United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on the Legislative Branch, Committee on Appropriations, U.S. Senate

For Release on Delivery
Expected at 10:30 a.m. EDT
Tuesday, April 19, 2005

FISCAL YEAR 2006 BUDGET REQUEST

U.S. Government Accountability Office

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

GAO
Accountability * Integrity * Reliability

GAO-05-476T

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today in support of the fiscal year 2006 budget request for the U.S. Government Accountability Office (GAO). This request is necessary to help us continue 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.

We are grateful to the Congress for providing us with the support and resources that have helped us in our quest to be a world-class professional services organization. I am proud of the work we accomplish as we continue to provide our congressional clients with professional, objective, fact-based, non-partisan, non-ideological, fair, balanced, and reliable information in a timely manner regarding how well government programs and policies are working and, when needed, recommendations to make government work better. We believe that investing in GAO produces a sound return and results in substantial benefits to the Congress and the American people. In the years ahead, our support to the Congress will likely prove even more critical because of the pressures created by our nation's current and projected budget deficit and long-term fiscal imbalance. These fiscal pressures will require the Congress to make tough choices regarding what the government should do, how it will do its work, who will help carry out its work in the future, and how government will be financed in the future.

We summarized the larger challenges facing the federal government in our recently issued 21st Century Challenges report.[1] In this report, we emphasize the critical need to bring the federal government's programs and policies into line with 21st century realities. Continuing on our current unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. We, therefore, must fundamentally reexamine major spending and tax policies and priorities in an effort to recapture our fiscal flexibility and ensure that our programs and priorities respond to emerging security, social, economic, and environmental changes and challenges in the years ahead. I believe that GAO can be of invaluable assistance in helping the Congress address these challenges.

[1]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

My testimony today will focus on our (1) performance and results with the funding you provided us in fiscal year 2004, (2) streamlining and management improvement efforts under way, and (3) budget request for fiscal year 2006 to support the Congress and serve the American people.

Summary

In summary:

- The funding we received in fiscal year 2004 allowed us to audit and evaluate a number of major topics of concern to the nation and, in some cases, the world. For example, we reported on the reconstruction efforts in Afghanistan and Iraq; important concerns about pay and other support for the National Guard and Reserve forces; numerous topics related to homeland and national security, including improving operations of the Departments of Homeland Security and Defense; curbing the use of counterfeit identity documents; and making the nation's transportation system safer from potential acts of terrorism. We also continued to raise concerns about the nation's long-term fiscal imbalance, summarized key health care statistics and published a proposed framework for related reforms, and provided staff support for the 9/11 Commission. In fiscal year 2004, we exceeded or equaled our all-time record for six of our seven key performance indicators while continuing to improve our client and employee feedback results. I am especially pleased to report that we documented $44 billion in financial benefits—a return of $95 for every dollar spent, or $13.7 million per employee. In fiscal year 2004, we also recorded 1,197 other benefits that could not be measured in dollar terms including benefits that helped to change laws, to improve services to the public and to promote sound agency and governmentwide management. Also, experts from our staff testified at 217 congressional hearings covering a wide range of important public policy issues during fiscal year 2004.

- Shortly after I was appointed Comptroller General, I determined that our agency would undertake a transformation effort. This effort is consistent with the elements of House Report (H.Rpt.) 108-577 that focus on improving the efficiency and effectiveness of operations at legislative branch agencies. Our transformation effort has enabled us to eliminate a management layer, streamline our organization, reduce our overall footprint, and centralize many of our support functions. Currently, over 50 percent of our support staff are contractors, allowing us to devote more of our staff resources to our mission work. We recently surveyed managers of agency support operations and identified additional activities that potentially could be filled through alternative sourcing strategies. In fiscal years 2005 and 2006, we will further assess the feasibility of using

alternative sourcing for these activities. I would be pleased to brief you at a later date on our preliminary analyses.

- In developing our fiscal year 2006 budget, we have taken into consideration the overall federal budget constraints and the committee's desire to lead by example. Accordingly, we are requesting $493.5 million which represents a modest increase of 4 percent over fiscal year 2005. This increase is primarily for mandatory pay costs and price level changes. This budget request will allow us to continue to maximize productivity, operate more effectively and efficiently, and maintain the progress we have made in technology and other areas, but it does not allow us sufficient funding to support a staffing level of 3,269—the staffing level that we requested in previous years. Even as we are tempering our budget request, it needs to be acknowledged that there are increasing demands on GAO's resources. For example, the number of congressional mandates for GAO studies, such as GAO reviews of executive branch and legislative branch operations, has increased more than 15 percent since fiscal year 2000. While we have reduced our planned staffing level for fiscal years 2005 and 2006 in order to keep our request modest, we believe that the staffing level we requested in previous years is a more optimal staffing level for GAO and would allow us to better meet the needs of the Congress and provide the return on investment that both the Congress and the American people expect. We will be seeking your commitment and support to provide the funding needed to rebuild our staffing levels over the next few fiscal years, especially as we approach a point where we may be able to express an opinion on the federal government's consolidated financial statements.

Fiscal Year 2004 Performance and Results

In fiscal year 2004, much of our work examined the effectiveness of the federal government's day-to-day operations, such as administering benefits to the elderly and other needy populations, providing grants and loans to college students, and collecting taxes from businesses and individuals. Yet, we remained alert to emerging problems that demanded the attention of lawmakers and the public. For example, we continued to closely monitor developments affecting the Iraq war, defense transformation, homeland security, social security, health care, the U.S. Postal Service, civil service reform, and the nation's private pension system. We also informed policymakers about long-term challenges facing the nation, such as the federal government's financial condition and fiscal outlook, new security threats in the post-cold war world, the aging of America and its impact on our health care and retirement systems, changing economic conditions, and the increasing demands on our infrastructure—from highways to water systems. We provided congressional committees, members, and

staff with up-to-date information in the form of reports, recommendations, testimonies, briefings, and expert comments on bills, laws, and other legal matters affecting the federal government. We performed this work in accordance with the GAO Strategic Plan for serving the Congress, consistent with our professional standards, and guided by our core values. See appendix I for our Strategic Plan Framework for serving the Congress and the nation.

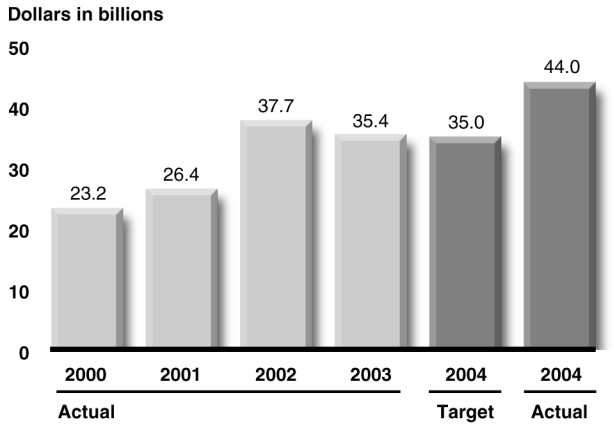
Outcomes of Our Work

In fiscal year 2004, our work generated $44 billion in financial benefits, primarily from recommendations we made to agencies and the Congress (see fig. 1). Of this amount, about $27 billion resulted from changes to laws or regulations, $11 billion resulted from agency actions based on our recommendations to improve services to the public, and $6 billion resulted from improvements to core business processes, both governmentwide and at specific agencies, resulting from our work (see fig. 2). Our findings and recommendations produce measurable financial benefits for the federal government when the Congress or agencies act on them. The funds that are saved can then be made available to reduce government expenditures or be reallocated to other areas. The monetary effect realized can be the result of changes in

- business operations and activities;
- the structure of federal programs; or
- entitlements, taxes, or user fees.

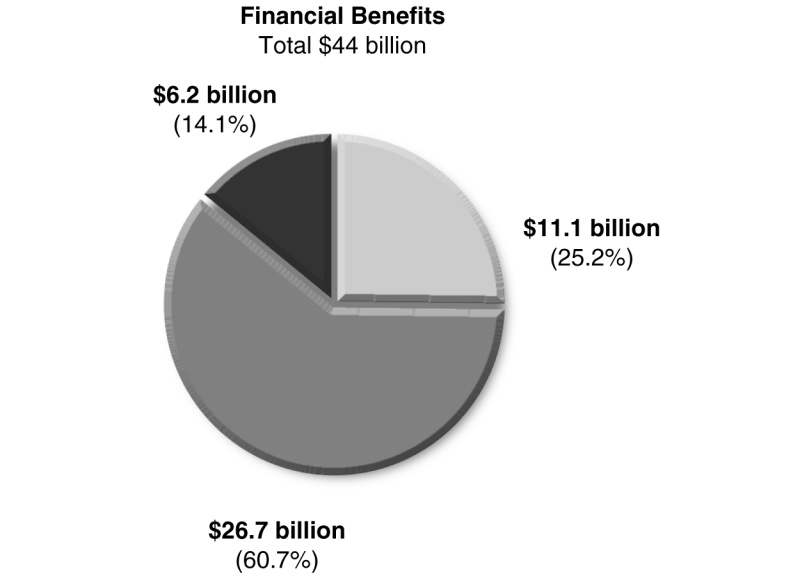
For example, financial benefits could result if the Congress were able to reduce its annual cost of operating a federal program or lessen the cost of a multiyear program or entitlement. Financial benefits could also result from increases in federal revenues—due to changes in laws, user fees, or sales—that our work helped to produce. Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the costs associated with taking the action that we recommended. Figure 3 lists several of our major financial benefits for fiscal year 2004 and briefly describes some of our work contributing to financial benefits.

Figure 1: GAO's Financial Benefits



Source: GAO.

Figure 2: Types of Financial Benefits Recorded in Fiscal Year 2004 from Our Work



Source: GAO.

Figure 3: GAO's Selected Major Financial Benefits Reported in Fiscal Year 2004

Source: See Image Sources.

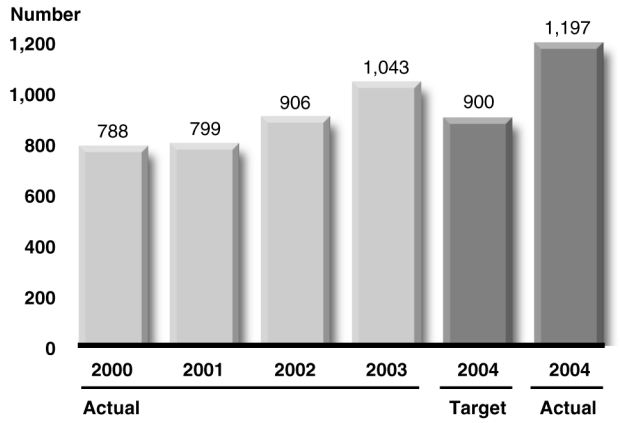
Description	Amount
Eliminated Medicaid's upper payment limit loophole. We identified a weakness in Medicaid's upper payment limit methodology that allowed states to make excessive payments to local, government-owned nursing facilities and then have the facilities return the payments to the states, creating the illusion that they had made large Medicaid payments in order to generate federal matching payments. Closing the loophole prevented the federal government from making significant federal matching payments to states above those intended by Medicaid. The amount shown represents the net present value of estimated financial benefits for fiscal years 2005 and 2006—the final years for which benefits can be claimed.	$10,073
Updated the Consumer Price Index (CPI). We recommended that the Bureau of Labor Statistics periodically update the expenditure weights of its market basket of goods and services used to calculate the CPI to make it more timely and representative of consumer expenditures. The bureau agreed to do this every 2 years, and the CPI for January 2002 reflected the new weights. For federal programs that use the CPI as an index for determining benefits, the adjustments have resulted in decreased federal expenditures (e.g., reduced Social Security cost-of-living adjustments) and increased federal revenues, such as reductions in the growth of personal exemptions for federal income taxes. The amount shown represents projected financial benefits for fiscal year 2007, the fifth and final year for which we will allow benefits to be claimed for this action.	$5,074
Reduced costs associated with Medicare spending on home health care. We reported in 2002 that Medicare's payments for home health care episodes were, on average, about 35 percent higher than the estimated costs of home health care provided in the first 6 months of 2001. Our report helped to ensure that the Congress did not delay or eliminate a scheduled reduction in Medicare home health payments that had risen rapidly from the late 1980s through the mid-1990s.	$4,661
Reduced the cost of federal housing programs. We determined that the Department of Housing and Urban Development (HUD) did not have the information it needed to routinely calculate and track unexpended balances in its housing and community development programs. As a result of our work, the Congress required HUD to prepare quarterly reports on unexpended balances for each program, and HUD management committed to closely monitor these balances and identify amounts available for recapture.	$3,638
Improved the use of the Iraqi Freedom Fund. We reported that the military services may not obligate all of the funds appropriated for the global war on terrorism in fiscal year 2003 as required. Thus, the Congress rescinded $3.49 billion from the September 2003 balance remaining in the Iraqi Freedom Fund as part of the Fiscal Year 2004 Department of Defense Appropriations Act. These funds were made available for other purposes.	$3,490

Description	Amount
Reduced costs associated with preparing the Department of Defense's (DOD) financial statements. We determined that DOD's initial plans to obtain a favorable fiscal year 2004 audit opinion were not feasible or cost-effective. Therefore, instead of moving $2.2 billion to fund the DOD components' efforts focused on a fiscal year 2004 audit opinion, the DOD Comptroller shifted $184 million to begin auditability assessments and audits, as applicable, as part of a long-term strategy to improve DOD's fiscal accountability. The Comptroller's decision not to reprogram the funds allowed DOD to use over $2 billion for other purposes during the fiscal year.	$2,057
Modified the focus of funding for DOD's V-22 Osprey aircraft program. We highlighted for DOD officials—before full production of the aircraft was scheduled to begin—numerous risks and unknowns that existed in the V-22 Osprey program because of inadequate testing and evaluation. We reported these concerns to a blue-ribbon investigative panel established after a second fatal crash of the V-22. As a result of our work, the blue-ribbon panel recommended that DOD temporarily reduce the production of the V-22 to a minimum level to free up funds to better address the research and development issues we raised. The Congress reduced the procurement funding for purchasing V-22 aircraft from the planned 37 to 11 for each of fiscal years 2003 and 2004. This action allowed some funds to be used for development testing of the V-22 aircraft, but the remaining funds were made available for other purposes.	$1,618
Eliminated unnecessary military funding from the budget. We recommended that requested fiscal year 2004 funds be eliminated for three terminated military operations involving Iraq's compliance with various United Nations resolutions, Operations Northern and Southern Watch and Operation Desert Spring. These funds were made available for other purposes.	$1,353
Improved DOD's contracting and acquisition practices. We developed a strategic framework—based on the best practices of leading private-sector companies—to guide DOD's services contracting reforms and recommended changes in DOD's organizational structure and approach to acquiring goods and services, such as using cross-functional teams and spend analyses to coordinate key purchases and leverage buying power for the agency. As a result of work done by us and others, the Congress cut DOD's budget in its fiscal year 2003 appropriation in anticipation of expected savings. This accomplishment amends a financial benefit we claimed in fiscal year 2002 and represents an additional benefit in fiscal year 2004—the final year for which a benefit can be claimed.	$868

Source: GAO.

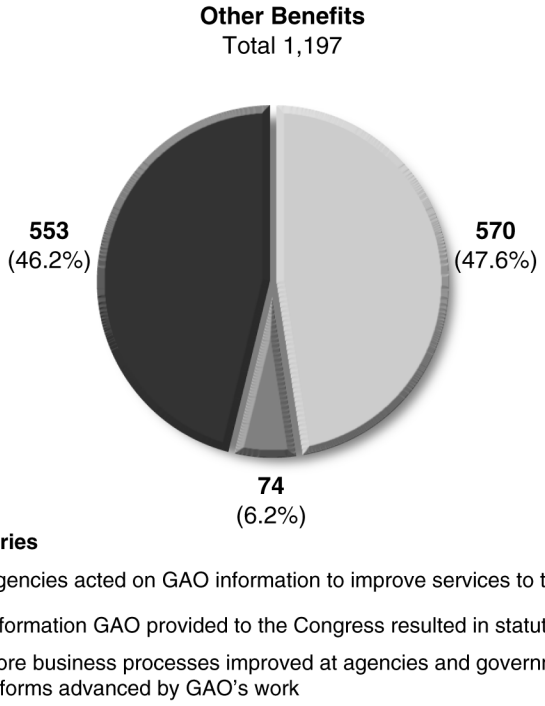
Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2004, we recorded a total of 1,197 other benefits (see fig. 4). We documented 74 instances where information we provided to the Congress resulted in statutory or regulatory changes, 570 instances where federal agencies improved services to the public, and 553 instances where agencies improved core business processes or governmentwide reforms were advanced (see fig. 5). These actions spanned the full spectrum of national issues, from ensuring the safety of commercial airline passengers to identifying abusive tax shelters. See figure 6 for examples of other benefits we claimed as accomplishments in fiscal year 2004.

Figure 4: Other Benefits



Source: GAO.

Figure 5: Types of Other Benefits Recorded in Fiscal Year 2004 from Our Work



Source: GAO.

Figure 6: GAO's Selected Other (Nonfinancial) Benefits Reported in Fiscal Year 2004

Source: See Image Sources.

Vision 100-Century of Aviation Reauthorization Act, Pub. L. No. 108-176	We worked closely with the Congress to draft language that was included in this law related to curriculum and certification requirements for aviation mechanics. The language, which was based on recommendations we had made, included a requirement that the Federal Aviation Administration update and revise curriculum standards for aviation mechanics.
Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173	Congress included six provisions in the law based on analyses and recommendations we made. For example, our work found that Medicare's method for establishing payment rates for drugs obtained under Medicare Part B—which covers doctors' services, outpatient hospital care, and some other nonhospital services—was flawed because it based payments on nonmarket-driven price estimates. The law addressed these issues by lowering payment rates in 2004 for drugs covered by Part B to more closely reflect acquisition costs and by changing the method for calculating these payment rates in 2005, basing these rates on a market-driven estimate. Also, partly on the basis of our work, the Congress modified the eligibility criteria for small rural hospitals to qualify as critical access hospitals under the Medicare program. This change provides flexibility for some additional hospitals to consider conversion. Because of Medicare's payment methodology, converting to a critical access hospital may help bolster a hospital's financial condition, allowing it to continue to provide services to patients.
Consolidated Appropriations Act, 2004, Pub. L. No. 108-199	We found that HUD could make more accurate eligibility decisions for individuals seeking housing assistance if it had access to more timely income information available from the Department of Health and Human Service's Office of Child Support Enforcement's National Directory of New Hires. We recommended that HUD match applicants and current recipients of its rental housing assistance programs with the new hires database. This law gives HUD access to information from the database that will better ensure that only eligible individuals receive housing assistance.

National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136	We testified that most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not designed to support a meaningful performance-based personnel system, and agencies should have to demonstrate that these systems are modern, effective, and valid in order to receive any additional performance-based flexibilities. We suggested that the Congress establish a governmentwide fund whereby agencies could apply for funds to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This law established the Human Capital Performance Fund to support all executive agencies as they plan for and carry out performance-based rewards for their civilian employees.

Other Benefits

That Helped to Improve Services to the Public

Source: See Image Sources.

Helped to Ensure the Safety of Shellfish	In July 2001, we reported that the Food and Drug Administration's (FDA) oversight of states' shellfish safety programs was not risk-based and thus FDA was not using its limited resources wisely. To better ensure shellfish safety, we recommended that FDA identify risk factors for each of its program elements (growing area classification, processing and shipping, and control of harvest). FDA developed a scoring system for these factors. FDA shellfish specialists compute a total risk score of high, medium, or low that determines the frequency of the evaluation of that program element. High-risk elements were to be evaluated every year beginning in fiscal year 2003, medium-risk elements every second year beginning in fiscal year 2004, and low-risk elements every third year beginning in fiscal year 2005.
Identified the Need for Better Criteria to Determine Highly Qualified Teachers	Our report found that states did not have the information needed to determine whether teachers had met criteria to be considered highly qualified, as required by the No Child Left Behind Act. Specifically, states did not have the information they needed to develop methods to evaluate the subject area knowledge of teachers. To help states determine the number of highly qualified teachers they have and the actions they need to take to meet the requirements for highly qualified teachers by the end of the 2005-2006 school year, we recommended that the Secretary of Education provide more information to states about methods to evaluate subject area knowledge of current teachers. In January 2004, Education issued a revised version of the guidance "Improving Teacher Quality," which contains more information on how to evaluate subject area knowledge to meet the federal definition of a highly qualified teacher. Specifically, the guidance includes a new section that, among other things, defines evaluation standards and factors to consider when developing them.

Encouraged VA to Clarify the Array of Home Health Care Services Available to Veterans	We recommended that the Department of Veterans Affairs (VA) specify in policy whether three home health services—home-based primary care, homemaker/home health aide, and skilled home health care—are to be available to all enrolled veterans. In response, VA published an information letter on October 1, 2003, clarifying that, according to VA policy, the three home health services are to be available for all enrolled, eligible veterans in need of such services. The information letter was distributed to all facilities through e-mail and is available on the VA Web site.

Other Benefits

That Helped to Promote Sound Agency and Governmentwide Management

Source: See Image Sources.

Identified the Need for More Specific Criteria to Select for Audit Tax Returns from Large Corporations	We found that the Internal Revenue Service (IRS) is investing more in audits of large corporations and getting less in return. To improve the audits of tax returns filed by large corporations, we recommended that IRS provide more specific objective criteria and procedures to guide the selection of large corporate tax returns and classification of tax issues with high audit potential across the districts. In March 2002, IRS implemented a process for scoring returns in order to fully implement a plan to place these returns in the field for audit. IRS has begun to identify high-risk returns from corporate and partnership tax returns using the Discriminant Analysis System.
Helped to Centralize the Oversight of Major DOD Contracts	We examined various DOD initiatives under way that are intended to better manage acquisition of services, including drafting policy to provide better oversight on purchases of high-dollar value services. In response to our work, the Under Secretary of Defense for Acquisition, Technology, and Logistics and each of the military departments now have a management structure in place and a process for reviewing major (i.e., large-dollar or program-critical) service acquisitions for adherence to performance and other contracting requirements. The new policy establishes a threshold of $500 million or more for selecting service purchases for review and approval by the military department and possibly DOD headquarters, allowing DOD to adequately plan major purchases before committing the government to major expenditures.

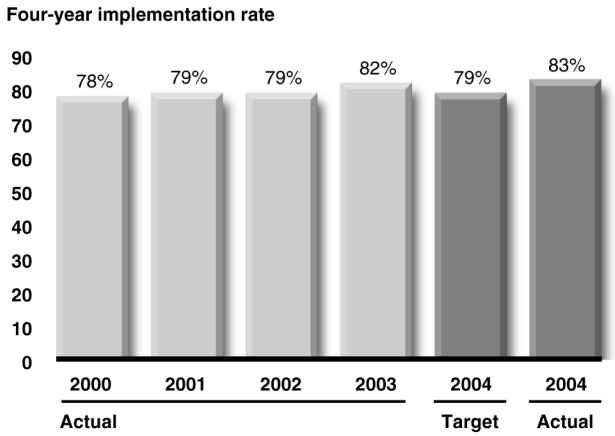
Helped to Reduce Fraud, Waste, and Abuse of Agencies' Purchase Cards	In a series of reports and testimonies beginning in 2001, we highlighted pervasive weaknesses in the government's $16 billion purchase card program. Our work identified numerous cases of fraud, waste, and abuse at DOD, HUD, and the Federal Aviation Administration. These agencies have taken significant steps to implement the hundreds of recommendations we made to upgrade their controls. Major improvement areas include enhanced controls over card issuance and cancellation, reduced span of control for approving officials, increased human capital resources and training, new performance measures and goals, required advance approval of purchases, and independent receiving and acceptance of goods and services. These efforts will substantially reduce the government's vulnerability to fraud, waste, and abuse in agencies' purchase card programs.

Source: GAO.

Recommendation Acceptance Rate

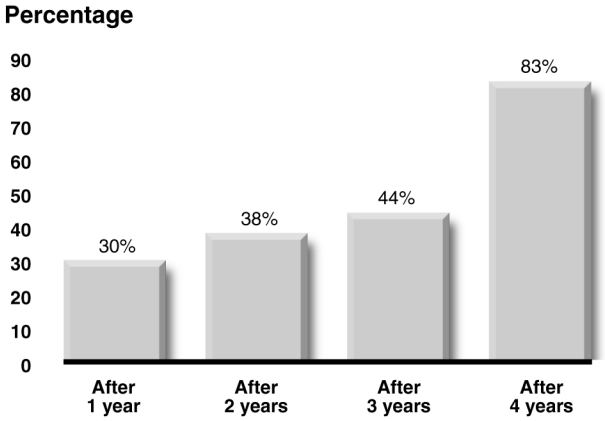
At the end of fiscal year 2004, 83 percent of the recommendations we made in fiscal year 2000 had been implemented (see fig. 7), primarily by executive branch agencies. Putting these recommendations into practice is generating tangible benefits for the American people. As figure 8 indicates, agencies need time to act on our recommendations. Therefore, we assess recommendations implemented after 4 years, the point at which experience has shown that, if a recommendation has not been implemented, it is not likely to be.

Figure 7: Past Recommendations Implemented



Source: GAO.

Figure 8: Cumulative Implementation Rate for Recommendations Made in Fiscal Year 2000

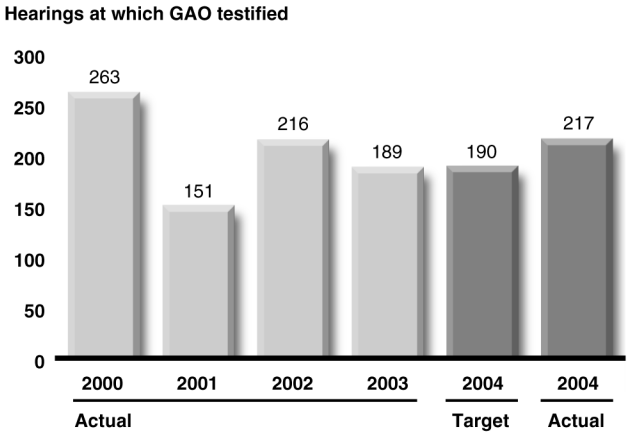


Source: GAO.

Testimonies That Serve the Congress

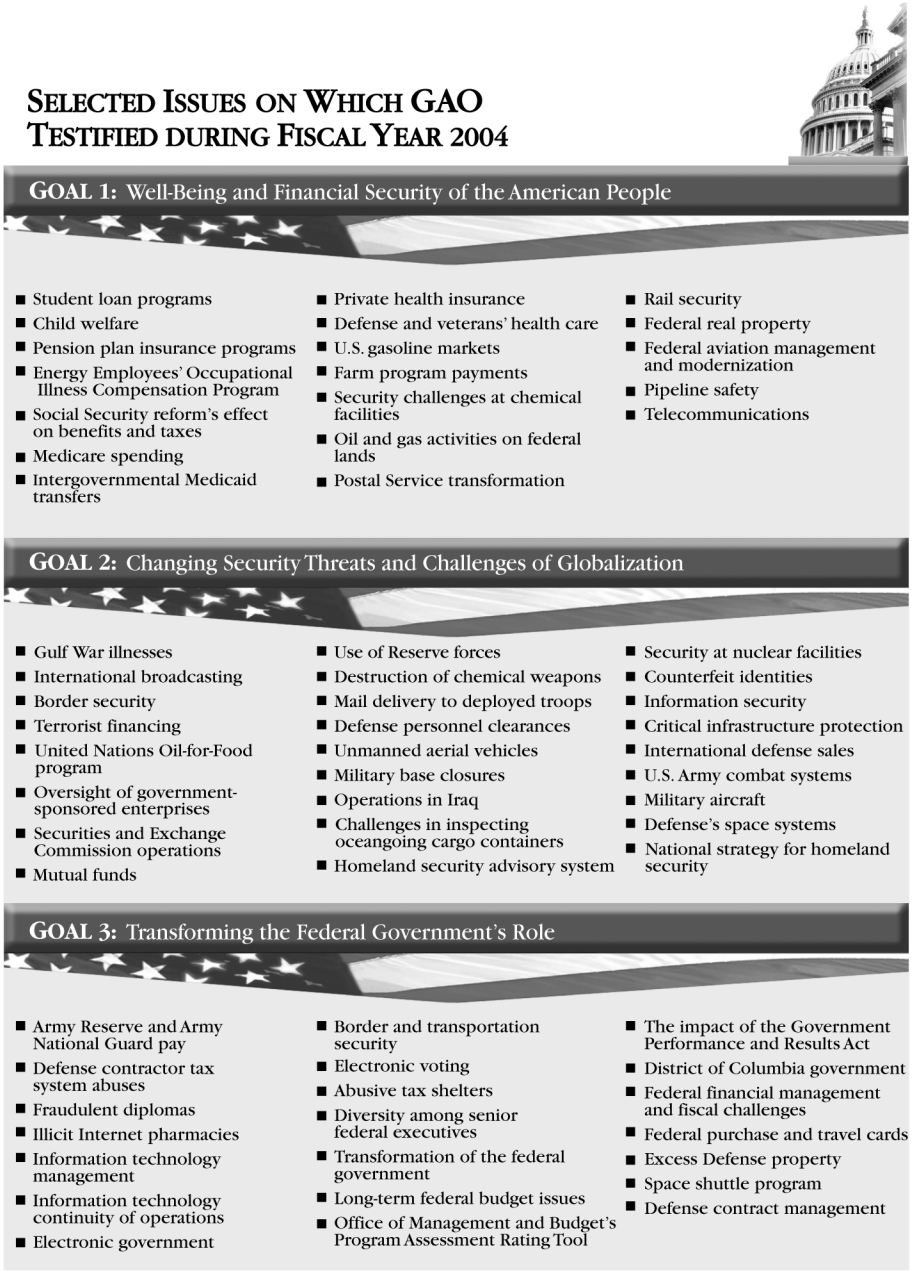
During fiscal year 2004, experts from our staff testified at 217 congressional hearings (see fig. 9) covering a wide range of complex issues. For example, our senior executives testified on the financial condition of the Pension Benefit Guaranty Corporation's single-employer program, the effects of various proposals to reform Social Security's benefit distributions, and enhancing federal accountability through inspectors general. Nearly half of our testimonies were related to high-risk areas and programs. See figure 10 for a summary of issues we testified on, by strategic goal, in fiscal year 2004.

Figure 9: Testimonies



Source: GAO.

Figure 10: Topics on Which GAO Testified



Source: GAO.

GAO's High-Risk Program

Issued to coincide with the start of each new Congress, our high-risk update lists government programs and functions in need of special attention or transformation to ensure that the federal government functions in the most economical, efficient, and effective manner possible. Our latest report, released in January 2005, presents the status of high-risk areas identified in 2003 and lists new high-risk areas warranting attention by the Congress and the administration.[2]

In January 2003, we identified 25 high-risk areas; in July 2003, a twenty-sixth high-risk area was added to the list (see table 1). Since then, progress has been made in all areas, although the nature and significance of progress varies by area. Federal departments and agencies, as well as the Congress, have shown a continuing commitment to addressing these high-risk challenges and have taken various steps to help correct several of their root causes. GAO has determined that sufficient progress has been made to remove the high-risk designation from the following three areas:

- student financial aid programs,
- FAA financial management, and
- Forest Service financial management.

Also, four areas related to IRS have been consolidated into two areas.

This year, we designated four new high-risk areas. The first new area is establishing appropriate and effective information-sharing mechanisms to improve homeland security. Federal policy creates specific requirements for information-sharing efforts, including the development of processes and procedures for collaboration between federal, state, and local governments and the private sector. This area has received increased attention, but the federal government still faces formidable challenges sharing information among stakeholders in an appropriate and timely manner to minimize risk.

The second and third new high-risk areas are, respectively, DOD's approach to business transformation and its personnel security clearance program. GAO has reported on inefficiencies and inadequate transparency and accountability across DOD's major business areas, resulting in billions

[2]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

of dollars of wasted resources. Senior leaders have shown commitment to business transformation through individual initiatives in acquisition reform, business modernization, and financial management, among others, but little tangible evidence of actual improvement has been seen to date in DOD's business operations. DOD needs to take stronger steps to achieve and sustain business reform on a departmentwide basis. Further, delays by DOD in completing background investigations and adjudications can affect the entire government because DOD performs this function for hundreds of thousands of industry personnel from 22 federal agencies, as well as its own service members, federal civilian employees, and industry personnel. The Office of Personnel Management (OPM) is to assume DOD's personnel security investigative function, but this change alone will not reduce the shortages of investigative personnel.

The fourth high-risk area is management of interagency contracting. Interagency contracts can leverage the government's buying power and provide a simplified and expedited method of procurement. But several factors can pose risks, including the rapid growth of dollars involved combined with the limited expertise of some agencies in using these contracts as well as recent problems related to their management. Various improvement efforts have been initiated to address interagency contracting, but improved policies and processes, and their effective implementation, are needed to ensure that interagency contracting achieves its full potential in the most effective and efficient manner.

Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.

Table 1: The Year that Areas on GAO's 2005 High-Risk List were Designated as High Risk

Area	Year designated high risk
Medicare Program	1990
DOD Supply Chain Management	1990[a]
DOD Weapon Systems Acquisition	1990
DOE Contract Management	1990
NASA Contract Management	1990
Enforcement of Tax Laws	1990[b]

Area	Year designated high risk
DOD Contract Management	1992
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
DOD Financial Management	1995
DOD Business Systems Modernization	1995
IRS Business Systems Modernization	1995[c]
FAA Air Traffic Control Modernization	1995
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
DOD Support Infrastructure Management	1997
Strategic Human Capital Management	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook	2001
Medicaid Program	2003
Managing Federal Real Property	2003
Modernizing Federal Disability Programs	2003
Implementing and Transforming the Department of Homeland Security	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation	2005
DOD Personnel Security Clearance Program	2005
Management of Interagency Contracting	2005

Source: GAO.

[a]This area was formerly entitled DOD Inventory Management.

[b]One of the two high-risk areas that were consolidated to make this area—Collection of Unpaid Taxes—was designated high risk in 1990. The other area—Earned Income Credit Noncompliance—was designated high risk in 1995.

[c]IRS Financial Management has been incorporated into the IRS Business Systems Modernization high-risk area. Both areas were initially designated as high risk in 1995.

In fiscal year 2004, we issued 218 reports and delivered 96 testimonies related to our high-risk areas and programs, and our work involving these areas resulted in financial benefits totaling over $20 billion. This work, for example, included 13 reports and 10 testimonies examining problems with DOD's financial management practices, such as weak internal controls over travel cards, inadequate management of payments to the Navy's telecommunications vendors, and abuses of the federal tax system by

DOD contractors, resulting in $2.7 billion in financial benefits. In addition, we documented $700 million in financial benefits based on previous work and produced 7 reports and 4 testimonies focusing on, for example, improving Social Security Administration and Department of Energy processes that result in inconsistent disability decisions and inconsistent benefit outcomes.

Streamlining and Management Improvement Efforts

Shortly after I was appointed in November 1998, I determined that GAO should undertake a major transformation effort to better enable it to "lead by example" and better support the Congress in the 21st century. This effort is consistent with the House Report 108-577 on the fiscal year 2005 legislative branch appropriation that focuses on improving the efficiency and effectiveness of operations at legislative branch agencies.

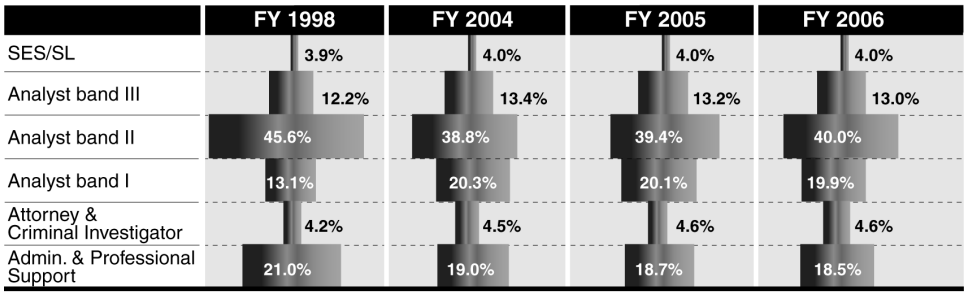
The Mandate:

H.Rpt. 108-577 directed GAO to work closely with the head of each legislative branch agency to identify opportunities for streamlining, cross-servicing and outsourcing, leveraging existing technology, and applying management principles identified as "best practices" in comparable public and private sector enterprises. H.R. 108-577 also directed the legislative branch agencies to be prepared to discuss recommended changes during the fiscal year 2006 appropriations hearing cycle.

Our agency transformation effort has enabled GAO to become more results-oriented, partnerial, client-focused, and externally aware, and less hierarchical, process-oriented, "siloed," and internally focused. The transformation resulted in reduced organizational layers, fewer field offices, the elimination of duplication in several areas, and improved our overall resource allocation. We began our transformation effort by using the GAO Strategic Plan as a framework to align our organization and its resources. On the basis of the strategic plan, we streamlined and realigned the agency to eliminate a management layer, consolidated 35 issue areas into 13 teams, and reduced our field offices from 16 to 11. We also eliminated the position of Regional Manager—a Senior Executive Service level position—in the individual field offices and consolidated the remaining field offices into three regions—the eastern region, the central region, and the western region, each headed by a single senior executive. Following the realignment of our mission organization and field offices, GAO's support organizations were restructured and centralized to eliminate duplication and to provide human capital, report production and processing, information systems desk-side support, budget and financial management, and other services more efficiently to agency staff. This has resulted in a 14 percent reduction in our support staff since 1998. As

shown in figure 11, these and subsequent measures improved the "shape" of the agency by decreasing the number of mid-level managers and by increasing the number of entry level and other staff with the skills and abilities to accomplish our work.

Figure 11: GAO's Human Capital Profile



Source: GAO.

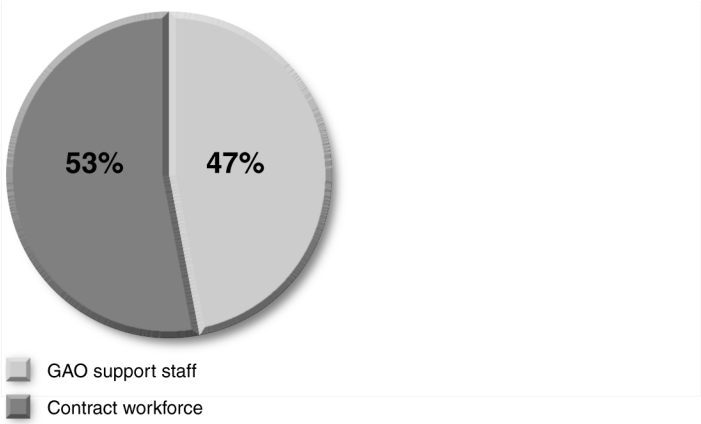
Note: Profiles represent staffing at the end of each fiscal year. Fiscal years 2005 and 2006 are projected.

During my tenure, GAO has outsourced and cross-serviced many administrative support activities, which has allowed GAO to devote more of its resources to mission work. In fiscal year 2004, about two-thirds of our nonhuman capital costs were spent to obtain critical mission support services for about 165 activities from the private and public sectors through outsourcing. Outsourcing contracts include a wide range of mission support activities, including information technology systems development, maintenance, and support; printing and dissemination of GAO products; operation and maintenance of the GAO Headquarters building; information, personnel, and industrial security activities; records management; operational support; and audit service support. GAO also meets many of its requirements through cross-servicing arrangements with other federal agencies. For example, GAO uses the Department of Agriculture's National Finance Center to process its personnel/payroll transactions. Also, GAO uses the legislative branch's long-distance telephone contract, which has resulted in continual reductions in long-distance rates. GAO also uses a wide range of contracting arrangements available in the executive branch for procuring major information technology (IT) services. GAO also uses the Library of Congress' Federal Library and Information Network to procure all of its commercial online databases.

Currently, as shown in figure 12, over 50 percent of our staff resources in the support area are contractors, allowing us to devote more of our staff

resources to our mission work. We recently surveyed managers of agency mission support operations and identified additional activities that potentially could be filled through alternative sourcing strategies. In fiscal years 2005 and 2006, we will assess the feasibility of alternative sourcing for these activities using an acquisition sourcing maturity model and cost-benefit analyses.

Figure 12: Composition of GAO's Support Staff



Source: GAO.

Utilizing IT effectively is critical to our productivity, success, and viability. We have applied IT best management practices to take advantage of a wide range of available technologies such as Web-based applications and Web-enabled information access, as well as modern, mobile computing devices such as notebook computers to facilitate our ability to carry out our work for the Congress more effectively. We make wide use of third-party reviews of our practices and have scored well in measurement efforts such as total cost of ownership, customer service, and application development. In fiscal year 2002, an independent study of GAO's IT processes and related costs revealed that, "GAO is delivering superb IT application support and development services to the business units at 29 percent less than the cost it would take the Government peer group to deliver." In confirmation of these findings, in fiscal year 2003, GAO was one of only three federal agencies to receive the CIO Magazine 100 Award for excellence in effectively managing IT resources to obtain the most value for every IT dollar. We were named to the CIO Magazine's "CIO 100" for our excellence in managing IT resources in both 2003 and 2004.

Because one of our strategic goals is to maximize our value by serving as a model agency for the federal government, we adopt best practices that we

have suggested for other agencies, and we hold ourselves to the spirit of many laws that are applicable only to the executive branch. For example, we adhere to the best practices for results-oriented management outlined in the Government Performance and Results Act (GPRA). We have strengthened our financial management by centralizing authority in a Chief Financial Officer with functional responsibilities for financial management, long-range planning, accountability reporting, and the preparation of audited financial statements, as directed in the Chief Financial Officers Act (CFO Act). Also, for the eighteenth consecutive year, independent auditors gave GAO's financial statements an unqualified opinion with no material weaknesses and no major compliance problems.

In the human capital area, we are clearly leading by example in modernizing our policies and procedures. For example, we have adopted a range of strategic workforce policies and practices as a result of a comprehensive workforce planning effort. Among other things, this effort has resulted in greatly upgrading our workforce capacity in both IT and health care policy. We also have updated our performance management and compensation systems and our training to maximize staff effectiveness and to fully develop the potential of our staff within both current and expected resource levels.

GAO's Fiscal Year 2006 Request to Support the Congress

We are requesting budget authority of $493.5 million for fiscal year 2006. This budget request will allow us to continue to maximize productivity, operate more effectively and efficiently, and maintain the progress we have made in technology and other areas. However, it does not allow us sufficient funding to support a staffing level of 3,269—the staffing level that we requested in previous years. In preparing this request, we conducted a baseline review of our operating requirements and reduced them as much as we felt would be prudent. However, with about 80 percent of our budget composed of human capital costs, we needed to constrain hiring to keep our fiscal year 2006 budget request modest. We plan to use recently enacted human capital flexibility from the GAO Human Capital Reform Act of 2004 as a framework to consider such cost savings options as conducting one or more voluntary early retirement programs and we also plan to review our total compensation policies and approaches.

There are increasingly greater demands on GAO's resources. Since fiscal year 2000, we have experienced a 30 percent increase in the number of bid protest filings. We expect this workload to increase over the coming months because of a recent change in the law that expands the number of

parties who are eligible to file protests. In addition, the number of congressional mandates for GAO studies, such as our reviews of executive branch and legislative branch operations, has increased more than 15 percent since fiscal year 2000. While we have reduced our planned staffing level for fiscal years 2005 and 2006, we believe that the staffing level we requested in previous years is a more optimal staffing level for GAO and would allow us to successfully meet the future needs of the Congress and provide the return on investment that the Congress and the American people expect. We will be seeking your commitment and support to provide the funding needed to rebuild our staffing levels over the next few fiscal years, especially as we approach a point where we may be able to express an opinion on the federal government's consolidated financial statements. Given current and projected deficits and the demands associated with managing a growing national debt, as well as challenges facing the Congress to restructure federal programs, reevaluate the role of government, and ensure accountability of federal agencies, a strong GAO will result in substantially greater benefits to the Congress and the American people.

Table 2 summarizes the changes we are requesting in our fiscal year 2006 budget.

Table 2: Fiscal Year 2006 Budget Request, Summary of Requested Changes

Dollars in thousands

Budget category	FTEs	Amount	Cumulative percentage change
FY 2005 budget authority to support GAO operations	3,215	$474,565	
FY 2006 requested changes			
Nonrecurring fiscal year 2005 costs		(4,122)	(0.9)
Mandatory pay costs		20,778	3.5
Price level changes		1,428	3.8
Relatively controllable costs		899	
Subtotal - requested changes		**$ 18,983**	**4.0**
Total FY 2006 budget authority required to support GAO operations	**3,215**	**$493,548**	**4.0**

Source: GAO.

Our budget request supports three broad program areas: Human Capital, Mission Operations, and Mission Support.

In our *Human Capital* program, to ensure our ability to attract, retain, and reward high-quality staff and compete with other employers, we provide competitive salaries and benefits, student loan repayments, and transit subsidy benefits. We have undertaken reviews of our classification and compensation systems to consider ways to make them more market-based and performance-oriented and to take into consideration market data for comparable positions in organizations with which we compete for talent. Our rewards and recognition program recognizes significant contributions by GAO staff to the agency's accomplishments. As a knowledge-based, world-class, professional services organization in an environment of increasingly complex work and accelerating change, we maintain a strong commitment to staff training and development. We promote a workforce that continually improves its skills and knowledge.

We plan to allocate funds to our *Mission Operations* program to conduct travel and contract for expert advice and assistance.

Travel is critical to accomplishing our mission. Our work covers a wide range of subjects of congressional interest, plays a key role in congressional decision making, and can have profound implications and ramifications for national policy decisions. Our analyses and recommendations are based on original research, rather than reliance on third-party source materials. In addition, GAO is subject to professional standards and core values that uniquely position the agency to support the Congress in discharging its oversight and other responsibilities under the Constitution.

We use contracts to obtain expert advice and or assistance not readily available within GAO, or when expertise is needed within compressed time frames for a particular project, audit, or engagement. Examples of contract services include obtaining consultant services, conducting broad-based studies in support of audit efforts, gathering key data on specific areas of audit interest, and obtaining technical assistance and expertise in highly specialized areas.

Mission Support programs provide the critical infrastructure we need to conduct our work. Mission support activities include the following programs:

- Information Technology: Our IT plan provides a road map for ensuring that IT activities are fully aligned with and enable achievement of our strategic and business goals. The plan focuses on improved client service, IT reliability, and security; it promotes effectiveness, efficiency and cost

benefit concepts. In fiscal years 2005 and 2006, we plan to continue to modernize outdated management information systems to eliminate redundant tasks, automate repetitive tasks, and increase staff productivity. We also will continue to modernize or develop systems focusing on how analysts do their work. For example, we enhanced the Weapons Systems Database that we created to provide the Congress information to support budget deliberations.

- Building Management: The Building Management program provides operating funds for the GAO Headquarters building and field office locations, safety and security programs, and asset management. We periodically assess building management components to ensure program economy, efficiency and effectiveness. We are currently 8 percent below the General Services Administration's (GSA) median costs for facilities management. We continue to look for cost-reducing efficiencies in our utility usage. Our electrical costs are currently 25 percent below GSA's median cost. With the pending completion of our perimeter security enhancements and an automated agency wide access control system, all major security enhancements will have been completed.

- Knowledge Services: As a knowledge-based organization, it is essential for GAO to gather, analyze, disseminate, and archive information. Our Knowledge Services program provides the information assets and services needed to support these efforts. In recent years, we have expanded our use of electronic media for publications and dissemination; enhanced our external Web site, resulting in increased public access to GAO products; and closed our internal print plant and increased the use of external contractors to print GAO products, increasing the efficiency and cost-effectiveness of our printing operation. Due to recent budget constraints, we have curtailed some efforts related to archiving paper records. We currently are implementing an electronic records management system that will facilitate knowledge transfer, as well as document retrieval and archival requirements.

- Human Capital Operations: In addition, funds will be allocated to Human Capital Operations and support services to cover outplacement assistance, employee health and counseling, position management and classification, administrative support, and transcription and translation services.

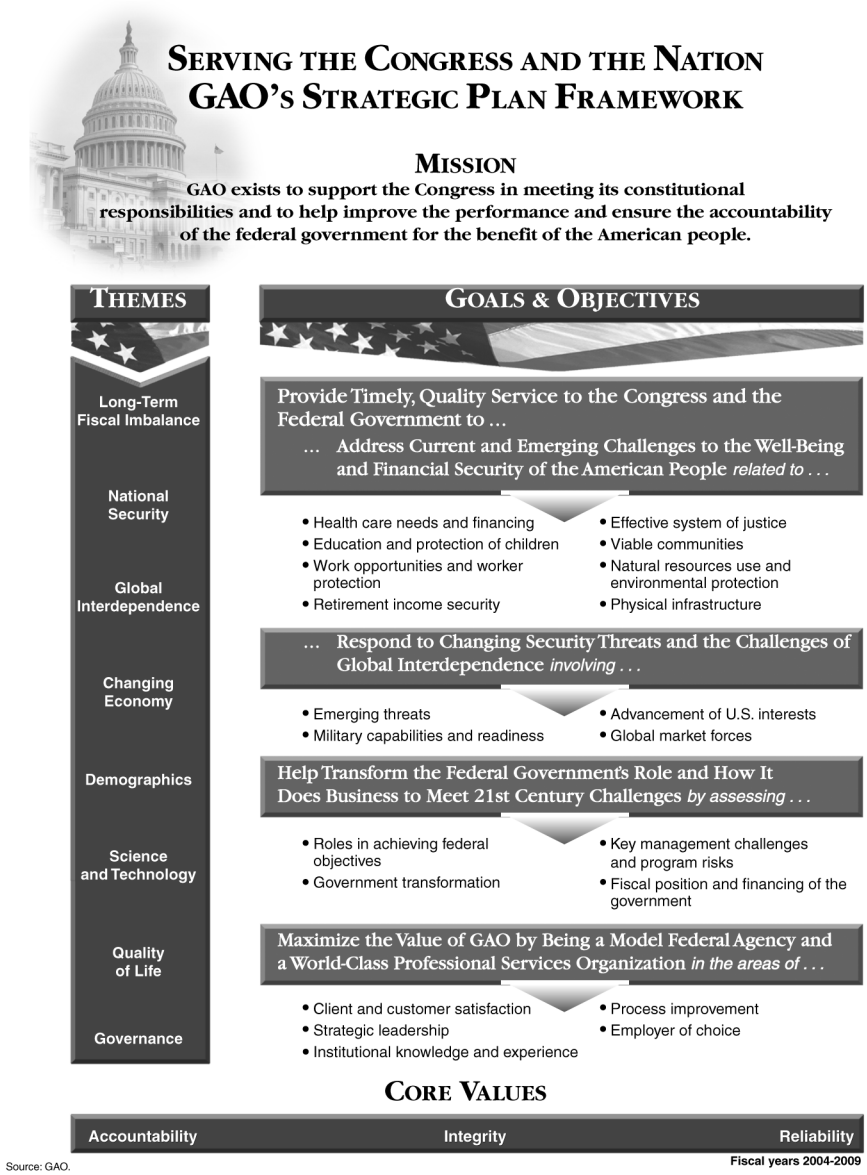
Concluding Remarks

We appreciate your consideration of our budget request for fiscal year 2006 to support the Congress. GAO is uniquely positioned to help provide the Congress the timely, objective information it needs to discharge its constitutional responsibilities, especially in connection with oversight

matters. GAO's work covers virtually every area in which the federal government is or may become involved anywhere in the world. In the years ahead, GAO's support will prove even more critical because of the pressures created by our nation's large and growing long-term fiscal imbalance.

This concludes my statement. I would be pleased to answer any questions the Members of the Subcommittee may have.

Appendix I: Serving the Congress—GAO's Strategic Plan Framework



Source: GAO.

Image Sources

This section contains credit and copyright information for images and graphics in this product, as appropriate, when that information was not listed adjacent to the image or graphic.

Page 6: PhotoDisc (money); Eyewire (monitor and medical symbol).

Page 9: BrandXPictures (flag); PhotoDisc (calculator and Social Security card).

Page 11: BrandXPictures (flag); Digital Vision (teacher); Dynamic Graphics (health care).

Page 12: BrandXPictures (flag); Dynamic Graphics (1040 Form); DOD (soldiers).

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

GAO's Mission

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

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

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

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

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

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

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

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER