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Determining Performance and Accountability Challenges and High Risks

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Preface

Since 1990, we have periodically reported on government programs and functions that we have identified as "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. In January 1999, we issued our first Performance and Accountability Series, which discussed the major issues 20 agencies faced in addressing performance and accountability challenges. We plan to issue the next Performance and Accountability and High-Risk Series in early 2001.

Over time, as high-risk areas have been corrected and other risks have emerged, we have removed areas from the list and added new ones to keep the Congress up to date on areas needing attention. In the January 1999 report series, we advised the Congress that because an increasing amount of information is becoming available as a result of implementation of various federal management reform initiatives, such as the Government Performance and Results Act, the Chief Financial Officers Act and related financial management legislation, and the Clinger-Cohen Act, we planned to reassess the methodologies and criteria used to determine which operations and functions should be included in the Performance and Accountability Series and those which should be designated as high risk.

We have completed this comprehensive review and reassessment, and the resulting criteria and process for determining performance and accountability challenges and high risks are highlighted in this document. It will be used by GAO auditors in making these determinations and by the Congress and the executive branch agencies in understanding our basis for reporting in these areas. As in the past, the ultimate determinations will continue to involve the independent and objective judgment of GAO professionals in applying the criteria.

This exposure draft was prepared under the direction of George H. Stalcup, Associate Director, Accounting and Information Management Division, and J. Christopher Mihm, Associate Director, General Government Division. Questions or comments should be directed to Mr. Stalcup before September 15, 2000, at (202) 512-9490 or *stalcupg.aimd@gao.gov.*

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Determining Performance and Accountability Challenges and High Risks

Introduction

We have developed—and will continue to refine—criteria to use as a basis in forming judgments on

- identifying and assessing the performance of the federal government's major program and mission areas,
- assessing agencies' management functions to determine how they contributed to the agencies' ability to ensure accountability and achieve results,
- determining if individual performance and accountability challenges merit designation as high-risk areas as well as determining governmentwide high risks, and
- removing high-risk designations.

In determining performance and accountability challenges and assessing whether they rise to the level of high-risk exposure, we consider the requirements of program-specific legislation. We also consider the requirements of management reform legislation, such as the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, the Federal Financial Management Improvement Act of 1996, and the Clinger-Cohen Act of 1996.

Also, the *Standards for Internal Control in the Federal Government*[1] provide a foundation for assessing the effects and underlying causes of control weaknesses for major program and mission areas and key management functions. We issued these standards pursuant to requirements of the Federal Managers' Financial Integrity Act. Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and accountability challenges and high-risk areas.

[1]GAO/AIMD-00-21.3.1, November 1999.

Criteria for Identifying and Assessing Major Program and Mission Areas

For each major agency, we will identify major program and mission areas that will form the primary basis for reporting in the performance and accountability series and that

- are at the center of congressional and executive branch attention,
- have high public interest and/or large-dollar outlays,
- figure prominently in agencies' strategic plans and annual performance plans and reports, or
- have known performance and accountability or high-risk issues.

These selections will be made in consultation with the Congress and coordinated with the Office of Management and Budget and the top leadership of the major federal agencies. Thus, the performance and accountability series may not include all of an agency's program and mission areas. Rather, using the criteria above, the series will focus principally on those program and mission areas that are among the most important for each agency. Program and mission areas that in the past were designated as high risk or had performance and accountability concerns will be carefully scrutinized to determine if the risks and concerns have been resolved.

We will use agencies' strategic plans, annual performance plans and reports, accountability reports, and audited financial statements to identify the key goals, strategies, performance measures, and reported performance for each of the major program and mission areas. This information, supplemented by relevant GAO products, inspectors general reports, and other independent analyses, will enable us to develop a profile of the actual performance for each of the program and mission areas.

Criteria for Assessing Agency and Program Performance and Results by Determining How Well They Are Managed

Based on our experience in examining a wide range of government programs, we have found that effective performance of the management functions shown in figure 1 are key to creating and sustaining high-performing organizations.

Figure 1: Major Management Functions Key to High-Performing Organizations

- Strategic planning
- Budget formulation and execution
- Organizational alignment and control
- Performance measurement
- Human capital strategies
- Financial management
- Information technology
- Acquisition

We will assess the results that agencies' major program and mission areas achieve and how well the management functions key to high performance are being carried out. For those program and mission areas where performance can be improved substantially, we will identify the root causes of the current performance levels and help pinpoint improvement opportunities. Also, our assessments will help to identify best practices that show the specific contributions better management makes to high performance.

In addition, in assessing major program and mission areas and management functions and in making high-risk determinations, we will draw from information available through a number of sources, the primary source being recent GAO audit reports and studies flowing from our strategic plan and legislatively mandated efforts. The sources of information we will use are shown in figure 2.

Figure 2: Information Sources for Assessing Major Program and Mission Areas and Management Functions

- GAO audit reports, testimonies, studies, surveys, and ongoing work
- Annual audited financial statements for departments and agencies
- Inspectors general audit reports
- Agency (1) accountability reports, (2) strategic plans and annual performance plans and reports, (3) program performance reviews, and (4) internal control assessments, including those done under the Federal Managers' Financial Integrity Act
- Reports by outside study panels and commissions
- Reports by congressional committees

Criteria for Determining if Individual Performance and Accountability Challenges Merit Designation as High-Risk Areas

To determine whether an individual performance and accountability challenge merits a high-risk designation, we will first determine whether it involves

- a program or mission area having national significance or
- a management function that is key to performance and accountability.

We will then determine whether the risk stems from one of the following:

- An inherent risk, which may arise when the nature of a program creates susceptibility to fraud, waste, and abuse. A program involving payments to claimants for services provided to third parties could involve inherent risk, for example, due to the need for and difficulty of verifying the accuracy of a large volume of claims.
- A systemic problem, which may arise when the programmatic, management support, or financial systems, policies, and procedures established by an agency to carry out a program are ineffective, creating a material weakness.

Next, we will consider a number of qualitative and quantitative factors. Additionally, before making a high-risk designation, we will consider the corrective measures an agency may have planned or underway to resolve a material control weakness and the status and effectiveness of these actions. These considerations, as well as criteria for determining governmentwide high risks, are discussed further in the following sections. In all cases, the ultimate determination of high risk will be made based on the independent and objective judgment of GAO professionals.

Considering Qualitative and Quantitative Factors

We will consider the qualitative factors outlined in figure 3. These qualitative factors are not meant to be all inclusive. Other important qualitative elements of risk may also be applicable to a given situation.

Figure 3: Qualitative Factors Used in Determining High Risk

Risk is seriously detrimental to

- Public health or safety
- Service delivery
- National security
- National defense
- Economic growth
- Privacy or citizens' rights

Risk could result in

- Significantly impaired service
- Program failure
- Significantly reduced effectiveness
- Significantly reduced efficiency
- Public injury or loss of life
- Unreliable decision-making data
- Reduced confidence in government
- Unauthorized disclosure, manipulation, or misuse of sensitive information, such as personal, financial management, or programmatic data maintained in computerized systems

In addition to qualitative factors, we will also consider the exposure to loss in monetary or other quantitative terms. At a minimum, $1 billion must be at risk in areas such as

- the value of major assets (e.g., loans receivable) being impaired;
- revenue sources (e.g., taxes due) not being realized;
- major agency assets (e.g., inventory or property) being lost, stolen, damaged, wasted, or underutilized; and
- improper payments.

In making high-risk determinations, we will analyze the risks from qualitative and quantitative standpoints. A program or function may be highly vulnerable to risk arising from a qualitative factor, such as loss of life, but may not necessarily meet the minimum quantitative dollar threshold. Conversely, it is possible for an exposure to be significant quantitatively, that is, placing $1 billion or more at risk, but not involve a qualitative factor. In some instances, individual qualitative and quantitative factors alone will not be high risk, but in combination, they may call for a high-risk designation. Thus, we will consider the totality of qualitative and quantitative factors in deciding whether a high-risk designation is warranted.

Considering Corrective Measures

Before assigning a high-risk designation, we will determine and assess the effectiveness of an agency's planned or ongoing corrective actions to address a material control weakness. In this regard, we will consider factors such as those shown in figure 4.

Figure 4: Factors to Consider in Assessing the Effectiveness of Corrective Measures to Resolve Material Control Weaknesses

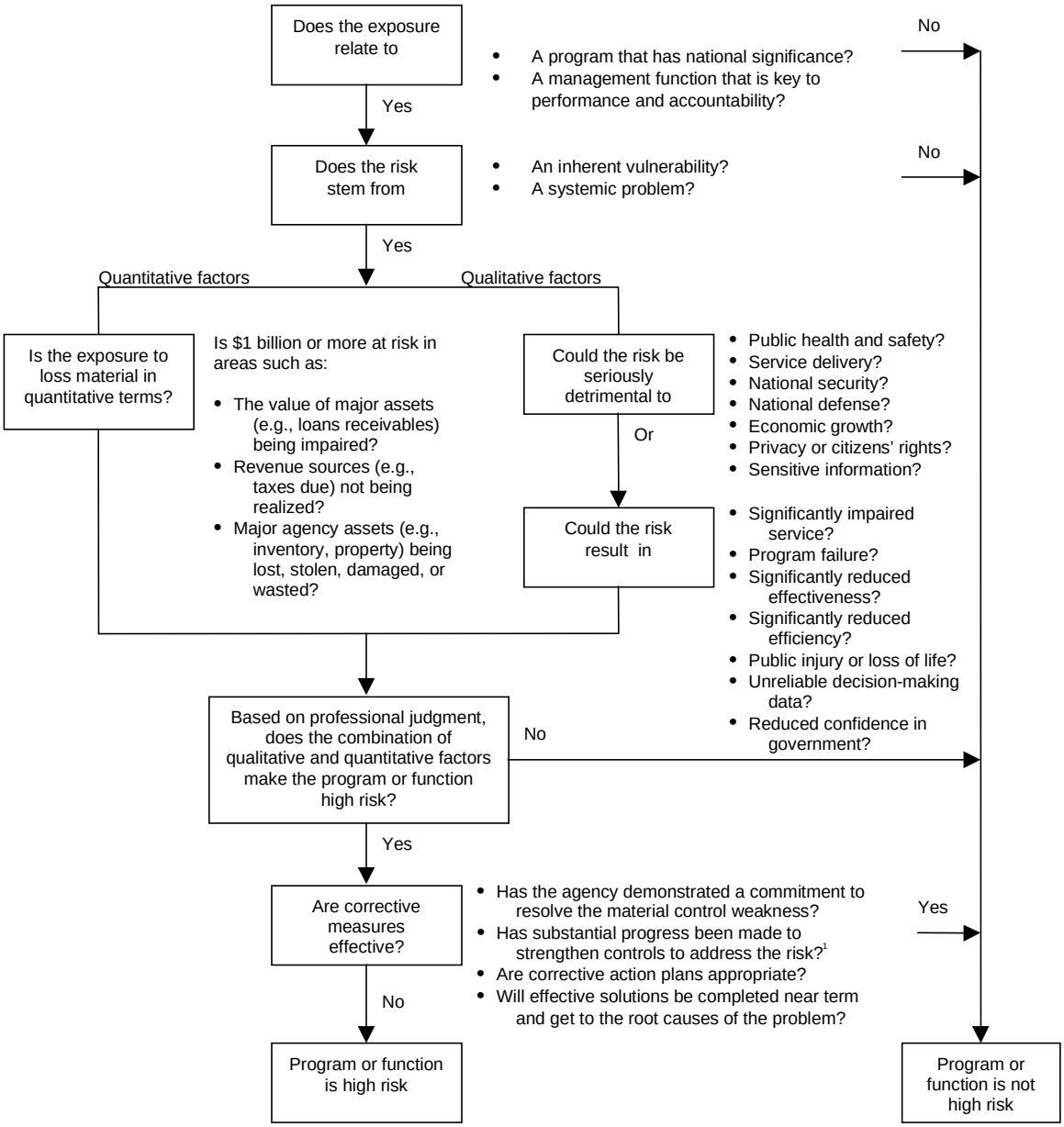
- Whether the agency has demonstrated its commitment to resolving the problem
- The extent of an agency's progress to strengthen controls to address the problem
- Whether the proposed remaining corrective action plans are appropriate
- Whether effective solutions will be substantially completed near term, as further discussed below
- Whether the solutions will get to the root cause of the problem

For our high-risk initiative, near term is considered to be within the 2-year period covered by the term of the Congress to which a high-risk update report is addressed. In considering whether a corrective action will be substantially completed in the near term, a high level of certainty must be evident. Agencies will need to be able to demonstrate concrete results to date, with a clear path toward addressing remaining problems. The final determination will be based on our professional judgment.

High-Risk Criteria Summarized

The criteria we use to determine high-risk programs and functions, including qualitative, quantitative, and corrective action factors, are outlined in figure 5.

Figure 5: Determining High-Risk Programs and Functions



[1]See *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999

Governmentwide High Risks

In some instances, several agencies may share a common problem that results in a high-risk situation. When this occurs, we will use the criteria in figure 6 to determine whether a governmentwide high-risk designation is warranted.

Figure 6: Criteria for Determining Governmentwide High Risks

The material weakness must

- Be evident at multiple agencies
- Affect a significant portion of the government's total budget or other resources
- Stem from a deficiency that should be monitored and addressed through individual agency actions as well as through Office of Management and Budget initiatives, legislative action, and/or congressional oversight

If these criteria are met, we may designate the matter as a governmentwide high-risk area.

For example, in 1997, GAO designated the Year 2000 (Y2K) computing challenge as a governmentwide high risk, given its broad-based implications and the potential serious disruption from a Y2K failure. Subsequently, Y2K was successfully addressed by providing high-level congressional and executive branch leadership, understanding the importance of addressing the issues, providing standard guidance, employing a constructive engagement approach, facilitating progress and monitoring performance, and implementing fundamental improvements.

Another example is computer security, which is widely recognized around the world by public and private organizations as a high-risk problem. In September 1996, we reported that serious computer security weaknesses were identified at 10 of the 15 largest federal agencies. In February 1997, we designated information security as a governmentwide high-risk area because of growing evidence indicating that controls over computerized operations were not effective and compelling information that risks were increasing.

It may be possible for several agencies to have the same material weakness and for it to rise to a high-risk level for some or all of those agencies, but based on our criteria, it may not be considered a governmentwide high risk. In such cases the weakness would be designated and reported as a high-risk area for the agencies it affects, as appropriate.

Criteria for Removing High-Risk Designations

When legislative and agency actions, including those in response to our recommendations, result in significant progress toward resolving a high-risk problem, we will remove the high-risk designation. In these cases, we will continue to closely monitor the areas. If significant problems again arise, we will consider reapplying the high-risk designation.

Since our high-risk initiative began in 1990, we have removed the high-risk designation from several programs. For example, in 1991, we designated the Bank Insurance Fund high risk because unprecedented numbers of bank failures and insurance losses in the late 1980s and early 1990s had depleted the fund's reserves. In 1995, we removed this high-risk designation because the fund's risk had been reduced due to legislative actions to rebuild the depleted deposit insurance fund and to require significant governance, regulatory, and accounting reforms.

More recently, in 1999, we determined that the U.S. Customs Service had made considerable progress in addressing its financial management weaknesses. Given the significant improvement efforts, including those related to assessing and collecting revenues, we removed our high-risk designation from Customs' financial management.

The criteria we use for determining whether to remove a high-risk designation are shown in figure 7.

Figure 7: Criteria Agencies Must Meet Before High-Risk Designations Can Be Removed

- A demonstrated strong commitment and top leadership support to address the risk(s)
- The capacity (that is, the people and other resources) to resolve the risk(s)
- A corrective action plan(s) that
  - defines the root causes,
  - identifies cost-effective solutions, and
  - provides for substantially completing corrective measures near term, including steps necessary to implement solutions we recommended
- A program instituted to monitor and independently validate the effectiveness of corrective measures
- The ability to demonstrate progress in implementing corrective measures