PERFORMANCE AUDITING

The Experiences of the United States Government Accountability Office

Statement of J. Christopher Mihm, Managing Director, Strategic Issues
PERFORMANCE AUDITING

The Experiences of the United States Government Accountability Office

Why GAO Did This Study

GAO’s mission is to support the U.S. 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. Each year, GAO presents its findings, conclusions, and recommendations in reports and testimony before Congress. In fiscal year 2012, GAO issued more than 650 reports and testified 159 times before various congressional committees. Last fiscal year, financial benefits from GAO’s work totaled $55.8 billion U.S. dollars, a $105 return on every dollar invested in GAO. In addition to financial benefits, GAO also documented 1,440 other benefits that shaped legislation, improved services to the public and strengthened government operations.

GAO and its counterparts, such as the European Court of Auditors, have unprecedented opportunities to help our respective governments plan ahead and address increasingly complex issues in meeting the challenges posed by global interconnections and worldwide fiscal difficulties. The experiences of GAO with respect to performance auditing illustrate how audit organizations can help decision makers address these challenges.

What GAO Found

Performance audits as well as traditional financial and compliance audits are essential tools that national audit offices have to help their respective governments identify and address challenging national and global problems. Performance auditing provides objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Increasingly complex issues, risks and problems that governments around the world confront are expanding the perspective of performance auditing. These issues, risks and problems such as modernizing outdated financial regulatory systems and protecting public safety, cut across geographic boundaries, government programs, levels of government and sectors. As government agencies increasingly rely on collaboration with private and nongovernmental entities and delegate responsibilities for implementing public policy initiatives to these entities, the line between the governmental and the nongovernmental sectors continues to blur.

From GAO’s experience, performance auditing has a vital role in providing decision makers and citizens with the information, analysis, and recommendations they need to respond to this increasingly complex and interconnected environment.

To most effectively contribute to fundamental improvements in the performance of 21st century government, GAO has found that auditors need to be more and more focused on governance, including assessing and recommending how to improve connections across organizations, levels of government, sectors, and policy tools. While many of GAO’s individual engagements examine the challenges a specific agency or program faces, three GAO-wide initiatives—the High Risk program; the annual reports on overlap, duplication, and fragmentation; and the reviews of the implementation of the Government Performance and Results Act Modernization Act of 2010—offer government-wide perspectives on the progress needed to respond effectively to 21st century governance challenges.

View GAO-13-868T. For more information, contact J. Christopher Mihm at (202) 512-6806 or at mihmj@gao.gov.
Mr. Chairman and Members of the Committee:

Thank you for the opportunity to contribute to this important hearing and to share the experiences of the United States Government Accountability Office (GAO) with respect to performance auditing. GAO’s mission is to support the U.S. 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 and its counterparts, such as the European Court of Auditors, have unprecedented opportunities to help our respective governments plan ahead and address the increasingly complex challenges posed by global interconnections and worldwide fiscal difficulties.

GAO was established just over 90 years ago. After World War I, the U.S. Congress wanted better information on, and control over, government spending. In 1921, the Budget and Accounting Act required the President to issue an annual federal budget. This law also established GAO—then known as the General Accounting Office—as an independent agency to investigate how federal dollars are spent. In its early years, GAO did mainly voucher auditing. After World War II, however, GAO began to do more comprehensive financial audits that examined the economy and the efficiency of government operations.

In the 1960s, the expectations of the types of information GAO could provide evolved further. As a result, GAO began performance auditing and program evaluations to determine whether government programs were meeting their objectives. In the Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Control Act of 1974, Congress highlighted the role that GAO audits of government program results can play in support of its oversight and legislative functions. The 1974 language specifically requires the Comptroller General to review and evaluate the results of government programs and activities. As noted in a 1976 statement by then Assistant Comptroller

1 Appendix I shows GAO’s mission, trends, strategic goals and objectives, and core values as presented in our strategic plan. See GAO, Serving the Congress and the Nation 2010-2015, GAO-10-559SP (Washington, D.C.: July 1, 2010).


General Ellsworth Morse, “managers and policy makers, particularly in government, want—and need—more from auditors than stereotyped opinions on financial statements. They want independently and objectively obtained and evaluated information on operations and performance and expert advice on such things as how improvements can be made, how money can be saved or used to better advantage and how goals or objectives can be achieved in better fashion and at less cost.” In short, they want auditing focused on performance.

The U.S. Government Auditing Standards which govern our work describe performance audits as providing objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Performance audits evaluate evidence against stated criteria, such as specific requirements, measures, or defined business practices. This definition of performance auditing is consistent with international auditing standards.

Our efforts today fall into three main areas: oversight, insight, and foresight. Our oversight activities determine whether government entities are carrying out their assigned tasks, spending funds for intended purposes, and complying with laws and regulations. Our insight activities determine which programs and policies work well and which ones do not. These efforts include sharing best practices and benchmarking information horizontally across government and vertically through different levels of government. Our foresight activities try to identify key trends and emerging challenges before they reach crisis proportions.

---

6 The GAO work upon which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Our work is based on a combination of legislative mandates, congressional requests, and work done under the Comptroller General’s authority. We meet regularly with Members of Congress and their staff. These outreach efforts ensure that GAO stays at the forefront of high-priority issues facing Congress and the nation. We have protocols for how we respond to congressional requests for our studies. These protocols ensure that we deal consistently and transparently with all congressional committees and members. This is especially important since we do our work for all standing committees of the Congress and about 70 percent of its subcommittees. Our protocols help us to prioritize incoming requests and hold us accountable for the commitments we have made to Congress. In fiscal year 2012, we received 924 congressional requests and new mandates. Performance audits make up the vast majority of our audits.

In the 2008 International Peer Review of the Performance Audit Practice of the United States Government Accountability Office, the International Peer Review Team pointed out several features that distinguish our working environment from that of many of our international peers. The Peer Review noted that we carry out a larger volume of performance audit engagements each year and that the majority of the engagements we carry out are requested by Congress and not self-initiated.

The Peer Review also noted that in responding to congressional requests, we determine the scope and methodology for the work, the timing and staffing, product content, and the management structure. In addition, we have adopted a number of practices to balance our objective of being responsive to Congress while remaining nonpartisan and independent in serving the long-term interests of the American people. The Peer Review identified the following two practices as being particularly notable:

7 The U.S. fiscal year runs from October 1 to September 30.

8 International Peer Review Team, International Peer Review of the Performance Audit Practice of the United States Government Accountability Office (May 30, 2008). The main purpose of the external peer review is to ensure that audit organizations comply with Generally Accepted Government Auditing Standards. Peer reviews also identify good practices that may interest other audit institutions and bring to light areas that may need attention from management.
Our strategic planning process involves Congress and other stakeholders in establishing key themes and high-risk areas that the government needs to manage well. Our high-risk series of reports, which I shall discuss shortly, focuses attention on government programs that pose significant risks of fraud, waste, abuse, and mismanagement.

Our engagement acceptance process focuses management’s attention on the risks associated with each request, including risks to independence, and how the risks will be managed.

Our work leads to real results. Each year, we present our findings, conclusions, and recommendations in reports and testimony before Congress. For example, in fiscal year 2012, we issued more than 650 reports and testified 159 times before various congressional committees. In addition, nearly every one of our reports and testimonies is available on our website the day it is made public. We make it a point to regularly measure and report on our performance. Last fiscal year, financial benefits from our work totaled $55.8 billion U.S. dollars. That is a $105 return on every dollar invested in GAO. We also documented 1,440 other benefits that shaped legislation, improved services to the public, and strengthened government operations. A driving force behind these accomplishments is our focus on following up on the status of our recommendations. At the end of fiscal year 2012, we found that 80 percent of the recommendations we had made in fiscal year 2008 had been implemented. We measure over a 4-year period to allow time for proper implementation. This follow-up provides an additional opportunity for Congress to consider our work during oversight activities, for agencies to respond to our recommendations, and for the work needed to successfully address the issues to be completed.

Clearly, national audit offices can play a key role in providing public officials with vital information and analyses needed to address country-specific challenges. But it is also true that many of the problems we face today are global in nature and will require international cooperation with international solutions.

---


10 GAO-13-3SP.
The International Organization of Supreme Audit Institutions (INTOSAI) has played an important role in this area. INTOSAI is an umbrella organization for the external government audit community that provides an institutionalized framework for the 191-member supreme audit institutions (SAI) to promote development and transfer of knowledge, improve government auditing worldwide, and enhance the professional capacities, standing, and influence of member SAIs in their respective countries. INTOSAI’s work includes developing international auditing standards and helping SAIs around the world implement those standards. The INTOSAI Congress in 2010 adopted a comprehensive set of international standards for SAIs. Those standards cover the core audit disciplines of financial, compliance, and performance audits. They provide an institutionalized framework for transferring knowledge, improving government auditing worldwide, and enhancing the professional capabilities and influence of SAIs in their respective countries. Making the transition to include performance audits as well as traditional financial and compliance audits expands the range of tools that national audit offices have to help their respective governments identify and address challenging domestic and global problems.

Increasingly Complex Issues Are Expanding the Perspective of Performance Auditing

The issues, risks, and problems that governments around the world confront are growing increasingly complex and boundary-spanning. That is, those issues, risks, and problems cut across geographic boundaries, government programs, levels of government, and sectors. As government agencies increasingly rely on collaboration with private and nongovernmental entities and delegate responsibilities for implementing public policy initiatives to these entities, the line between the governmental and the nongovernmental sectors continues to blur. For the United States, policy makers must consider global and local risks, connections, and supply chains if national policy initiatives, such as protecting the security of citizens; reforming national tax laws; modernizing outdated financial regulatory systems; and protecting public safety in the areas of medical products, food and consumer goods, are to be effective.

These issues are, of course, not unique to the United States. The January 2012 report The European Parliament in 2025: Preparing for Complexity, an initiative of the Secretary-General of the European Parliament, identified four concepts which give an idea of the increased complexity likely to be present in 2025:

- the political multi-polarity of the globalised world,
the preponderance of multilevel governance,
• the increase in the number of factors contributing to the drafting and implementation of public policies, and
• technology as a factor in the speed of change.\textsuperscript{11}

The report concluded that “the new multi-polarity of the globalised world, the multilevel nature of governance, the multiple players interacting in law-making, are likely to create a new context for the European Parliament directly or indirectly. This heightened complexity may entail risks of fragmentation of (economic) governance, regulation and law. Fragmentation may lead to a loss of coherence, systematic overlaps and lasting conflicts between jurisdictions, as well as to an institutional paralysis, and, then, to democratic frustration, as it becomes more and more difficult to understand who is producing change in regulation and should be made accountable for success and failures. In order to contribute actively to prevent the risk of political and regulatory fragmentation, the European Parliament has to prepare itself for this upcoming complexity.”\textsuperscript{12}

Performance auditing has a vital role in providing decision makers and citizens with the information, analysis, and recommendations they need to respond to this increasingly complex and interconnected environment. To most effectively contribute to fundamental improvements in the performance of 21st century government, we are finding that auditors need to be more and more focused on governance—that is, assessing and improving connections across organizations, levels of government, sectors, and policy tools. In practice, this has several important implications for the focus of our work overall, and for our performance audits in particular. The following are among those implications:

• Reviewing government’s results-orientation, such as the extent to which agencies have an appropriate crosscutting (also often called whole of government or enterprise) perspective to their intended results as well as using innovative approaches to better achieve results.


\textsuperscript{12} The European Parliament 2025: Preparing for Complexity.
• Evaluating collaborative mechanisms, such as efforts to ensure that agencies are effectively coordinating their efforts across levels of government and with other sectors.

• Examining the interplay of the range of public policy tools, such as grants, contracts, tax expenditures and regulations, that are being used to achieve results to ensure that they are effective and mutually reinforcing.

• Exploring opportunities to use web and social media technologies to improve government transparency and public reporting to foster greater public participation and civic engagement.

• Assessing government’s capacity to respond to governance challenges such as agencies’ risk management programs to ensure that they systematically integrate the identification and management of risk into strategic and program planning.

While many of our individual engagements examine the challenges a specific agency or program faces, three GAO-wide initiatives—our High Risk program; our annual reports on overlap, duplication, and fragmentation; and our reviews of the implementation of the Government Performance and Results Act Modernization Act of 2010—offer government-wide perspectives on the progress needed to respond effectively to 21st century governance challenges.

High Risk: Our work under our High Risk program documents the challenges of managing in a complex governance environment. We began the High Risk program in 1990 and initially focused on bringing attention to government operations that had greater vulnerabilities to waste, fraud, abuse, and mismanagement. Those issues remain a central focus of the High Risk program today. However, in recognition that many of the high-risk issues we were finding were the product of poor working relationships across organizational boundaries, especially with third parties such as contractors, we expanded our focus to include critical areas needing transformation to address economy, efficiency, and effectiveness challenges.

By using the tools of performance auditing as well as financial and compliance audits, we are able to provide forward-looking recommendations to address the High Risk areas. This is especially relevant since more than two-thirds of the 30 areas on our 2013 High Risk List\(^\text{13}\) cut across agencies, levels of government, and sectors of the

For example, we designated limiting the federal government’s fiscal exposure by better managing climate change risks as high risk in 2013 because the federal government is not well positioned to address the fiscal exposure presented by climate change, and needs a government-wide strategic approach with strong leadership to manage related risks. Such an approach includes the establishment of strategic priorities and the development of roles, responsibilities, and working relationships among federal, state, and local entities. Recognizing that each department and agency operates under its own authorities and responsibilities—and can therefore be expected to address climate change in different ways relevant to its own mission—existing federal efforts have encouraged a decentralized approach, with federal agencies incorporating climate-related information into their planning, operations, policies, and programs. The challenge is to develop a cohesive approach at the federal level that also informs action at the state and local levels. Overall, our High Risk program has served to identify and help resolve serious weaknesses in program areas that involve substantial resources and provide critical services to the public.

Overlap, Duplication, and Fragmentation: Our work on overlap, duplication, and fragmentation provides additional illustrations of the governance challenges decision makers face. We have issued three annual reports on overlap, duplication, and fragmentation across the federal government. These reports provided a comprehensive look at 162 issue areas and identified more than 380 actions that the executive branch and Congress could take to reduce fragmentation, overlap, and duplication, as well as other cost savings and revenue enhancement opportunities.

All told, the three reports have covered virtually every major federal agency and program including agriculture, defense, economic development, education, energy, general government, health, homeland security, international affairs, science and the environment, and social services. For example, we reported that a fundamental re-examination

---

and reform of the United States’ surface transportation policies is needed and identified a number of principles to help the Congress in re-examining and reforming the nation’s surface transportation policies. These principles included ensuring the federal role is defined based on identified areas of national interest and goals, incorporating accountability for results by entities receiving federal funds, employing the best tools and approaches to emphasize return on targeted federal investment, and ensuring fiscal sustainability. Building on those principles, the Moving Ahead for Progress in the 21st Century Act was signed into law in July 2012, and reauthorized the nation’s surface transportation programs through the end of fiscal year 2014.15 The law addressed fragmentation in those programs and made progress in addressing the issues we raised, including clarifying federal goals and roles and linking federal programs to performance to ensure accountability for results. Specifically, it incorporated accountability for results around clearly identified national goals, providing the framework for the Department of Transportation and the states to implement this approach in the coming years. However, as we reported in January 2013, Congress needs to develop a long-term plan for funding surface transportation and opportunities exist for a more targeted federal role focused around evident national interests.16

In addition to identifying new areas, and consistent with the commitment expressed in our prior overlap, duplication, and fragmentation reports, we monitor the progress executive branch agencies and Congress have made in addressing the areas previously identified. GAO’s Action Tracker—available on our website—contains the status of the specific suggestions for improvement that we identified in our three annual reports.17 Overall, the executive branch and Congress have made some progress in addressing the areas that we identified in our 2011 and 2012 annual reports. Specifically, as of March 6, 2013, the date we completed our audit work for our most recent report, about 12 percent of the areas identified in our 2011 and 2012 reports were addressed, 66 percent were partially addressed, and 21 percent were not addressed. More recently, both the administration and Congress have taken additional steps, including proposals in the President’s Fiscal Year 2014 Budget.

17 See http://www.gao.gov/duplication/action_tracker/
The Government Performance and Results Act Modernization Act of 2010: The Government Performance and Results Act Modernization Act of 2010 (the act) seeks, among other things, to instill a more coordinated and crosscutting perspective to federal performance through actions such as requiring the administration to select a set of cross-agency priority goals. For example, goals concerning workforce development, export promotion, and sustainability are among the interim goals that the administration has established. It also requires federal agencies in setting their own goals to identify other entities that are involved in achieving those goals.

The act requires GAO to assess implementation and results at several key points. Through the use of performance audits, we reported in June 2013 that the executive branch has taken a number of steps to implement key provisions of the act. Nevertheless, our work has shown that the executive branch needs to do more to fully implement and leverage the act’s provisions to address governance challenges in several key areas including:

- The Office of Management and Budget and agencies have made some progress addressing crosscutting issues but are missing additional opportunities.
- Ensuring performance information is useful and used by managers to improve results remains a weakness, but key performance management and program evaluation practices hold promise.
- Agencies have taken steps to align daily operations with agency results but continue to face difficulties measuring performance.
- Communication of performance information could better meet users’ needs.
- Agency performance information is not always useful for congressional decision making.

---


Over the past four decades our experience in incorporating performance auditing into our overall audit approach has enabled us to help address the complexity facing government. Performance audits, in addition to financial and compliance audits, have allowed us to meet our mission 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. Performance auditing provides GAO with the tools necessary to provide the oversight, insight, and foresight needed to address issues of today.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I look forward to responding to any questions that you may have.

If you or your staffs have any questions about this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at +1-202-512-6806 or at mihmj@gao.gov. Individuals who made key contributions to this testimony are Bill Reinsberg (Assistant Director) and Jon Stehle.
Appendix I

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.

TRENDS

National Fiscal Economic Global Science and Networks and Shifting Roles Demographic Security Sustainability Recovery Interdependence Technology Virtualization of Government and Societal Threats Challenges and Growth Change

<table>
<thead>
<tr>
<th>Goals</th>
<th>Objectives</th>
</tr>
</thead>
</table>
| **Provide Timely, Quality Service to the Congress and the Federal Government to...** | *Health care needs*  
*Lifelong learning*  
*Benefits and protections for workers, families, and children*  
*Financial security*  
*Effective system of justice*  
*Visible communities*  
*Stable financial system and consumer protection*  
*Stewardship of natural resources and the environment*  
*Infrastructure* |
| **...Address Current and Emerging Challenges to the Well-being and Financial Security of the American People related to...** | *Homeland security*  
*Military capabilities and readiness*  
*U.S. foreign policy interests*  
*Global market forces* |
| **...Respond to Changing Security Threats and the Challenges of Global Interdependence involving...** | *Government’s fiscal position and options for closing gap*  
*Efficiency, effectiveness, and quality*  
*Professional networks and collaboration*  
*Efficient, effective, and resource management*** |
| **Help Transform the Federal Government to Address National Challenges by assessing...** | *Major management challenges and program risks*  
*Fraud, waste, and abuse* |
| **Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress and Being a Leading Practices Federal Agency in the areas of...** | *Diverse and inclusive work environment*  
*Efficiency, effectiveness, and quality*  
*Institutional stewardship and resource management*** |

CORE VALUES

<table>
<thead>
<tr>
<th>Accountability</th>
<th>Integrity</th>
<th>Reliability</th>
</tr>
</thead>
</table>

Source: GAO

(451068)
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 website (http://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to http://www.gao.gov and select “E-mail Updates.”

Order by Phone

The price of each GAO publication reflects GAO’s actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO’s website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

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

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Please Print on Recycled Paper.