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## Testimony

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# MAJOR MANAGEMENT CHALLENGES AND PROGRAM RISKS

## Departments of Defense, State, and Veterans Affairs

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss major management challenges and program risks confronting the Departments of Defense (DOD), State, and Veterans Affairs (VA). Our testimony is derived from a special series of reports we recently issued on this subject entitled Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U.S. Postal Service. As a companion volume to this series, we have also issued an update to those government operations and programs that our work has identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement.

As requested, our testimony today will focus on (1) the management challenges DOD, State, and VA must address to improve the efficiency of their support functions and (2) whether these departments are meeting performance and accountability goals and measurements that are required under the Government Performance and Results Act of 1993.

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## Results in Brief

For each of the three agencies—DOD, State, and VA—we have identified and reported management challenges that have hampered the efficiency of their support functions in carrying out their missions. To their credit, each of the agencies has implemented a number of initiatives to improve their operations, but more remains to be done. These challenges, many of which have been long-standing in scope, also underscore the critical role that the principles of performance-based management, as embraced in the Results Act, can play in successfully providing the products, services, and results that taxpayers expect.

For many years, we have reported significant problems at DOD that cut across many of its program areas. These problems can be categorized into systemic management challenges, which deal with issues such as financial management, information management, weapon systems acquisition, and contract management; and program management challenges, which deal with issues related to infrastructure, inventory management, and personnel. DOD has implemented a number of Departmentwide reform initiatives that are intended to improve some of its processes along with key business practices. Despite DOD’s military successes, many of DOD’s programs and operations are still vulnerable to fraud, waste, abuse, and mismanagement, and need improvement. Overcoming these challenges

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requires DOD to address the underlying causes, such as cultural barriers and service parochialism, that limit opportunities for change. To address these problems, DOD must have an effective overall strategic plan for the agency and all levels of the organization that includes goals, performance measures, and time frames for completing corrective actions. The Results Act provides the framework for resolving high risk and other problems and for providing greater accountability in DOD's programs and operations. However, DOD has not fully embraced the underlying principles in the Results Act.

In our past and ongoing work at State, we have identified a number of performance and management challenges State faces in carrying out its mission, such as providing enhanced overseas security, upgrading its information systems, strengthening financial accounting and controls, enhancing controls over the issuance of visas, integrating other foreign affairs agencies' functions into the Department, and improving its strategic and performance planning. State is making progress in addressing these issues. For example, State is now devoting substantial resources to developing a strategy to enhance its information management capacity and security as well as its financial management systems. State has also completed strategic and annual performance plans under the Results Act. However, these plans had their strong points but often fell short on meeting Results Act requirements. For example, State's strategic plan addressed neither the potential impact of the consolidation of the foreign affairs agencies on its systems nor the potential for other agencies to have functions duplicative of State's. State's performance plan revealed similar deficiencies.

For many years, we have reported significant management problems at VA. These problems include obsolete infrastructure, poor monitoring of the effects of health service delivery changes on patient outcomes, inadequate data, and ineffective management of non-health-care benefits and management information systems. VA has made progress in developing a framework for managing and evaluating changes in health care service delivery, as required by the Results Act; however, much more needs to be done to achieve Results Act requirements. For example, VA must continue to set results-oriented goals for compensating disabled veterans and develop effective strategies for improving disability claims processing and vocational rehabilitation. VA must also improve its management information to help it ensure that veterans have equitable access to care across the country, that it maintains its capacity to serve special populations, and that it can meet enrolled veterans' demand for care.

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## Challenges Facing the Department of Defense

Managing and overseeing an estimated \$1 trillion in assets and annual budget of over \$250 billion, or about one-half of the government's discretionary funding, is an enormous task. As the United States begins the new millennium as the world's sole superpower, it continues to lead the world with superior military forces. The effectiveness of U.S. forces is well evidenced by experiences in the Persian Gulf and Bosnia. Also, the DOD has implemented a number of Departmentwide reform initiatives that are expected to improve its financial management, information management, and defense weapon systems acquisition processes and other key business practices. However, DOD still faces challenges with many of its key performance and management processes. A number of these challenges have been included on our high risk list for many years (see app. I). Successfully addressing these challenges can yield fiscal dividends that the Department could use to meet priorities such as readiness and modernization needs. The challenges DOD faces can be grouped into two categories: (1) systemic problems with management processes related to plans, finances, information, acquisition, and contracts and (2) specific problems related to infrastructure, inventory, and personnel programs. Summaries of the challenges that need to be addressed follow.

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## Systemic Management Challenges

### Serious Financial Management Weaknesses Persist

DOD continues to struggle to overcome the many problems brought about by decades of neglect and to fully institute sound financial management practices. These problems range from being unable to properly account for billions of dollars in assets to being unable to produce reliable and timely information needed to make sound resource decisions. The most recent audits of DOD's financial statements—for fiscal year 1997—resulted in the identification of serious deficiencies across the full spectrum of DOD's recordkeeping and controls systems. For example:

- DOD has not properly accounted for and reported billions of dollars of property, equipment, inventory, and supplies. Recorded information on the number and location of several military equipment items—such as F-4 engines and service craft—was not reliable, on-hand quantities of inventories differed by 23 percent from inventory records at selected major storage locations, and over \$9 billion in known military operating materials and supplies were not reported.

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- DOD has not estimated and reported on material environmental and disposal liabilities. While DOD reported nearly \$40 billion in estimated environmental cleanup and disposal liabilities for fiscal year 1997, its reports excluded costs associated with military weapon systems or training ranges—these undisclosed liabilities are likely to be an additional tens of billions of dollars.

To achieve the wide-ranging reforms necessary to address its long-standing financial management deficiencies, we have made numerous recommendations to DOD regarding its need to upgrade the skills of its financial personnel and successfully overcome serious design flaws in its financial systems. DOD has many well-intentioned planned and ongoing financial management reform and improvement efforts, such as an action plan to identify short-term initiatives to address DOD's financial reporting deficiencies. However, until DOD deals with these two key issues, resolution of its financial management problems is unlikely.

Given the seriousness and long-standing nature of these weaknesses in DOD's financial management operations, we are continuing to monitor this area as part of our high-risk program. Taken together, the material deficiencies in DOD's financial operations represent the single largest obstacle that must be effectively addressed to obtain an unqualified opinion on the entire U.S. government's consolidated financial statements. These weaknesses must be effectively addressed if DOD is to put into place the disciplined financial practices needed to produce credible financial information not only for financial statements but also for support of operational and budgetary decisionmaking and maintaining effective accountability over DOD's vast resources.

### Information Management and Technology Issues Pose Major Concerns

Information management and technology issues are key DOD management challenges. We are continuing to designate DOD's information technology project management efforts as high risk. A primary short-term concern centers on the implementation of the Year 2000 conversions of date-sensitive information on DOD's computer systems. In February 1997, we designated the Year 2000 problems as a governmentwide high-risk area. Another area of concern is information security for computer systems. Malicious attacks on these systems are an increasing threat to our nation's security.

For an organization as large as DOD—with over 1.5 million computers, 28,000 systems, and 10,000 networks—addressing the Year 2000 problem is a formidable task and progress on the Year 2000 program is slow. In fact,

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the Office of Management and Budget, in its November 15, 1998, report on federal agencies' progress on Year 2000 conversion, has placed DOD on its "Tier 1" list—those agencies "where there is insufficient evidence of adequate progress." DOD has an enormous effort underway to remediate its mission-critical systems and ensure that its key operational missions will continue to function after the century date change. However, that effort is at risk. We have issued 10 reports and the DOD Inspector General and audit agencies have issued 130 reports that continue to question the Department's management of its Year 2000 program. For example:

- The Department lacks reliable, timely information on program status.
- Component reports on systems compliance are often inaccurate.
- Contingency plans (developed in the event of system failure) are frequently not executable.
- Inconsistent guidance has led to false starts and uncoordinated efforts.

Another area of major concern is information security. Providing security over DOD's vast array of networked computers is a major challenge. DOD's computer systems are particularly susceptible to attack through connections on the Internet, which Defense uses to enhance communication and information sharing. The Defense Information Systems Agency estimated that attacks numbered in the hundreds of thousands per year and were successful 65 percent of the time and that the number of attacks was doubling each year.

Reports to DOD have included numerous recommendations related to specific control weaknesses as well as the need to establish a defined systems architecture and a comprehensive program for improved information security management. Based on our recommendations and legislative requirements DOD is taking a variety of steps to (1) develop a plan for evaluating, in an operational environment, Year 2000 compliance and (2) establish the Departmentwide Information Assurance Program to improve and better coordinate the information security-related activities of the military services and other DOD components. A sustained effort will be needed to ensure that these efforts are successful.

## Weapon Systems Acquisition Problems Persist

Effectively managing the weapon systems acquisition process continues to be a concern for DOD. Although DOD has increased its procurement budget, it consistently pays more and takes longer than planned to develop systems that do not perform as anticipated. DOD spends about \$85 billion annually to research, develop, and acquire weapon systems. Although

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DOD has many acquisition reform initiatives in process, pervasive problems persist regarding

- Questionable requirements and solutions that are not the most cost-effective available. For example, DOD could have met its strategic airlift requirements and achieved a significant life-cycle cost savings by buying fewer C-17s than planned.
- Unrealistic cost, schedule, and performance estimates. For example, in restructuring the F-22 program, it is doubtful that the Air Force can offset the \$13-billion projected increase in production costs because many of the cost-cutting initiatives it identified were not well defined.
- Questionable program affordability. DOD tends to overestimate funding that would be available in the future, and underestimate program costs, resulting in the advent of more programs than could be executed as planned. For example, in analyzing the 1998 Future Years Defense Program, we found that funding for infrastructure activities was projected to increase, while procurement funding was projected to be lower than anticipated.
- The use of high-risk acquisition strategies. Acquisition strategies such as the acquisition of weapons based on optimistic assumptions about the maturity and availability of enabling technologies were being based on the need to meet the threat and to reduce acquisition costs. For example, DOD's approval of the Joint Surveillance Target Attack Radar System's full-rate production was premature and risky because the system's operational effectiveness and suitability for combat were not yet demonstrated and plans to address deficiencies and reduce program costs were not completed.

Acquisition reforms under way by DOD have a sound basis and have the potential for improving the outcomes of weapon systems. Acquisition reforms and commercial practices can help produce better outcomes on DOD acquisitions if they help a program succeed in its environment.

### Improved Processes and Controls Key to Reducing Contract Risk

DOD spends over \$100 billion a year contracting for goods and services. Since 1995, we have reported DOD contract management as a high-risk area. Over the last few years, DOD has made several broad-based changes to its acquisition and contracting processes to improve DOD-contractor relationships and rules. DOD has given attention to acquisition reform initiatives, but we continue to identify risks in DOD's contracting activity,

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including areas such as erroneous, fraudulent, and improper payments to contractors; payment of higher prices for commercial spare parts than necessary; and the award and administration of DOD health care contracts.

The need for DOD to achieve effective control over its payment process remains an imperative. DOD receives about a billion dollars a year in checks from defense contractors. While some of these are the results of contract changes that result in reduced prices, others represent errors by DOD's payment center. DOD is considering the use of private contractors, through a process known as recovery auditing, to identify overpayments. In addition to erroneous payments, weak systems and internal controls can leave DOD vulnerable to fraud and improper payments. Our September 1998 report discussed two cases of fraud that resulted from a weak internal control environment.<sup>1</sup> In one instance, the lack of segregation of duties and other control weaknesses provided Defense Finance and Accounting Service employees a level of access to the vendor payment system that allowed them to enter contract and payment information and remittance addresses needed to create payment vouchers. No one individual should control all key aspects of a transaction or event without appropriate compensating controls.

In recent years, DOD has significantly changed the way it acquires goods and services by removing what were considered barriers to efficient and effective use of the commercial marketplace. A major focus of these changes is the adoption of commercial buying practices. We and the DOD IG have found that DOD needs to strengthen the quality of its price analyses. For example, the IG found that DOD had not formulated good procurement and management strategies for commercial parts in the acquisition reform environment. As a result, DOD was paying higher prices for commercial spare parts than necessary.

DOD's implementation of health care management programs, particularly the TRICARE Program, further illustrates DOD's difficulty in managing contracts. TRICARE was established during a period of military downsizing and budget concerns to contain costs and maintain access to and the quality of health care for DOD's 8.2 million beneficiaries. However, TRICARE's implementation, entailing the award of seven competitively bid, 5-year contracts, has been fraught with problems. All seven contracts,

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<sup>1</sup>Financial Management: Improvement Needed in Air Force Vendor Payments Systems and Controls (GAO/AIMD-98-274, Sept. 28, 1998).

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totaling about \$15 billion, were protested. As a result, DOD and the competitors incurred added costs, and the program was significantly delayed. Three of the protests were sustained, resulting in further delays.

While DOD is taking steps to improve its payment process and controls, it will likely take an extended period of time to get its payment problems under control. Similarly, DOD is taking steps to simplify its procurement approach for health care contracts. Whether DOD can successfully develop and launch the new method, and whether what it designs will reduce the current volume of contract changes or control health care costs remains to be seen.

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## Program Management Challenges

### Defense Infrastructure Can Be Better Streamlined

Although DOD has substantially downsized its force structure over the past 7 to 10 years, it has not reduced operations and support costs commensurately because the services are reluctant to consolidate activities that span service lines and reduce capacity as necessary. DOD has found that infrastructure reductions are difficult and painful because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs. Further, DOD's ability to reduce infrastructure has been affected by service parochialism, a cultural resistance to change, and congressional and public concern about the effects and impartiality of decisions. For fiscal year 1998, DOD estimated that about \$147 billion, or 58 percent of its budget, would still be needed for infrastructure requirements, which included installation support, training, medical care, logistics, force management, acquisition infrastructure, and personnel.

The Secretary of Defense's November 1997 Defense Reform Initiative Report emphasizes the need to reduce excess Cold War infrastructure to free up resources for force modernization. Initiatives included privatizing military housing and utility systems, emphasizing demolition of excess buildings, and consolidating and regionalizing many defense support agencies. The Secretary noted that DOD continued to be weighed down by facilities that are too extensive for its needs, more expensive to maintain than it can afford, and detrimental to the efficiency and effectiveness of the nation's armed forces. Likewise, he noted that DOD must do a better job of managing facility assets on its remaining bases. The Defense Reform

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Initiatives are steps in the right direction, but collectively they do not provide a comprehensive long-range plan for facilities infrastructure. We have cited the need for such a plan but have noted that DOD's past plans were not focused on long-term comprehensive strategies for facilities revitalization, replacement, and maintenance and were not tied to measurable goals to be accomplished over specified time frames or linked to funding. The Results Act underscores the need for improved planning for facilities infrastructure. Improved infrastructure planning can help agency components and programs to develop outcome-oriented goals and performance measures that are linked to and support agencywide goals.

In February 1997, we identified defense infrastructure as a high-risk area, and it remains on our high-risk list. We have identified numerous areas in which infrastructure activities can be eliminated, streamlined or reengineered to be made more efficient in the following areas: acquisition infrastructure, central logistics, installation support, central training, force management, and medical facilities and services.

### Inventory Management Problems Persist in DOD

DOD's inventory management practices continue to be ineffective and inefficient. As a result, DOD spends more than necessary to procure inventory, yet items are not available when needed. In 1990, we identified DOD's management of secondary inventories (spare and repair parts, clothing, medical supplies, and other items to support the operating forces) as a high-risk area because levels of inventory were too high and management systems and procedures were ineffective.

DOD has had inventory management problems for decades. Some examples of DOD's problems follow:

- Adequate inventory oversight has yet to be achieved. In 1995, we reported that DOD's strategic plans for logistics called for improving asset visibility in such areas as in-transit assets, retail level stocks, and automated systems. DOD will not completely implement its current plan until 2004.
- DOD has not taken sufficient steps to ensure the accuracy of inventory requirements to preclude the acquisition of unneeded items. For example, the Navy could have eliminated about \$13 million of planned program requirements for 68 of 200 items we reviewed because the requirements were also included in the reorder-level requirement.

Recently, the Congress enacted legislation requiring the Defense Logistics Agency and the services to develop and submit schedules for implementing

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best commercial practices in the acquisition and distribution of inventory items. DOD recognizes potential opportunities in adopting best practices. DOD seeks to reengineer its support activities and business practices by incorporating many business practices that the private sector companies have used to become leaner, more agile, and highly successful. Since 1991, we have issued 11 reports that identify significant opportunities for DOD to test and adopt, where feasible, best inventory management practices used in the private sector to improve logistics operations and lower costs.

### Military Personnel Issues Need Attention

DOD's personnel programs to recruit, train, and retain a high-quality active-duty enlisted workforce have not received the management attention needed to ensure their successful operation. The military services recruit tens of thousands of new enlistees each year who fail to complete their contracts.

Our body of work in this area indicates that DOD faces an especially significant challenge in retaining the hundreds of thousands of new recruits it enlists each year. While each new enlistee signs a contract ranging from 2 to 6 years, most first-term contracts are for 4 years. Despite this contractual obligation, we found that between fiscal year 1982 and 1993, 31.7 percent of all enlistees did not complete their first terms of service. First-term attrition is costly: DOD estimates that the services' recruiting and training investment in each enlistee during the first term is an average of \$35,532. For fiscal year 1993 we calculated that the services spent \$1.3 billion on the 72,670 enlistees who entered the services in fiscal year 1993 and departed prematurely. Enlistees were separated because of inadequate screening prior to enlistment; ineffective service procedures for selecting the best candidates for recruiting duty; and enlistee misconduct, medical conditions, performance problems, drug use, pregnancy and parenthood.

We have made a number of recommendations to which DOD is now responding. It has formed a joint service working group and agreed to prepare a report by October 1999 documenting service initiatives to reduce attrition. Examining the roles of all persons involved in recruiting and retaining enlistees is in keeping with the intent of the Results Act, which requires agencies to clearly define their missions, to set goals, and to link activities and resources to those goals. Recruiting and retaining well-qualified military personnel are among the goals included in DOD's strategic plan required under the Act.

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## Addressing the Challenges in DOD

To address the management and performance problems we have cited, DOD has taken actions in the high risk and other areas and has made progress in improving some of them. DOD has had some success in addressing its inventory management problems, is working to reform its weapon systems acquisition process, has recognized the need for infrastructure reductions, and has identified initiatives to reduce attrition of military personnel. For example, in May 1997, the Secretary of Defense issued the Report of the Quadrennial Defense Review, which examines America's defense needs from 1997 to 2015, including issuing a blueprint for a strategy-based, balanced, and affordable defense program. In addition, DOD's latest efforts to reform operations and processes are contained in the Secretary's DRI Report, in which DOD proposed to revolutionize its business and support operations by identifying and adopting best business practices from the private sector.

Despite DOD's military successes, many of its programs and operations are still vulnerable to fraud, waste, and abuse, and mismanagement, and need improvement. To meet these challenges, DOD must address their underlying causes, such as cultural barriers and service parochialisms. DOD must have an effective overall strategic plan that includes goals, performance measures, and time frames for completing corrective actions. In our view, the Results Act provides the framework for resolving high risk and other problems and for providing greater accountability in DOD's programs and operations.

DOD, however, has not fully embraced the underlying principles in the Results Act. The Secretary of Defense has stated that the May 1997 Quadrennial Defense Review will serve as DOD's overall strategic planning document and is intended to fulfill the requirements of the Results Act. Our review of DOD's strategic plan and its February 1998 performance plan disclosed many areas where improvements could be made. The principal shortcomings in DOD's plan center on weaknesses in (1) establishing results-oriented performance goals with explicit strategies and time frames for achieving them and (2) addressing what DOD has done or plans to do to resolve its persistent management problems. In our opinion, DOD needs to work closely with the Congress now to develop performance goals and measures. Addressing these areas would provide congressional decisionmakers and DOD the information necessary to ensure that DOD's plans are well thought out for resolving ongoing problems, achieving its goals and objectives, and becoming more results oriented, as expected by the Results Act.

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## Challenges Facing the Department of State

As the lead agency for the conduct of foreign affairs, State has enormous responsibilities as it works to shape a more secure, prosperous, and democratic world for the benefit of the American people. A substantial amount of State's nearly \$2.7 billion annual budget for the administration of foreign affairs is spent on what could be called "business" functions that support its broad mission. The Department has a worldwide network of operations to maintain its headquarters and more than 250 overseas posts, as well as about 35 other U.S. agencies that operate overseas. State provides security for thousands of U.S. personnel and facilities abroad. In addition, State operates a network of communications facilities around the globe that are critical to its foreign affairs mission.

In carrying out its important mission, State faces a number of significant management challenges that, if not met, could affect its ability to function effectively in the 21st century. These challenges are not simple: they cover a wide spectrum of State operations and responsibilities around the world. Key among these challenges are issues State faces in enhancing overseas security, improving its information and financial management systems, integrating other foreign affairs agencies' functions into the Department, enhancing the controls over the issuance of visas, and improving its strategic and performance planning.

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## Enhancing the Management of Security Programs for Overseas Personnel and Property

The need to adequately protect employees and their families overseas may very well be the single most important management issue currently facing the State Department. The acts of terrorism in Kenya and Tanzania claimed more than 260 lives and injured thousands in August 1998. Worldwide, several embassies found themselves either shut down or unable to provide normal services because of threatening situations. The monetary requirements for undertaking security enhancements will be significant, as will the management and technological challenges. State received \$1.45 billion in emergency funding to rebuild the embassies in Kenya and Tanzania, relocate other embassies, and improve security for other facilities serving U.S. personnel worldwide. State reports that it has completed security surveys of over 200 posts and formulated six internal working groups to direct and track program implementation. One initiative will require the accounting system to accumulate spending data on areas such as equipment acquisition and construction.

State is also assessing its longer term security enhancement needs, and estimates that several billion dollars may be needed for additional embassy

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construction. A key issue facing State is whether it will have the capacity to implement a major security construction program. In the early 1990s, we reported that State encountered several management problems in using the \$1.47 billion in funds that were applied to the diplomatic security construction program during fiscal years 1986-1995. These management problems were related to inadequate staffing, poor program planning, difficulties in site acquisition, changes in security requirements, and inadequate contractor performance. All of these directly contributed to significant delays and cost increases in the majority of State's construction projects. For example, inadequate coordination within State in determining building requirements contributed to millions of dollars in cost increases in a project in Pretoria, South Africa. A lack of agreement within State on potential building sites delayed projects in Bogota, Colombia, and Tunis, Tunisia for several years and substantially increased costs. State has since undertaken a number of efforts to improve construction programs. Nevertheless, the scope of the problems encountered indicated that State had systemic weaknesses in its program management.

In view of State's prior experiences and difficulties in implementing the security construction program, several questions and issues need to be addressed as part of today's efforts to formulate strategies for enhancing security.

- What would be the total costs to bring overseas posts into compliance with current security standards?
- What actions would State need to take to ensure it has the management capability to implement a large-scale construction program?
- Are there adequate control mechanisms to ensure efficient and effective use of emergency funds and any subsequent funding for overseas security?

One issue that should be considered in addressing future security requirements is the sheer number of U.S. employees overseas. The security burden is directly associated with the size of the overseas work force. In our work on overseas staffing issues in the mid-1990s, we noted that the U.S. government (excluding military operational commands) employed a total of nearly 38,000 personnel overseas--split evenly between U.S. direct hire employees and foreign national employees. An important trend has been the increase in the number of overseas U.S. direct hires by the non-foreign-affairs agencies. A broad examination of how the U.S. government carries out its overseas role and related missions may now be needed in view of the increased security threats. State needs to take the lead in

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working with other agencies operating overseas to examine their overseas staffing requirements and explore alternatives to reducing the number of U.S. employees overseas.

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## Improving Information and Financial Management Systems

State's information resource management infrastructure has historically been inadequate to support the Department's core foreign policy and administrative functions. We have reported that State relied on outdated and unsecured information and financial management systems that are vulnerable to Year 2000 problems and security breaches. State estimated in 1997 that it would need \$2.7 billion over 5 years to achieve a modernized global infrastructure. However, this estimate was not prepared through the rigorous analytical process called for in federal guidance designed to control costs and improve efficiency. State has since taken steps to improve its information security and adopted an improved approach to addressing its Year 2000 problems. It has also begun to incorporate a comprehensive capital planning and investment process into its information technology investments. However, State needs to ensure that it remediates on a timely basis its mission-critical systems. The Office of Management and Budget has designated State as a Tier 1 agency in its assessment of agencies' Year 2000 progress, that is, State demonstrated insufficient evidence of progress in dealing with this problem.

In the financial management area, State received, for the first time, an unqualified opinion on its fiscal year 1997 financial statements. This achievement provides State with a foundation from which it can move toward being able to more routinely produce the timely and reliable financial information that is critical to making sound decisions that promote effective and efficient use of federal funds. To reach this goal, State needs to continue to bring its systems into full compliance with federal accounting and information management requirements. State also must work on solving related material internal control weaknesses if it is to adequately protect its assets and have timely, reliable data for cost-based decision-making, reporting, and performance management.

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## Effectively Reorganizing Foreign Affairs Agencies

The long-planned reorganization of the government's foreign affairs agencies is under way. In April 1997, the White House announced a plan to put matters of international arms control, U.S. Information Agency's (USIA) public diplomacy, and other functions within a "reinvented" State Department. In October 1998, the Congress authorized the reorganization, which abolished the USIA and the Arms Control and Disarmament Agency

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(ACDA) and consolidated and integrated those functions into State. The reorganization is intended to reinvigorate the foreign affairs functions of the United States within the State Department. About 3,000 employees of ACDA and USIA will be integrated into State. Potential areas identified for integration among the three agencies include legal affairs, congressional liaison, press and public affairs, and management. Central management functions that are to be integrated include IRM, overseas facilities and operations, logistics, diplomatic security, financial management, and human resources. In December 1998, State submitted a report to the Congress describing its reorganization strategy.

State has indicated that during the transition, costs would likely increase because of the need to implement system conversions and transfers; in the longer term, overall staffing and costs may decrease. State faces several challenges in achieving the objectives of this reorganization. One major challenge is the technological difficulty of uniting the agencies, including integrating separate electronic mail and computer systems. Overall issues include whether the reorganization will actually produce identifiable efficiencies and improved performance in foreign affairs programming. As our prior work has indicated, many of the areas targeted for management consolidation need substantial reform.

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## Effectively Managing the Visa Process

The Immigration and Naturalization Service (INS) estimated that as of October 1996, 5 million illegal aliens were residing in the United States. While not the primary source of illegal immigration, visa fraud is a significant matter of concern. State's consular officers at overseas posts are responsible for providing expeditious visa processing for qualified applicants. At the same time, they must prevent the entry of those who are a danger to U.S. security interests or are likely to remain in the United States illegally. In fiscal year 1997, over 7 million aliens applied for nonimmigrant visas, and 640,000 foreigners immigrated to the United States. Visa processing is a particular problem for some overseas locations where volume and/or security concerns are high.

State has introduced new technologies, equipment, and controls designed to improve visa processing and reduce the incidence of fraud. State notes that progress has been made in several areas, including installation of machine-readable visa systems at all visa-issuing posts, online connectivity to Washington, D.C., data bases, and implementation of a first phase of a State-INS data-share program. Many improvements were made possible through State's temporary authority to retain fees charged foreigners

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applying for nonimmigrant visas. Those fees generated millions of dollars, enabling the Department of State to invest in border security technology and to pay the salaries of nearly 2,000 employees.

State will need to remain vigilant in a number of areas to further reduce the vulnerability of the visa system to fraud and abuse. These issues include (1) critical staffing gaps in overseas consular positions; (2) limitations in consular automated systems; (3) restrictions in the exchange of intelligence information with INS and other law enforcement agencies; and (4) weaknesses in the integrity of immigrant and nonimmigrant documentation, including the computerized systems used to produce them. The Department must also continue its efforts to encourage consular sections to implement best practices designed to streamline and rationalize the visa workload. Potential best practices include using travel agents for initial processing, establishing appointment systems to control workload, and allowing the payment of visa fees at a bank or other financial institution. In view of the increased international terrorist threats, continued attention to State's progress in addressing these issues will be needed.

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## Strengthening Strategic and Performance Planning at State

State needs to strengthen its strategic and performance planning as part of its overall efforts to improve management. In its first strategic plan for foreign affairs, State formulated 16 foreign policy goals that cover a wide spectrum of U.S. national interests--national security, economic prosperity, American citizens and U.S. borders, law enforcement, democracy, humanitarian response, and global issues. Our review of that plan and the Department's annual performance plan for 1999 indicated that State's plans had their strong points but often fell short of meeting the requirements of the Results Act.

One area of concern was that State's strategic plan addressed neither the potential impact of the consolidation of the foreign affairs agencies on its systems nor the potential for other agencies to have functions duplicative of State's. We have found that State's functional bureaus share responsibility with multiple U.S. agencies on various overlapping issues, including trade and export policy and international security functions. The strategic plan also did not address the serious deficiencies in State's financial accounting and information systems, noting only in general terms that several years will be required to develop performance measures and related data bases to provide sufficient information on the achievement of goals.

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Our review of State's performance plan revealed similar deficiencies but also some encouraging points as well. For example, State's performance plan generally provided clear and reasonable strategies and goals in the areas of improving U.S. citizens' services and border security, and promoting democracy. In contrast, State's plan did not present a clear picture of its methods to meet strategic and performance goals in the areas of furthering economic prosperity, preventing international crime, and enhancing humanitarian assistance. Overall, the performance plan did not clearly indicate the Department's intended performance and was vague about how State will coordinate with other agencies. Further, State's performance plan did not provide sufficient confidence that the Department's performance information will be credible. It did not address how the known deficiencies in State's financial and accounting and information systems will affect performance measurement. In response to our work, State is attempting to improve its planning by developing clearer and more objective performance measures linked to performance goals and identifying partnerships with other agencies or governments to address crosscutting issues.

State's initiatives have also received top-level management support in recent months as evidenced by the appointment of a permanent Chief Information Officer (CIO), and a deputy CIO for architecture and planning, the creation of a Deputy CIO position for the Year 2000 issue, and the assignment of information system security issues to the Deputy CIO for Operations.

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## Challenges Facing the Department of Veterans Affairs

The Department of Veterans Affairs (VA) is responsible for administering benefits and services that affect the lives of more than 25 million veterans and approximately 44 million members of their families. Through its budget--approximately \$43 billion in fiscal year 1999--VA provides an array of health care benefits; non-health-care benefits, such as compensation and pension; and other supporting programs. Over 200,000 VA employees deliver these services from more than 1,000 facilities.

As required by the Results Act, VA submitted a strategic plan for fiscal years 1998 to 2003. In this plan, VA developed strategic goals covering all its major programs and included objectives, strategies, and performance goals to support its strategic goals. VA has made significant progress in developing a framework for managing and evaluating changes in service delivery. However, there are several management challenges VA must

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overcome to meet its strategic goals of efficiently and effectively delivering services to veterans and their families. These challenges include:

- an infrastructure that does not meet current and future needs,
- inability to ensure that veterans have access to needed health care services,
- lack of outcome measures to assess the effects of managed care initiatives,
- ineffective management of non-health-care benefits programs, and
- ineffective management of information systems.

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## VA Health Care Infrastructure Does Not Meet Current and Future Needs

Because of their age and recent changes in the way VA delivers health care, many of VA's facilities are no longer adequate for the way VA delivers health care services today and plans to deliver services in the future. For example, most VA facilities were constructed as hospitals with an array of bed sections, treatment rooms, surgical suites, and other accommodations and equipment for treating an inpatient population and are often poorly suited for delivering care to an ambulatory population on an outpatient basis. Although changing care practices and efficiency initiatives, such as emphasizing outpatient care and facility integration, have allowed VA to eliminate approximately half of its 52,000 acute-care hospital beds since 1994, excess capacity remains. Furthermore, the veteran population is declining: VA projects that the number of veterans in the country will drop about 21 percent from 1997 to 2010. We have reported that if past efficiency trends and demographic projections are realized, VA will need only about 10,000 of its current 26,000 acute-care beds to meet veterans' health care needs in 2010. VA will likely need to close some facilities, but it also must plan for the needs of the increasingly older veteran population. As the nation's World War II and Korean War veteran populations age, their health care needs are shifting from acute hospital care to nursing home and other long-term care services. For example, the number of veterans aged 85 and older is projected to increase to about 1.3 million in 2010, a fourfold increase from 1995.

The continued need for some VA facilities may be affected by the expanded authority to contract for health care services that the Congress provided VA in 1996. Under this authority, VA can contract with public or private providers, who can provide care at lower cost or care that VA does not offer in a particular geographic location. To the extent that VA uses this authority, it may create additional excess capacity in existing facilities.

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Integrating various clinical and support operations across some of its facilities is an important tool VA is using to meet current and future needs. Integrations are also intended to enhance the efficiency and effectiveness of VA's health care delivery system by reducing unnecessary duplication of services. We have reported that the 23 facility integrations involving 48 health care facilities that have been completed or are under way will produce millions of dollars in savings that can be used to enhance veterans' health care. However, VA could do more. We have reported that consolidating services from four to three locations in the Chicago area could save \$6 million to \$27 million in future renovation costs. Although VA has recently developed a guidebook for planners to use in developing, implementing, and evaluating potential facility integrations, VA needs to apply this framework and evaluate its effectiveness in saving resources for both the short and the long term.

VA's restructuring efforts, particularly integrating administrative and clinical services across two or more medical centers, are complicated by affiliation agreements that VA facilities have with medical schools. Since VA's medical education program began in 1946, 130 VA medical centers have affiliated with 105 medical schools to provide training opportunities for medical students and residents. Transforming VA's health care delivery system from an inpatient to an outpatient focus, increasing reliance on primary care, and integrating services in fewer hospitals are all causing VA and medical schools to rethink their affiliation arrangements.

Restructuring efforts will also affect VA's support of the nation's medical needs during national emergencies. Since 1982, VA has served as the primary medical system backup to DOD. VA also works with the Federal Emergency Management Agency and the National Disaster Medical System during national emergencies. The integration of facilities' administrative functions, the consolidation of medical services in fewer VA locations, and VA's reduced reliance on providing specialized care may alter the way VA is able to support DOD and the federal emergency and disaster systems. However, VA has not specified how it will maintain its emergency backup functions in light of restructuring.

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## VA Is Unable to Ensure That Veterans Have Access to Needed Health Care Services

Because VA lacks accurate, reliable, and consistent information on how resources are being allocated, it cannot ensure that veterans who have similar economic status and eligibility priority have similar access to care regardless of the region of the country in which they live, as required by the Congress. In fiscal year 1997, VA introduced a new resource allocation

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system to begin to correct historical inequities in allocating resources, with the intent of improving the equity of veterans' access to care. Instead of allocating resources directly to medical centers on the basis of their budget for the previous year, VA now allocates funds to its 22 Veterans Integrated Service Networks (VISNs) based on the number of veterans each VISN has served. VISNs, in turn, allocate resources to the facilities in their geographic area. We have reported that while the new method has indeed improved the equity of resource distribution among VISNs, VA does not know if it is making progress in providing similar services to similarly situated veterans. VA's strategic plan does not include a goal for achieving equitable access, nor does VA monitor the extent to which equitable access is being achieved among or within VISNs.

Furthermore, VA has not been able to provide the necessary data to assure that it maintains its level of certain high-cost, specialized services, as required by the Congress. We have reported that much more information and analyses are needed to support VA's conclusion that it is maintaining its national capacity to treat special disability groups, including the four the Congress identified -- spinal cord dysfunction, blindness, amputation, and mental illness -- in the face of the many initiatives to become a more efficient provider of care.

VA has not developed information to help ensure that it meets the likely increased demand for care generated by its new process for enrolling veterans in its health care system. As a result, VA's success in enrolling veterans may jeopardize the availability of care for some veterans. As part of its 1996 eligibility reform legislation, the Congress required VA to develop a priority-based enrollment system to allow VA to better manage access while operating within its budgetary limits. VA has determined that in fiscal year 1999 it will enroll all priorities and categories of veterans and serve each veteran who enrolls. Because enrolled veterans are eligible for all needed hospital and medical care from VA regardless of their priority category, access to care for higher-priority veterans may be jeopardized as medical centers provide care to all enrollees, including high income veterans without service-connected conditions.

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## VA Lacks Outcome Measures to Assess the Effects of Managed Care Initiatives

Responsibility for monitoring quality assurance shifted several times in the last few years among headquarters and VISN offices, and VA's Inspector General and veterans' service organizations raised concerns that VA had weakened its quality assurance efforts with some of these shifts. In response, in fiscal year 1998, VA realigned the Office of Performance and

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Quality to report directly to the Under Secretary for Health. The realignment has the potential to improve VA's quality assurance efforts because this office is situated to more readily identify emerging challenges across the health care system, implement and oversee local and national corrective actions when needed, and help create the single standard of care required by accrediting agencies.

VA has made little progress in developing, implementing, and evaluating results-oriented outcome measures to assess the health status of veterans. Instead, VA's efforts to determine how well it delivers health care have relied primarily on process-oriented performance measures. For example, in its performance plan, VA identifies performance measures such as the number of beds in use, the number of patients served, and the number of patients receiving certain diagnostic tests. Although these measures can provide useful information on progress toward meeting managed care goals, they provide little information on the specific impact of changes on the health status of veterans.

Moreover, VA has generally not performed the program evaluations necessary to determine whether its performance measures are the most appropriate or sensitive measures for assessing responses to treatment and changes in health outcomes. The need for such measures is critical, given the multitude of changes in delivering care that VA has introduced over the last few years. Indeed, the need is exacerbated by the flexibility VISNs and medical centers have in choosing how they deliver care in VA's decentralized management structure. VA recognizes that it needs to ensure that the changes made to improve its efficiency and effectiveness do not unintentionally compromise the health status of veterans. VA is not alone in its need to design, implement, and evaluate health outcome measures. Other public and private providers have recognized the necessity--and the difficulty--of creating such criteria and instruments.

VA's challenges in assessing outcomes are further complicated by poor data. We and others have reported numerous concerns with VA's outcome data. These concerns, which are similar to those with VA's access data, include inconsistent, incompatible, and inaccurate databases; changes in data definitions over time; and lack of timely and useful reporting of information to medical center, VISN, and national program managers.

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## VA Faces Major Challenges in Managing Non-Health-Care Benefits Programs

The non-health-care benefits which VA provides include disability payments, compensation, pension, housing credit assistance, and vocational rehabilitation assistance programs. We have reported that VA's current disability rating schedule does not reflect the economic loss experienced by veterans today and may not be equitably distributing disability compensation funds. In the late 1960s, VA conducted a study of the 1945 version of its disability rating schedule which concluded that at least some disability ratings in the schedule did not accurately reflect the average impairment in earning capacity among disabled veterans and needed to be adjusted. While VA has done little to ensure that the schedule's assessments of the economic loss associated with service-connected conditions are accurate, successful implementation of the revised rating scale would likely require congressional action.

In addition, a 1996 Congressional Budget Office report, found that VA was paying about 230,000 veterans about \$1.1 billion in disability compensation payments annually for diseases or injuries neither caused nor aggravated by military service. VA regulations provide that a disease or injury resulting in disability is considered service-connected if it was incurred during a veteran's military tour of duty or, if incurred before the veteran entered service, was aggravated by service. No causal connection is required between the circumstances of the disability and official military duty. As a result, veterans can receive compensation for diseases related to heredity or life style, such as heart disease and diabetes, rather than military service, thus calling into question the fairness of VA's treatment of veterans who were disabled because of their service.

In another area of concern, the National Academy of Public Administration reported, in 1997, that the timeliness and quality of adjudication decisions and slow appellate decisions continued to be a major challenge in VA's compensation and pension program. VA reported in fiscal year 1997 that it took an average of 133 days to complete the processing of a veteran's original disability compensation claim. While this is substantially faster than the average of 213 days required in fiscal year 1994, VA's goal is to reduce the average to 53 days in fiscal year 2002. In September 1998, VA's OIG reported on its audit of three key compensation and pension claims processing performance measures. The OIG found that the performance measures lacked integrity because the compensation and pension program's automated information system was vulnerable both to reporting errors and to manipulation of data by regional offices to show better performance than was actually achieved.

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Other areas of concern are VA's Housing Credit Assistance and Vocational Rehabilitation programs. VA's Annual Accountability Report, Fiscal Year 1997, described several deficiencies that contributed to VA's receiving a qualified opinion. Among the areas of concern was the level of control and accountability over the direct loan and loan sale activities. The auditors were unable to conclude that the \$3 billion loans receivable account balance was accurate because of inadequate controls and incomplete records. In addition, the auditors identified a number of errors, including inaccurate recording of loan sales transactions and improper accounting for loan guarantees.

VA's vocational rehabilitation program continues to place few disabled veterans in jobs. Our 1996 review of records of about 74,000 applicants for vocational rehabilitation between October 1991 and September 1995, who were classified by VA as eligible for assistance, showed that only 8 percent had completed the vocational rehabilitation process by finding a suitable job and holding it for at least 60 days. VA is implementing a number of initiatives to address its compensation and pension claims processing and vocational rehabilitation performance weaknesses, including establishing performance measures for processing times and unit costs, initiating quality assurance efforts, and reassessing its business process reengineering.

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### VA Needs to Manage Its Information Systems More Effectively

VA has made progress in addressing its Year 2000 challenges but still has a number of associated issues to address. For example, VA faces significant information systems challenges. It does not know the full extent of its Year 2000 challenges and could face widespread computer system failures at the turn of the century if its systems cannot adequately distinguish the year 2000 from the year 1900. Thus, veterans who are due to receive benefits and medical care could appear ineligible.

In addition, VA has not established effective controls to prevent individuals, both internal and external, from gaining unauthorized access to VA systems. VA's access control weaknesses are compounded by ineffective procedures for monitoring and overseeing systems designed to call attention to unusual or suspicious access activities. VA also does not have a comprehensive computer security planning and management program. If these control weaknesses are not corrected, VA operations, such as financial management, health care delivery, benefit payments, life insurance services, and home mortgage loan guarantees--and the assets associated with these operations--are at risk of misuse and disruption.

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Furthermore, VA has not yet institutionalized a disciplined process for selecting, controlling, and evaluating information technology investments, as required by the Clinger-Cohen Act. Information technology accounted for approximately \$1 billion of VA's fiscal year 1999 budget request of \$43 billion. At the time of the budget request, VA decisionmakers did not have current and complete information, such as cost, benefit, schedule, risk, and performance data at the project level, which is essential to making sound investment decisions. In addition, VA's process for controlling and evaluating its investment portfolio has deficiencies in in-process and post-implementation reviews. Consequently, VA does not know whether it is making the right investments, how to control these investments effectively, or whether these investments have provided mission-related benefits in excess of their costs. VA has concurred with most of the recommendations we have made to address information systems management issues, and has taken actions to implement many of them.

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## Summary

To address the management and performance problems we have cited, DOD, State, and VA have taken actions in the high risk and other areas and have made progress improving some of them. For example, DOD has had some success in addressing inventory management problems, is working to reform its weapon systems acquisition process, and has recognized the need for infrastructure reductions. Although past and current efforts have resulted in progress in improving their operations, long-standing problems still exist. To address these problems, these agencies must have an effective overall strategic plan and performance plans that, among other things, include goals, performance measures, and time frames for completing the corrective actions. The Results Act provides the framework for resolving high risk and other programs and for providing greater accountability in agencies' programs and operations. In our opinion, agencies such as DOD, State, and VA need to work closely with the Congress now to develop performance goals and measures. Addressing these areas would provide congressional decisionmakers and individual agencies the information necessary to ensure that plans are well thought out for resolving ongoing problems, achieving its goals and objectives, and becoming more results oriented, as expected by the Results Act.

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Mr. Chairman, this concludes our statement. We would be happy to answer any questions you or the members of the Subcommittee may have.

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# Department of Defense High-Risk Designations

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<b>High-Risk Area</b>	<b>Year Designated as High Risk</b>
Inventory Management	1990
Weapon Systems Acquisition	1990
Contract Management	1992
Systems Development and Modernization Efforts	1995
Financial Management	1995
Infrastructure Management	1997

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