



Testimony

Before the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

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**GOVERNMENT  
EFFICIENCY AND  
EFFECTIVENESS**

**Views on the Progress and  
Plans for Addressing  
Government-wide  
Management Challenges**

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# GAO Highlights

Highlights of [GAO-14-436T](#), a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The federal government is one of the world's largest and most diverse entities, with about \$3.5 trillion in outlays in fiscal year 2013, funding an extensive array of programs and operations. Moreover, it faces a number of significant fiscal, management, and governance challenges in responding to the varied and increasingly complex issues it seeks to address.

This statement focuses on (1) GAO's work related to the President's Management Agenda, and (2) additional opportunities for decision makers to address major management challenges.

This statement is primarily based upon our published and ongoing work covering GAO's High Risk List; fragmentation, overlap, and duplication reports; and managing for results work. The work upon which these published reports and preliminary findings were based was conducted in accordance with generally accepted government auditing standards.

GAO has made numerous recommendations to OMB and executive branch agencies in these areas and reports in this statement on the status of selected key recommendations.

View [GAO-14-436T](#). For more information, contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov).

March 12, 2014

## GOVERNMENT EFFICIENCY AND EFFECTIVENESS

### Views on the Progress and Plans for Addressing Government-wide Management Challenges

## What GAO Found

A number of areas on the President's Management Agenda are consistent with issues highlighted by GAO's work on the High Risk Program, its annual reports on fragmentation, overlap, and duplication, and other work related to long-standing management challenges. These include, for example: using information technology to better manage for results; addressing improper payments; expanding strategic sourcing; strengthening strategic human capital management; and improving the Department of Defense's weapon systems and services acquisitions. Lasting success in addressing the difficult and longstanding issues on the Presidents Management Agenda will hinge on effective implementation, including sustained top leadership attention. GAO and the Office of Management and Budget (OMB) have agreed to hold a series of high level meetings on the issues on GAO's High Risk List to discuss progress and actions that are needed to fully address high-risk issues. Further, the executive branch has taken a number of steps to implement key provisions of the GPRA Modernization Act by developing cross-agency and agency priority goals; assigning performance management roles and responsibilities to leadership; conducting agency quarterly performance reviews; and developing Performance.gov, a website that provides quarterly updates on the priority goals.

However, additional opportunities exist for decision makers to address major performance management challenges, including, for example:

*Developing a comprehensive inventory of federal programs.* GAO's preliminary review of the program inventories produced by 24 large federal agencies identified concerns about the usefulness of the information provided in these inventories for addressing crosscutting issues.

*Enhancing the use of collaborative mechanisms.* Addressing many of the challenges government faces requires collaboration across agencies, levels of government, or sectors. Yet the mechanisms the federal government uses to collaborate do not always operate effectively.

*Effectively implementing strategic reviews.* Starting in 2014, agency leaders are to annually assess how relevant organizations, programs, and activities, both within and outside of their agencies, are contributing to progress on their strategic objectives and identify corrective actions where progress is lagging. Such reviews could help address fragmentation, overlap, and duplication issues.

*Improving capacity to gather and use better performance information.* GAO's work has found that federal decision makers often lack complete and reliable performance data needed to address the government's management challenges.

Furthermore, the administration needs to accelerate progress in (1) addressing major impediments preventing GAO from rendering an opinion on the U.S. government's consolidated financial statements and risks to the government's future financial condition; (2) elevating top leadership attention to the areas identified in our annual reports on fragmentation, overlap, and duplication; and (3) responding to pressing challenges with its cybersecurity, such as evolving cyber threats to systems supporting government operations and critical infrastructure. Congress also has key roles in addressing each of these issues.

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Chairman Carper, Ranking Member Dr. Coburn, and Members of the Committee:

I am pleased to be here today to discuss efforts under way to address major management challenges facing the federal government, as well as opportunities for the administration and Congress to make further progress moving forward. The federal government is one of the world's largest and most diverse entities, with about \$3.5 trillion in outlays in fiscal year 2013, funding an extensive array of programs and operations. In responding to the varied and increasingly complex issues the federal government seeks to address, it faces a number of significant fiscal, management, and governance challenges.

My statement today focuses on (1) GAO's work related to the President's Management Agenda, and (2) additional opportunities for decision makers to address major management challenges. My comments are primarily based upon our published and ongoing work covering GAO's High Risk List;<sup>1</sup> fragmentation, overlap and duplication reports;<sup>2</sup> and managing for results work.<sup>3</sup> The work upon which these published reports and preliminary findings were based was conducted in accordance with generally accepted government auditing standards.

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<sup>1</sup>For our most recent report, see GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013). For additional information, see our High Risk List key issues page at <http://www.gao.gov/highrisk/overview>.

<sup>2</sup>See GAO, *2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-13-279SP](#) (Washington, D.C.: Apr. 9, 2013); *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, [GAO-12-342SP](#) (Washington D.C.: Feb. 28, 2012); and *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011). For additional information, see our Duplication and Cost Savings key issues page at <http://www.gao.gov/duplication/overview>.

<sup>3</sup>See, for example, GAO, *Managing for Results: Implementation Approaches Used to Enhance Collaboration in Interagency Groups*, [GAO-14-220](#) (Washington, D.C.: Feb. 14, 2014), and *Managing For Results: Executive Branch Should More Fully Implement the GPRM Modernization Act to Address Pressing Governance Challenges*, [GAO-13-518](#) (Washington, D.C.: June 26, 2013). For additional information, see our Managing for Results in Government key issues page at [http://www.gao.gov/key\\_issues/managing\\_for\\_results\\_in\\_government](http://www.gao.gov/key_issues/managing_for_results_in_government).

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## The President's Management Agenda Covers Many Areas Highlighted by GAO as Needing Attention

A number of areas on the President's Management Agenda are consistent with issues highlighted by our work on the High Risk Program, our annual reports on fragmentation, overlap, and duplication, and other work related to long-standing management challenges. Over the years, we have made hundreds of recommendations to address these issues. The current and prior administrations have taken actions to address many of these recommendations, and have made progress in many areas.

Much more, however, remains to be done. Lasting solutions to remaining issues offer the potential to save billions of dollars, dramatically improve service to the American public, and strengthen public confidence and trust in the performance and accountability of our national government. Examples of where the President's Management Agenda and our work are consistent include:

- **Using information technology (IT) to better manage for results.** The government invests about \$80 billion annually in IT. Improving the transparency of about 700 major IT investments with the IT Dashboard can help focus attention on troubled projects. In addition, holding executive reviews, known as TechStat sessions, of selected investments that are not producing results has resulted in positive outcomes such as accelerated delivery, reduced scope, and termination. We have made recommendations to improve the accuracy and use of the IT Dashboard and for the Office of Management and Budget (OMB) and agencies to hold more TechStat sessions.<sup>4</sup> OMB has generally concurred with our Dashboard recommendations and has taken actions such as improving the accuracy of the reported investment cost and schedule data. OMB also agreed with our recommendation to hold more TechStat sessions and stated that OMB and the agencies were taking appropriate steps to meet that recommendation.

Other IT initiatives such as PortfolioStat and Data Center Consolidation can eliminate duplicative investments and close hundreds of centers, resulting in billions in savings.<sup>5</sup> For example, we

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<sup>4</sup>GAO, *IT Dashboard: Agencies Are Managing Investment Risk, but Related Ratings Need to Be More Accurate and Available*, [GAO-14-64](#) (Washington, D.C.: Dec. 12, 2013) and *Information Technology: Additional Executive Review Sessions Needed to Address Troubled Projects*, [GAO-13-524](#) (Washington, D.C.: Jun. 13, 2013).

<sup>5</sup>[GAO-13-279SP](#) and [GAO-12-342SP](#).

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recently reported that the PortfolioStat initiative has the potential to save between \$5.8 and \$7.9 billion.<sup>6</sup> We have made multiple recommendations to OMB and agencies to more fully implement and report on eliminating duplicative and inefficient IT investments.<sup>7</sup> OMB agreed with some of these recommendations and subsequently clarified its guidance on how agencies should identify potentially duplicative investments. Further, agencies have also generally agreed with our recommendations and taken steps such as conducting portfolio reviews to identify duplicative investments and report those results via the IT Dashboard.

- **Addressing improper payments.** The federal government serves as the steward of taxpayer dollars and should safeguard them against improper payments. The President's Management Agenda is consistent with our prior reporting that predictive analytic technologies can help agencies better identify and prevent improper payments.<sup>8</sup> Further, OMB reported that it plans to develop more detailed categories of improper payments, which can help agencies tailor corrective action plans to better address the root causes of improper payments.

In fiscal year 2013, estimated governmentwide improper payments totaled approximately \$106 billion; however, this may not cover the full extent of improper payments throughout the federal government. In order to determine the full extent of improper payments governmentwide and to more effectively reduce and recover them, continued attention is needed to (1) adopt sound risk assessment and improper payment estimation methodologies and (2) develop effective

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<sup>6</sup>GAO, *Information Technology: Additional OMB and Agency Actions Are Needed to Achieve Portfolio Savings*, [GAO-14-65](#) (Washington, D.C.: Nov. 6, 2013).

<sup>7</sup>GAO, *Data Center Consolidation: Strengthened Oversight Needed to Achieve Cost Savings Goal*, [GAO-13-378](#) (Washington, D.C.: Apr. 23, 2013); *Information Technology: Departments of Defense and Energy Need to Address Potentially Duplicative Investments*, [GAO-12-241](#) (Washington, D.C.: Feb. 17, 2012); and *Information Technology: OMB Needs to Improve Its Guidance on IT Investments*, [GAO-11-826](#) (Washington, D.C.: Sep. 29, 2011).

<sup>8</sup>GAO, *Improper Payments: Moving Forward with Governmentwide Reduction Strategies*, [GAO-12-405T](#) (Washington, D.C.: Feb. 7, 2012).

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corrective action plans and preventive and detective controls to address the root causes of improper payments.<sup>9</sup>

- **Expanding strategic sourcing.** One area that could yield significant cost savings is the expanded use of strategic sourcing, a process that moves away from numerous individual procurements to a broader aggregate approach. Our work has found that federal agencies could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategic sourcing contracts and further expanding strategic sourcing practices to their highest spending procurement categories.<sup>10</sup> For example, most agencies' efforts do not address their highest spending areas such as services.

We estimated that savings of one percent from selected large agencies' procurement spending alone would equate to over \$4 billion. In that regard, the President's Management Agenda calls on federal agencies to expand the use of strategic sourcing to better leverage the government's buying power and reduce contract duplication. It did not, however, lay out specific governmentwide metrics or savings goals. We had previously recommended that OMB establish additional metrics to measure progress toward goals. OMB has efforts underway to address this recommendation.<sup>11</sup>

- **Strengthening strategic human capital management.** Consistent with the President's Management Agenda goal to attract and retain a talented workforce, foster a culture of excellence, and invest in the Senior Executive Service (SES), we have reported that addressing complex challenges such as homeland security, economic stability, and other national priorities requires a high-quality workforce able to work seamlessly with other agencies, levels of government, and across sectors. Strategic human capital management has been on our High Risk List since 2001.<sup>12</sup>

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<sup>9</sup>Improper payments contribute to the issues identified in certain areas on our High Risk List, such as DOD Financial Management and the Medicare and Medicaid programs. See [GAO-13-283](#).

<sup>10</sup>[GAO-13-279SP](#).

<sup>11</sup>GAO, *Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs*, [GAO-12-919](#) (Washington, D.C.: Sep. 20, 2012).

<sup>12</sup>[GAO-13-283](#).

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Since then, as a result of actions taken by Congress, the Office of Personnel Management, and individual agencies, important progress has been made. Still, additional efforts are needed in such areas as human capital planning, building results-oriented cultures, and talent management,<sup>13</sup> such as (1) addressing government-wide and agency-specific skill gaps and enhancing workforce diversity, (2) strengthening performance management systems to improve the “line of sight” between individual performance and organizational outcomes,<sup>14</sup> and (3) fully assessing the costs and benefits of SES training.<sup>15</sup>

- **Improving the Department of Defense’s (DOD) weapons systems and services acquisition.** The President’s Management Agenda is consistent with our findings and recommendations on improving the Department of Defense’s (DOD) acquisition of weapon systems and services, issues that have been on GAO’s High Risk List since the 1990s. DOD has made some progress in this area.<sup>16</sup> Over the past several years it has decreased the size of its major defense acquisition program portfolio as well as its estimated total cost; however, programs continue to experience cost growth over time. DOD has launched its “Better Buying Power” initiatives to achieve more efficiency and reduce cost growth.

We have tracked implementation of some of these initiatives and found that DOD has largely been successful in implementing its “should-cost” effort to lower contract prices during negotiations and has reported near-term cost savings as a result. DOD has had less success in implementing affordability constraints—which limit a program’s total cost throughout its lifecycle—an initiative that has the

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<sup>13</sup>GAO, *Human Capital Management: Effectively Implementing Reforms and Closing Critical Skills Gaps Are Key to Addressing Federal Workforce Challenges*, [GAO-12-1023T](#) (Washington, D.C.: Sep. 19, 2012).

<sup>14</sup>GAO, *Results-Oriented Management: Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System*, [GAO-09-82](#) (Washington, D.C.: Nov. 21, 2008).

<sup>15</sup>GAO, *Human Capital: Agencies Should More Fully Evaluate the Costs and Benefits of Executive Training*, [GAO-14-132](#) (Washington, D.C.: Jan. 31, 2014).

<sup>16</sup>[GAO-13-283](#).

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potential for long-term savings if implemented effectively.<sup>17</sup> Similarly, we have found that DOD has made mixed progress in improving its acquisition of services.<sup>18</sup> DOD leadership has demonstrated a commitment to improving service acquisitions and management, but the department's efforts are hindered, in part, by limited knowledge and baseline data on the current state of service acquisitions and the absence of goals and metrics to assess its progress. We have ongoing reviews to help improve the efficiency of DOD's weapon system acquisition process and the effectiveness of its portfolio management practices that we believe will further the administration's and Congress' efforts in this area.<sup>19</sup>

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## Effective Implementation Is Essential to Successfully Addressing Issues on the Management Agenda

Lasting success in addressing the difficult and longstanding issues on the President's Management Agenda will hinge on effective implementation, including sustained top leadership attention. For example, our work has shown that there are five key factors that are essential to resolving high-risk issues:

1. a demonstrated strong commitment to, and top leadership support for, addressing problems;
2. the capacity to address problems;
3. a corrective action plan;
4. a program to monitor corrective measures; and
5. demonstrated progress in implementing corrective measures.

Top administration officials have continued to show their commitment to ensuring that significant management challenges, including those on the High Risk List, receive attention and oversight. OMB regularly convenes

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<sup>17</sup>GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, [GAO-13-294SP](#) (Washington, D.C.: Mar. 28, 2013).

<sup>18</sup>GAO, *Defense Acquisitions: Goals and Associated Metrics Needed to Assess Progress in Improving Service Acquisition*, [GAO-13-634](#) (Washington, D.C.: Jun. 27, 2013).

<sup>19</sup>Congress took legislative action to reform military acquisition through the Weapon Systems Acquisition Reform Act of 2009. In December 2012, we reported on DOD's progress in implementing this act. GAO, *Weapons Acquisition Reform Act: Reform Act Is Helping DOD Acquisition Programs Reduce Risk, but Implementation Challenges Remain*, [GAO-13-103](#) (Washington, D.C.: Dec. 14, 2012).



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meetings for agencies to provide progress updates on high-risk issues. GAO and OMB have agreed to hold a series of meetings on the issues on GAO's High Risk List. The purposes of these meetings are to discuss progress achieved and specifically focus on actions that are needed to fully address high-risk issues and ultimately remove them from the list. These meetings typically include OMB's Deputy Director for Management, agency leaders, as well as myself and have provided a useful forum for constructive and productive dialogues.

The President's Management Agenda also commits to making continued progress in managing for results. In that regard, our work has shown that progress has been made in implementing the GPRA Modernization Act of 2010 (GPRAMA).<sup>20</sup> For example, the executive branch has taken a number of steps to implement key provisions of GPRAMA. The Office of Management and Budget (OMB) has developed cross-agency priority goals, and agencies developed agency priority goals. Agency officials reported that their agencies have assigned performance management leadership roles and responsibilities to officials who generally participate in performance management activities, including quarterly performance reviews for agency priority goals. Further, OMB developed Performance.gov, a government-wide website, which provides quarterly updates on cross-agency priority goals and agency priority goals.

While the building blocks needed for implementation are being put in place, much more needs to be done before the provisions of the act are fully useful to decision makers as shown in the following examples.

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## Developing a Comprehensive Inventory of Federal Programs

Executive branch efforts to address crosscutting issues are hampered by the lack of a comprehensive list of programs—a key requirement of the act. As we have noted, such a list is critical for aligning federal government efforts for identifying potential fragmentation, overlap, or duplication among federal programs or activities. GPRAMA requires OMB to compile and make publicly available a comprehensive list of all federal programs identified by agencies, and to include the purposes of each program, how it contributes to the agency's mission, and recent funding information. OMB began implementing this provision by directing 24 large

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<sup>20</sup>Pub. L. No. 111-352, 124 Stat. 3866 (2011). The acronym "GPRA" in the act's title refers to the Government Performance and Results Act of 1993. Pub. L. No. 103-62, 107 Stat. 285. For our work reviewing implementation, see [GAO-13-518](#).

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federal agencies to develop and publish inventories of their programs in May 2013.

Our preliminary review of these initial inventories identified concerns about the usefulness of the information being developed and the extent to which it might be able to assist executive branch and congressional efforts to identify and address fragmentation, overlap, and duplication. OMB's guidance for developing the inventories provided agencies with flexibility to define their programs, such as by outcomes, customers, products/services, organizational structure, and budget structure. As a result, agencies took various approaches to define their programs—with many using their budget structure while others used different approaches such as identifying programs by related outcomes or customer focus.

The variation in definitions across agencies will limit comparability among like programs. In addition, as reported in our annual reports on fragmentation, overlap and duplication, we have found that federal budget and cost information is often not available or not sufficiently reliable to identify the level of funding provided to programs or activities. For example, agencies could not isolate budgetary information for some programs because the data were aggregated at higher levels.

OMB identified 12 different program types (e.g., block grants, regulatory, credit) for agencies to assign to their programs; however, the list of program types does not include tax expenditures, which represent a substantial federal commitment.<sup>21</sup> OMB does not yet have definitive plans on when this effort will be expanded beyond the current 24 agencies to cover all other agencies and programs. We plan to further explore these issues and report on potential ways that the federal program inventory might be improved going forward later this spring.

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<sup>21</sup>Tax expenditures are reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates. If the Department of the Treasury estimates are summed, an estimated \$1 trillion in revenue was forgone from the 169 tax expenditures reported for fiscal year 2012, nearly the same as discretionary spending that year. Since 1994, we have recommended greater scrutiny of tax expenditures, as periodic reviews could help determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of spending programs with similar goals. For more information, see our key issues page on tax expenditures at [http://www.gao.gov/key\\_issues/tax\\_expenditures](http://www.gao.gov/key_issues/tax_expenditures).

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## Enhancing the Use of Collaborative Mechanisms

Collaboration across agencies, levels of government, or sectors is fundamental to addressing many high-risk issues and reducing fragmentation, overlap, and duplication. In one example, we have noted that better coordination among the more than 30 federal agencies that collect, maintain, and use geospatial information could help reduce duplication of investments and provide the opportunity for potential savings of millions of dollars.

In another example, the Department of Veterans Affairs and DOD operate two of the nation's largest health care systems, together providing health care to nearly 16 million veterans, service members, military retirees, and other beneficiaries at estimated costs for fiscal year 2013 of about \$53 billion and \$49 billion, respectively. As part of their health care efforts, the departments have established collaboration sites—locations where the two departments share health care resources through hundreds of agreements and projects—to deliver care jointly with the aim of improving access, quality, and cost-effectiveness of care. However, we found that the departments do not have a fully developed and formalized process for systematically identifying all opportunities for new or enhanced collaboration, potentially missing opportunities to improve health care access and quality, and reduce costs.

Many collaborative mechanisms, such as interagency groups and specially created interagency offices, do not operate as effectively as they could.<sup>22</sup> These mechanisms face challenges with issues such as identifying a common outcome and managing resources across agency lines. Our work has found practices and corresponding effective implementation approaches that collaborative mechanisms have used to work effectively across agency lines. For example, we have found practices and approaches such as agreeing on roles and responsibilities, with corresponding accountability for both the agency and the individual participants, creating an inventory of agency resources dedicated towards interagency outcomes, developing outcomes that represent the collective

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<sup>22</sup>For more information on collaborative mechanisms see GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012).

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interests of participants, and developing performance measures that are tied to shared outcomes, can help enhance and sustain collaboration.<sup>23</sup>

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## Effectively Implementing Strategic Reviews

OMB's 2013 guidance implementing GPRAMA directs agencies, beginning in 2014, to conduct annual reviews of progress towards strategic objectives—the outcomes or impacts the agency is intending to achieve.<sup>24</sup> Agency leaders are responsible for assessing progress on each strategic objective established in the agency's strategic plan. Effective implementation could help identify and address fragmentation, overlap, and duplication issues because as part of the strategic reviews, agencies are to identify the various organizations, programs, regulations, tax expenditures, policies, and other activities that contribute to each objective both within and outside the agency.

Where progress in achieving an objective is lagging, the reviews are intended to identify strategies for improvement, such as strengthening collaboration to better address crosscutting challenges. If successfully implemented in a way that is open, inclusive, and transparent—to Congress, delivery partners, and a full range of stakeholders—this approach could help decision makers assess the relative contributions of various programs that contribute to a given objective. Successful strategic reviews could also help decision makers identify and assess the interplay of public policy tools that are being used, to ensure that those tools are effective and mutually reinforcing, and results are being efficiently achieved.

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## Improving the Government's Capacity to Gather and Use Better Performance Information

Our annual reports on fragmentation, overlap and duplication have also highlighted several instances in which executive branch agencies do not collect necessary performance data. In an example from our 2011 annual report, we noted that a lack of information on program outcomes for economic development, where four agencies administer 80 programs, was a longstanding problem.<sup>25</sup> We suggested that the four agencies—the

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<sup>23</sup>[GAO-14-220](#) and GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

<sup>24</sup>OMB, Circular No. A-11, Performance Plans, Performance Reviews, and Annual Program Performance Reports. (July 2013).

<sup>25</sup>[GAO-11-318SP](#).

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Departments of Commerce, Housing and Urban Development, and Agriculture and the Small Business Administration—collect accurate and complete information on program outcomes. As of March 2013, the four agencies had taken actions to begin to collect better data on program performance.

Moreover, our June 2013 report on GPRAMA implementation found that agencies continue to face long-standing issues with measuring performance, such as obtaining complete, timely, and accurate performance information across various programs and activities.<sup>26</sup> In one example, we reported in June 2013 on two Federal Emergency Management Agency (FEMA) grant programs that collect performance information and feed the resulting data into a higher-level Department of Homeland Security (DHS) goal.<sup>27</sup> We found that data were self-reported by recipients and FEMA had varied and inconsistent approaches to verifying and validating the data. We recommended that FEMA ensure that there are consistent procedures in place to verify and validate grant performance data. DHS, of which FEMA is a part, concurred with the recommendation.

Given the Performance Improvement Council's responsibilities for addressing crosscutting performance issues and sharing performance improvement practices, our June 2013 report noted that it could do more to examine and address the difficulties agencies face to measuring performance across various program types, such as grants and contracts. We recommended that OMB work with the Performance Improvement Council to develop a detailed approach for addressing these long-standing performance measurement issues. OMB staff agreed with this recommendation.

Even in instances where agencies are collecting performance information, our periodic surveys of federal managers between 1997 and 2013 have found little improvement in managers' reported use of performance information to improve results.<sup>28</sup> However, agencies' quarterly

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<sup>26</sup>GAO-13-518.

<sup>27</sup>GAO, *Grants Performance: Justice and FEMA Collect Performance Data For Selected Grants, but Action Needed to Validate FEMA Performance Data*, GAO-13-552 (Washington, D.C.: Jun. 24, 2013).

<sup>28</sup>GAO-13-518.

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performance reviews of progress on their priority goals—which began at most agencies in 2011 under GPRAMA—show promise as a leadership strategy for improving the use of performance information in agencies. Of the 12 percent of federal managers who both responded to our survey and reported they were very familiar with these reviews, 76 percent agreed that their top leadership demonstrated a strong commitment to using performance information to guide decision making to a great or very great extent. In addition, according to our 2012 survey of performance improvement officers at 24 agencies, the majority (21 out of 24 agencies required to conduct these reviews) reported that actionable opportunities for performance improvement were identified through the reviews at least half the time.<sup>29</sup>

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## Accelerated Progress Is Needed on Major Financial Management, Cybersecurity, and Fragmentation, Overlap, and Duplication Issues

To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government’s fiscal challenges, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Overall, significant progress has been made since the enactment of key federal financial management reforms in the 1990s; however, our February 2014 report on the U.S. government’s consolidated financial statements underscores that much work remains to improve federal financial management, and these improvements are urgently needed.<sup>30</sup>

In that report, we concluded that certain material weaknesses<sup>31</sup> in internal control over financial reporting and other limitations on the scope of our

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<sup>29</sup>GAO, *Managing for Results: Agencies Have Elevated Performance Management Roles, but Additional Training Is Needed*, [GAO-13-356](#) (Washington, D.C.: Apr. 16, 2013) and *Managing for Results: Data-Driven Performance Reviews Show Promise But Agencies Should Explore How to Involve Other Relevant Agencies*, [GAO-13-228](#) (Washington, D.C.: Feb. 27, 2013).

<sup>30</sup>GAO, *Financial Audit: U.S. Government's Fiscal Years 2013 and 2012 Consolidated Financial Statements*, [GAO-14-319R](#), (Washington, D.C.: Feb. 27, 2014).

<sup>31</sup>A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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work resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2013, and 2012.<sup>32</sup> Three major impediments prevented us from rendering an opinion on the federal government's accrual-based consolidated financial statements:

- serious financial management problems at DOD that have prevented its financial statements from being auditable — about 33 percent of the federal government's reported total assets as of September 30, 2013, and approximately 16 percent of the federal government's reported net cost for fiscal year 2013 relate to DOD, which received a disclaimer of opinion on its consolidated financial statements,
- the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and
- the federal government's ineffective process for preparing the consolidated financial statements.

In addition to the material weaknesses underlying the three major impediments, we identified other material weaknesses which resulted in ineffective internal control over financial reporting for fiscal year 2013. These weaknesses are the federal government's inability to

- determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them,
- identify and timely resolve information security control deficiencies and manage information security risks on an ongoing basis, and
- effectively manage its tax collection activities.

There are also risks that certain factors could affect the federal government's financial condition in the future, including the following:

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<sup>32</sup>The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2013, and 2012 consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis. The 2013, 2012, 2011, 2010, and 2009 Statements of Social Insurance and the 2013 and 2012 Statements of Changes in Social Insurance Amounts, including the related notes, are also included in the consolidated financial statements.

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- The U.S. Postal Service (USPS) is facing a deteriorating financial situation with a lack of liquidity as it has reached its borrowing limit of \$15 billion and finished fiscal year 2013 with a reported net loss of \$5 billion.
  - The Federal Housing Administration's (FHA) mortgage insurance portfolio continues to grow, and its insurance fund has experienced major financial difficulties. FHA's capital ratio for its Mutual Mortgage Insurance Fund remained below the required 2 percent level as of the end of fiscal year 2013. The ultimate roles of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) in the mortgage market may further affect FHA's financial condition.
  - The Pension Benefit Guaranty Corporation's (PBGC) financial future is uncertain because of long-term challenges related to PBGC's governance and funding structure. PBGC's liabilities exceeded its assets by about \$36 billion as of September 30, 2013. PBGC reported that it is subject to further losses if plan terminations that are reasonably possible occur.

GAO's High Risk List includes several of these issues, such as information security, USPS's business model, DOD financial management, and the PBGC and FHA insurance programs.<sup>33</sup>

Increased attention to risks that could affect the federal government's financial condition is made more important because of the nation's longer-term fiscal challenges. The administration's long-term fiscal projections—and our own long-term federal fiscal simulations—show that, absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. The oldest members of the baby-boom generation are already eligible for Social Security retirement benefits and for Medicare benefits. Under the administration's projections—and our simulations—spending for the major health and retirement programs will increase in coming decades as more members of the baby-boom generation become eligible for benefits and the health care cost for each enrollee increases. Over the long term, the imbalance between revenue and spending built into current law and policy will lead to continued growth of debt held by the public as a share of Gross Domestic Product (GDP). This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Reliable financial and performance information is even more critical as (1) federal managers likely face increasingly tight budget constraints and

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<sup>33</sup>[GAO-13-283](#).



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need to operate their respective entities as efficiently and effectively as possible and (2) decision makers carry out the important task of deciding how to use multiple tools (tax provisions, discretionary spending, mandatory spending, and credit programs) to address the federal government's fiscal challenges.

Similarly ongoing attention is needed to address issues identified in our annual reports on fragmentation, overlap, duplication, and potential cost savings and revenue enhancements. Of the 162 areas that we have identified in our annual reports, 19 (12 percent) have been fully addressed, 111 (69 percent) have been partially addressed, and 31 (19 percent) have not been addressed.<sup>34</sup> More specifically, of the approximately 380 actions identified in our annual reports, 87 (23 percent) have been fully addressed, 187 (49 percent) have been partially addressed, and 104 (28 percent) have not been addressed as of December 2013.<sup>35</sup> Our reports and [GAO's Action Tracker](#) provide details for each of the issues, describing the nature of the problems, what actions have been taken to address them, and what remains to be done to make further progress.

While agencies have continued to make progress, important opportunities have yet to be pursued. The details in our reports, along with successful implementation by agencies and continued oversight by Congress, can form a solid foundation for progress to address risks, improve programs and operations, and achieve greater efficiencies and effectiveness.

In 2012, OMB collected information from the responsible agencies on the steps they have taken to address our suggested actions. To ensure sustained leadership attention on these actions, OMB also asked the performance improvement officers from responsible agencies to monitor the progress being made. GAO and OMB staff meet throughout the year to discuss the issues identified by our work and the extent to which the administration is working to address the issues. These meetings have been helpful in monitoring progress. However, given that issues of fragmentation, overlap, and duplication often involve multiple agencies, the discussions need to be elevated to include more senior officials who

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<sup>34</sup>As of December 2013, one area remains under review.

<sup>35</sup>We will update the status of these actions when we release our next annual report in April 2014.

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have the responsibility and authority for resolving the crosscutting issues identified.

In addition to financial management and widespread fragmentation, overlap, and duplication issues, the federal government must address pressing challenges with its cybersecurity. As computer technology has advanced, federal agencies and our nation's critical infrastructures such as power distribution, water supply, telecommunications, and emergency services have become increasingly dependent on computerized information systems and electronic data to carry out operations and to process, maintain, and report essential information. The security of these systems and data is essential to protecting national security, economic prosperity, and public health and safety. We have reported that (1) cyber threats to systems supporting government operations and critical infrastructure were evolving and growing, (2) cyber incidents affecting computer systems and networks continue to rise, and (3) the federal government continues to face challenges in a number of key aspects of its approach to cybersecurity, including those related to protecting the nation's critical infrastructure.<sup>36</sup> For these reasons, federal information security has been on GAO's list of high-risk areas since 1997; in 2003, we expanded this high-risk area to include cyber critical infrastructure protection.<sup>37</sup>

The federal government has taken a variety of actions that are intended to enhance federal and critical infrastructure cybersecurity. For example, the government issued numerous strategy-related documents over the last decade, many of which addressed aspects of the challenge areas we identified. The administration also took steps to enhance various cybersecurity capabilities, including establishing agency performance goals and a tracking mechanism to monitor performance in three cross-agency priority areas.<sup>38</sup> In February 2013, the president issued Presidential Policy Directive 21 on critical infrastructure security and resilience and Executive Order 13,636 on improving critical infrastructure

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<sup>36</sup>GAO, *Cybersecurity: National Strategy, Roles, and Responsibilities Need to Be Better Defined and More Effectively Implemented*, [GAO-13-187](#) (Washington, D.C.: Feb. 14, 2103).

<sup>37</sup>[GAO-13-283](#).

<sup>38</sup>The three cross-agency priority areas are implementing Trusted Internet connections, continuous monitoring of federal information systems, and strong authentication.

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cybersecurity. Improving these capabilities is a step in the right direction, and their effective implementation can enhance federal information security and the cybersecurity and resilience of our nation's critical infrastructure.

However, more needs to be done to accelerate the progress made in bolstering the cybersecurity posture of the nation and federal government. The administration and executive branch agencies need to implement the hundreds of recommendations made by GAO and agency inspectors general to address cyber challenges, resolve known deficiencies, and fully implement effective information security programs. Until then, a broad array of federal assets and operations will remain at risk of fraud, misuse, and disruption, and the nation's most critical federal and private sector infrastructure systems will remain at increased risk of attack from our adversaries. Congress is considering several bills that are intended, if enacted into law and effectively implemented by the executive branch, to improve cyber information sharing and the cybersecurity posture of the federal government and the nation.

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In closing, our nation's long-term fiscal challenges underscore the need for the federal government to operate in an efficient and effective manner. To do so, the federal government must address a number of significant management and governance challenges—many highlighted by our High Risk List and our annual reports on fragmentation, overlap, and duplication. Our work has also highlighted a variety of approaches the executive branch and Congress could take to resolve these issues moving forward. In doing so, it is vital that both branches of government demonstrate the sustained leadership commitment needed to address these challenges. Given the crosscutting nature of many of these challenges, it will be particularly important for OMB to play a leadership role in the Executive Branch.

Chairman Carper, Ranking Member Dr. Coburn, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

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## GAO Contacts

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