reauthorizations.

Figure 1.11: Nondefense Federal Spending on Infrastructure as a Percentage of Total Expenditures, 1981–2002 (in Constant 2002 Dollars)



Source: Office of Management and Budget, *Budgets of the United States Government* for fiscal years 1981 through 2004.

During the latter years of this period, the federal government enjoyed budget surpluses. With the return to large federal deficits forecast in the upcoming years, decision makers will be faced with difficult choices on how to allocate funding among infrastructure needs and other demands in an increasingly tight budget environment. Given limited resources, decision makers must choose investments that promise to be most cost-effective and targeted to address national infrastructure needs. These choices must be supported by credible data on needs and costs, performance information and

measures highlighting outcomes from existing programs, and a budget process prompting a more explicit focus on investment spending across agencies.

It is therefore essential for government at all levels to have the information needed to make well-informed decisions about how to allocate funds among competing priorities, evaluate the challenges to determine which solutions are most cost-effective, and implement these solutions as efficiently and effectively as possible.

Performance Goals: To support efforts by the Congress and the federal government to address these efforts, GAO will assess

- strategies for identifying, evaluating, prioritizing, financing, and implementing integrated solutions to the nation's transportation infrastructure challenges;
- the impact of transportation and telecommunications policies and practices on competition and consumers;
- the federal government's role in fostering and overseeing telecommunications in the public interest;
- efforts to improve safety in moving people and goods across the nation's transportation system;
- efforts to improve security in all transportation modes;
- the U.S. Postal Service's transformation efforts to ensure its viability and accomplish its mission; and
- federal efforts to plan for, acquire, manage, maintain, secure, and dispose of the government's real property assets.

Performance Goal 1.8.1: Strategies for Identifying, Evaluating, Prioritizing, Financing, and Implementing Integrated Solutions to the Nation's Transportation Infrastructure Challenges

Key Efforts

- Assess national approaches and best practices to address challenges to promoting mobility and establish a framework for an integrated, multimodal transportation system to sustain economic growth
- Evaluate federal management and oversight of infrastructure investments, including efforts to control costs and make more effective use of existing infrastructure
- Identify increased efficiency and equity in financing strategies for funding infrastructure projects and improvements, including opportunities to optimize state, local, regional, and private roles in, and accountability for, efficient investments of public funds

Significance

An integrated and efficient transportation system is critically important to the well-being and financial security of the American people. The nation's highways and transit systems move people to and from jobs, shopping centers, and recreation. Highways and railroads help move raw materials to plants and finished products to the marketplace. Airports and airlines facilitate rapid movement of people about the nation for business and pleasure. The federal government already invests heavily in transportation—for example, in 2000, it invested $27 billion for highways, $5.2 billion for transit, and $9 billion for aviation infrastructure. However, federal, state, and local decision makers face daunting challenges in meeting the public's expectations in every mode—highway, transit, aviation, and rail. The Department of Transportation estimates that nearly $130 billion per year could be needed over 20 years from federal and nonfederal entities to maintain and improve the nation's roads, bridges, and transit systems. Also, highway travel time—an indicator of congestion—increased sharply in the last decade. In aviation, decision makers must determine how capital development funds will be allocated between capacity and security enhancements, while ensuring that air traffic control modernization progresses cost effectively, efficiently, and expeditiously. The role of intercity passenger rail continues to be questioned. Amtrak reports that nearly $2 billion in federal assistance will be needed to stabilize and maintain its system, which carries less than 0.1 percent of the nation's intercity travelers. Freight railroads are experiencing increasing congestion, particularly at intermodal connection points.

At present, no national strategy exists to integrate these modes of transportation into a system that is more than the sum of its parts. Taking steps to break down funding decisions that are currently made within modal stovepipes could lead to decisions that consider a variety of alternatives when deciding which mode or combination of modes will best achieve a specific transportation objective. As federal, state, and local decision makers face competing demands for scarce funds, they must understand the costs and benefits of potential investments, search for and apply best practices, and consider innovative and efficient financing alternatives to ensure that federal expenditures maximize the nation's mobility benefits.

Potential Outcomes

- Sound management and investment decisions regarding improved mobility, infrastructure conditions, and the costs and benefits of diverse strategies for investments in infrastructure
- More informed decisions that consider the potential interrelationships of all modes of transportation when planning for an integrated transportation system, and better decisions by federal,

state, and local governments in planning, prioritizing, and implementing new infrastructure investments

- More effective infrastructure project financing; more efficient infrastructure use; and better leveraging of federal, state, local, and private funds

Performance Goal 1.8.2: The Impact of Transportation and Telecommunications Policies and Practices on Competition and Consumers

Key Efforts

- Determine the effects of government organization, policies, and practices and private market forces on the status of competition and the ability to provide affordable and accessible services in the transportation and telecommunications industries
- Assess whether federal and state programs and regulations adequately protect consumers and communities from anticompetitive, abusive, and unfair business practices
- Assess U.S. policies and management approaches in supporting the competitiveness, financial health, and performance of the transportation and telecommunications industries in light of increased globalization and emerging technologies

Significance

The various modes of transportation and the telecommunications industry provide networks to move people, cargo, and information around the country and abroad. These networks directly contributed over $600 billion to the nation's GDP in 2000. These industries are subject to varying degrees and types of regulation but generally are free to develop products, establish prices, and otherwise compete for business in the commercial marketplace. As these industries have changed over time, concerns have arisen as to whether the existing policies, procedures, and organizational structures are adequate to address certain consumer and industry needs. For example, the economic slowdown, combined with the terrorist attacks of September 11, 2001, and subsequent upheaval in world affairs, led to reduced air travel that exacerbated the financial woes of the airline industry.

The Congress recently provided the airline industry with $2.4 billion in financial aid and asked GAO to report on the measures that air carriers have taken to reduce costs and to improve their revenues and profits. In the telecommunications industry, the Congress looks to GAO and others to determine whether competition has developed sufficiently to ensure that new technologies are introduced and lower costs are passed on to consumers.

In addition, recent consolidation across the transportation and telecommunications industries has raised concerns in the Congress and elsewhere about the existence of a level playing field and the ability of competition to act as a natural control over prices in the future. Increasingly, the globalization of the economy brings the practices and policies of foreign entities to bear on U.S. providers of transportation and telecommunications services as well.

Potential Outcomes

- A more informed congressional assessment of U.S. policies affecting the level of competition in the transportation and telecommunications industries
- Improvements in consumer protection, enforcement of existing requirements, and prevention of abusive and unfair practices
- More informed congressional decisions on the appropriate role and organization of regulatory bodies, including their interaction with relevant state and international regulatory organizations
- A more informed congressional assessment of technological developments, market factors, and resource utilization issues in the telecommunications sector, including efforts to accommodate the rapidly growing consumer demand for advanced wireless communications services

Performance Goal 1.8.3: The Federal Government's Role in Fostering and Overseeing Telecommunications in the Public Interest

Key Efforts

- Assess the federal universal service program in promoting the availability and affordability of basic and advanced telecommunications services to all Americans
- Assess the effectiveness of key federal agencies in managing the technical resources needed to meet the growing demand by government and commercial users
- Assess the ability of the Federal Communications Commission to respond to and resolve legal, regulatory, capacity, and policy issues that affect how the commercial telecommunications industry can develop and operate

Significance

Faster than ever before, technology is changing how Americans communicate, conduct business, and educate themselves. The rapid growth of the Internet and mobile phone service is unmatched by any other telecommunications technology—whether telephone, radio, or television. Since 1997, for example, the U.S. mobile phone industry has grown from 50 million to over 140 million subscribers, with annual revenues increasing from $27 billion to $76 billion. Broadband technology—which can bring high-speed voice, video, and data services to businesses, schools, and homes—also has enormous potential to transform Americans' lives even more fundamentally. However, with such innovations come questions about the adequacy of the laws, regulations, and practices that have guided federal involvement in fostering and overseeing telecommunications in the public interest since the 1930s. Take, for example, the federal government's multibillion-dollar "universal service" program to support affordable basic telephone service to rural and low-income Americans. Should this program be expanded to include affordable access to the Internet and broadband services in order to avoid having a nation of "haves and have nots" for advanced telecommunications services? As wireless communications services continue to grow, how should the government apportion the limited technical resources available to support their operation, such as orbital slots for communications satellites and radio frequencies for mobile communications? Can the commission keep pace with the need to reexamine and redefine the regulatory framework as new services emerge that do not easily fit into current policies and practices? Finding answers to these and other challenging questions has become an intense concern for both the commission and the Congress as they consider regulatory and legislative options for fostering and overseeing telecommunications.

Potential Outcomes

- Strengthened effectiveness and long-term viability for the federal universal service program
- Improved legislative and regulatory framework for managing the radio frequency spectrum
- More informed federal decision making to facilitate the availability and deployment of modern telecommunications infrastructure

Performance Goal 1.8.4: Efforts to Improve Safety in Moving People and Goods across the Nation's Transportation System

Key Efforts

- Assess federal research, development, and demonstration efforts to improve the safety of the nation's transportation system
- Examine the oversight, guidance, and regulations federal organizations provide to state and local governments and private organizations to ensure that the American public and its goods travel as safely as possible
- Examine how state, local, and private organizations are using the billions of dollars provided by the federal government to address important transportation safety issues and determine whether efforts have been made to assess the effectiveness of these activities

Significance

Ensuring the safe movement of people and goods on the nation's transportation infrastructure is a top priority for the Department of Transportation, as reflected in the administration's surface transportation reauthorization proposal, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003. The proposal would more than double funding for highway safety and contains many initiatives to improve transportation safety. In addition, the Congress is also considering the Federal Aviation Administration's reauthorization bill, which proposes to fund about $59 billion over 4 years to address aviation safety, security, and infrastructure needs.

Transportation safety continues to be a concern, with over 6 million traffic accidents in 2001 or 1 every 5 seconds; over 40,000 traffic deaths each year, with traffic accidents becoming the leading cause of death for people ages 4 through 33; an annual average of 6 commercial airline and over 350 general aviation fatal crashes in recent years; and over 2,200 major pipeline accidents over a recent 10-year period, killing over 225 people. Transportation must ensure the safety of people, and the nation's economy relies on the safe movement of goods. For example, in 2001 over 27 million freight cars moved over 179,000 miles of track. In 2001, the railroads transported 83 million tons of hazardous materials. In addition, over 2.2 million miles of pipelines moved oil, natural gas, and hazardous products.

Potential Outcomes

- A better understanding of the root causes of transportation-related accidents, injuries, and fatalities and their related societal cost to aid the Congress and the Department of Transportation in implementing potential solutions
- Improved federal program administration directed at finding new technologies and adopting new solutions for increasing the safety of people and goods on the transportation system
- Enhanced federal oversight and regulation of actions taken by state, local, and private organizations to improve transportation pipeline safety
- Improved information available to the Congress when it considers the safety aspects of the next multiyear, multibillion-dollar transportation reauthorization bills

Performance Goal 1.8.5: Efforts to Improve Security in All Transportation Modes

Key Efforts

- Assess federal efforts to identify, prioritize, address, and provide oversight of key vulnerabilities in the security of the nation's transportation systems
- Assess federal efforts to work with state and local governments and the private sector to enhance transportation security
- Evaluate federal efforts to embed security concepts and practices into ongoing federal and federally funded programs and business processes
- Assess the direct and indirect costs of transportation security; different financing alternatives for federal, state, local, and private sector contributions to meeting these costs; and accountability for the proper use of security funding

Significance

Terrorist events around the world have shown that transportation systems are often targets of attack—roughly one-third of terrorist attacks worldwide target transportation systems. The terrorist attacks of September 11, 2001, demonstrated the vulnerabilities of U.S. transportation systems and the impact these vulnerabilities can have on the nation. While most of the early attention following the September 11, 2001, attacks focused on aviation security, emphasis on the other modes of transportation has since grown as potential vulnerabilities are identified, such as the introduction of weapons of mass destruction through ports of entry or launching chemical attacks on mass transit systems.

The entire transportation industry has remained on a heightened state of alert since the attacks of September 11, 2001, due in part to numerous terrorist advisories received targeting different segments of the transportation network, which includes 3.9 million miles of roads, almost 600,000 bridges, over 300 ports, 2.2 million miles of pipelines, and over 5,000 public-use airports. Securing this vast network from terrorism is critically important to the economy and the American way of life. In addition, because the effectiveness of transportation systems depends on their accessibility, security measures must be considered as transportation systems are developed or modified and must be incorporated into the overall transportation infrastructure. Adding to the complexity of securing the nation's transportation systems is the shared responsibility of federal, state, and local agencies, as well as private companies, for funding, and maintaining accountability for, transportation security enhancements.

Potential Outcomes

- Better focus, prioritization, coordination, and management of federal, state, and local efforts to improve security measures and reduce vulnerabilities in transportation systems
- Improvements in the nation's ability to act proactively to prevent loss of life and property because of security threats and respond to those threats as they materialize
- Expanded use of a risk management approach to focus and target limited resources on transportation security needs
- Clarification of roles and responsibilities in ensuring improved transportation security

Performance Goal 1.8.6: The U.S. Postal Service's Transformation Efforts to Ensure Its Viability and Accomplish Its Mission

Key Efforts

- Evaluate the U.S. Postal Service's financial condition and outlook as well as its efforts to improve its financial viability
- Assess whether postal staff and facilities are effectively deployed and used to support postal operations and identify where cost savings in these areas may be realized
- Assess the effectiveness and efficiency of the regulatory oversight structure and other issues affecting the U.S. Postal Service's ability to meet its mission
- Assess quality of service issues, including the U.S. Postal Service's performance compared to its performance measures and how well it protects its customers and employees from potential hazards sent through the mail
- Evaluate the U.S. Postal Service's plans to address persistent labor-management issues, including plans to restructure its workforce, address future retirements, and improve incentive programs

Significance

The U.S. Postal Service faces major financial, operational, and human capital challenges that collectively call for a structural transformation if it is to remain viable in the 21st century. The Postal Service has faced increasing financial challenges as its mail volumes peaked in fiscal year 2000 and have continued to decline since then. Of particular significance is the decline in First-Class Mail volume, which generates the largest contribution to covering institutional costs and has an unfavorable projected outlook due to increased competition and electronic alternatives. Consequently, despite multiple rate increases, freezes on capital spending, and significant cost reduction efforts, the service still incurred deficits of $1.7 billion and $676 million in fiscal years 2001 and 2002, respectively. Reduced mail volume, excess capacity, and the large number of retirements expected over the next several years will place even more pressure on the Postal Service's expenses and its need for cash. Thus, the service's ability to provide universal postal service as it is known today will be increasingly threatened unless changes are made, both within current law and to the legal and regulatory framework that governs the Service. In April 2001, GAO designated the Postal Service's transformation and long-term outlook as a high-risk area—a designation that was reaffirmed in February 2003 with GAO's latest update.

Potential Outcomes

- A better understanding of the U.S. Postal Service's financial position and the options available to address its long-term financial situation, including its outstanding obligations for postretirement health care costs
- Increased cost savings and more effective mail processing and service delivery
- Improved protections for customers and employees from hazardous materials sent through the mail
- More informed congressional decision making on postal policy and structural issues and proposals for reform
- More effective implementation of human capital initiatives and programs

Performance Goal 1.8.7: Federal Efforts to Plan for, Acquire, Manage, Maintain, Secure, and Dispose of the Government's Real Property Assets

Key Efforts

- Assess the efforts of federal agencies to realign and restore federal real property assets to meet current and future mission needs and identify best practices and innovative asset management approaches that federal agencies are using or could pursue
- Assess the efforts of federal government agencies to acquire or construct new facilities in a timely and cost-effective manner
- Assess efforts of federal agencies to ensure that their facilities effectively and efficiently support the agencies' strategic planning, service-delivery, and mission accomplishment needs
- Assess the efforts of federal agencies to prepare for, prevent, detect, and respond to the consequences of terrorist attacks and other possible security breaches aimed at federal facilities and their occupants

Significance

Over 30 federal agencies, including DOD, the General Services Administration, VA, and U.S. Postal Service, control hundreds of thousands of real property assets in the United States and abroad that are worth hundreds of billions of dollars. Unfortunately, many of these assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. In addition, new federal facilities, such as courthouses, prisons, and visitor centers, are planned that need to be constructed in a timely and cost-effective manner.

Compounding these problems are the lack of reliable data for strategic asset management, a heavy reliance on costly leasing instead of ownership when ownership is more advantageous, and the cost and challenge of protecting these assets against potential terrorism. These challenges have been exacerbated by competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; the need for better capital planning among agencies; and the lack of a strategic, governmentwide focus on federal real property issues. Given the persistence of the problems and related obstacles, GAO added federal real property to its high-risk list in January 2003 and believes that a comprehensive and integrated transformation needs to take place in this area.

Potential Outcomes

- Enhanced use of businesslike best practices by agencies to acquire, manage, protect, and dispose of real property, such as public-private partnerships, sales, and exchanges of property
- More efficient use of energy consumed by federal facilities
- Enhanced space quality, safety, and operational efficiency and effectiveness of federal facilities
- Improved efficiency and effectiveness in preparing for, deterring, detecting, and responding to terrorist and other threats on federal facilities and their occupants

Respond to Emerging Threats to Security

Issue: The nature of the threats to national and international security and the means of attack have changed significantly in the post-Cold War era. Threats stem from differences in national or state ideologies and geopolitical economic and strategic considerations and now, increasingly, from religious conflicts and the aims of non-state-sponsored groups. Adversaries are more likely to strike vulnerable civilian or military targets at home and overseas in nontraditional ways to avoid direct confrontation with U.S. military forces or their allies on the battlefield.

The nation must assess and defend against a wide range of means and methods of attack, ranging from unconventional means to conventional weapons to weapons of mass destruction. International access, global interdependencies, interconnected and less diverse systems, and rapid technological change make such threats more viable and decrease the effectiveness of physical borders in ensuring security. The continuing proliferation of weapons of mass destruction increases concerns that terrorists or a rogue regime could threaten the United States or its allies with nuclear, chemical, or biological attack.

These threats put at risk the nation's values, economic interests, way of life, and the personal security of its citizens at home and abroad. National strategies propose homeland security and combating terrorism initiatives to address these threats, yet their implementation and their associated costs, both direct and indirect, remain unclear. Decision-making approaches based on risk analysis and cost-benefit effectiveness and the alignment of federal funding with state, local, and private sector investments are still works in progress. In the international arena, U.S. efforts to prevent the proliferation of weapons of mass destruction directly support domestic homeland security missions, yet much remains to be done.

Preparing and responding to emerging security threats will entail a national effort involving defense and domestic federal agencies and programs; state, local, and regional governments and organizations; the private sector; and the international community. At the federal level, the effectiveness of major structural changes to provide leadership will be important. The primary mission of DHS is to prevent, reduce vulnerability to, and aid in recovery from domestic terrorist attacks. Homeland security will require an effective DHS implementation and the efforts of other federal agencies, such as the FBI and the intelligence community. Responsibility for oversight and coordination across the executive branch, for example, with the Executive Office of the President, is still evolving.

Moreover, homeland security is, in large part, dependent on the efforts of state and local governments and the private sector. Internationally, the cooperation of the United States and its allies is needed to prevent terrorists and others from using dangerous weapons to carry out threats to the nation's security. In addition, long-term success in homeland security will mean seamlessly integrating homeland security concepts into normal business decisions and practices across government and within the areas of the private sector responsible for critical infrastructures and key assets, so that efforts are sustainable over the long term and balanced with important non-homeland-security objectives.

Performance Goals: To support congressional and federal decision making on national preparation for and response to emerging threats to security, GAO will

- assess federal homeland security management, responsibility, effectiveness, and achievement of mission goals;
- identify ways to strengthen strategies related to homeland security and their implementation;
- evaluate homeland security resource priorities, costs, and approaches to stimulate desired investments;
- identify opportunities to embed homeland security concepts in ongoing national initiatives;
- evaluate ways to strengthen government information security and protect computer and telecommunications systems that support the nation's critical infrastructures; and

- assess the effectiveness of U.S. and international efforts to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies.

Performance Goal 2.1.1: Assess Federal Homeland Security Management, Responsibility, Effectiveness, and Achievement of Mission Goals

Key Efforts

- Assess Department of Homeland Security (DHS) readiness to manage its missions
- Evaluate DHS efforts to achieve homeland security results
- Evaluate the effectiveness of other federal agencies responsible for key homeland security mission areas
- Evaluate central federal oversight to ensure the coordination and integration of homeland security efforts across the federal government
- Evaluate the effectiveness of federal partnerships and intergovernmental coordination with state and local governments and the private sector for homeland security initiatives

Significance

Federal structural changes to provide homeland security leadership will be important. In November 2002, the President signed the Homeland Security Act, which established DHS. Among other things, the mission of DHS is to prevent, reduce vulnerability to, and help the nation recover from domestic terrorist attacks. The new department is to provide a focused leadership structure for national initiatives. It also is intended to serve as the primary liaison and facilitator for cooperation among federal departments and agencies, state and local governments, and the private sector.

The creation of DHS represents one of the largest and most complex restructurings in the federal government. The department's implementation will require ongoing oversight to ensure effectiveness and years to transform into an efficient, integrated, and smooth-running operation. Components merged into the new department already face a wide array of existing challenges. DHS also must develop strong partnerships with other federal, state, local, and private entities. Moreover, critical aspects of DHS's success will depend on well-functioning relationships with other federal agencies with homeland security responsibilities, such as the State Department, the Federal Bureau of Investigation (FBI), the Central Intelligence Agency, the Department of Defense (DOD), the Department of Health and Human Services (HHS), and the Department of Transportation. Agencies such as these must be part of an overall federal collaboration, coordination, and communication structure to improve homeland security and ensure mission accountability and sustainability over time.

In light of these complexities, in 2003 GAO designated the transformation and implementation of DHS as high risk. This initial designation recognized the importance and difficulties of forming DHS, and highlighted certain program areas as continued areas of concern, but acknowledged that it is too early to comprehensively evaluate homeland security program effectiveness during the transitional stages of agency reorganization and in relatively new areas such as information analysis and protection and response to bioterrorism and emerging threats from other weapons of mass destruction (WMD). However, in future years, and in preparation for GAO's 2005 High-Risk Series, GAO will continue to assess homeland security programs and missions, such as border or aviation security, with an eye toward making constructive recommendations for improvement and refining which areas are of greater risk. High-risk consideration will analyze both agency-specific and governmentwide major management challenges, such as progress in implementation of homeland security national strategies and whether there is successful coordination with state and local governments and the private sector.

Currently, at least nine major national strategies for aspects of homeland security and combating terrorism have been prepared. Prioritization, responsibility, implementation, and funding for these strategies remain problematic. At the present time, central oversight and coordination of federal efforts above the federal departmental level involve many entities. The White House Homeland Security Council—formerly the Office of Homeland Security—will be involved with efforts such as coordinating interagency initiatives, but the coordinative role of it and DHS and other Executive Office of the President organizations are still evolving.

Identifying and responding to evolving threats will require major federal policy and operational efforts and partnership with state and local governments and the private sector to coordinate federal strategies with counterpart state, local, and private sector strategies, and to craft a national decision-making framework and security initiatives. Together, these organizations will be challenged to (1) adopt threat and risk management to estimate the character, probability, and impact of terrorist attacks; (2) identify desirable or attainable levels of risk, prevention, vulnerability, and recovery response; (3) sustain efforts despite fiscal, legal, jurisdictional, and human capital constraints; (4) leverage multiple organizational roles, responsibilities, and relationships; (5) set realistic budgets and funding arrangements to address implementation and maintenance costs; and (6) strengthen intelligence sharing while protecting civil liberties and appropriate public information access.

Potential Outcomes

- A better understanding of the effectiveness of oversight and coordination across the federal government for homeland security and the specific homeland security responsibilities of each organization or entity
- Improved effectiveness of DHS efforts to develop, implement, and sustain long-term homeland security initiatives
- Increased congressional understanding of new federal structural changes and readiness
- A better understanding of the homeland security responsibilities of other federal agencies and their collaboration and coordination with DHS
- Improved federal partnership with nonfederal actors and a better understanding of the roles of government and the private sector

Performance Goal 2.1.2: Identify Ways to Strengthen Strategies Related to Homeland Security and Their Implementation

Key Efforts

- Evaluate requirements and content of the national strategies individually and collectively
- Assess federal implementation and results of the National Strategy for Homeland Security and directly related, lower-level strategies
- Assess state and local government and private sector involvement in and adoption of homeland security initiatives in which they play a major role

Significance

Since the September 11, 2001, attacks, the administration has issued numerous national strategies detailing specific initiatives for homeland security and combating terrorism to address these threats. The strategies are organized in a hierarchy, with the National Security Strategy of the United States of America and the National Strategy for Homeland Security as top-level strategies that together address U.S. security both overseas and domestically. Other strategies, such as the National Strategy for the Physical Protection of Critical Infrastructures and Key Assets, provide further levels of detail on specific functions related to security.

In its national effort, the federal government will need to integrate federal strategies addressing homeland security and combating terrorism with those of state and local governments and private sector counterparts. For the longer term, the integrated efforts will need to focus on implementing and sustaining these initiatives, identifying and correcting inconsistencies and unwanted gaps, assessing and renewing the individual strategies over time, and holding individual agencies and organizations accountable for improving security against emerging security threats. Federal strategies must also take into consideration the costs of implementation, the ability to sustain efforts, and the need to balance homeland security and non-homeland-security objectives.

Potential Outcomes

- Greater congressional understanding of the national strategies, their implications, and their interdependencies
- Improved federal attention to national strategy implementation and improvement
- A more integrated approach by federal and non-federal agencies and organizations in implementing and strengthening the strategies
- Improved homeland security performance expectations and accountability

Performance Goal 2.1.3: Evaluate Homeland Security Resource Priorities, Costs, and Approaches to Stimulate Desired Investments

Key Efforts

- Assess the direct and indirect costs of national homeland security in response to changes such as threat levels and national strategies' implementation
- Evaluate federal risk management approaches and support of nonfederal risk management efforts
- Assess federal homeland security priority-setting and investment strategies
- Evaluate the intelligence community's threat analysis challenges in providing intelligence and threat information to federal, state, and local authorities

Significance

Effective resource management for homeland security involves setting priorities, targeting funds, and assessing their effect. The starting point is risk management, which sets specifics for homeland security plans, cost analysis, and investments. Threat, risk, and criticality assessments—the general risk management framework—provide decision makers with the information to identify risks, alternative initiatives to address those risks, their direct and indirect costs, and their impact on other priorities; select initiatives to fund; and evaluate the effectiveness of those initiatives in reducing risk. At present, the national homeland security threat level provides broad threat levels nationally, with differing levels of action accompanying each level. The current national threat designation takes into account neither regional or local threats and necessary responses nor the cost implications of changing designations. Moreover, there should be a concerted effort to improve the threat information received from foreign and domestic sources; to understand the nature of threats to vulnerable assets; and to protect the nation's critical infrastructure, key assets, and population.

Comparing threats, risks, and criticality components is intended to determine how to allocate homeland security resources. Overall, this approach balances the costs and benefits of security measures, including the collateral or unintended consequences on other measures. Setting priorities and addressing security threats have placed new fiscal demands on federal, state, and local governments and the private sector. Improper or incomplete uses of assessments can result in misinformed decision making and poor targeting of resources to those areas at highest risk. Moreover, as threat levels change in response to risk management, decision makers face the challenge of changing priorities and redirecting investments. Finally, prudent decision making calls for better use of resources to address both homeland security and other security needs.

Potential Outcomes

- Improved ability to identify threats and provide advance warning of impending attacks to all organizations responsible for homeland security
- Better information on the relationship between costs and priorities established in the national strategies
- Improved budgeting approaches and federal homeland security investment targeting in order to stimulate desired state, local, and private sector efforts
- Improved understanding of the state of risk management approaches and decision making

- Enhanced ability of governmental levels and the private sector to coordinate their homeland security intelligence collection, analysis, and information sharing
- A better understanding of the effectiveness of proposed federal stimulus programs
- Increased emphasis on the importance of "dual use" investment strategies to address both homeland security and other security priorities

Performance Goal 2.1.4: Identify Opportunities to Embed Homeland Security Concepts in Ongoing National Initiatives

Key Efforts

- Identify opportunities to embed homeland security in proposed federal legislative and regulatory changes
- Assess the government's homeland security tools and funding strategy alternatives

Significance

An organizing principle for homeland security might be "weaving homeland security into the fabric of American life." The Congress faces the difficult task of "weaving" by deciding how to sustain homeland security and integrate efforts with non-homeland-security missions. The Congress must also consider the "fabric" that is woven—effectively balancing fighting terrorism with efforts to maintain economic vitality and innovation; create jobs; and improve education, housing, and quality of life in general while protecting core American values. Homeland security can be viewed as integral to everyday life—in which measures are consistently expected, applied, and integrated into the underlying business processes or programs from the very beginning, not apart from other strategic and operational decisions. Long-term success in securing the homeland will mean seamlessly integrating homeland security concepts into normal business decisions and practices. Designing new programs and redesigning or recapitalizing existing programs provide opportunities to support both homeland security and non-homeland-security needs.

In addition, policy tools—direct spending, tax preferences, loans and guarantees, grants, and regulations—are available to address homeland security needs within the context of existing programs. The challenge is for the federal government to design, select, and manage the various tools to prompt federal and nonfederal actors to work together on homeland security results and effectively leverage scarce resources.

Potential Outcomes

- Identification of opportunities for the Congress or federal decision makers to better integrate homeland security concepts into ongoing processes and programs
- Better targeting of the tools of government to provide incentives for addressing homeland security and non-homeland-security priorities
- Greater fiscal discipline in leveraging non-homeland-security efforts to address homeland security priorities and to sustain the efforts

Performance Goal 2.1.5: Evaluate Ways to Strengthen Government Information Security and Protect Computer and Telecommunications Systems That Support the Nation's Critical Infrastructures

Key Efforts

- Review the effectiveness of computer and network security at federal agencies to better ensure the protection of government information
- Assess efforts to manage and protect the computer/cyber information systems that support the nation's critical infrastructures

Significance

Protection of the nation's critical infrastructure—including energy, financial services, transportation, vital human services, and communications systems—is becoming increasingly important largely due to the dependence on complex interconnected computer and telecommunications systems. Criminals, terrorists, and others, working anonymously from remote locations and with relatively limited resources, can use computers and the open interconnectivity of the Internet to severely disrupt this infrastructure, which is essential to national defense, economic prosperity, and quality of life. Similar means can be used to commit massive fraud and gain access to highly sensitive information. In response, new laws, such as the Federal Information Security Management Act, and presidential initiatives, such as Presidential Decision Directive 63 and Executive Order 13231, have prompted an array of federal efforts aimed at improving critical infrastructure protection, especially information security, in both the public and private sectors. These efforts have also raised a variety of policy and budgetary issues that will need to be addressed as government works with the private sector to develop an effective strategy for protecting against computer-based attacks.

Potential Outcomes

- Reasonable assurance that critical federal operations are protected from disruption, fraud, and misuse
- Enhanced capability of organizations to detect, protect against, and respond to computer intrusions
- Greater coordination among public and private sector institutions in protecting U.S. computer-based critical infrastructure systems
- Improvements to the legislative framework for information security
- Greater public assurance that the Internet, electronic commerce transactions, and the nation's telecommunication infrastructure are secure
- More secure and efficient electronic government operations

Performance Goal 2.1.6: Assess the Effectiveness of U.S. and International Efforts to Prevent the Proliferation of Nuclear, Biological, Chemical, and Conventional Weapons and Sensitive Technologies

Key Efforts

- Evaluate the management and effectiveness of U.S. programs and safety of facilities designed to minimize the proliferation of nuclear, biological, chemical, and conventional weapons, technologies, and expertise that pose the greatest risk to the United States and its interests
- Assess the management and effectiveness of U.S. and multilateral controls over exports of goods and technologies that contribute to the proliferation of weapons of mass destruction (WMDs) or conventional weapons to sensitive regions of the world
- Evaluate the United States' and other countries' use of accords aimed at reducing arsenals of WMDs and the impact of their efforts

Significance

The continuing proliferation of WMDs and delivery systems poses serious threats to the security of the United States and its allies. Increased concern that in the near future, a rogue regime or terrorists will be able to threaten the United States or its allies with nuclear, biological, or chemical weapons has prompted the United States to develop a new approach to combating proliferation. The President's 2002 National Security Strategy identified the need to bolster counterproliferation efforts to deter and defend against these threats, manage the consequences of WMD use, and enhance nonproliferation efforts. The United States is placing a renewed emphasis on strengthening these efforts by encouraging increased political and financial support for such activities.

Currently, the centerpiece of nonproliferation efforts is the growing multibillion dollar array of efforts by DOD, DOE, and State to help former Soviet states control and reduce their vast, diverse holdings of Cold War-era nuclear, biological, and chemical weapons and their related delivery systems and infrastructure. However, U.S. programs to limit the proliferation of WMDs have begun to move beyond focusing on the former Soviet Union to also address proliferation risks in other countries such as Iran and North Korea, at borders, and from terrorist networks. In addition, the United States controls the export of certain sensitive technologies (such as chemical weapons precursors, missiles, and computers) and weapons systems through its national export control system and multilateral arrangements with other nations capable of supplying these technologies or weapons systems.

Nevertheless, the United States is seeking ways to strengthen multilateral export control regimes because rapidly evolving technologies and growing trade in sensitive items among countries of concern have weakened these controls. Finally, the United States is reassessing the effect of existing agreements and partnerships to control or reduce U.S. and foreign arsenals of WMDs in the post-Cold War era, including a multibillion-dollar program to dispose of Russian weapons-grade plutonium. The United States is also reassessing the ability of prospective agreements and coalitions to prohibit and detect development of WMDs.

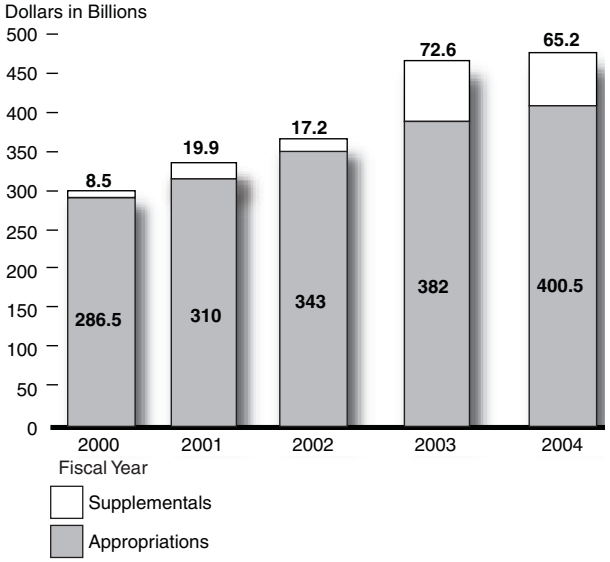
Potential Outcomes

- Improved management of programs and more effective use of U.S. assistance that reduces the proliferation of WMDs and diminishes the assets posing the greatest risks to U.S. national security
- Enhanced controls over the export and use of sensitive technologies that could facilitate the proliferation of WMDs or other weapons of concern
- Improved implementation of accords to achieve greater impact in reducing arsenals of WMDs

Ensure Military Capabilities and Readiness

Issue: In contrast to the downward trend in defense spending during the last decade, this first decade of the new century has already seen a significant upward trend in authorized defense spending. After dropping below $300 billion in prior years, total defense budget authority increased to about $360 billion in fiscal year 2002 and will exceed $400 billion in fiscal years 2003 and 2004, including substantial supplemental funding to support ongoing military operations. (See fig. 2.1.) As the new decade began, some increases in funding authority were approved to enhance operational maintenance, quality-of-life programs, pay raises, and improvements to crumbling facilities. Since September 2001, more significant increases in annual budget authority and supplemental appropriations have been approved to respond to the war on terrorism, including funding for Defense operations in Afghanistan and Iraq. Major increases have also been approved for weapon systems acquisition and modernization.

Figure 2.1: Total Defense Appropriations and Supplemental Funding for Fiscal Years 2000 through 2004, as of January 2004



Source: Congressional Research Service.

Notwithstanding the ongoing war on terrorism, DOD has continued to focus on implementing the results of the 2001 Quadrennial Defense Review, which charted a new defense strategy that emphasized homeland security, military transformation, joint operations, and advanced war-fighting capabilities related to IT, intelligence, and space operations. Follow-on studies were begun to more precisely define how existing DOD programs and priorities would change in light of the changing security environment and increased emphasis on homeland security.

Perhaps the most significant of the follow-on studies are those involving the ongoing reassessment of U.S. force structure and capabilities and of overseas presence and basing. The former has the potential for significant change in organization of forces and deployment planning. The latter has the potential for significant changes in the numbers and locations for U.S. bases overseas in keeping with the revised global military posture called for in the report of the Quadrennial Defense Review. That report called for developing a basing system that provides greater flexibility for U.S. forces in critical areas of the world, placing emphasis on additional bases and stations beyond western Europe and northeast Asia, and providing temporary access to facilities in foreign countries that enable U.S. forces to conduct training and exercises in the absence of permanent ranges and bases. The new defense strategy also highlights the criticality of reforming the department's business practices and human capital management, streamlining organizational structures, and eliminating excess infrastructure that unnecessarily diverts resources from other defense priorities. In that light, DOD also recently directed acquisition programs to tailor their strategies so that weapons can be fielded in a timelier manner at a fair and reasonable cost.

The debate about what capabilities DOD must maintain and develop, where they should exist, and to what extent additional defense spending is required will be significantly shaped by the debate over the military's role in homeland security and the augmentation of the civilian agencies' roles in the fight against terrorism. Nonetheless, the Quadrennial Defense Review ties many of these issues together. (See fig. 2.2.)

Figure 2.2: Key Topical Issues Framing the Defense Debate

- Jointness and interoperability
- Capabilities-based strategy versus two major-theater wars
- Force transformation, advanced warfighting capabilities, and training
- Changes in global military presence
- Antiterrorism and force protection
- Chemical and biological defense
- Human capital challenges
- Quality of life and facilities infrastructure
- Weapon systems modernization
- Homeland security
- Guard and reserve roles
- Nuclear stockpile
- Improved business practices

Source: GAO analysis.

There also are pressing issues concerning the defense establishment's program to maintain a safe and reliable nuclear weapons stockpile. This program is administered by the National Nuclear Security Administration (NNSA), a semiautonomous agency established in 2000 within DOE. NNSA faces numerous planning, organizational, procurement, personnel, and security challenges as it administers this $8 billion-a-year program, and questions remain about the impact of its 2002 reorganization plan on its capacity to address these challenges efficiently and effectively.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess DOD's ability to maintain adequate readiness levels while addressing the force structure changes needed in the 21st century;
- assess overall human capital management practices to ensure a high-quality total force;
- assess the ability of weapon system acquisition programs and processes to achieve desired outcomes;
- identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes;
- assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile;
- assess whether DOD and the services have developed integrated systems, procedures, and doctrines to support joint and coalition forces on the battlefield safely and effectively; and
- analyze and support DOD's efforts to improve planning, programming, budgeting, execution, and program performance.

Performance Goal 2.2.1: Assess DOD's Ability to Maintain Adequate Readiness Levels While Addressing the Force Structure Changes Needed in the 21st Century

Key Efforts

- Evaluate DOD's progress in developing and implementing its role in homeland security
- Assess the military services' training and readiness to accomplish their missions
- Assess DOD's worldwide antiterrorism/force protection program and implementation to provide adequate security to military forces and assets worldwide
- Assess DOD's chemical and biological defense program's and related activities' ability to meet current and future threat-focused requirements
- Assess the potential for the military services to adopt more efficient and effective concepts for organizing and deploying forces
- Assess service efforts to manage and integrate force transformation plans effectively
- Assess the extent to which the development and acquisition of weapons systems meet the needs of the armed forces, particularly for transformational capabilities
- Assess the key lessons learned from recent military operations overseas
- Provide the Congress with objective analysis of the costs and funding for military operations and follow-on activities

Significance

DOD's implementation of the 2001 Quadrennial Defense Review and its follow-on studies presents many opportunities for GAO to assist the Congress in analyzing the basis for and effect of changes to defense strategies and programs and changes in force structure and deployment plans. The Congress will be especially interested in the DOD strategy for homeland security and how it will affect DOD's ability to carry out more traditional missions. GAO's independent assessments will highlight potential risks associated with proposed changes and examine how such changes will affect DOD's ability to address readiness problems.

New areas of emphasis in the defense strategy—such as homeland security, force transformation, space, and information warfare—will force tough trade-off decisions and a closer examination of how to achieve defense goals most cost effectively. Accordingly, analyses of the cost-effectiveness of defense alternatives and options will be needed. Similarly, the Congress and DOD are likely to focus more attention on how DOD can best blend the diverse elements of its total force (active, reserve, and civilian forces) to achieve economies and increase effectiveness and how it can better contain costs related to overseas operations.

Potential Outcomes

- Greater congressional understanding of the basis for key changes in defense programs
- DOD actions to speed progress toward an effective homeland security strategy
- Improved military readiness to accomplish the national military strategy and elimination of barriers to achieving expected levels of readiness
- More rigorous requirements determination processes, less duplication of forces and capabilities, and better data for considering force structure alternatives and overseas presence requirements
- DOD actions to address inconsistencies between transformation plans, acquisition and other programs (including affordability), and resources in relation to future warfighting needs

- Improvements in strategic airlift capabilities and management and better data on costs and implications of overseas training and operations
- More cost-effective integration of military and civilian personnel, contractors, allies, and host nations to meet defense needs.

Performance Goal 2.2.2: Assess Overall Human Capital Management Practices to Ensure a High-Quality Total Force

Key Efforts

- Assess DOD's human capital management of its civilian workforce, including acquisition and contracting workforces
- Assess DOD's human capital management of its reserve components
- Assess DOD's human capital management of its active duty forces

Significance

A key concern for DOD is how it will manage its large investment in human capital today and in the future. DOD is the largest U.S. employer, with about 700,000 civilian federal employees, 1.2 million reservists, and 1.3 million active duty service members. DOD also increasingly relies on a large but undetermined number of contractor personnel. DOD's large and diverse total force requires a large financial investment—for example, over $100 billion—in compensation for the 1.3 million active duty members. Even with substantial financial investment, DOD faces tremendous challenges in managing and sustaining its total force. Its evolving human capital practices present DOD with an opportunity to break from its tradition-bound policies and procedures for managing its diverse total force of civilian employees, reservists, and active duty members.

By organizing the work in this performance goal around the three categories of personnel, GAO is positioned to address both emerging and long-standing areas of congressional concern for any component of the total force. Such concerns include how DOD would implement recently sought legislation to provide it with much greater flexibility in administering its military and civilian human capital programs; the adequacy of DOD's acquisition and contracting workforces, which are critical to developing and providing weapon systems and equipment to the military forces; and the timeliness and adequacy of the personnel security investigation process. They also include various issues associated with mobilizing and demobilizing reservists, emphasis on joint DOD operations, and efforts to expand the integrated use of the three categories of personnel. Because DOD's total force is so large and its mission is so critical, even small improvements in DOD's human capital management practices can result in large and important gains in national security, total force quality and performance, and cost savings.

Potential Outcomes

- A more strategic approach to overall DOD human capital planning and overall management of the civilian workforce
- Acquisition and contractor workforces aligned with changing roles and responsibilities
- An enhanced overall strategic approach to DOD human capital management of reserve forces
- An improved, strategic approach to DOD human capital management of active duty forces

Performance Goal 2.2.3: Assess the Ability of Weapon System Acquisition Programs and Processes to Achieve Desired Outcomes

Key Efforts

- Provide annual status and risk updates on a wide range of weapon systems, observing trends in acquisition performance and opportunities for budgetary actions
- Target reviews of individual weapon systems to assess their ability to achieve outcomes early enough so that DOD can take action well ahead of major decisions
- Assess barriers that prevent DOD from advancing technology while at the same time developing new weapons more quickly and predictably

Significance

DOD invests well over $100 billion each year in a wide array of weapon systems to equip the U.S. armed forces. These systems range from upgrades to tanks and fighter aircraft to sophisticated satellites and networks of systems, such as those used for national missile defense. It is not unusual for a single program to cost over $40 billion. These investments represent the largest discretionary portion of the U.S. budget.

DOD's acquisition process has produced the best weapons in the world. At the same time, the process routinely yields weapons that exceed cost and schedule estimates by significant amounts. The opportunity costs of such increases are significant; a mere 3 percent cost growth per year means that $3 billion of scarce discretionary funds are not available for new investments. Given the complexity of modern weapons, some problems can be expected. Many, however, can be predicted and avoided. It is not unusual for a new program to rely on fledgling technologies for high performance, only to report late in development that insufficient time and money had been estimated to develop the technologies and incorporate them into an overall design.

As unplanned cost increases occur, activities such as testing are deferred, giving rise to the late discovery of problems. Ultimately, it takes more money to buy fewer new weapons, thereby limiting anticipated capabilities. DOD recognizes this pattern and has signaled its intention to improve acquisitions. Recently, DOD has begun to recognize the potential of using best practices adopted from world-class enterprises to field systems within predicted estimates and to reduce the time and cost of doing so.

Potential Outcomes

- More relevant knowledge base for congressional decision making
- Increased use of best practices to achieve desired outcomes
- Better transition of new technologies to weapon programs and reduced acquisition cycle times and costs

Performance Goal 2.2.4: Identify Ways to Improve the Economy, Efficiency, and Effectiveness of DOD's Support Infrastructure and Business Systems and Processes

Key Efforts

- Identify ways to improve the economy, efficiency, and effectiveness of existing logistics functions
- Assess transformation of DOD's logistics systems to meet future needs and reduce the overall logistics footprint
- Assess DOD's efforts to realign defense organizations and improve its business processes
- Assess DOD's efforts to realign and/or reduce excess defense facilities in the United States and overseas, and improve the management and maintenance of its facilities
- Assess DOD's and the military services' efforts to develop weapon systems with smaller logistics impact and lower operating and support costs

Significance

Although the United States significantly reduced its defense force structure and military spending in the decade following the end of the Cold War, similar reductions did not occur in the defense support infrastructure, which has historically consumed over 40 percent of the department's total obligational authority. (This represents mission-support funding for various program elements, such as central logistics and installation support.) Operating efficiencies and reductions have resulted from efforts such as base realignment and closure, consolidations, organizational and business process reengineering, privatization, and competitive sourcing. However, DOD is faced with the need to address substantial inefficiencies in support operations; aging equipment and facilities; and continuing problems in the areas of spare parts, maintenance, and repair. DOD officials recognize that they must achieve greater efficiencies to manage their support operations more effectively, contain costs, and provide increased funding for weapon system modernization and other priority needs. Such pressures are likely to continue despite recent growth in the defense budget, and pressures for significant additional increases are likely in future years.

Potential Outcomes

- Costs avoided and opportunities identified to reprogram funding for other priority needs while strengthening efficiency and effectiveness of existing support systems
- Improved logistics support that will enhance the readiness and sustainability of U.S. military forces
- Reduced facilities infrastructure, improved facilities maintenance and planning for facility needs and recapitalization costs, and improved overall cost-effectiveness of facilities management

Performance Goal 2.2.5: Assess the National Nuclear Security Administration's Efforts to Maintain a Safe and Reliable Nuclear Weapons Stockpile

Key Efforts

- Assess the National Nuclear Security Administration's (NNSA) efforts to establish effective personnel, procurement, and planning systems to address the workforce and infrastructure challenges it faces
- Assess NNSA's research and development and production programs to support a safe and reliable stockpile
- Assess the extent to which DOE and NNSA have developed an effective and efficient security program to protect nuclear weapons material and information

Significance

In response to repeated management and security problems, the Congress passed legislation in October 1999 that established NNSA. NNSA, a semiautonomous agency within DOE, is responsible for nuclear weapons production, prevention of the proliferation of weapons of mass destruction, and the production of naval reactors. Since its establishment in March 2000, NNSA has begun to develop approaches for addressing issues associated with planning, organization, procurement, personnel, and security. Although NNSA finally issued its reorganization plan in December 2002, much remains to be done to implement this plan effectively and concern continues to be expressed in the Congress about the slow pace of NNSA's reorganization and how effective its new structure will be.

New management approaches are vital if NNSA is to effectively address the programmatic challenges before it. Because it is assumed that the United States will continue its policy of no testing, NNSA must develop first-of-a-kind experimental facilities and advanced supercomputing technology to ensure that the nation's nuclear weapons stockpile is safe and reliable without underground testing. It must ensure that there is a modern and efficient production infrastructure to maintain and refurbish the stockpile as it ages. It must find effective human capital strategies to respond to an aging contractor and federal workforce. It must continue to improve its project management and contract administration to ensure effective results from the almost $8 billion per year appropriated for this effort. Finally, it must improve security operations at all its facilities to ensure that classified information, nuclear materials, and weapons are adequately protected.

Potential Outcomes

- A better understanding of the stockpile stewardship program to help the Congress ensure that the annual investment of more than $5.5 billion is spent efficiently and supports specific program outcomes
- Improved DOE process for the safe production and storage of nuclear materials and components at the nuclear weapons complex
- Improved NNSA and DOE programs for ensuring the security of classified information, nuclear materials, and weapons
- Better information to help decision makers gauge the ability of NNSA's stockpile stewardship program to ensure the safety and reliability of existing nuclear weapons

Performance Goal 2.2.6: Assess Whether DOD and the Services Have Developed Integrated Systems, Procedures, and Doctrines to Support Joint and Coalition Forces on the Battlefield Safely and Effectively

Key Efforts

- Evaluate how DOD and the military services are establishing joint requirements and developing equipment and weapon systems to achieve joint capabilities
- Evaluate DOD's and the services' efforts to develop and field integrated command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) and space and weapons systems and the extent to which these systems will lead to information superiority and greater battlefield awareness
- Assess DOD's efforts to experiment with future joint war-fighting concepts and capabilities and support the results with investment decisions
- Assess DOD's plans and activities related to conducting joint and integrated operations with its international partners abroad
- Assess the effectiveness and timeliness of DOD's development of overarching architectures that are needed to guide the acquisition and design of a "system of systems"

Significance

As recent experience has shown in military operations in Kosovo, Afghanistan, and Iraq, success greatly depends on the ability of military forces to work effectively in a joint environment. The ability to conduct joint and combined operations is key to maintaining a superior force in an era in which the nature and extent of national security missions have become broader and more varied and the battlefield less segmented. Not only must the military integrate its own forces, it must also have the capabilities to operate with those of its allies and coalition partners. Implementing Joint Vision 2020 and its principal concepts of dominant maneuver, precision engagement, focused logistics, and full dimensional protection require that the U.S. military develop the doctrine, organization, training, systems, and leadership to function as a truly integrated joint force. Through integration, the military can become faster, more lethal, and more precise.

To make effective decisions, joint commanders must have a complete, accurate, and timely picture of the battlefield and must be confident that C4ISR systems can exchange information quickly and accurately. In addition, appropriate concepts and doctrine must be in place, and forces must be structured and trained to facilitate joint operations. In the past, DOD and the services have lacked coordinated or common procedures and interoperable systems to carry out joint military operations. This is largely because the services have traditionally developed separate approaches to war fighting and have built the forces and capabilities needed to execute their own individual approaches. Consequences of this have been the acquisition of costly overlapping and duplicative systems on the one hand and gaps in capabilities on the other. Current and anticipated future missions will require more coordinated joint and combined operations that optimize and leverage all services' capabilities. In addition, greater emphasis by DOD on the "system of systems" approach to developing and acquiring new capabilities requires greater up-front acquisition and design planning that will allow these systems to function together. This may require the development of standards or other means to ensure this interoperability. Examples of systems of systems include the Future Combat System, Missile Defense, and the Global Information Grid.

Potential Outcomes

- More cost-effective, integrated acquisition of weapons systems and materiel
- Improved interoperability of systems and exchange of information necessary for effective command, control, and communications
- Improved management of battlefield information and communications
- Improved coordination of service and joint war-fighting experimentation efforts and funding support for the results
- More effective joint exercises and training
- Enhanced ability of U.S. forces to operate with allies

Performance Goal 2.2.7: Analyze and Support DOD's Efforts to Improve Planning, Programming, Budgeting, Execution, and Program Performance

Key Efforts

- Track DOD's obligations of its annual appropriations and examine how various elements of the defense budget are being spent, including special supplemental appropriations
- Analyze the extent to which key aspects of the DOD budget submission are reasonable and justified
- Assess the DOD future years' plans for their long-term reasonableness and affordability
- Evaluate how DOD assesses the collective investment needed for weapons systems modernization and how it prioritizes this investment across systems
- Assess DOD's efforts and identify alternative approaches to improve planning, programming, budgeting, and program performance in support of its overall defense strategy
- Assess the effectiveness of DOD's efforts to improve its overall operations and to address major performance and accountability challenges and areas identified as high risk

Significance

By law, DOD is required to undertake a comprehensive review of its defense programs every 4 years. This Quadrennial Defense Review is expected to provide a blueprint for changes to plans, programs, budgets, goals, and objectives and has been dually designated as DOD's strategic plan for purposes of meeting the requirements of the Government Performance and Results Act of 1993. Thus, the Quadrennial Defense Review provides a view of future management directions and serves as a strategic framework for assessing results.

DOD operations currently involve over $1 trillion in assets, a budget authority of over $400 billion in 2004, and about 3 million military and civilian employees. Planning and budgeting for DOD represent one of the largest management challenges within the federal government. While DOD has the most effective war-fighting organization in the world, the same level of excellence is not evident in many of its planning, budgeting, and performance tracking processes that are critical to achieving DOD's mission reasonably economically, efficiently, and effectively. The Planning, Programming, and Budgeting System (PPBS) is DOD's key strategic planning tool for allocating these resources across its overall mission. The planning component of the 2-year process rests on the annual National Security Strategy, the Quadrennial Defense Review, and several other annual planning tools such as the Joint Strategy Review and the Defense Planning Guidance. Programming flows from this process and reflects an analysis of the services' program objectives. Budgeting is then done through negotiation between the military services and DOD's Comptroller.

GAO's work has identified a number of DOD operations and programs as "high risk" because of their vulnerability to waste, fraud, abuse, and mismanagement. Many of DOD's management and budgeting processes are not linked in a coherent, results-oriented manner. As a result, DOD cannot ensure that its budgets and its annual and future years' plans are reasonable or affordable or that they will achieve the results necessary to ensure national security. DOD's planning process has been criticized because it fails to articulate a clear vision and does not consider resource constraints at a broad enough level. In addition, it does not provide decision makers with alternative options. Finally, it does not provide good output measures, which help to determine the true cost of providing capability to the war fighter. Recently, the Deputy Secretary of Defense issued new policy memorandums and a management initiative decision to revamp the PPBS process to address some of these issues.

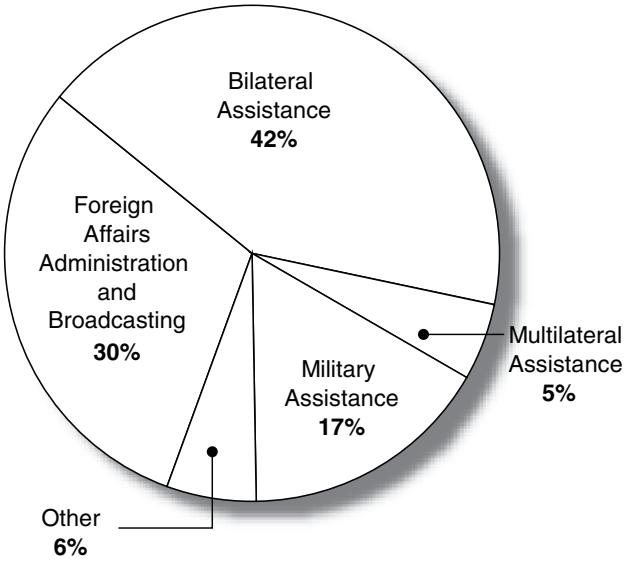
Potential Outcomes

- Increased accountability of the Office of the Secretary of Defense for planning and allocating resources and of the military services and defense agencies for executing their budgets to achieve their objectives
- Improved accountability through providing of information to defense-related appropriations and authorization committees for their deliberations on DOD's budgets
- Improved budget and program planning to realistically address changing national security needs with limited resources
- Improved performance of DOD programs through a greater focus on results and high-risk areas

Advance and Protect U.S. International Interests

Issue: Although U.S. leaders agree on the ultimate goal of promoting global peace, prosperity, and stability, and have spent over $27 billion on international affairs (See fig. 2.3), intense debate is occurring over how to achieve that goal.

Figure 2.3: Spending Type for the $27 Billion in Fiscal Year 2002 International Affairs Funds



Source: Department of State.

Conflict interventions to make or keep the peace, stabilize failed states, and end terrorist regimes have dominated recent U.S. foreign policy actions. These interventions are sometimes controversial, both domestically and internationally. They also are often costly: The United States has spent more than $23 billion in the Balkans since the early 1990s. And the costs of military intervention in Afghanistan and Iraq are predicted to be even greater. Such interventions are likely to continue to play a prominent role in stabilizing regions used as staging areas for efforts to undermine or threaten U.S. interests.

U.S. foreign aid to developing countries is critical for advancing U.S. economic and security interests. For example, the United States supports countries trying to adopt democratic and free market structures after conflicts through developmental and humanitarian programs as well as rule-of-law assistance and measures to combat corruption. These countries and regions in transition have combined populations in excess of 2 billion, and they face complex development problems. Ensuring the effectiveness and efficiency of these programs is important because the extent to which countries can successfully make the transition to and maintain democratic governments and market economies will significantly affect U.S. security and economic objectives and, ultimately, the U.S. budget.

Protecting U.S. strategic interests in the face of new tests has presented challenges for alliances established decades ago and raised questions about how the United States should respond to shifting needs and priorities. Terrorist attacks against the United States and interventions in Afghanistan and Iraq have given rise to new U.S.-led coalitions to pursue military, political, and economic efforts to erode terrorists' networks and their sources of support. Traditional alliances continue to evolve. For example, NATO's focus is changing from defending the territory of Western Europe to promoting peace and stability outside of its member countries as it expands its membership eastward. The United States continues to provide bilateral security assistance and pursue programs that counter transnational threats, like drug trafficking and infectious diseases, in order to foster international security.

Conducting foreign affairs is becoming more complicated as the lines between domestic and international issues blur and the threat of terrorist attacks on U.S. facilities and personnel overseas changes how America does business. About 35 federal agencies have around 19,000 U.S. staff assigned to overseas embassies, and most federal policies have international aspects. The State Department plays a key role in coordinating U.S. policy and programs for regions, countries, or multilateral organizations. To carry out its responsibilities, the State Department operates more than 250 embassies and consulates in over 160 countries. The size and composition of the department's overseas infrastructure and human capital are being questioned, particularly in light of security concerns. Similarly, U.S. participation in multilateral organizations, such as the United Nations, is sometimes debated when questions arise about these organizations' effectiveness and their ability to advance U.S. interests. Also being questioned are the practices for granting entry into the United States and the need to block

the entry of terrorists and criminals while at the same time facilitating entry for legitimate travel key to the nation's prosperity. Moreover, attacks on the United States prompted a rethinking of U.S. public diplomacy and public affairs activities and ways to better understand, inform, and influence foreign publics and policymakers.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- analyze the plans, strategies, roles, costs, and results of the United States and its allies in conflict interventions;
- analyze the effectiveness and management of U.S. foreign aid and developmental and humanitarian programs and the tools used to implement them;
- analyze the plans, costs, and outcomes of responding to challenges to U.S. strategic interests;
- evaluate the extent to which U.S. interests are effectively served by U.S. participation in multilateral organizations; and
- assess the strategies and management practices for U.S. foreign affairs functions and activities.

Performance Goal 2.3.1: Analyze the Plans, Strategies, Roles, Costs, and Results of the United States and Its Allies in Conflict Interventions

Key Efforts

- Assess the roles and capabilities of the United States, coalitions of other nations, and international organizations such as the United Nations in peacekeeping and similar military interventions in areas of conflict
- Evaluate U.S. and multilateral activities intended to stabilize Afghanistan and Iraq and manage their transition to a secure, sustainable desired outcome

Significance

Military interventions meant to maintain peace between nations, stabilize states, or end terrorist regimes are major activities for the United States, some of its allies, and regional organizations that address security concerns. The United States has employed its armed forces and civilian agencies, often in conjunction with U.S. allies and the international community, including the Organization for Security and Cooperation in Europe and the European Union, to address territorial disputes, armed ethnic and nationalistic conflicts, civil wars, and terrorist threats that endanger regional and international peace and stability. Successful interventions often require multidimensional operations involving political and diplomatic efforts and sophisticated intelligence and communications capabilities and security measures. In the 1990s, the United States participated in such operations in the Balkans, Cambodia, Haiti, and Somalia. In addition, the United States and its allies continue to maintain a significant military presence in South Korea to deter an outbreak of war and could possibly play a role in enforcing a future political settlement to what has essentially been a 50-year cease-fire. These conflict interventions are intended to defend the United States and advance its interests. They are also costly, particularly when the military role is extensive or prolonged. For example, the United States spent more than $23 billion in the Balkans during the 1990s.

More recently, the United States is playing a major role in Afghanistan and Iraq. The United States plans to spend about $817 million in Afghanistan in fiscal year 2003, and the Congress appropriated $79 billion in fiscal year 2003 emergency supplemental funds for military operations and rebuilding efforts in Iraq. The complexities and high costs of these operations raise concerns about how interventions are planned, executed, and coordinated and whether resources are being used efficiently.

Potential Outcomes

- Improved planning, execution, and coordination of U.S. and multilateral operations and more efficient use of military and civilian resources in current and future conflict interventions
- Improved congressional oversight of U.S. and international efforts to bring security to Afghanistan and Iraq

Performance Goal 2.3.2: Analyze the Effectiveness and Management of U.S. Foreign Aid and Developmental and Humanitarian Programs and the Tools Used to Implement Them

Key Efforts

- Monitor and evaluate U.S. efforts to provide postconflict developmental and humanitarian assistance, including assistance to Iraq and Afghanistan
- Determine the accountability for and effectiveness of U.S. humanitarian and development assistance, including assistance funded through the proposed Millennium Challenge Account
- Assess U.S. efforts to conduct nation-building activities, including programs to enhance the rule of law, democracy, and governance and to combat crime and corruption
- Evaluate the effectiveness of U.S. programs to combat HIV/AIDS and other emerging infectious diseases

Significance

U.S. foreign assistance policy has been revised in response to the September 11, 2001, terrorist attacks and others that followed. The September 2002 National Security Strategy elevated development assistance to the third pillar of U.S. national security, along with defense and diplomacy. In 2001 and 2003, the United States took military action against Afghanistan and Iraq, and multibillion-dollar, multiyear efforts to rebuild these countries have begun. In fiscal year 2003, the Congress appropriated about $2.5 billion in emergency supplemental funds for reconstruction and humanitarian relief for Iraq alone. The United States currently spends approximately $10 billion annually on humanitarian and developmental assistance programs around the world. The proposed Millennium Challenge Account would increase assistance levels up to $15 billion annually by fiscal year 2006—representing one of the largest increases in foreign aid in half a century. In an effort to advance democracy and support good government around the world, the United States implements assistance programs to fight corruption in foreign countries and to combat transnational crime and drug trafficking.

In addition to causing tremendous human suffering, the HIV/AIDS pandemic is viewed as a threat to global economic growth and security. The President has signed a 5-year, $15 billion emergency plan for AIDS relief and established the State Department as the coordinator of the global effort. In light of concerns about the effectiveness of U.S. assistance, continued attention must be given to evaluating assistance program accountability and management, determining whether foreign assistance efforts are achieving their intended objectives, and assessing whether U.S. foreign aid programs are being managed effectively to advance U.S. policy goals.

Potential Outcomes

- Increased accountability for U.S. funds and greater focus on achieving results that advance U.S. policy objectives
- Better informed government decisions about the best options for delivering foreign assistance
- Improved effectiveness and efficiency of foreign assistance programs
- More informed congressional evaluations of the options for U.S. and multilateral assistance and their advantages and disadvantages

Performance Goal 2.3.3: Analyze the Plans, Costs, and Outcomes of Responding to Challenges to U.S. Strategic Interests

Key Efforts

- Analyze the implications and costs of evolving U.S. military alliances and international security arrangements, including efforts to transform and augment regional and international security organizations, such as NATO
- Assess the management, costs, and benefits of U.S. bilateral security assistance programs, such as foreign military financing and international military education and training
- Evaluate U.S. programs and initiatives to counter transnational threats and global forces affecting U.S. interests, such as international terrorism and illegal trafficking in drugs and persons
- Examine efforts of U.S. and international agencies to locate, freeze, and seize illegitimate financial assets of terrorist or criminal groups or corrupt regimes

Significance

The terrorist attacks of September 11, 2001, have highlighted serious challenges to U.S. efforts for building a stable and secure world. Despite the accomplishments of the military campaigns in Afghanistan and Iraq, the United States has yet to fully disable terrorist networks that threaten U.S. and world security. Furthermore, other security challenges continue to arise; for example, the United States faces threats from a possibly nuclear-armed rogue state (North Korea) and competition from China's emerging economic and military capabilities.

In response to these and other challenges to its strategic interests, the United States has sought to achieve international security, on the one hand, by strengthening standing alliances such as NATO through expansion of its membership and capabilities, and on the other hand, by acting with an ad hoc "coalition of the willing," as in Iraq. These approaches leave a variety of options for action open to the United States and its allies. They also raise questions about the most effective approaches for achieving international security today and the implications of these approaches for developing effective security arrangements and providing bilateral security assistance to other countries.

Less conventional transnational threats, such as terrorism, trafficking in drugs and persons, and water disputes, threaten regional stability in strategically important areas, including the Middle East, Central Asia, and Latin America. These threats create different challenges for developing effective security alliances; providing security assistance to other countries; and developing the means to deny terrorists, criminals, and corrupt regimes the ability to take advantage of the complexity of the world financial system to sustain their activities. The United States is working with the United Nations, the Financial Action Task Force on Money Laundering, and other organizations to improve control over assets belonging to illegitimate regimes and criminals.

Potential Outcomes

- Enhanced coordination among U.S. allies and greater support for U.S. national security interests
- Improved congressional decision making and oversight concerning the costs and benefits of new security arrangements and changes in existing security institutions

- More effective and coordinated implementation of programs to enhance U.S. security interests and promote more equitably shared costs between the United States and its allies
- Greater oversight of how U.S. agencies cooperate with international agencies and the financial sector in locating and repatriating illegally obtained assets and revenues

Performance Goal 2.3.4: Evaluate the Extent to Which U.S. Interests Are Effectively Served by U.S. Participation in Multilateral Organizations

Key Efforts

- Assess multilateral organizations' capabilities and effectiveness in carrying out their missions
- Evaluate U.S. efforts to fight global infectious diseases through financing and supporting multilateral organizations' activities
- Assess U.S. participation in and oversight of multilateral organizations, including efforts to reform United Nations' management

Significance

The United States seeks to advance its interests by participating in a wide variety of multilateral organizations, including the United Nations and 11 related agencies (such as the World Intellectual Property Organization), the International Monetary Fund (IMF), the World Bank, and four regional development banks. These organizations facilitate international cooperation in many areas, including, promoting economic and social development; responding to security challenges; and addressing transnational threats such as terrorism, crime, and infectious diseases. For example, the United States is working with the World Health Organization; the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund); and the Joint United Nations Programme on HIV/AIDS to stem the spread of infectious diseases. These diseases are increasingly viewed as a threat to economic growth and political stability. Programs to fight these diseases depend on U.S. resources. The United States has been the largest contributor to the Global Fund, which is an international public-private partnership contributing over $620 million since 2001, which represents 43 percent of total contributions to date.

The United States is a strong advocate of action within multilateral institutions to (1) address today's needs, threats, and opportunities; (2) become more efficient and effective; and (3) ensure financial and programmatic accountability for funds that member nations provide. For example, the United States has urged the United Nations and the multilateral development banks to focus on monitoring and evaluating performance, and to use information on performance when making funding decisions. The United States has also requested that the United Nations improve its human capital management practices.

Potential Outcomes

- Enhanced congressional evaluation of multilateral organizations' activities and the results that they produce and, therefore, the gains to be realized and the limitations implied by working through these organizations
- Improved accountability, increased focus on results, and increased transparency at these organizations and more consideration of options to strengthen their capabilities and effectiveness
- More effective use of resources to advance U.S. interests through participating in these organizations

Performance Goal 2.3.5: Assess the Strategies and Management Practices for U.S. Foreign Affairs Functions and Activities

Key Efforts

- Assess efforts to improve U.S. diplomatic readiness and respond to human capital, technology, and other management challenges
- Assess the effectiveness of visa issuance and border control efforts
- Evaluate the efficacy of U.S. public diplomacy and other key programs
- Evaluate U.S. government efforts to protect its overseas personnel and facilities and to enhance the safety of U.S. citizens abroad

Significance

The United States spends over $20 billion annually for traditional foreign affairs activities, including operating the State Department and providing foreign aid. Long-standing questions exist regarding the level of resources and human capital needed to maintain the network of about 260 U.S. embassies, consulates, and other facilities. Most federal policies have international aspects, and about 35 agencies have staff assigned overseas to implement a variety of programs and activities to support U.S. foreign policies and domestic interests. Agencies such as the Departments of Agriculture, Commerce, Defense, Homeland Security, and Justice and the U.S. Agency for International Development have significant overseas operations that cover a vast array of programs and functions. These are administered in coordination with State and its overseas embassy network. It is important that the resources expended to accomplish U.S. foreign policy goals are well managed. Setting priorities and reconciling the many competing interests the United States has in its relationships with foreign countries is a challenge, but is critical for an effective overall foreign policy.

In recent years, security threats at home and abroad have required the United States to rethink its foreign affairs functions and activities, and the U.S. government has expanded overseas staffing. In addition, the U.S. government has placed renewed emphasis on key programs designed to protect U.S. borders and promote U.S. foreign and domestic interests. The United States annually processes 9 million entry visas to foreign visitors, and several agencies work to prevent the entry of those who are a danger to the United States or who are likely to remain in the United States illegally. Furthermore, public diplomacy programs promoting U.S. national interests abroad and U.S. international broadcasting are once again at the forefront of a coordinated foreign policy. In addition, the United States recently began a $16 billion program to replace about 160 of its overseas facilities to provide secure, modern facilities for overseas workers. The Congress needs to ensure that these and other critical programs achieve their intended results and that the U.S. government is adequately addressing potential security threats.

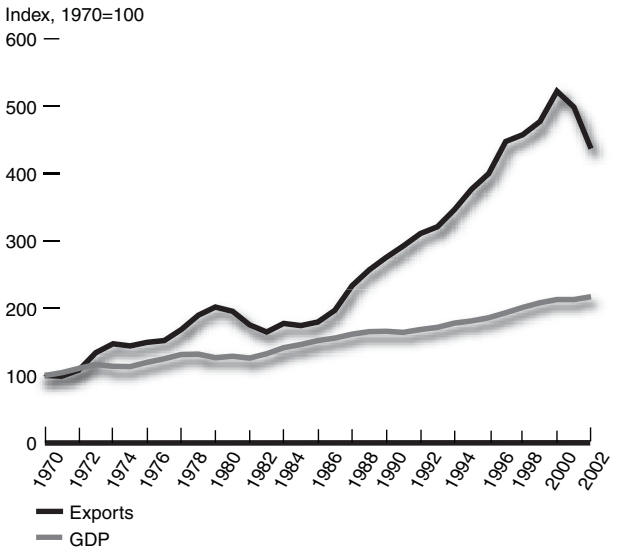
Potential Outcomes

- More effective and efficient use of federal resources and human capital to meet foreign policy objectives
- Greater impact from key U.S. programs that directly and indirectly support the safety and well-being of U.S. citizens
- Better coordination and synergy among U.S. foreign affairs agencies that are stakeholders in a given region or country

Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests

Issue: The increasing interdependence of the world's economies has a significant impact on the national security and the economic well-being of the American people. U.S. exports have grown much faster than the economy. (See fig. 2.4.) Moreover, the United States has been the principal architect of an open world trading system and, as the world's largest exporter of goods and services, has benefited immensely from global trade. But segments of U.S. and world populations have not shared equally in these benefits and may not do so in the future. Moreover, global market forces have made the United States more vulnerable to overseas economic crises. In addition, it has become more difficult for the United States to maintain control over critical technologies and the industrial base on which U.S. economic and military security depends. Also, the United States has faced terrorist threats emanating from some of the least integrated countries in the world as well as health threats from some of the most integrated regions of the world. For policymakers, several aspects of these trends require particular attention.

Figure 2.4: Growth in U.S. Exports Compared to Overall Output (GDP) since 1970



Source: International Monetary Fund data.

Note: The decline in exports that began in 2000 can be attributed to the recent global economic downturn; it is not clear whether this downward trend will continue.

Trade agreements are increasing in number and importance to the U.S. economy. More than 300 international trade agreements affect hundreds of billions of dollars in trade and millions of U.S. jobs. The mutual dependence of international markets and the U.S. economy is expected to increase even further with China's 2001 admission to the World Trade Organization (WTO). In addition, the United States is currently involved in a major regional trade negotiation (the Free Trade Area of the Americas), multilateral negotiations in the WTO, as well as numerous free trade agreements with other partners. Over 10 U.S. agencies have programs to promote U.S. exports. These programs include providing financial assistance through loans, loan guarantees, and grants as well as providing U.S. businesses with information on the export process.

The globalization of the industrial base is driving changes in the way the United States obtains technologies and capabilities to protect its national security interests. As companies increasingly engage in a wide variety of business arrangements across national borders, DOD is seeking new ways to benefit from the competitive sources and innovative technologies that a diverse industrial base may provide. For example, the department is partnering with foreign countries to develop major weapon systems, such as the Joint Strike Fighter aircraft program. Although globalization has the potential to speed innovation and reduce costs, it also carries potential threats to the technological superiority of the U.S. military and may require new approaches to protect national security interests.

Global financial health and the maintenance of the world financial system are critical to long-term U.S. objectives and cornerstones of U.S. foreign policy. Financial crises in Argentina, Mexico, Asia, Russia, and elsewhere have raised questions about what can be done to prevent, solve, or contain the spread of regional financial crises and what can be done to reduce the debt burden on poor countries. International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, are at the center of efforts to address financial crises. The United States is the major contributor to the IMF and

relies heavily on it and the World Bank to promote world economic health. The operations and transparency of these institutions have come under increased scrutiny.

Overseeing financial institutions and markets in the 21st century is a growing challenge. Trillions of dollars flow through the nation's financial institutions and markets, including the investments and retirement savings of working households. The globalization of financial firms and markets, coupled with continuing advances in technology, have created opportunities to improve the speed and efficiency of market operations. But these advances also provide new opportunities for illegal market activities and may broaden the scope of financial crises or cause them to spread more rapidly. The creation of new products and the increasing importance of new market participants continue to pose challenges to existing regulatory frameworks and oversight programs. Innovations such as the increasing use of Internet-based financial activities also present new regulatory challenges. While these innovations can benefit U.S. markets and investors, they also expose individuals to increased risks and potential fraud.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- analyze how U.S. interests are served through trade agreements and U.S. programs,
- improve understanding of the effects of a global industrial base on U.S. national security interests,
- assess how the United States can influence improvements in the world financial system,
- assess the ability of the financial services industry and its regulators to maintain a stable and efficient financial system in the face of market change and innovation, and
- assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial markets.

Performance Goal 2.4.1: Analyze How U.S. Interests Are Served through Trade Agreements and U.S. Programs

Key Efforts

- Assess preparations for, and progress in, trade negotiations, including the World Trade Organization's (WTO) Doha Development Agenda and the Free Trade Area of the Americas
- Evaluate U.S. and international efforts to ensure the implementation of and compliance with trade agreements, which include the broad WTO agreements and narrow bilateral intellectual property rights agreements
- Analyze the structure, processes, and resources used to develop, implement, and evaluate U.S. trade policy and programs, such as export promotion, trade capacity building, and efforts to monitor textile transshipments
- Evaluate the relationship between trade and other competing U.S. policy goals and emerging domestic and international challenges, such as the need to balance security and economic concerns when regulating trade at the border

Significance

The future direction of U.S. trade policy continues to be debated in the Congress, throughout the nation, and around the world. Trade proponents maintain that establishing new trade rules, expanding coverage of trade agreements to new countries, and enforcing existing trade agreements are critical to U.S. commercial and foreign policy interests. For these reasons, the executive branch works to complete trade agreement negotiations on several fronts through its newly obtained trade promotion authority. These include the WTO's Doha Development Agenda, Free Trade Area of the Americas, and other regional and bilateral free trade agreements. Developing countries are taking a more active role in negotiating trade agreements, some claiming they should not be held to the same level of trade liberalization as developed countries.

Nevertheless, some domestic observers express concern that the United States has not been sufficiently aggressive in monitoring and enforcing more than 400 existing trade-related agreements. U.S. trade policy and programs seek to increase exports to ensure that U.S. firms are able to compete globally, while aiming to contain import surges that cause significant injury to certain domestic industries. For example, U.S. government agencies have a role in promoting exports as well as administering U.S. trade remedy laws. Some critics of U.S. trade policy and programs doubt that regional and global trade regimes can effectively achieve their desired outcomes and may compromise U.S. sovereignty.

Finally, the United States uses its trade policy and programs as tools to support other foreign policy objectives. U.S. trade and investment assist developing countries around the globe in instituting market-based economies, democratically elected governments, and stability in areas of conflict. Since the September 11, 2001, terrorist attacks, security has become an important issue in trade policy. In such an environment, GAO can provide the Congress with independent, in-depth analyses of the status of trade negotiations, the extent to which trade agreements are being implemented, and the effectiveness of the U.S. government apparatus to develop and implement trade policy and programs.

Potential Outcomes

- Improved congressional oversight of trade negotiations, key emerging issues, economic implications, and the relationship of these issues to achieving U.S. objectives
- Improved implementation of and compliance with trade agreements to ensure that the United States obtains anticipated benefits and mitigates costs
- More efficient and effective U.S. trade policy making and programs
- Greater congressional understanding of the linkages and potential trade-offs between trade and other U.S. policy goals

Performance Goal 2.4.2: Improve Understanding of the Effects of a Global Industrial Base on U.S. National Security Interests

Key Efforts

- Evaluate the management of U.S. technology transfers
- Assess the U.S. government's knowledge of and ability to manage its commercial and foreign supplier base to meet national security needs
- Evaluate DOD's management of international weapons programs

Significance

The multiple, and often divergent, interests of a global industrial base present challenges to the U.S. government as it obtains technologies and capabilities to protect national security interests. Domestic firms that develop defense products, produce parts and components for weapon systems, and integrate and maintain those weapons are forming business relationships with foreign firms. At the same time, DOD is increasingly relying on commercial products from industries that have already established such international relationships. These trends are reflected in the department's new emphasis on partnering with foreign countries to develop major weapon systems, such as the Joint Strike Fighter aircraft program. Taking advantage of industry globalization has the potential to speed innovation and reduce costs but also carries potential threats to the technological superiority of the U.S. military. GAO's independent assessments of the effects of increased globalization on defense acquisitions will provide information needed for the U.S. government to manage technology transfers, the industrial base, and international weapon systems programs.

Potential Outcomes

- Improved effectiveness of technology transfer processes
- Greater understanding of the effects of the U.S. government's increased use of commercial and foreign suppliers to meet national security needs
- Improved federal management of international weapons programs

Performance Goal 2.4.3: Assess How the United States Can Influence Improvements in the World Financial System

Key Efforts

- Assess U.S. participation in and oversight of multilateral financial institutions, including Treasury Department efforts to influence how these institutions address the debt problems of developing countries
- Evaluate U.S. government efforts to influence developments in international markets through international accords; U.S. financing programs that support trade and investment; and other government activities that affect the international flow of goods, services, and financial assets

Significance

Maintaining the health of the global financial system is critical to long-term U.S. objectives and is a cornerstone of U.S. foreign policy. International efforts to maintain this system are primarily undertaken through international financial institutions, most notably the World Bank and the IMF, which use various means to help countries deal with financial problems and development needs. In light of continuing financial crises and persistent poverty in many developing countries, the Congress and others have raised concerns regarding the effectiveness of the IMF, the World Bank, and related multilateral organizations in maintaining the health and stability of the world financial system. This includes their efforts to address the increasing debt burdens of middle- and low-income countries, 42 of which have been classified as heavily indebted.

The United States seeks to create an environment that supports its foreign policy objectives by influencing international economic activity and policy. It does this through various activities, which include negotiating international financial accords, like those sponsored by the Organization of Economic Cooperation and Development to promote market economies; providing government finance programs like those run by the Export-Import Bank of the United States and the Overseas Private Investment Corporation to support U.S. trade and development objectives; and seeking consensus on the use of exchange rate policies, capital controls, and similar measures to promote efficient and sound international trade and investment flows with other countries.

Potential Outcomes

- Increased understanding of the funding liabilities arising from U.S. participation in international debt relief efforts and more effective programs for reducing poor countries' debt burdens
- More informed congressional oversight of U.S. foreign economic policy, including efforts to reach accords on economic issues
- More efficient and effective management of U.S. government international finance programs and related activities

Performance Goal 2.4.4: Assess the Ability of the Financial Services Industry and Its Regulators to Maintain a Stable and Efficient Financial System in the Face of Market Change and Innovation

Key Efforts

- Assess how regulators oversee financial firms for which business functions cross the traditional lines of regulation
- Evaluate whether the overall regulatory structure and the role of existing financial regulatory agencies are appropriate given the ongoing changes in market practices and financial institution consolidation
- Assess how well regulators manage their operations and make effective use of technology
- Assess how well regulators respond to new products and market participants; emerging threats; and the impact of these developments on safety, soundness, and competition in the financial services industry

Significance

The financial services industry continues to develop, both in the size of financial institutions and in the range and impact of services being provided to customers. This growth and the introduction of new products present regulators with new challenges. Risk management practices are becoming more complex and difficult for regulators to assess. U.S. and foreign bank regulators' multiyear effort to better align capital standards with the risks institutions face could improve financial system soundness but could also alter the competitive landscape. Securities regulators have also been granted new authorities and expanded resources that will have to be employed effectively. Regulators are also struggling to assess the impact of trading mechanisms and market participants (such as electronic communications networks that have become a vital part of the overall functioning of the markets).

Ensuring that the financial system remains stable but is also efficient and flexible enough to meet the changing demands of its customers is an important part of the government's role in ensuring the proper functioning of the nation's economy. The potential for new threats to financial market stability—such as those from terrorism—challenges financial regulators and the Congress to ensure not only that customers and markets are protected but also that increased security does not stifle market efficiencies or hinder the introduction of beneficial new products and services.

Potential Outcomes

- Improved efficiency, effectiveness, and consistency of the overall federal regulatory framework
- Increased efficiency and competitiveness of the nation's financial markets
- Greater assurance that markets are resilient in the face of damage from physical or other threats
- Improved readiness of regulators to oversee new products and markets, financial holding company arrangements, and risk management practices
- Enhanced efficiency and effectiveness in the way regulators manage their operations, staff, and technology
- Enhanced understanding and oversight by the Congress and regulators of the effects of new market practices, new participants, and new capital standards on financial market stability, efficiency, and competitiveness

Performance Goal 2.4.5: Assess the Effectiveness of Regulatory Programs and Policies in Ensuring Access to Financial Services and Deterring Fraud and Abuse in Financial Markets

Key Efforts

- Determine whether consumers and businesses, particularly low- and moderate-income consumers and small businesses, have appropriate access to financial services and assess the effectiveness of regulatory programs in ensuring fair and open access to financial markets
- Assess the effectiveness of regulatory programs and policies, including accounting and auditing disclosure and corporate governance requirements, in deterring fraud and abuse in the financial marketplace
- Assess whether current regulatory efforts, policies, and requirements are adequate to ensure that investors and consumers are sufficiently informed of the costs and risks of traditional and innovative financial products and services
- Assess how well customers and investors understand their rights and responsibilities in the financial arena, as well as the risks and rewards of various financial products
- Assess the adequacy of regulatory responses to financial crime, including money laundering, identity theft, and terrorist financing

Significance

Millions of U.S. households have invested in the financial markets or deposited money at financial institutions. To a greater degree than ever before, the products offered by the financial services industry, such as mutual funds and insurance, are important to the financial well-being and retirement security of U.S. citizens. However, as a result of technological advances and globalization, consumers and businesses may also be more vulnerable to fraudulent and abusive practices in the marketing of financial services.

Over the years, various regulatory programs and policies have been adopted with elaborate compliance and enforcement systems to help ensure open and fair access to markets and to protect customers from fraud and abuse. However, the removal of traditional legislative barriers and changes in the structure of the financial services industry have raised questions about the regulatory effectiveness of these programs and policies. Further, the validity of financial accounting and disclosure models and the adequacy of oversight by public companies or mutual fund boards of directors have also come under scrutiny and many organizations are working to implement the accounting-related reforms arising from the Sarbanes-Oxley Act.

With individuals making greater use of financial products and interacting more directly with the markets than in the past, adequate risk disclosure and assurance of financial privacy have also assumed more importance. As a result, understanding the extent of financial literacy and evaluating approaches to enhance it have become increasingly important. Emerging issues such as increased instances of identity theft and the use of the financial markets and institutions for illegitimate purposes, such as money laundering or terrorist financing, also demand regulatory attention to ensure that customers are protected and that the integrity of the financial system is preserved.

Potential Outcomes

- Increased assurance of fair and open access to financial markets
- Improved regulatory actions to detect and deter fraud and abuse within the financial services industry

- Improved disclosure of financial product costs, benefits, and risks
- Better understanding of the state of financial literacy and effectiveness of methods to enhance it
- Regulatory oversight and financial institution compliance programs that better ensure that all financial transactions are from legitimate sources
- Cost-effective improvements in oversight and compliance programs that minimize the regulatory burden

Reexamine the Federal Government's Role in Achieving Evolving National Objectives

Issue: Within the context of the major trends and long-term fiscal imbalance, evaluating the role of the government and the programs it delivers is key to determining how to best position the federal government for the 21st century. With the government facing an array of complex challenges and opportunities, a strategic long-term view is critical in considering how best to design programs to manage effectively across boundaries and meet the nation's needs and priorities today and in the future. Policymakers will need forward-looking information to set the stage for early warnings about emerging threats and make informed choices about effective government responses.

As the pace of change accelerates in every aspect of American life, policymakers and the public need more and better information to assess where the nation is and where it is going. In this regard, developing key national indicators for the United States can help policymakers assess the overall position and progress of the nation in key areas, frame strategic issues, and support informed public debate and decisions within and between levels of government and the United States as a whole.

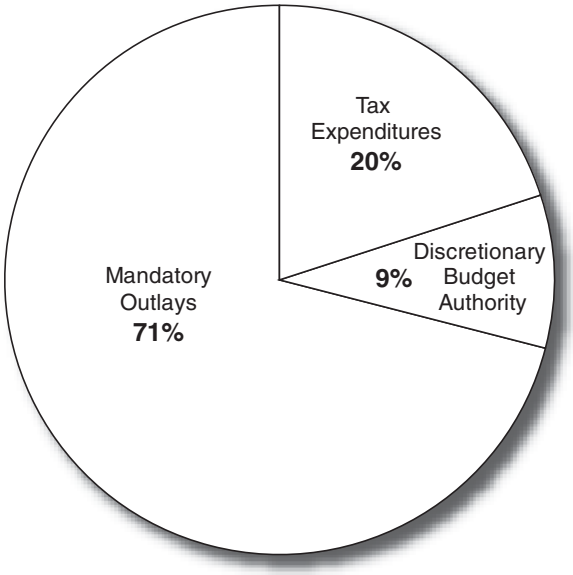
Addressing the nation's strategic challenges increasingly depends on the joint efforts of all levels of government and the interactions and interdependencies between the various actors, policy tools, and management functions. (See fig. 3.1.) In most federal mission areas—from low-income housing to food safety to higher education assistance—national goals are achieved through the use of various policy tools, such as direct spending, grants, loans and loan guarantees, insurance, tax preferences, and regulations. For example, as figure 3.2 shows, in fiscal year 2003, the federal government relied on a mix of entitlement and discretionary spending, tax preferences, and loan guarantees in delivering Medicare and federal health care. Any assessment of federal missions and strategies must look at the tools that the federal government uses and the participation of other organizations in achieving national objectives.

Figure 3.1: Policy Tools, Actors, and Management Functions That Influence Successful Government Performance

Tools	Actors	Management
Direct services	Executive agencies	Strategic planning
Grant-in-aid	State and locals	Performance management
Contracting	Foreign government	Human capital
Credit and insurance	GSEs	Budgeting
Tax expenditures	Nonprofits	Financial management
User fees	Contractors	IT management
Regulation	Faith-based for profits	Acquisitions and sourcing

Source: GAO analysis.

Figure 3.2: Relative Reliance on Policy Tools in Health Care, Fiscal Year 2003



Source: GAO analysis of data from the Office of Management and Budget.

Note: Loan guarantees accounted for about $104 million, or about 0.02 percent, of the approximately $591 billion in total federal health care resources.

Although policy tools have proliferated in recent decades, knowledge of how to design and manage the federal policy tool set has not kept pace. Policymakers need a better understanding of how individual policy tools operate, how to measure their performance and effectiveness, which actors participate in implementing various tools, and what features are necessary to ensure accountability and oversight.

The effectiveness of federal programs has increasingly become dependent on state and local management and resources as well as constructive interactions between federal, state, and local actors, including private and nonprofit entities. The intergovernmental system is being tested by a complex array of specific short- and long-term challenges. Federal, state, and local governments are facing daunting problems in managing programs involving numerous actors inside and outside of government in areas ranging from homeland security to education to health care. Moreover, the unique advantages of a federal system—the flexibility and capacity to respond to local needs—are challenged by long-term trends such as advances in technology and communications that span state and national boundaries and inspire calls for consistent national regulatory and tax policies.

Performance Goals: To support the Congress in reexamining the federal government's role in achieving evolving national objectives, GAO will

- examine emerging challenges and opportunities to position the federal government for the 21st century,
- develop new resources and approaches that can be used to assess the nation's position and progress,
- explore ways to evaluate the effectiveness of the entire set of policy tools that the federal government uses to achieve national objectives, and
- assess how involvement of state and local governments and nongovernmental organizations affects federal program implementation and achievement of national goals.

Performance Goal 3.1.1: Examine Emerging Challenges and Opportunities to Position the Federal Government for the 21st Century

Key Efforts

- Develop a foresight conceptual framework, evidence-based strategies, and methodological approaches for identifying current strategic challenges, longer-term 21st century challenges and opportunities, as well as potential government responses
- Examine one or more emerging challenges, such as water scarcity, slow labor force growth, or rapidly changing science and technology, and the implications for current programs

Significance

In charting the government course for the 21st century, policymakers will be accountable for positioning the federal government to respond to current and future challenges and take advantage of emerging opportunities. A GAO series identifying key 21st century challenges would help educate congressional and other public audiences about specific policy areas warranting a fundamental reexamination and transformation of the federal role. These publications would be agenda-setting documents and would raise questions and frame issues for policymakers to consider. For example, while advances in science and technology present vast opportunities to improve the quality of life and the performance of the economy and the government, they also create challenges to the government's and the Congress's ability to evaluate their potential and assess their effect on security, safety, privacy, and equity.

Foresight into the long-term trends and their implications for government programs is key to identifying potential threats, defining the scope of policy options, and laying out the range of possible outcomes and implications of alternatives. Developing forward-looking strategies grounded in fact-based trend analyses and evaluations can help policymakers to better foresee and respond to transformation opportunities for the federal government.

Potential Outcomes

- Reexamination of current and existing program areas to test their relevancy and effectiveness in addressing the emerging program issues and challenges for the 21st century
- Identification of emerging challenges and discussion of alternative policy choices facing federal leaders in addressing them effectively
- Enhanced congressional, agency, and GAO capability to assess governmentwide implications of crosscutting challenges, anticipate future service needs, and identify emerging threats to program effectiveness and relevance

Performance Goal 3.1.2: Develop New Resources and Approaches That Can Be Used to Assess the Nation's Position and Progress

Key Efforts

- Constructively engage in a national effort to develop comprehensive indicators for the United States by providing information to evaluate the position and progress of the nation
- Establish relationships with communities of practice on key specialized information areas and build a body of knowledge that could assist GAO in its work on these issues with the Congress and improve the quality of information available for public decision making
- Develop a portfolio of fact-based measures that can help enrich the dialogue with the Congress on strategic planning and create new electronic information resources to make these broad indicators more widely available

Significance

The dramatic changes, challenges, and increasing interdependencies facing the United States demand new and more cross-sector and cross-border responses. Such responses could benefit from more integrated information resources and a fact-based assessment of what is happening and where the nation is going, both on an absolute and relative basis. To that end, the Comptroller General, in cooperation with the National Academies, held a forum in February 2003 with national leaders and experts to explore whether and how to establish a portfolio of national indicators for the United States. The participants generally agreed that developing a key national indicator system is important and complex. Such an effort will require applying "lessons learned" from past efforts and engaging in the multitude of specialized and comprehensive efforts ongoing in the United States, at the national, regional, state, and local levels, as well as around the world in other leading democracies. A comprehensive set of national indicators could help improve evaluations of the nation's progress and prospects in addressing key issues and support informed public debate and decisions about the respective roles of the public and governments at all levels in addressing the challenges the nation faces.

Potential Outcomes

- Enhanced congressional, agency, state, local, and GAO capability to oversee and evaluate the performance of government and society
- Increased insight and foresight available to the Congress and the American public on priority and emerging national challenges and policy decisions
- Greater awareness of the effects of policies and programs on societal needs

Performance Goal 3.1.3: Explore Ways to Evaluate the Effectiveness of the Entire Set of Policy Tools That the Federal Government Uses to Achieve National Objectives

Key Efforts

- Develop practical primers and workshops for congressional staff on the "tools of government" concept, including the use of grants, tax incentives, regulations, preemptions, loans, guarantees, and insurance
- Analyze the portfolio of federal policy tools used in specific policy areas, such as affordable housing or neighborhood revitalization, and identify ways to improve the design and performance oversight across the tool mix
- Identify grant management issues that affect future program performance outcomes, including conducting an assessment of the effectiveness of the Federal Financial Assistance Management Improvement Act of 1999
- Examine how federal agencies achieve their strategic objectives by developing and implementing regulations
- Determine how agencies are establishing strategic goals, measuring performance, and evaluating the effectiveness of various policy tools in achieving program outcomes

Significance

Over the past decade, there has been a gradual but significant change in the way the federal government does business, relying more on nonfederal actors such as state and local governments, contractors, private business entities, nonprofits, and individuals to share in the responsibility for implementing federal programs. Federal programs rely on grants, loans, loan guarantees, tax preferences, vouchers, regulations, and a host of other indirect policy instruments. These indirect "tools of government" pose their own specific management challenges.

Potential Outcomes

- Enhanced congressional understanding of how various tools of government can be most effectively used to achieve national objectives
- Improved federal management of a wide range of programs that employ the various policy tools
- Effective legislation for regulatory programs that involve federal, state, and local responsibilities

Performance Goal 3.1.4: Assess How Involvement of State and Local Governments and Nongovernmental Organizations Affects Federal Program Implementation and Achievement of National Goals

Key Efforts

- Determine the extent to which the Unfunded Mandates Reform Act has succeeded in deterring, modifying, or eliminating unfunded mandates
- Determine how state and local jurisdictions within the National Capital Region and elsewhere are improving their preparedness and examine how the Department of Homeland Security's (DHS) Office of State and Local Government Coordination interacts with state and local governments to enhance homeland security
- Examine how changes in federal policies or economic trends might affect states' structural budget balances and their capacity to meet their fiscal obligations
- Analyze intergovernmental fiscal partnerships in programs of national interest and identify innovative regional approaches to intergovernmental coordination in specific policy areas

Significance

Responding to many of the nation's critical challenges—such as meeting the health care needs of the poor or countering terrorist threats—is the joint responsibility of all levels of government. The effectiveness of federal programs has increasingly become dependent on state and local management and resources as well as constructive interactions between federal, state, and local actors, including private and nonprofit entities that are partnering with government officials to carry out national policies and programs. This increased interdependence among levels of government presents many challenges, including those to managing programs involving numerous actors, providing flexibility, building capacity, and ensuring accountability within the American intergovernmental system. Fiscal and policy issues facing each level of government are increasingly intertwined, and like the federal government, the states and localities face fiscal pressures from slowing revenue growth and greatly increased spending demands.

Potential Outcomes

- Enhanced congressional understanding of American federalism in the debate over whether current intergovernmental fiscal relationships are appropriate given emerging and existing needs
- More efficient and effective use of federal funds provided to state and local governments to enhance homeland security
- Greater congressional insight into the intergovernmental challenges facing all levels of government including the mismatch between current revenues and spending demands, financing of health care, and the adequacy of current tax structures

Support the Transformation to a Results-Oriented, High-Performing Government

Issue: The overarching trends and long-term fiscal challenges facing the nation drive the need to change how the government does business in the 21st century. To become high-performing organizations (HPO), agencies must transform their cultures to respond to the transition that is taking place in the federal government's role. By building fundamental management capacity, the federal government can improve its performance and deliver economical, efficient, and effective programs and services that the American people need in a cost-effective and fiscally sustainable manner. Focusing on accountable, results-oriented management can help the federal government operate effectively within a broad network that includes other governmental organizations, nongovernmental organizations, and the private sector.

As part of its transformation efforts, the federal government needs to create a culture that moves from outputs to results, stovepipes to matrixes, hierarchical to flatter and more horizontal structures, an inward to an external focus, micromanagement to employee empowerment, reactive behavior to proactive approaches, avoiding new technologies to embracing and leveraging them, hoarding knowledge to sharing knowledge, avoiding risk to managing risk, and protecting "turf" to forming partnerships. (See fig. 3.3.) People are an organization's most important asset, and strategic human capital management should be the centerpiece of any effort to transform the cultures of government agencies. A focus on results, not just of the organization but of its contribution to national goals, is essential. In establishing a results-oriented culture that can reach its full potential, the organization and its leaders need to carefully select the best solution for the organization in terms of structure, systems, and processes. Information is an important asset that needs to be appropriately and effectively managed. Vital to successful transformation will be building the management capacity of federal agencies to support new ways of doing business—including financial, IT, and acquisition management. Though progress is being made on many fronts, much remains to be done.

Figure 3.3: Cultural Changes and Key Practices Necessary for Successful Transformation

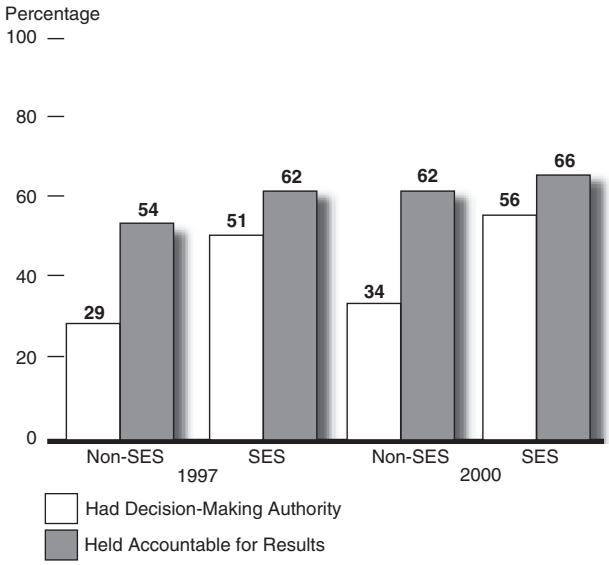
Source: GAO analysis.

Today's federal human capital strategies are not suited to meet current and emerging challenges or to drive needed transformation across the federal government. GAO has designated strategic human capital management as a governmentwide high-risk area, and this is also one of the President's governmentwide management reform initiatives. The federal personnel system is clearly broken in critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of a rapidly changing and knowledge-based environment. In the past 2 years, significant

progress has been made, particularly on agency-specific human capital reforms and the provision of certain flexibilities. However, much remains to be done to build an effective human capital infrastructure. As new authorities and flexibilities are provided, it will be vital to have the institutional infrastructure in place to use 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 and 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.

Agencies are confronted with long-standing and substantial challenges to becoming more results-oriented. During the past decade, the Congress has sought to instill a greater focus on results and accountability by enacting a statutory framework with the Government Performance and Results Act of 1993 (GPRA) as its centerpiece. GAO's work has shown significant growth in the number and types of results-oriented performance measures called for in GPRA. Managers' perceptions of being held accountable for results also have grown. (See fig. 3.4.) On the other hand, weaknesses persist in a number of areas. Progress in building organizational cultures to create and sustain a focus on results has been uneven. For example, the extent to which top leadership is perceived as demonstrating a strong commitment to achieving results is a persistent weakness. (See fig. 3.5.) Further, performance information is not being used to its fullest extent in key management activities. To help agencies effectively manage their resources and link resource decisions to results, agencies and the Congress need credible, rigorous evaluations to assess whether current programs and policies remain relevant, appropriate, and effective. Top leadership commitment is crucial to instilling a results-oriented culture. Although the President's Management Agenda—with its emphasis on results-oriented practice—is an important step, more needs to be done to imbed these practices into government operations.

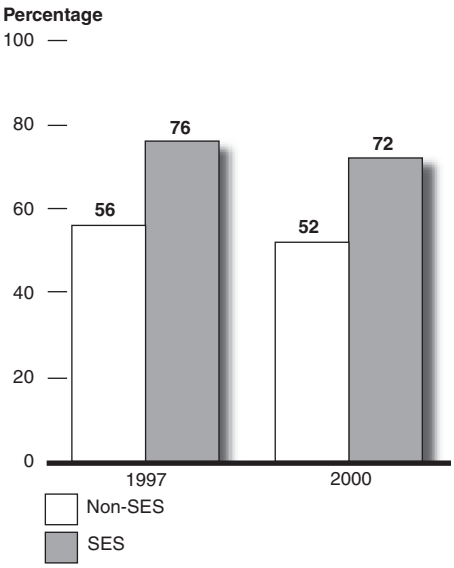
Figure 3.4: Extent to Which Managers Believe They Have Needed Decision-Making Authority and Are Held Accountable for Results, 1997 and 2000



Source: GAO survey data.

Note: "Needed" decision-making authority refers to the authority Senior Executive Service (SES) and non-SES managers responding to the survey believe managers at their level need to help their agencies accomplish their strategic goals.

Figure 3.5: Extent to Which Top Leadership Is Perceived as Demonstrating a Strong Commitment to Achieving Results, 1997 and 2000



Source: GAO survey data.

Notes: Survey respondents were both SES members and non-SES members. "Top leadership" refers to the leadership of the agencies in which the respondents serve.

Evaluating the role of government and the programs it delivers must be done within the context of the major trends and long-term fiscal challenges it faces. This is an opportune time for the Congress to carefully consider how to make needed changes in the short term to help agencies effectively manage their resources and link resource decisions to results, as well as to work toward a comprehensive and fundamental reassessment of what the government does, how it does business, and who does the government's business. Agencies and the Congress need credible evaluative, analytical, and financial information to assess whether current programs and policies remain relevant, appropriate, and effective.

Successfully transforming how the government does business depends on building high-performing organizations that network with key partners both across and outside the government. Improved performance has been a primary goal of several recent restructurings—formation of DHS, reorganization of the FBI, and modernization of the Internal Revenue Service. 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. However, past government experience in reorganization has yielded mixed results. Future success will depend on identifying and implementing best practices of high-performing organizations operating in a complex, networked environment. Critical organization elements—structure, systems, and practices—must support achieving high performance.

Information is a vital resource that needs to be properly managed. The growth in electronic information, as well as new security threats facing the nation, highlight challenges to the effective collection and dissemination of information that agencies need to take into account in developing new programs. While it is important to enhance the government's use of new technologies to improve the collection and dissemination of government information, it is also important that this information—especially that collected for statistical purposes—meets the current needs of federal programs and policymakers. In areas in which the U.S. economic and social structure is undergoing major change, statistical agencies need to respond to these changes with relevant data on a timely basis.

Timely, accurate, and useful financial information is essential for making operating decisions day to day; supporting results-oriented management approaches; and managing the government's operations more efficiently, effectively, and economically. Yet, the federal government's financial management has suffered from neglect, and financial systems have serious shortcomings.

IT is a key element of management reform efforts that can dramatically reshape government to improve performance and reduce costs. However, numerous poorly managed IT systems have produced multimillion-dollar cost overruns, schedule slippages, and poor results. Further, poor information security remains a high-risk area across the federal government with potentially devastating consequences. Electronic government offers many opportunities to better serve the public and reduce costs, but the federal government has not reached its full potential in this area.

Effective acquisition management plays a key role in creating and sustaining high-performing organizations. Despite reforms to transform the federal acquisition process, the government still does not have a world-class purchasing system. All too often, many of the products and services the government buys cost more than expected, are delivered late, or fail to perform as anticipated. Encouragement of strategic contracting approaches that seek greater efficiencies as well as improvements in management and accountability are needed to produce better outcomes. Agencies are considering other approaches for achieving greater efficiency and effectiveness in their operations, including appropriate use of contracts with the private sector. After a yearlong study, the Commercial Activities Panel developed a set of principles to be used in addressing sourcing decisions and recommended the public and private sectors compete for the opportunity to perform commercial functions. Competitions can be based on the established framework of the Federal Acquisition Regulation. OMB published changes to Circular A-76 that are generally consistent with the panel's recommendations. However, this competitive sourcing initiative is a major change in the way government agencies operate, and successful implementation of the circular's provisions will require that adequate support be available to federal agencies and employees. GAO will follow developments in this area closely.

Performance Goals: To support the transformation to a results-oriented, high-performing government, GAO will

- analyze and support efforts to improve the human capital infrastructure key to the successful transformation of the government;
- assess efforts to improve results-oriented management across the government;
- analyze and support efforts to build high-performing organizations;
- identify ways to improve the collection, dissemination, and quality of federal information;
- identify ways to improve financial management infrastructure capacity to provide useful information for managing results and costs day to day;
- assess the government's planning, implementation, and use of IT to improve performance and modernize federal programs and operations; and
- identify ways to improve how federal agencies acquire goods and services.

Performance Goal 3.2.1: Analyze and Support Efforts to Improve the Human Capital Infrastructure Key to the Successful Transformation of the Government

Key Efforts

- Analyze the activities, structure, roles, and responsibilities of agency leaders and human capital leaders that promote increased effectiveness in developing and implementing human capital approaches to achieve program results
- Develop tools and methodologies and identify best practices that enable agencies to integrate strategic human capital planning in the key agency decision-making processes, resulting in improved alignment and integration of human capital programs, policies, and practices
- Identify ways the federal government can better ensure that it builds a workforce strategically ready to accomplish mission results by acquiring, developing, and retaining talent
- Facilitate developing result-oriented organizational cultures by assessing the effectiveness of agencies' performance management systems, the efforts to link pay to individual and organizational results, and the progress in creating cultures that are inclusive and free of discrimination and that empower employees

Significance

As other leading public and private organizations in the United States and abroad have found, strategic human capital management should be the centerpiece of change management initiatives and of transforming the culture of government agencies. The growing consensus to provide greater flexibility to agencies in developing and implementing their strategic human capital approaches gives additional urgency to improving agencies' institutional infrastructure necessary for successful use of such flexibilities. It is clear that today's federal human capital strategies are not yet appropriately constituted to meet today's challenges and drive the needed transformation across the government. Critical elements of the needed infrastructure, for example, are agencies' human capital planning capabilities; the ability of their management teams to use flexibilities effectively; and the presence of a modern, effective, and credible performance management system with appropriate safeguards.

Potential Outcomes

- Agencies' improved capability to transform their cultures and more effectively manage their human capital to accomplish mission goals
- Greater confidence that the human capital flexibilities available to agencies will be systematically and strategically developed and implemented and result in improved strategic readiness of a highly motivated federal workforce
- More flexible agency approaches, built on sound business cases, to investing in human capital to hire, train, and retain employees, especially those with skills critical to accomplishing agency missions
- Results-oriented pay reforms in federal agencies

Performance Goal 3.2.2: Assess Efforts to Improve Results-Oriented Management across the Government

Key Efforts

- Support congressional oversight of the quality and usefulness of agency planning and performance information
- Continue to evaluate the capacity of agencies to gather and use performance information to guide management decision making and to achieve agency performance goals and objectives
- Identify strategies and methodological tools for solving analytic challenges to evaluating program and policy results
- Monitor progress by agencies and the Office of Management and Budget (OMB) in integrating performance considerations into resource allocation decisions, including agencies' responses to OMB's Program Assessment and Rating Tool
- Identify best practices for establishing goals and measuring the performance of traditionally difficult to measure areas
- Examine the government's efforts to coordinate programs that cut across federal agencies and avoid unnecessary overlap and duplication
- Assess the government's progress in integrating national strategies into agency plans and activities and aligning national and agency goals

Significance

With the continuing move toward results-oriented management, the federal government has shifted its focus from activities to the results of those activities. Many agencies face long-standing and substantial challenges to becoming results oriented. They need to establish results-oriented goals and measures for programs for which the federal role is limited or for which results are achieved over long time horizons, align organizational structures within and across agencies, employ management flexibilities and incentives effectively, and use credible results-oriented performance information systems for decision making and accountability. While performance indicators are increasingly used to support the federal government's progress toward being more results-oriented and accountable, additional rigorous evaluation information is often needed to identify and understand the effects programs are having on society's problems. Agencies' progress in demonstrating these effects has been hindered by difficulties in identifying the unique federal contribution to results and agencies' limited capacity to gather and use performance measures and program evaluations. Both agencies and the Congress need credible evaluative and analytic information to assess whether programs and policies remain relevant, appropriate, and effective.

GAO's work has shown that agencies can meet these challenges by employing results-oriented approaches, such as planning better for how mission-critical challenges and risks are to be addressed, coordinating cross-cutting programs, considering the performance consequences of budget decisions, integrating human capital and performance planning, and building the capacity to gather and use performance information. GAO's work also helps the Congress use the information provided in the Government Performance and Results Act of 1993 in carrying out its appropriations and oversight roles. Though much progress has been made, more remains to be done to fully institute a results-oriented focus at all levels and operations of the government.

Potential Outcomes

- Agencies providing more objective information to congressional decision makers on achieving statutory objectives and the relative effectiveness and efficiency of federal programs and spending
- Improved management of federal programs through focusing on results, service quality, and customer satisfaction

- Enhanced capability to identify ways to improve program performance
- Increased accountability of federal agencies for achieving program objectives
- Improved leadership strategies for crosscutting goals and objectives
- Increased congressional and public confidence in the integrity of budgetary data used for accountability and decision making

Performance Goal 3.2.3: Analyze and Support Efforts to Build High-Performing Organizations

Key Efforts

- Analyze the key characteristics and capabilities of high-performing organizations in a networked public management environment and identify steps agencies could take to become high-performing organizations
- Develop tools and methodologies and identify best practices to assess organizational transformation, design, structure, and management
- Conduct targeted reviews and assessments of management practices in select executive and legislative branch agencies
- Support congressional oversight of transformation and reform efforts

Significance

As a part of the transformation of government now under way, federal agencies are beginning to change their cultures and ways of doing business. This transformation is taking place on two interrelated levels. First, the transformation is vertical; that is, it seeks fundamental changes and improvements in the internal management and operations of individual government agencies so that they are more results oriented, customer focused, and collaborative. Second, and equally important, is horizontal transformation, or improving the government's understanding of and influence across governmental organizations; between levels of government; and between networks of public, private, and not-for-profit organizations that are instrumental to achieving results. In other words, agencies and policymakers must recognize and address the interrelationship of government and governance issues as they undertake this crucial horizontal transformation.

In that regard, a well-established body of theory, experiences, and practices—including a results-oriented statutory framework at the federal level—exists on what high performance means and how it is achieved in a government context. A similar body of theory, experiences, and practices needs to be developed on how to manage partnerships and how to guide federal agencies as they build a networked government to address the challenges of the 21st century.

Potential Outcome

- Higher performance and greater results within and across governmental organizations and between networks of public, private, and not-for-profit organizations

Performance Goal 3.2.4: Identify Ways to Improve the Collection, Dissemination, and Quality of Federal Information

Key Efforts

- Examine issues related to the oversight of the Paperwork Reduction Act and reauthorization of the Office of Management and Budget's Office of Information and Regulatory Affairs
- Assess the government's ability to protect the privacy of individuals' personal information in an era of rapidly evolving technology
- Review the government's progress using electronic technology to store, preserve, and share public records
- Examine the employment of electronic technologies to improve public access to federal records and enhance the collection, use, and dissemination of government information
- Review the planning and implementation of the 2010 Census and identify opportunities to increase its cost-effectiveness
- Assess the effectiveness of a fully implemented American Community Survey to provide reliable and timely information to meet the needs of government programs and to replace existing statistical programs
- Examine the quality and customer focus of federal statistical data

Significance

Information is a critical strategic asset; however, agencies confront unique and sometimes conflicting demands in collecting and providing this information. Some of the ongoing management challenges that agencies face include statutory requirements to reduce reporting burdens, protect the privacy of personal records, provide access to public records, disseminate information, secure information from harm or misuse, and preserve information of historical value. Meanwhile, the growth of the Internet, electronic government, and advances in archival and retrieval technologies is creating greater opportunities to provide citizens with much more efficient and improved public access to government records and information. At the same time, these trends have raised concerns about the adequacy of the current governmentwide organizational and policy framework and about agencies' ability to manage information and knowledge in this evolving environment.

Better management of the federal information enterprise can yield significant returns. A case in point is the federal statistical system. Although the amount of money the government spends on federal statistical agencies—roughly $4 billion a year—is a tiny portion of the federal budget, the impact of that spending is felt throughout society, as the information guides planning and investment decisions of the public and private sectors. For example, population data are used for congressional apportionment and redistricting, economic indicators are used by the Federal Reserve Board to set monetary policy, and regional data are used to allocate around $200 billion in federal aid to state and local governments. Businesses use federal data to inform decisions on where to locate new stores and production facilities. Federal agencies use data to enforce statutory regulatory requirements. Simply put, as the public's demand for more responsive and cost-effective government has increased, so too has the need for accurate, timely, accessible, and apolitical information.

Potential Outcomes

- Improved compliance with existing privacy requirements and a better understanding of the challenges the government faces in ensuring the personal privacy of individuals in a rapidly expanding electronic age

- Expanded, less costly, and more responsive ways to provide the public access to government information
- Improved government records management and archival programs
- A more managed transition as the government moves away from printing as a primary means for disseminating information to the public
- An updated set of national policies on privacy, access, burden, data sharing, and storage in an electronic environment
- A more accurate and cost-effective census in 2010
- Improved regional data to more closely meet the needs of formulas for the allocation of federal funds

Performance Goal 3.2.5: Identify Ways to Improve Financial Management Infrastructure Capacity to Provide Useful Information for Managing Results and Costs Day to Day

Key Efforts

- Monitor the management of projects to modernize financial management systems and assess whether they can provide meaningful, useful information
- Analyze and report on agencies' progress in implementing federal accounting standards and other Federal Financial Management Improvement Act requirements
- Identify financial management best practices and suggest ways to improve financial management operations, organizations, and human capital practices
- Fulfill accounting, auditing, and internal control standards-setting responsibilities and act as a catalyst for reform in these areas

Significance

Today, the government does not have timely, accurate, and useful financial information to measure and control costs, manage for results, and make timely and fully informed decisions. Routinely generating good financial information will require modern financial management systems that (1) ensure consistent agency and governmentwide reporting; (2) account for the full cost of programs and projects; (3) integrate program, budget, and financial information; (4) report performance measures; and (5) implement appropriate accounting standards. The government has not yet met this challenge nor has it addressed the persistent financial management human capital issues and the high-risk financial management operations GAO identified at several major agencies.

Potential Outcomes

- Reliable, useful, and timely financial and budget information routinely available to manage daily operations and properly implement a results-oriented government
- Enhanced congressional oversight of agencies' progress in implementing federal accounting standards, improving financial systems, and resolving high-risk financial management operations
- Accounting, auditing, and internal control standards that are tailored to government's unique characteristics and special needs and are generally accepted
- Effective governmentwide financial management reform initiatives

Performance Goal 3.2.6: Assess the Government's Planning, Implementation, and Use of IT to Improve Performance and Modernize Federal Programs and Operations

Key Efforts

- Evaluate government efforts to make the complex management and technical transformation to electronic government
- Identify opportunities and assess efforts to outsource government information technology (IT) operations in support of mission strategies and needs
- Assess and promote the application and use of IT investment management best practices across the government
- Promote adoption of sound enterprise architectures (EA) and assess government EA efforts to engineer business processes for implementing IT systems that optimize mission performance
- Review federal agencies' management and effectiveness in carrying out systems acquisition, development, and integration efforts—including complex, multiyear modernizations
- Review the management of government telecommunications and interconnected systems and federal agencies' effectiveness in providing secure, reliable, and fast Internet and Web connections
- Review government progress in developing effective IT human capital strategies and identify how to improve IT workforce training programs

Significance

Today, the government spends over $57 billion annually on IT to support virtually all government operations and assets. With the rapid pace of technological change and innovation, including the growth of the Internet, government agencies have unprecedented opportunities to use IT to enhance government service to citizens, improve performance, and reduce costs. These opportunities, however, create significant challenges, such as the need to apply and use a wide range of complex new electronic technologies effectively, interconnect diverse networks and systems securely and reliably, and build improved technical capacity among agency workforce personnel.

Addressing these challenges first and foremost requires strong and effective IT management leadership. At the same time, federal agencies need to continue to reduce the risk of making poor IT investment decisions and costly mistakes that result in wasteful spending and lost opportunities for improving performance and delivery of services to the public. Best practices and GAO's past work demonstrate that essential steps to avoiding such mistakes are to adopt sound EA; adhere to structured IT investment practices; and implement disciplined IT systems acquisition, development, and integration management processes.

Potential Outcomes

- Expanded and improved citizen access to public services and information through electronic means
- Improved service delivery and greater economy and efficiency of government IT operations
- Increased return on the federal government's IT investments
- Improved agency enterprisewide management of IT and engineering capability to develop and acquire IT systems that support mission and performance objectives
- More informed congressional appropriations and oversight decisions on major planned and ongoing IT investments

- Greater viability, stability, and security built into the Internet and interconnected networks and systems used by government to transmit data and information
- More consistent application and use of human capital strategies and workforce training programs to address the government's IT needs

Performance Goal 3.2.7: Identify Ways to Improve How Federal Agencies Acquire Goods and Services

Key Efforts

- Evaluate agencies' strategies and use of new policies and procedures for competing commercial activities of the public and the private sectors
- Evaluate the government's ability to award and manage contracts effectively
- Assess agencies' efforts to achieve socioeconomic contracting goals
- Evaluate how agencies are implementing best practices to be more cost effective and efficient
- Determine whether innovative contracting initiatives used to acquire goods and services are achieving their intended objectives
- Determine whether contracting agencies in protested procurements acted lawfully

Significance

The federal government, comprising more than 60 agencies, acquired more than $235 billion in goods and services during fiscal year 2001. Growth in contract spending is expected, given the President's request for additional funds for defense and homeland security, agencies' plans to update their IT systems, and other factors. Over the last decade, the federal acquisition environment has faced significant challenges resulting from procurement reforms, increases in the number of larger contract actions, growth in service contracts, and reductions in the acquisition workforce. Challenges in the acquisition environment continue as the federal government increases the use of competitive sourcing in achieving agency missions and as the outcomes of procurement reforms are realized.

To respond to the dynamic acquisition environment, the federal government needs to (1) improve the efficiency and transparency of its competitive sourcing decisions, (2) improve its management and accountability in acquiring goods and services, (3) enhance socioeconomic contracting initiatives, (4) encourage strategic contracting approaches that seek greater efficiencies and effectiveness in the contracting process, and (5) ensure that innovative approaches meet their objectives. Vested with statutory authority to resolve government contract disputes, GAO provides an objective, independent, impartial forum for resolving bid protests and recommends actions to correct any procurement law violations.

Potential Outcomes

- Improved governmentwide decision making and selection of appropriate providers of commercially available goods and services
- Improved selection, management, and oversight of contractors
- Enhanced opportunities for small businesses to obtain federal contracts and improved tracking of socioeconomic initiatives
- Significant cost savings resulting from strategic purchasing approaches and processes
- Outcome-oriented contract policies and practices
- Increased consistency of governmentwide interpretations of procurement statutes and regulations and increased public confidence in the integrity of the federal procurement system

Support Congressional Oversight of Key Management Challenges and Program Risks to Improving Federal Operations and Ensuring Accountability

Issue: Strong, visionary, and persistent leadership will be needed to address today's challenges and prepare the nation for the future. Congressional leadership will play a vital role in achieving a broad transformation of the government. Congressional oversight is needed to ensure that agencies continue to build their fundamental management capabilities, resolve high-risk areas, and address major management challenges to effectively address the nation's most pressing priorities and to take advantage of emerging opportunities.

The 2003 Performance and Accountability and High-Risk Series reports designate high-risk areas and describe over 100 major management challenges. GAO's 2003 high-risk list identifies 26 high-risk areas, as shown in figure 3.1. Continued persistence and perseverance in addressing these high-risk areas and agencies' major management challenges will ultimately yield significant benefits. Although effectively addressing some of these issues will require time, finding lasting solutions could potentially save billions of dollars, improve service to the American public, strengthen public trust in the national government, and ensure the ability of government to deliver on its promises. More remains to be done to ensure that the government has the capacity to deliver on its promises and meet current and emerging needs.

Figure 3.1: GAO's 2003 High-Risk List

2003 high-risk areas	Year designated high risk
Addressing Challenges in Broad-based Transformations	
Strategic Human Capital Management[a]	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook[a]	2001
Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures	1997
Implementing and Transforming the New Department of Homeland Security	2003
Modernizing Federal Disability Programs[a]	2003
Federal Real Property[a]	2003
Ensuring Major Technology Investments Improve Services	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
Providing Basic Financial Accountability	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
Reducing Inordinate Program Management Risks	
Medicare Program[a]	1990
Medicaid Program[a]	2003
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Inventory Management	1990
DOD Support Infrastructure Management	1997
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994
Student Financial Aid Programs	1990
Pension Benefit Guaranty Corporation Single-Employer Insurance Program[a]	2003
Managing Large Procurement Operations More Efficiently	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Source: GAO.
[a]Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

As part of the drive to improve performance, agencies are increasingly being called on to demonstrate that their programs are conducting research that is relevant, of high quality, and producing results. As part of the President's Management Agenda, for example, OMB is focusing on developing objective criteria that agencies can use to select, fund, and manage their R&D programs. According to the fiscal year 2004 budget, 12 of the top 13 agencies conducting R&D are using OMB's PART, which contains criteria for R&D investments. Science and technology investments are critically important in improving the quality of life and the performance of the economy in areas that include health care, defense, energy, and the environment.

However, the increased development and use of new technologies presents challenges to the Congress in evaluating their potential and assessing the effects on security, safety, privacy, and equity. For example, despite many successes in the exploration of space, the loss of life, unsuccessful missions, and

unforeseen cost overruns have recently increased the level of concern over the benefits of space exploration, particularly with regard to manned activities. Congressional oversight is critical in ensuring that the substantial federal investment in science and technology is allocated effectively and that intellectual property rights are protected here and abroad.

The federal government has a stewardship obligation to safeguard the use of taxpayer funds; prevent fraud, waste, and abuse; and ensure financial accountability. While there has been important progress, agencies are still working toward the goals established in financial management reform legislation, such as the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. Widespread financial management system weaknesses, poor record keeping and documentation, weak internal controls, and a lack of information have prevented the government from having the information needed to effectively and efficiently manage operations or accurately report a large portion of its assets, liabilities, and costs. Continued oversight is needed to ensure that agencies take steps to continuously improve internal controls and underlying financial and management information systems to ensure that executive branch managers and congressional decision makers have reliable, timely, and useful information to ensure accountability; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources.

Performance Goals: To support congressional oversight of key management challenges and risks to federal operations and accountability, GAO will

- highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies,
- assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property, and
- identify ways to strengthen accountability for the federal government's assets and operations.

Performance Goal 3.3.1: Highlight the Federal Programs and Operations at Highest Risk and the Major Performance and Management Challenges Confronting Agencies

Key Efforts

- For each new Congress, update the status of areas identified as high risk—adding new ones and removing ones that are no longer applicable
- For each new Congress, provide a government-wide perspective highlighting important considerations and actions needed to address the challenges the government faces in doing business now and in the future
- Recognize progress made and identify what GAO believes needs to be done to address existing and new major management challenges
- Provide information in useful formats to assist congressional and presidential transition efforts by highlighting key issues and solutions needed to improve the performance and accountability of the federal government
- Monitor the progress and continuing challenges related to governmentwide management reform initiatives, such as the President's Management Agenda

Significance

GAO continues to provide the Congress with periodic updates on government programs and operations that it has identified as high risk and other major management challenges facing individual agencies and the government as a whole. GAO has increasingly used the high-risk designation to draw attention to the challenges faced by government programs and operations in need of broad-based transformation. The resulting scrutiny has led to important progress in areas such as strategic human capital management and the U.S. Postal Service's transformation and fiscal outlook.

With these positive results in mind, in 2003, GAO designated three additional areas as high risk based on challenges involving broad-based transformation and the need for legislative solutions: implementing and transforming the new Department of Homeland Security, modernizing federal disability programs, and realigning, and transforming the management of, federal real property. A fourth new high-risk area designated in 2003 involves the Medicaid program, in part because of growing concerns about inadequate fiscal oversight to prevent inappropriate program spending. The fifth new area, designated in July 2003, reflects concerns related to the long-term vulnerabilities of the PBGC single-employer insurance program. Overall, GAO's 2003 high-risk areas highlight the need to address challenges in broad-based transformations, ensure that major technology investments improve services, provide basic financial accountability, reduce inordinate program management risks, and manage large procurement operations more efficiently. GAO's Performance and Accountability Series, issued concurrently with the High-Risk Series, highlights management challenges that limit agencies' effectiveness in carrying out their missions, corrective actions taken or initiated to address these challenges, and further actions needed.

The most recent Performance and Accountability Series also provided a governmentwide perspective on transforming the way the government does business to meet 21st century challenges and to address long-term fiscal needs. A number of the areas in the President's Management Agenda focus on these high-risk areas and management challenges, and OMB has initiated a focused effort to track progress toward addressing the areas that GAO has identified as high risk.

Potential Outcomes

- Sustained commitment to complete actions to resolve high-risk areas and overcome major management challenges
- Enhanced recognition that to prepare for the future, the role of the federal government and how it does business must be transformed
- Consideration of recommendations to get at the causes of fraud, waste, abuse, and mismanagement in high-risk government programs and to achieve greater economy, efficiency, and effectiveness in government operations, particularly government programs and operations in need of broad-based transformation
- Greater awareness of the extent and severity of high-risk areas and major management challenges at agencies at the beginning of each new Congress

Performance Goal 3.3.2: Assess the Management and Results of the Federal Investment in Science and Technology and the Effectiveness of Efforts to Protect Intellectual Property

Key Efforts

- Assess the management and results of major federal science and technology programs and identify ways to improve the funding and coordination of research activities across government agencies
- Evaluate the National Aeronautics and Space Administration's (NASA) efforts to safely control and manage the nation's multibillion-dollar research investment in the International Space Station, Space Shuttle fleet, space exploration, and earth science activities
- Conduct technology assessments to evaluate the implications of the technology for public policy and congressional decision making
- Determine the effectiveness of technology transfer and patent and copyright office services

Significance

The federal government's investment in science and technology is critical to long-term U.S. economic growth. Over the past 50 years, developments in science and technology have generated at least half of the nation's productivity growth and have created millions of high-skill, high-wage jobs. The quality of life in America has been bolstered by the pursuit of science and technology. NASA's exploration and development of space has advanced scientific and technological knowledge while expanding the imagination of the nation's young people. Also, intellectual property—patents, trademarks, and copyrights—has been characterized as the fuel that drives the U.S. economic engine and is an important component of the nation's knowledge-based economy.

Each year, the federal government spends over $90 billion on research and development activities and grants or registers nearly 300,000 patents and trademarks and over 500,000 copyrights. The Congress's challenges are to ensure that federal resources are allocated to the most promising, highest payoff areas of research and that in a global economy, the nation's investment in science and technology—its intellectual property—is protected here and abroad. Other challenges include ensuring that the government's and the public's interests are protected in funding research and promoting the commercialization of resulting technology.

Potential Outcomes

- Increased confidence that the federal science and technology programs are being well managed, achieving intended results, and contributing to the overall economic well-being of the nation
- Better understanding of the policy options that stimulate technological innovation and encourage partnering and cooperation among research institutions while protecting intellectual property rights
- A more informed congressional review of NASA efforts to control International Space Station costs and the agency's responsiveness to the Columbia Accident Investigation Board's findings while returning the Space Shuttle to safe flight

Performance Goal 3.3.3: Identify Ways to Strengthen Accountability for the Federal Government's Assets and Operations

Key Efforts

- Perform financial analyses, undertake specifically requested financial reviews, and conduct a wide range of statutorily mandated financial audit work
- Assess internal control and recommend improvements to ensure that effective internal control is in place and operating as intended
- Conduct forensic audits and investigations to highlight vulnerabilities and to identify potential instances of waste, fraud, and abuse
- Identify and suggest improvements in a range of financial-related areas affecting program performance and accountability, such as managing improper payments, debt collection, cost accounting, deferred maintenance, asset control, user fees, credit cards, and social insurance
- Analyze the activities and capacity of the accountability community, including the inspectors general, in overseeing federal programs and funds

Significance

The government faces a wide range of financial management issues that affect program performance and accountability and that result in substantial losses of taxpayers' funds. For example, the President's Management Agenda addresses one such area: the government has identified over $35 billion in erroneous benefit and assistance payments. GAO's work provides insight and foresight into the extent, causes of, and solutions to pressing financial management issues such as this one and points out control weaknesses in critical government programs.

Potential Outcomes

- Greater congressional insight on the viability and financial status of major government entities
- Stronger systems of internal control to help deter waste, fraud, abuse, and mismanagement
- Enhanced accountability for managing programs more efficiently, effectively, and economically
- Strengthened accountability community efforts to work cooperatively and help ensure that resources are used effectively to oversee government programs and funds

Analyze the Government's Fiscal Position and Strengthen Approaches for Addressing the Current and Projected Fiscal Gap

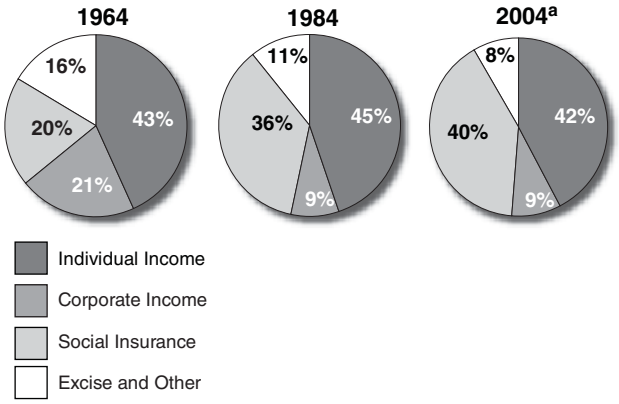
Issue: The federal budget is the principal annual vehicle through which the Congress and the President balance competing views about the allocation of federal resources, accountability for those resources, and the allocation of responsibility between the public and private sectors and among levels of government. After 4 years of budget surpluses, the nation again is facing large and growing budget deficits. This comes as the squeeze on the federal budget from the impending retirement of the baby boom generation is becoming more apparent.

GAO's long-term budget model has consistently suggested that without changes to the major retirement and health care programs, the nation will ultimately have to choose between escalating federal deficits and debt, significant tax increases, and dramatic budget cuts in other areas. Under CBO's current 10-year budget and economic outlook, economic growth is projected to be half a percentage point lower on average after 2008 when the leading edge of the baby boom generation becomes eligible for early retirement, while growth in entitlement spending is projected to accelerate. As such, it will be increasingly difficult to address today's urgent needs without unduly exacerbating the nation's long-term fiscal challenges.

While Social Security and Medicare dominate the long-term outlook, they are not the only federal programs or activities that bind the future. Indeed, the federal government undertakes a wide range of programs, responsibilities, and activities that obligate it to future spending or create expectations for spending. Making government fit the challenges of the future will require not only dealing with the drivers—entitlements for the elderly—but also looking at the range of other federal activities. However, the budget controls instituted to achieve balance in the past have expired, and no agreement has been reached on the appropriate structure or process for focusing on the fiscal challenges that now move to center stage.

To understand the context for near-term budget decisions more fully, it is important to look at trends in revenue sources and the distribution of expenditures. These trends show (among other things) growth in the relative share of revenues derived from employment taxes, such as those for Social Security (Old-Age Survivors and Disability Insurance), and a dramatic change over time in composition of spending, with a growing share devoted to health and interest on the debt, as shown in figures 3.7 and 3.8.

Figure 3.7: Composition of Federal Receipts by Source, Fiscal Years 1964, 1984, and 2004

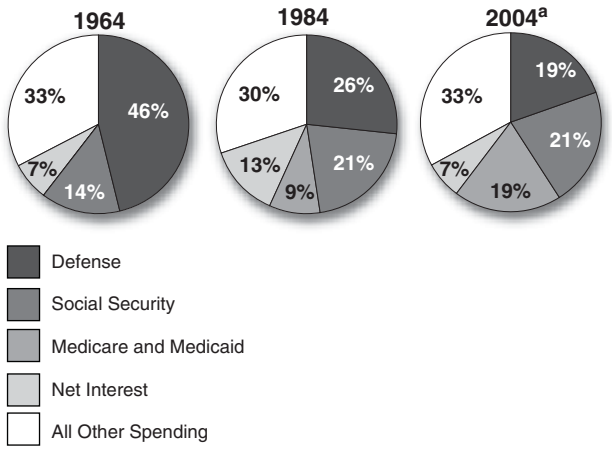


Source: GAO analysis of data from the Office of Management and Budget.

Note: Numbers do not add to 100 percent due to rounding.

[a]Current services estimate.

Figure 3.8: Composition of Federal Spending by Budget Function, Fiscal Years 1964, 1984, and 2004



Source: GAO analysis of data from the Office of Management and Budget.

[a]Current services estimate.

Note: Numbers do not add to 100 percent due to rounding.

In rethinking federal fiscal policy and preparing for the long-term budgetary challenges, policymakers have the opportunity to reexamine what the federal government does and how it finances those activities. American taxpayers annually pay about $2 trillion in taxes to fund the federal government. The federal tax system includes numerous tax provisions intended to influence taxpayers' behavior throughout the economy, but little is known about the effects of many of these provisions. Given the size and complexity of the federal tax code, the Congress remains interested in tax reform, particularly its simplification.

As the nation's chief tax collector, the Internal Revenue Service (IRS) interacts with more Americans than any other government agency, and compliance with tax laws is a significant burden imposed on businesses and individuals. IRS is in the midst of implementing major legislatively mandated reforms in how the nation's tax system is administered, and congressional interest remains focused on IRS's progress.

In light of the long-term fiscal challenges, policymakers need to reexamine, reassess, and reprioritize the federal government's programs, policies, and activities. One key to making resource decisions is having reliable, useful, and timely information routinely available. Such information is also necessary to ensure accountability and to improve the economy, efficiency, and effectiveness of government actions that have a direct effect on achieving a more results-oriented government.

Performance Goals: To analyze the government's fiscal position and identify ways to strengthen approaches for financing the government, GAO will

- analyze the long-term fiscal position of the federal government,
- analyze the structure and information for budgetary choices and explore alternatives for improvement,
- contribute to congressional deliberations on tax policy,
- support congressional oversight of federal tax administration, and
- assess the reliability of financial information on the government's fiscal position and financing sources.

Performance Goal 3.4.1: Analyze the Long-term Fiscal Position of the Federal Government

Key Efforts

- Update and refine GAO's long-term budget model to highlight future budgetary and economic consequences of current and alternative fiscal policy paths and examine the potential relevance of new fiscal policy targets or sustainability measures
- Monitor the implications of current fiscal policy for federal debt management and update the Federal Debt Frequently Asked Questions
- Monitor and analyze the fiscal implications of Social Security and Medicare reform proposals using GAO's evaluation frameworks
- Evaluate the implications of alternative budget treatments to better reflect Social Security and other long-term commitments

Significance

GAO's long-term budget model has consistently shown that current fiscal policy is unsustainable over time as the population ages and workforce growth slows. Social Security and Medicare largely drive this outlook, but other programmatic and budgetary decisions also have long-term cost implications. GAO's contribution to addressing the long-term fiscal health of the federal government recognizes three important elements. First, major entitlement programs—as currently structured—will greatly constrain future budgetary flexibility. Second, fiscal policies promoting higher national saving and investment can help expand the economic resources and incomes of future generations, thereby enhancing their capacity to finance long-term commitments. And, third, increased budgetary recognition of the long-term commitments of not only Social Security and Medicare but also other programs, such as federal insurance and environmental liabilities, could prompt decision makers to address the difficult choices involved to make it sustainable.

Potential Outcomes

- More information for the Congress and the public on the long-term implications of current and alternative fiscal policies on budget results, the national debt, national saving, and other budgetary and economic measures of fiscal position
- An informed debate about the consequences of demographic change on existing and proposed long-term budgetary commitments
- More informed congressional decision making resulting from the greater transparency of the budgetary implications of long-term commitments

Performance Goal 3.4.2: Analyze the Structure and Information for Budgetary Choices and Explore Alternatives for Improvement

Key Efforts

- Examine and analyze issues in planning, acquiring, and budgeting for federal capital such as (1) financing approaches, including capital acquisition funds, and issues they raise in terms of control, oversight, and disclosure; (2) the capital planning process; and (3) international experiences in making capital investment decisions
- As mandated by law, review and update the Glossary of Terms Used in the Federal Budget Process
- Highlight areas for which budget estimates could be improved by examining trends in under/overestimating and by exploring ways to improve the timeliness of data used in revenue estimation
- Identify types of fixed or uncontrollable costs and how agencies have tried to mitigate the effect of these costs on programs during times of flat budgets
- Examine structural and process issues with respect to linking performance information and the budget through efforts such as (1) mapping the various definitions and use of "program" as the unit of analysis; (2) developing proposals for integrating cost and performance information to better support budget decision making; and (3) assessing when and under what circumstances the return on investment, or "cost of capital," should be recognized and included in budgeting for the full costs of government activities
- Determine how the use of sunsets, delayed effective dates, and other legislative practices affects the Congress's long-term budgeting capabilities
- Help GAO teams develop and report information to the Congress highlighting opportunities for savings in appropriations, mandatory, and revenue programs, including reporting on budget implications of GAO's work and analyzing congressional and executive budget developments, budget processes, and proposals for reform

Significance

Long-standing rules and budget conventions drive congressional decisions about resource allocation. The combination of short-term pressures for economic stimulus, greater resources for national preparedness, pent-up demands from years of deficit reduction, and longer-term fiscal challenges is likely to lead either to extending the current system or to a major overhaul. For example, the unified budget was created to bring together all federal spending and taxing activity to both understand fiscal policy and permit a global view of trade-offs within the budget. Movements to change the budget include proposals to isolate Social Security, wall off various trust funds, move from cash to accrual, and change the focus from deficit/surplus to debt burden. Whatever the fiscal goal, the budget structure and process must continue to provide information that the Congress and the President need to evaluate both overall fiscal policy and the cost implications of individual decisions.

Potential Outcomes

- An informed debate about alternative budgetary structures and control mechanisms, both for the short term and for the long term, and congressional understanding of the implications of current budget structures for the kinds of trade-offs that can be considered in the budget
- Increased congressional and executive branch dialogue about capital investment alternatives to facilitate better-informed decisions about such investments
- Informed congressional reviews of agency budget requests that are supported by information on emerging cost pressures and funding gaps and the identification of more cost-effective approaches to meeting current and future needs

Performance Goal 3.4.3: Contribute to Congressional Deliberations on Tax Policy

Key Efforts

- Assess the effectiveness of selected tax preferences
- Contribute to the Congress's understanding of the aggregate effect of tax preferences on accomplishing federal goals, on IRS's ability to administer the tax system, and on taxpayers
- Analyze how the tax code affects business decisions, such as where to locate and how to structure operations
- Evaluate the consequences of interactions between long-term economic/demographic trends and the tax code

Significance

The federal tax system includes hundreds of billions of dollars in tax preference programs—such as exclusions for employee benefits and the earned income tax credit—passed by the Congress to influence taxpayers' behavior throughout the economy. However, little is known about the effects of many of these programs or their contribution to the complexity of the tax code. The design of the tax system also produces some incentives that were not necessarily intended; nevertheless, they influence decisions that businesses make regarding the structure and location of their operations as well as their financial practices. Anticipated economic and demographic changes will amplify the effects of certain provisions in the tax code. For example, as the nation's population ages, mandatory withdrawals of income from tax-preferred savings accounts will boost revenues and subject many taxpayers to unfamiliar compliance responsibilities. Similarly, as nominal incomes rise, many additional taxpayers will be subjected to the complex rules of the alternative minimum tax. Growing fiscal pressure will prompt greater interest in increasing tax revenue and in tax reform proposals to improve prospects for economic growth.

Potential Outcomes

- Improved governance of tax incentive programs and better understanding of the effect of these programs on taxpayers and the U.S. economy
- Better understanding of how the tax code affects business behavior
- Better understanding of the consequences of economic and demographic trends on tax burdens and tax revenues

Performance Goal 3.4.4: Support Congressional Oversight of Federal Tax Administration

Key Efforts

- Assess the Internal Revenue Service's (IRS) enforcement programs in light of a changing U.S. and world economy, evolving technology, and congressional expectations for appropriate treatment of taxpayers
- Evaluate IRS's expenditure plans for systems modernization
- Determine what progress IRS has made in improving agencywide management, including overall modernization, human capital management, and performance management
- Assess IRS's service to taxpayers, including submission processing and telephone services
- Assess IRS's research and data analysis operations

Significance

In response to legislative mandates enacted in 1998, IRS initiated an agencywide modernization effort that seeks to balance providing services to taxpayers with ensuring compliance with tax laws. This effort, which is likely to continue for at least several more years, includes reengineering business practices, establishing performance-based management, and building appropriate IT to support IRS's mission. Globalization, as well as evolving technology and business forms, have increased the challenges that IRS faces in its enforcement efforts, even as it undergoes the far-reaching organizational transformation mandated by the Congress.

Potential Outcomes

- Mitigation of the risks inherent in the modernization of IRS's operations and assurance of its potential success
- Enhanced IRS strategies for improving human capital and performance management
- Improved service to taxpayers and improved compliance with tax laws

Performance Goal 3.4.5: Assess the Reliability of Financial Information on the Government's Fiscal Position and Financing Sources

Key Efforts

- Annually audit and report on the U.S. government's financial statements and the adequacy of related internal control as well as certain financial information reported for major components of the government's financial operations
- Provide technical advice to OMB, the Department of the Treasury, and the agencies for addressing impediments to forming an opinion on the U.S. government's consolidated financial statements
- Provide technical advice to OMB, Treasury, and the agencies to (1) suggest solutions to material weaknesses in internal control, (2) improve the auditability of agency financial information, and (3) reduce the use of extraordinary efforts to prepare financial statements

Significance

Since fiscal year 1997, GAO has been statutorily required to audit the U.S. government's annual consolidated financial statements prepared pursuant to statute. For the past 6 fiscal years, GAO has been unable to give an opinion on the U.S. government's consolidated financial statements because of material deficiencies in systems, record keeping, and documentation. However, progress is being made, and GAO anticipates that if sufficient progress continues to be made, there is a chance that it may be able to render a qualified opinion on the consolidated balance sheet as a first step toward an overall opinion on the government's consolidated financial statements in the next few years. Over the next several years, GAO will need to invest more resources (through use of its own staff or contractors) to ensure reliability of the financial statement work of the inspectors general and external auditors. This resource investment is necessary if GAO is to be able to render an opinion on the consolidated financial statements of the U.S. government. In addition, because certain information reported in the consolidated financial statements is significant, for a number of years GAO has conducted financial statement audits of IRS and Treasury's Bureau of the Public Debt, which are responsible for most of the government's revenue and federal debt. Since fiscal year 1996, the Congress has also required audited annual financial statements for 24 major federal departments and agencies. The number of these agencies that were able to attain unqualified audit opinions on their financial statements from their auditors increased to 21 for fiscal year 2002, up from just 6 agencies for fiscal year 1996. Many agencies, however, only achieved their unqualified opinions through extraordinary efforts that are very costly, time-consuming, and inefficient. The Congress recently expanded the requirement for annual audited financial statements to most executive branch agencies, including DHS.

Potential Outcomes

- Enhanced assessment of the government's overall fiscal position and financing sources based on information that is timely, accurate, and useful
- Improved financial reporting for making budgetary decisions on and effectively managing areas significantly affecting the government's fiscal position, such as credit program costs and environmental liabilities
- Assurance as to the reliability of financial information covering major government financing sources, such as tax revenue and receivables, and the effectiveness in managing tax refund and collection activities
- Actions to address agencies' material control weaknesses and to help ensure compliance with laws and regulations in key areas

Continuously Improve Client and Customer Satisfaction and Stakeholder Relationships

Issue: GAO interacts and works with a diverse set of external clients and internal customers. GAO's principal client is the Congress but its work is also important to other stakeholders, including federal and nonfederal agencies and organizations, and international institutions. GAO's internal customers are its staff who deliver quality service to its clients. Therefore, being a model agency depends on both determining and meeting the requirements of GAO's clients and internal customers.

For congressional clients, GAO will update its understanding of their needs and expectations, measure their satisfaction with GAO's work, and act on the resulting feedback. GAO will also refine its protocols for working with its congressional clients to better address their needs and expectation. In addition, GAO plans to use enhanced technology to provide its congressional clients with better access to GAO information and products and to improve the quality and timeliness of GAO products and services.

For internal customers, GAO will survey staff satisfaction with engagement support and other business processes, identify the services most requiring improvement, implement best practices to effect these needed improvements, and measure the impact of improvement efforts. GAO also plans to improve communication with GAO managers and staff on changes to engagement services.

For external stakeholders, GAO plans several efforts to strengthen relationships with major stakeholder groups. GAO will refine its protocols for conducting agency reviews to better manage stakeholder expectations. GAO also plans to develop and implement clear, consistent, and transparent protocols to govern interactions with international organizations. GAO will also strengthen its relationship with the press and the public by increasing the accessibility of GAO's products.

Performance Goals: To support the objective to improve client and customer satisfaction and stakeholder relationships, GAO will

- strengthen communication with congressional clients and more broadly measure their satisfaction with GAO's work;
- assess internal customer satisfaction with GAO services and processes and implement and measure improvement efforts; and
- strengthen relationships with GAO's stakeholders and increase the accessibility of GAO's products.

Performance Goal 4.1.1: Strengthen Communication with Congressional Clients and More Broadly Measure Their Satisfaction with GAO's Work

Key Efforts

- Refine GAO's protocols for working with the Congress to address client needs
- Identify and implement enhanced technology and media to communicate GAO's work results more effectively and efficiently
- Explore and implement technology solutions that facilitate GAO staff's ability to meet client needs and enhance the quality and timeliness of client service
- Expand the Web-based client feedback survey to broaden client representation and increase product coverage, and act on client feedback to improve products, processes, and services
- Meet with key committees to obtain client feedback on GAO's work and act on the feedback provided
- Fully automate the congressional intake process to provide easier access to GAO's clients

Significance

To respond to its congressional clients' needs, GAO must foster exemplary communications with its clients. GAO has always communicated with its clients in planning and performing work done at their request and, in the last planning cycle, implemented a Web-based feedback survey on a pilot basis to measure client satisfaction with GAO services and work. GAO's key efforts during this planning cycle are focused on strengthening communications through implementation of technology solutions to assist in better determining the clients' requirements, more effectively and efficiently communicating work results, and more broadly measuring how well products and services satisfy clients.

Potential Outcomes

- Improved quality and timeliness of GAO products and services
- Improved client accessibility to GAO products and services
- More comprehensive client satisfaction feedback data on which to base future decisions for improvements

Performance Goal 4.1.2: Assess Internal Customer Satisfaction with GAO Services and Processes and Implement and Measure Improvement Efforts

Key Efforts

- Develop and launch a Chief Mission Support Office (CMSO) customer satisfaction survey to establish baselines for key performance indicators
- Perform a gap analysis to identify the most important areas for CMSO improvement and establish targets
- Identify best practices to achieve improvements
- Act on customer feedback, incorporating appropriate best practices to improve CMSO products, services, and processes
- Improve communication to GAO staff on status of and changes to engagement and infrastructure services
- Measure impact of improvement efforts through CMSO balanced scorecard, refine targets, and adjust actions

Significance

To be a high-performing organization, it is essential that GAO provide effective engagement and infrastructure support services to its internal customers. In the previous planning cycle, efforts to determine internal customer satisfaction with services were decentralized among the units. To improve the consistency and efficiency of this effort throughout GAO's engagement and infrastructure support services, in this planning cycle GAO will guide the effort centrally to obtain feedback, analyze results, set targets for improvements, implement improvements, and measure the impact of improvement through the use of the balanced scorecard.

Potential Outcomes

- Increased customer satisfaction with services
- Consistency of approach and methodology throughout engagement and infrastructure support units
- Decreased burden on internal customers and economies of scale achieved through centralization of efforts

Performance Goal 4.1.3: Strengthen Relationships with GAO's Stakeholders and Increase the Accessibility of GAO's Products

Key Efforts

- Refine GAO's protocols for conducting agency reviews to address stakeholder concerns
- Pilot test and implement international protocols
- Increase the accessibility of GAO products to the press, the public, and other stakeholders

Significance

GAO's other major stakeholder groups are agencies and international accountability organizations. Communicating clearly and openly about GAO's work and engagement policies will help strengthen the constructive relationships needed to perform the agency's work. Increasing accessibility of GAO products increases GAO's value to the public.

Potential Outcomes

- Improved communications and working arrangements with GAO's stakeholders about how GAO does its work
- Increased transparency about how GAO does its work
- Increased access to GAO's products

Lead Strategically to Achieve Enhanced Results

Issue: GAO will strengthen its strategic leadership to better integrate the agency's financial, human capital, and information resources for achieving enhanced results. To accomplish this objective, GAO will build on its established base of strategic planning, sound financial management, performance management, IT best practices, and leadership initiatives. GAO will also need to refine certain functions to ensure their strategic alignment. GAO will work to better align succession planning, workforce planning, staff utilization, and appraisal and compensation systems with its strategic objectives.

Performance Goals: To support the objective to lead strategically to achieve enhanced results, GAO will

- integrate planning, budgeting, and performance measurement to achieve enhanced results;
- strengthen GAO's strategic human capital management to achieve enhanced results;
- ensure exemplary practices and systems in GAO's fiscal operations; and
- strengthen IT governance practices and processes to achieve strategic results.

Performance Goal 4.2.1: Integrate Planning, Budgeting, and Performance Measurement to Achieve Enhanced Results

Key Efforts

- Align the contents and time frames for the strategic plan, budget, performance plan, workforce plan, and performance and accountability reporting
- Assess GAO's existing planning processes against best practice benchmarks to identify and make improvements
- Revise systems and processes to implement preparation of a semiannual progress report on strategic objectives and goals and implement accelerated time frames for performance and accountability reporting
- Refine GAO balanced scorecard measures and performance targets to better gauge overall organizational performance and cost-effectiveness

Significance

GAO supports the intent of the Government Performance and Results Act of 1993 (GPRA), the primary legislative framework through which federal agencies are required to set strategic goals, measure performance, and report on the degree to which goals are met. GAO developed and maintains a rigorous strategic planning process that acts as the catalyst in determining how the agency directs its work and manages its resources. Because of GAO's key role in auditing other agencies' adherence to GPRA, it is important for GAO to lead by example and use a model strategic management approach. GAO believes that to be a model agency in this area requires an integrated approach that includes planning, preparing, assessing, adjusting, and reporting results.

Potential Outcomes

- Continued ability of GAO to focus on the most important global and national issues facing the Congress and the American people
- Improved ability to measure GAO's performance and compare it to established goals and results
- Continued improvement to GAO's strategic planning and budgeting
- Work that meets the needs of the Congress and facilitates improvements in government

Performance Goal 4.2.2: Strengthen GAO's Strategic Human Capital Management to Achieve Enhanced Results

Key Efforts

- Implement workforce flexibilities, as authorized by the Congress, and educate GAO managers and staff on the changes to GAO's policies and practices
- Enhance GAO's strategic human capital planning efforts to more fully integrate them with GAO's strategic goals and objectives
- Using GAO's workforce plan, more closely align GAO's human capital assets with its organizational needs and agency goals
- Identify and implement optimal human capital sourcing strategies for addressing gaps in GAO's workforce
- Design and deliver a training and development program that focuses on the core competencies GAO managers and staff need to achieve strategic results
- Establish performance-based compensation systems for all staff and make enhancements to these systems as needed
- Establish competency-based appraisal systems for all staff and make enhancements to these systems as needed
- Identify staffing methods and systems to enhance the development and effective utilization of mission staff and GAO's prospects for staff retention
- Continually assess the organization's need for additional workforce flexibilities to enhance GAO's human capital management and seek changes where appropriate

Significance

To ensure that GAO has the human resources needed to accomplish its work for the Congress, it is critical that it align its human capital policies and systems with its strategic goals. Key efforts are focused on integrating workforce planning, succession planning, sourcing strategies, and implementation of workforce flexibilities into the human capital strategic plan to ensure that GAO attracts, retains, motivates, and rewards staff with the appropriate skills to achieve its strategic plan goals and objectives.

Potential Outcomes

- Continued alignment of human capital resources with GAO's strategic goals and objectives
- Enhanced appraisal systems that are perceived as fair, consistently applied, and transparent
- Compensation systems that are directly linked to results
- Productive employees who are fairly compensated for their work
- An improved training and development program that prepares staff to achieve GAO's strategic goals
- Enhanced utilization of GAO staff

Performance Goal 4.2.3: Ensure Exemplary Practices and Systems in GAO's Fiscal Operations

Key Efforts

- Assess GAO's fiscal operations to ensure compliance with federal financial management guidelines through the internal Financial Integrity Act review process and the annual independent audit of GAO's financial statements by a certified public accounting firm and make changes as required
- Identify improvements to fiscal operations aimed at ensuring that GAO's financial systems produce accurate and timely information to support operating, budget, and policy decisions
- Implement an integrated asset management system to improve control, decrease reconciliation requirements, and support the financial statements and property accountability

Significance

Integrity in how GAO manages its fiscal operations is critical. GAO should be a model for other agencies in both operational and fiscal management by implementing and using systems that comply substantially with federal financial management guidelines and reviewing, updating, and improving those systems as necessary.

Potential Outcomes

- Clean opinion on the annual financial audit
- Management of GAO according to sound financial management principles and best practices

Performance Goal 4.2.4: Strengthen IT Governance Practices and Processes to Achieve Strategic Results

Key Efforts

- Provide a foundation for technology initiatives and ensure a secure information technology (IT) environment in support of GAO's strategic and business goals through an updated GAO IT plan
- Develop and maintain a GAO enterprise information architecture that provides an integrated view of the agency's business processes
- Develop partnerships between technology staff and internal customers to define business requirements and determine how technology can best support those requirements

Significance

The role of IT has become increasingly vital in organizations, becoming critical to client service, strategic planning, human capital, and business process goals and objectives. IT adds value to organizations by creating, supporting, and enabling solutions to business requirements. GAO must provide a strong and integrated IT vision to maximize the benefits of IT and become a model agency.

Potential Outcomes

- Improved IT planning and decision making and flexibility to respond to continual improvements in business processes
- Improved working relationships among internal customers and technology staff, ensuring that IT more effectively meets the needs defined
- A more effective IT investment process that more directly links IT investments to GAO's strategic and business plans
- A robust, reliable, flexible, and secure technology architecture

Leverage GAO's Institutional Knowledge and Experience

Issue: GAO is a knowledge-based professional services organization. As a large number of GAO's more senior employees reach eligibility for retirement, GAO needs to identify and implement strategies for retaining this knowledge and expertise and increasing organizational knowledge sharing. GAO plans to develop an integrated approach for identifying, managing, and sharing the organization's information and intellectual assets. GAO plans to use its greatly enhanced electronic and Web-based technologies to support this objective. Further, GAO intends to identify ways to enhance knowledge sharing with other national and international accountability and professional organizations.

Performance Goals: To support the objective to leverage GAO's institutional knowledge and experience, GAO will

- maximize the collection, use, and retention of essential organizational knowledge;
- increase GAO's knowledge-sharing capability; and
- enhance knowledge sharing with other national and international accountability and professional organizations.

Performance Goal 4.3.1: Maximize the Collection, Use, and Retention of Essential Organizational Knowledge

Key Efforts

- Identify and begin implementation of strategies for increasing organizational knowledge retention and knowledge transfer
- Expand and institutionalize electronic records management agencywide and augment the document management system with electronic records functions
- Assess the usefulness of creating and integrating taxonomies to allow GAO staff to better access organizational knowledge
- Enhance and implement communications strategies for identifying and sharing information across GAO and with clients, external organizations, and the press
- Develop short- and long-term communications standards for various media to guide the presentation of all of GAO's knowledge products
- Establish individual Web-based team resource pages to enhance team research capabilities

Significance

Managing information and knowledge so that it serves not only GAO's staff and managers but also the agency's congressional clients requires an integrated approach for identifying, managing, and sharing the organization's information and intellectual assets. These assets include databases, plans, analyses, documents, reports, policies, procedures, management information, and staff expertise. Effective information and knowledge management is crucial to the accessibility and preservation of these valuable assets.

Potential Outcomes

- Ability to capitalize on the intellectual assets of GAO
- Enhanced processes for capturing, maintaining, and sharing institutional knowledge
- Improved processes and methods for sharing relevant information among all GAO staff
- Increased access to GAO's published products by the Congress and the American people
- Improved capture of and access to the agency's essential information
- Improved quality of engagements, which will better meet the needs of the clients

Performance Goal 4.3.2: Increase GAO's Knowledge-Sharing Capability

Key Efforts

- Redesign GAO's external Web site to increase access and usability of information and foster knowledge sharing
- Develop and offer training to GAO staff to enhance their ability to access GAO library resources and services
- Develop and offer training to GAO staff to improve their Web-enabled search capabilities

Significance

The dramatic increase in the use of Web-based technology by GAO staff and the ability to obtain direct access to information from the desktop has improved the timeliness and cost-effectiveness of GAO's products and services. GAO seeks to further improve these products and services by strengthening GAO staff's ability to access Web-based information.

Potential Outcomes

- Increased ability of GAO's staff to use the Web as a research tool
- Better access to information that will contribute to meeting client needs
- Enhanced knowledge and information sharing across GAO

Performance Goal 4.3.3: Enhance Knowledge Sharing with Other National and International Accountability and Professional Organizations

Key Efforts

- Convene forums, symposia, and meetings with the Comptroller General's Advisory Board, the intergovernmental audit forums and domestic working groups, the International Organization of Supreme Audit Institutions and global working groups, and other external government accountability and professional organizations
- Develop new forums, such as Comptroller General forums and the GAO speakers' series "Conversations on 21st Century Challenges"
- Evaluate and improve GAO's institutional capacity building efforts, such as the International Fellows Program
- Identify and support opportunities for collaborative engagements with other accountability and professional organizations
- Foster a program evaluation community of practice to help federal agencies build capacity to evaluate the implementation and effects of their policies and programs

Significance

GAO works strategically with other accountability and professional organizations to broaden and leverage its institutional knowledge and experience, and in turn, improve GAO's overall service to the Congress and the American people. For example, the Comptroller General's Advisory Board, forums, and speakers' series help inform GAO on how important, emerging themes are likely to influence Americans and on how those themes might influence GAO's strategic plan. GAO's work with other accountability and professional organizations helps it to build capacity and assists GAO and these entities in meeting mutual goals. GAO's collaborative efforts with the intergovernmental audit community helps it and other accountability organizations in identifying better ways to develop and share methods, tools, benchmarking results, and best practices for doing their work.

Potential Outcomes

- Increased leveraging and sharing of knowledge throughout the government accountability profession
- Improved quality of engagements that better meet the needs of the clients

Continuously Enhance GAO's Business and Management Processes

Issue: GAO, as the federal government's accountability organization, undertakes engagements to evaluate the economy, efficiency, and effectiveness of a wide range of federal policies and programs to assist the Congress and benefit the American taxpayer. By continuously assessing and enhancing the processes and services that support its own engagements, GAO can maximize its value to the Congress and the public.

Performance Goals: To support the objective to continuously enhance GAO's business and management processes, GAO will

- improve engagement support services and
- use enabling technology to improve GAO's crosscutting business processes.

Performance Goal 4.4.1: Improve Engagement Support Services

Key Efforts

- Identify and prioritize process improvements and reengineering efforts related to the job management process based on staff concerns and best practices of other organizations
- Continuously evaluate GAO's core support functions to identify improvements and determine best delivery methods to enhance efficiency and cost-effectiveness
- Continue to assess and improve the report production process
- Prepare for an external peer review of GAO's quality assurance policies and procedures related to government auditing standards, and GAO's compliance with these standards in conducting its work
- Optimize the efficiency and cost-effectiveness of GAO's product delivery methods
- Undertake high-priority incremental improvement and business reengineering efforts and related technology solutions for CMSO initiatives using matrixed teams
- Develop tools to aid in more effective use of literature search information and develop standards and guidelines for conducting literature searches
- Improve the consistency and transparency of the mission team procurement review and approval process and better publicize the process
- Examine state-of-the-art hiring programs, identify best practices, and plan implementation of recommended actions to enhance GAO's hiring programs

Significance

By continuously assessing and enhancing the processes and services that support GAO's engagements, GAO can maximize its value to the Congress and the public. GAO intends to streamline and reengineer internal business and administrative processes where it is possible and desirable. This will enable GAO's engagement support services to respond to the mission requirements of the agency's internal customers to deliver high-quality products and services to GAO's clients.

Potential Outcomes

- Improved internal engagement, business, and administrative processes
- More efficient and cost-effective delivery of internal services
- Improved customer and client satisfaction with services and products
- Engagement support services that enable staff to perform work that meets the needs of the Congress and facilitates improvements in government

Performance Goal 4.4.2: Use Enabling Technology to Improve GAO's Crosscutting Business Processes

Key Efforts

- Identify, prioritize, and implement enabling technology for the automated delivery of human capital services
- Implement an automated travel manager system for travel orders and vouchers to make the process more user friendly and to reduce errors and paper file requirements
- Assess WebTA and identify and implement enhancements
- Design and implement technology solutions facilitating engagement management and reporting
- Upgrade and enhance technology tools and systems to ensure the reliability of systems supporting myriad business processes and to promote productivity
- Pilot appropriate new enabling technologies supporting business and management processes

Significance

GAO must maximize the benefits of IT to become a model agency. The identification and implementation of new and emerging technologies is essential to GAO's continued efforts to provide efficient and effective services to its internal customers, facilitating the accomplishment of its mission work in support of the Congress.

Potential Outcomes

- Better-integrated human capital services that are easier for customers to access
- Enhanced user-friendliness and accuracy in the travel management system
- More efficient operation of property management
- A more productive workforce

Become a Professional Services Employer of Choice

Issue: To be a model organization, GAO must become an employer of choice—one that attracts, retains, motivates, and rewards excellent employees and is considered one of the best places to work. GAO intends to build and maintain a work environment that is fair, unbiased, and inclusive and that offers the opportunity for all employees to realize their full potential. The agency is committed to providing its employees with the tools, technologies, and systems that promote collaboration and productivity and a safe and secure workplace. The agency will also continue to enhance its offerings of family-friendly and work/life programs and provide superior training for its new hires to improve employee satisfaction with working at GAO.

Performance Goals: To become a professional services employer of choice, GAO will

- promote an environment that is fair and unbiased and that values opportunity and inclusiveness;
- provide GAO staff with tools, technology, and a world-class working environment;
- provide a safe and secure workplace;
- enhance employee views about GAO; and
- improve the development and experiences of newly hired staff.

Performance Goal 4.5.1: Promote an Environment That Is Fair and Unbiased and That Values Opportunity and Inclusiveness

Key Efforts

- Evaluate the effectiveness of GAO's strategy to recruit and retain a broad spectrum of candidates for employment and recommend changes as appropriate
- Identify artificial barriers that deter GAO employees from realizing their full potential and work with management officials to eliminate such barriers
- Monitor and recommend changes, as appropriate, to the compensation and performance management systems to ensure that they are fair and unbiased and promote workplace excellence
- Monitor and recommend changes to GAO's human capital policies and practices to ensure that they are fair and unbiased and promote workplace excellence
- Track and assess assignment and training opportunities given to individuals to ensure that all staff are given the opportunity to maximize their performance, and make recommendations as appropriate

Significance

GAO's goal is to provide a workplace climate in which staff believe they are valued contributors to the organization's mission. GAO recognizes the importance of creating an environment in which diversity is valued. GAO's primary objective is to promote an environment that is fair and unbiased and values opportunity and inclusiveness for all staff. GAO believes that continuous improvement in this area will enable the agency to attract, retain, motivate, and reward a highly skilled, diverse, and capable staff.

Potential Outcomes

- Improved work environment that recognizes and appreciates diversity and is free of bias
- Increased percentage of employees who concur that GAO's work environment is fair and unbiased
- A more productive workforce
- Enhanced ability to attract, retain, motivate, and reward a highly skilled, diverse, and capable staff

Performance Goal 4.5.2: Provide GAO Staff with Tools, Technology, and a World-class Working Environment

Key Efforts

- Provide reliable, modern, and secure technology, tools, and systems that balance wants, needs, and affordability; promote collaboration and productivity; and support a mobile workforce
- Enhance GAO's physical work environment to better address staff needs

Significance

GAO recognizes the importance of providing the best work environment, technology, and tools so that staff can effectively and efficiently perform their work. These efforts are directed at providing the tools and a comfortable work environment to help employees more effectively and efficiently accomplish their work, while maximizing the utilization of available workspace.

Potential Outcomes

- More efficient operations
- Improved technology that supports a mobile workforce
- A more productive workforce

Performance Goal 4.5.3: Provide a Safe and Secure Workplace

Key Efforts

- Develop and implement a model security and safety organization vision focused on results, service quality, and customer satisfaction and characterized by the confidence of GAO staff in their ability to fulfill the mission
- Periodically monitor threat assessment and update as emerging trends trigger the need for change
- Plan for and implement enhanced security processes and procedures to guard against threats, embody best practices, and meet changing requirements
- Review and update GAO's emergency preparedness and response plan
- Implement a comprehensive IT security program that embodies best practices and an IT disaster recovery program that ensures timely response, resumption, and recovery of services
- Promote open communication with customers regarding new initiatives and provide periodic updates with respect to ongoing projects and plans

Significance

The safety and security of GAO's staff, information, and assets against threats must be a top priority. The September 11, 2001, terrorist attacks against the United States highlighted the nation's vulnerabilities. GAO must place a high priority on assessing the agency's current security measures and identifying and adopting practices that will enhance GAO's overall security program.

Potential Outcomes

- GAO's people, buildings, and other key assets are protected
- GAO's IT assets are protected
- GAO's leaders and staff are prepared to respond effectively to emergencies
- A safe, secure, and adaptable work environment for all staff

Performance Goal 4.5.4: Enhance Employee Views about GAO

Key Efforts

- Improve GAO's tools and measures to assess GAO employee feedback
- Enhance GAO's offerings of family-friendly and work/life programs

Significance

Enhancing GAO's family-friendly and work/life programs are ways in which GAO can improve the quality of life for its employees. GAO believes that continuous improvement in this area, based on periodic feedback from employees, will enable the agency to attract, retain, motivate, and reward GAO employees.

Potential Outcomes

- Improved family-friendly policies that help staff balance work and family lives
- A more productive workforce
- Ability to attract, retain, motivate, and reward a highly skilled, diverse, and capable staff

Performance Goal 4.5.5: Improve the Development and Experiences of Newly Hired Staff

Key Efforts

- Enhance and modify the Professional Development Program (PDP) in response to changing agency and new hire needs
- Improve PDP oversight and management

Significance

GAO's goal is to provide its entry-level analysts opportunities to develop to their fullest potential. Ensuring that PDP provides a superior training experience will help to meet the agency's workforce needs as well as provide an incentive for new hires to remain at GAO.

Potential Outcomes

- Ability to attract, retain, motivate, and reward a highly skilled, diverse, and capable staff maintained
- Enhanced training and development experiences for entry-level analysts

Serving the Congress and the Nation
GAO's Strategic Plan
2004 – 2009

The strategic plan and our performance and accountability reports are available through our Web site at www.gao.gov/sp.html.

Linked to that same page is our full family of strategic planning and performance and accountability publications.

www.gao.gov

Core Values

Accountability

We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, auditors, lawyers, economists, information technology specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people.

Integrity

We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and GAO's approach is designed to ensure both.

Reliability

We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimonies, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

441 G. Street NW
Washington, D.C. 20548
www.gao.gov