

GAO

Testimony

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GOVERNMENT REFORM

Using Reengineering and
Technology to Improve
Government Performance

Statement of Charles A. Bowsher
Comptroller General of the United States



Mr. Chairman and Members of the Committee:

Enormous budget pressures and widespread dissatisfaction with the government's performance have heightened the urgency to reform and modernize the operations of federal agencies. However, agencies are encountering tremendous problems in attempting to take advantage of information technology to improve government and cut costs. Meanwhile, the American people are becoming increasingly frustrated with business as usual; they want a smaller, more responsive government that can live within its means and better ensure accountability for achieving real results.

Reengineering and modern technology offer huge opportunities to reduce federal costs while also improving the quality of government services. Unfortunately, the federal sector lags far behind leading organizations that have used process improvement and information technology to cut costs, streamline operations, and enhance service levels. After having spent over \$200 billion on information systems over the past 12 years, our national government is in the worst possible situation--having invested heavily in costly information system projects that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs.

Moreover, the Congress and federal managers remain information poor, severely lacking in reliable data to measure the costs and results of agency operations. The federal government is still a long way from achieving the most basic financial accountability to the public--largely due to inadequate information systems. This has been a serious obstacle preventing major departments and agencies from passing the test of an independent audit.

Mr. Chairman, I know you and other members of this Committee are deeply concerned about solving these persistent problems. The legislation supported by this Committee has laid a solid foundation for reforming federal management practices. This includes the Chief Financial Officers Act (CFO) of 1990, the Government Performance and Results Act (GPRA) of 1993, and the Federal Acquisition Streamlining Act (FASA) and Government Management Reform Act (GMRA) of 1994. The Committee's current work to enhance the Paperwork Reduction Act (PRA) also will help instill modern management practices throughout government.

Successful implementation of all these legislative initiatives, however, hinges greatly on bringing our national government into the information technology age. Federal agencies must close the large and widening gap between the public's expectations for efficient, modern service and the government's performance--a gap that is undermining the effectiveness and credibility of our government institutions. More and more, the American people are enjoying the everyday benefits of technology-driven service improvements in the private sector, such as 24-hour one-stop customer service numbers, automated bank tellers, overnight package delivery, and point-of-sale or telephone credit card payment.

Americans are perplexed by their government's seeming inability to achieve similar improvements. Significant federal innovations to improve public convenience have simply been too few and far between. And when innovations are attempted, a dearth of skills and knowledge, along with entrenched bureaucracies, often conspire to produce failure or significantly degrade projected benefits.

I strongly believe we must move to a smaller, more efficient government; one that stresses accountability and managing for results. But this will require reengineering federal operations and supporting them with modern information technology. As in successful private sector reengineering efforts, ambitious improvement goals and targets need to be set for the government to focus attention and mobilize resources for achieving change.

The experiences of leading organizations also have demonstrated that information technology must be used wisely in conjunction with redesigning business processes that agencies use to carry out their responsibilities and interact with the public. Furthermore, today's technology demands a highly skilled workforce with strong incentives to continually adapt and improve over time. If these essential elements become more commonplace, major improvements are definitely attainable in strengthening accountability, reducing costs, and enhancing service to the public.

Mr. Chairman, today I will focus on

- the critical risks in how the government is mismanaging its \$25 billion annual investment in information technology,
- management practices used by leading organizations to reduce the risks of bad investments and increase the chances of successfully exploiting technology opportunities, and
- actions that executive agencies and the Congress can take now to bring about the type of government that we would all like to see--one that is smaller, works better, and costs less.

CRITICAL RISKS IN FEDERAL INFORMATION TECHNOLOGY INVESTMENTS

Our reports have consistently concluded that despite huge expenditures, federal agencies continue to lack critical information needed to properly manage their funds and effectively meet mission goals.¹ As a result, two kinds of risks permeate government: (1) deteriorating program performance and unnecessary costs due to the failure to redesign outmoded operations and effectively employ information technology and (2) poor accountability, waste, and fraud due to inadequate financial systems.

¹ A listing of our major reports on this topic is contained in attachment I.

There is growing consensus that poor technology investments are an extremely serious problem:

- The General Services Administration (GSA), in an effort intended to highlight the problem of failed technology investments, announced recently that it has suspended procurement authority for \$6.8 billion of new information systems and put another \$7 billion on its "watch list."
- This Committee, in its report last session on the Paperwork Reduction Act, noted that the government's huge technology investment is "seriously compromised by inadequate and irresponsible systems planning, design, acquisition, and management."
- Senator Cohen, of the Government Management Subcommittee, released a report last year entitled "Computer Chaos" detailing dozens of examples of failed information technology efforts, underscoring how the government uses old, obsolete computer systems while wasting millions of dollars in failed modernization efforts.
- Many areas on the President's High-Risk List involve weaknesses in financial management or information systems. More recently, the Office of Management and Budget's (OMB) Circular A-130 on information resources management noted the dangers of developing information systems that merely improve the efficiency of paper-based processes that may no longer be needed.
- The administration's National Performance Review noted that, when it comes to information management, "the federal government is woefully behind the times, unable to use even the most basic technology to conduct its business."

Let me now outline how management problems are preventing the government from improving program performance and instilling financial accountability.

Risks to Effective Program, Performance, and Cost Reduction Strategies

While well-intentioned and expensive computer modernizations are underway across government, we often find these complex undertakings are at great risk due to the failure to (1) adequately select, plan, and control system and software development projects, and (2) use technology to simplify and reengineer processes in ways that reduce costs, increase productivity, and improve service. In fact, due to our growing concern about this issue, we are adding a new category in our own list of high-risk areas that we monitor: major information systems modernization efforts.

Examples of poor information systems management have plagued efforts to improve some of the government's most critical activities, such as air traffic control and tax processing.

- After investing over 12 years and more than \$2.5 billion, the Federal Aviation

Administration (FAA) chose to cut its losses in its problem-plagued \$6-billion Advanced Automation System (AAS) by either cancelling or extensively restructuring elements of this effort to modernize our nation's air traffic control system. For example, a piece of AAS expected to cost about \$1 billion and intended to control aircraft in the lower altitudes around busy airports was cancelled after spending \$250 million and was replaced by another \$1-billion system development effort. The reasons for AAS' problems include FAA's failure to (1) accurately estimate the technical complexity and resource requirements of the effort, (2) stabilize system requirements, and (3) adequately oversee contractor activities.

- Through fiscal year 1995, the Internal Revenue Service (IRS) will have spent or obligated over \$2.5 billion on its \$8-billion Tax System Modernization (TSM) initiative to automate selected tax processing functions. Yet, as we reported in 1994, the overall design of TSM remains incomplete, and IRS is continuing to automate existing functions with limited demonstration of how or whether the pieces of the system will eventually fit together to improve tax processing overall. Given such concerns and budget constraints, the Congress reduced IRS' fiscal year 1995 budget request by \$339 million, and IRS has agreed to put the needed business and technical foundation in place to better achieve TSM's objectives.

The tremendous potential of reengineering business functions prior to automating is also not being fully tapped, unlike successful private sector efforts. For the government to reduce costs, increase service, and raise productivity, new information systems should not be developed simply to automate existing inefficient or ineffective processes. This has been a hard lesson for federal agencies to learn, as the following cases vividly illustrate.

- In 1993, the Department of Agriculture (USDA) embarked on a \$2.6 billion project, called Info Share, designed to improve operations and provide better service to farmers, such as supporting the establishment of one-stop Field Office Service Centers. However, we found in 1994 that USDA was managing Info Share primarily as a vehicle to acquire new information technology, rather than as an opportunity to fundamentally improve business processes. Key steps in process reengineering were not being followed. For example, senior USDA officials were not involved in managing Info Share and integrating it into the Department's structural reorganization efforts--a key accountability shortcoming. Nor did USDA adequately analyze its current business processes and establish improvement goals. Based on our review, GSA withdrew its \$2.6-billion procurement authority delegation for Info Share, and USDA has agreed to refocus the program on improving business processes.
- The Veterans Benefits Administration (VBA) embarked on a modernization effort to speed up the processing of veterans' compensation claims. This effort involves procuring up to \$680 million in computer and communications equipment and associated commercial software products. However, VBA did not set new performance goals and redesign its processes before acquiring this equipment and

software. In our 1992 review, we determined that without any business process reengineering, this substantial technology investment would potentially eliminate only 6 to 12 days from the average of 151 days it took VBA to process an original compensation claim. In 1993, VBA and OMB entered into an agreement to redirect the modernization program to obtain better gains in service delivery and cost reduction.

- In 1989, the Department of Defense (DOD) began its Corporate Information Management (CIM) initiative to streamline its operations. Defense originally estimated that CIM could save \$36 billion over 6 years. To date, however, CIM has achieved no demonstrable savings, largely because it has not focused on making fundamental improvements in major DOD business processes that span across functions. Instead, Defense has focused on trying to pick the best of its hundreds of existing automated systems and standardizing their use across the military components without thoroughly analyzing the technical, cost, and performance risks of this approach. As a result, Defense may lock itself into automated ways of doing business that do not serve its goals for the future and cannot provide promised benefits and cost savings.

Risks to Sound Financial Accountability

As we have testified on numerous occasions before this Committee, widespread weaknesses in financial systems are crippling our government's ability to monitor and manage its \$1.3 trillion in annual revenue, \$1.5 trillion in net outlays, and over a trillion dollars of assets. For example, due to poor financial records and systems, we were unable to express financial audit opinions for five major agencies--IRS, U.S. Customs Service, Army, Air Force, and Education's Federal Family Education Loan Program. These agencies collect and account for virtually all of the government's revenues and a substantial portion of its outlays.

The shortcomings of poor financial accountability are alarming. Our audits have identified hundreds of billions of dollars in accounting mistakes and omissions that render information provided to managers and the Congress virtually useless. More often than not, the information needed to measure agency performance and costs is either unavailable or unreliable. The deficiencies at two major federal agencies, DOD and IRS, vividly illustrate these problems.

While public confidence in our country's superior military capabilities is deserved, the same cannot be said of DOD's ability to accurately account for and manage its annual budget of over \$250 billion and over \$1 trillion in assets worldwide. No military service or major component of DOD has been able to obtain an audit opinion because (1) financial reports were not reliable despite hundreds of billions of dollars in audit adjustments, (2) billions of dollars of assets had not been properly accounted for, and (3) countless problems were found in performing basic bookkeeping tasks. For example, DOD disbursed \$25 billion to vendors that cannot be properly matched to the necessary supporting documentation to determine

whether the payments were proper.

DOD's inability to adequately correct well-known areas of waste and vulnerability also is draining precious resources and undermining efforts to further enhance military training and readiness. For example, (1) the Army paid approximately \$8 million of payroll to unauthorized individuals, including "ghost" soldiers and deserters, (2) the Navy paid an estimated \$3 million to a former Navy supply officer for 108 false invoice claims, and (3) DOD relies on contractors to voluntarily return hundreds of millions of dollars that primarily result from overpayments--in one 6-month period in fiscal year (FY) 1993 contractors returned \$751 million and in FY 1994 they returned \$957 million.

Similarly, IRS has not kept its own books and records with the same degree of accuracy that it expects of taxpayers. For the last 2 years, we have been unable to express an opinion on IRS' financial statements due to serious accounting and internal control weaknesses. For example, as of September 30, 1993, IRS (1) did not have reliable data to help collect an estimated \$29 billion of collectible accounts receivable, and (2) had not posted over \$90 billion in transactions to the taxpayer account balances supporting reported amounts or properly included over \$58 billion in credit balances in its financial reports.

Recent expansion of the CFO Act provides a good basis for addressing financial accountability problems. However, there is still a long way to go, particularly in the area of developing integrated, automated systems. As I will discuss later, this area provides an excellent opportunity for reengineering. Without concerted efforts to implement modern financial management systems, the Congress is at great risk of not being fully informed as it attempts to exploit cost and public service improvement opportunities and hold agencies accountable for achieving results.

CLOSING THE GOVERNMENT'S PERFORMANCE GAP: LEARNING FROM LEADING ORGANIZATIONS

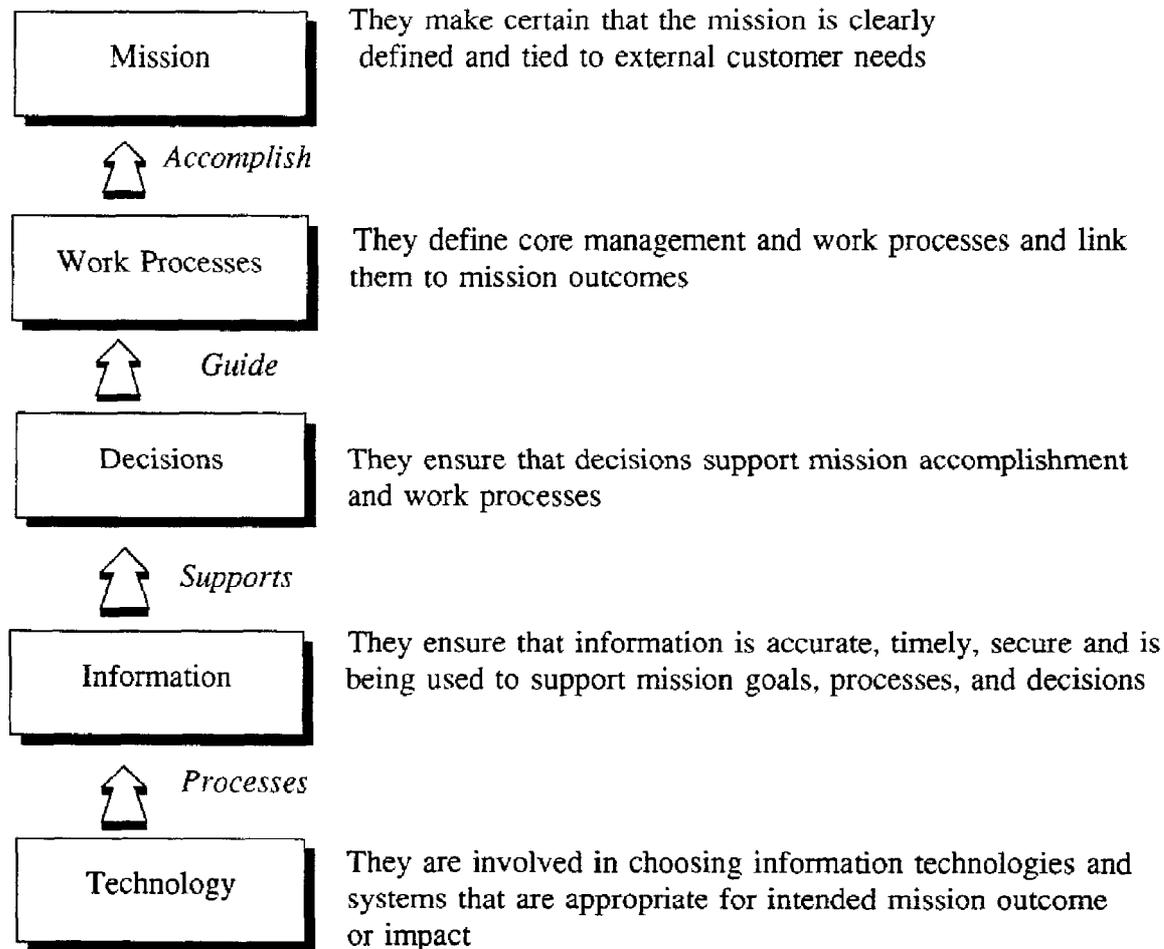
To help federal agencies achieve their potential for improvement, GAO studied a number of successful private and public sector organizations to learn how they reached their own ambitious improvement goals. In our resulting report,² we describe a strategic, integrated set of fundamental management practices that were instrumental in these organizations' success. These practices can be readily adopted by federal agencies.

The most critical factor for success was the leadership and personal commitment of top executives to improve strategic information management. Successful leaders approached information management issues in a seamless fashion: they recognized that technology is

²Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

integral to providing the information for effective decisionmaking and supporting the work processes that accomplish the organization's mission. Figure 1 below summarizes this critical interrelationship.

Figure 1: Integration of Strategic Management Issues



Top executives understood the value of information and information technology. They actively spent the time to manage down risks and maximize the return on scarce investment funds. These leaders managed through three fundamental areas of practice.

- *First, they decided to work differently* by quantitatively assessing performance against the best in the world and recognizing that program managers and stakeholders need to be held accountable for using information technology well. In contrast, the federal government frequently fails to benchmark itself against the best, delegates information

issues to technical staff, and sustains rates of management turnover that seriously hinder true ownership and accountability.

- *Second, they directed scarce technology resources toward high-value uses* by reengineering critical functions and carefully controlling and evaluating the results of information systems spending through specific performance and cost measures. Federal agencies, on the other hand, often buy hardware before they evaluate their business functions, lack discipline and accountability for their investments, and fail to rigorously monitor the results produced.
- *Third, they supported major cost reduction and service improvement efforts* with the up-to-date professional skills and organizational roles and responsibilities required to do the job. The federal government all too often is held back by an antiquated skill base and confused roles and responsibilities that consistently inhibit the effectiveness of major system development and modernization efforts.

Figure 2 below provides additional detail on the specific practices within these fundamental management areas.

Figure 2: Key Management Areas and Fundamental Practices

Decide to Change		Direct Change	Support Change
1	Recognize and communicate the urgency to change information management practices	4 Anchor strategic planning in customer needs and mission goals	9 Establish customer/supplier relationships between line and information management professionals
2	Get line management involved and create ownership	5 Measure the performance of key mission delivery processes	10 Position a Chief Information Officer as a senior management partner
3	Take action and maintain momentum	6 Focus on process improvement in the context of an architecture	11 Upgrade skills and knowledge of line and information management professionals
		7 Manage information systems projects as investments	
		8 Integrate the planning, budgeting, and evaluation processes	

It is important to recognize that these 11 practices form an integrated set. It is not enough for agencies to advance in only one or two management areas. The leading organizations were able to transform their operations because they implemented the full range of strategic

information management practices needed to initiate, direct, and support change. Unless federal decisionmakers engage in concerted efforts to learn and apply these practices, there is little hope of bringing the federal government into the 21st century at a level of excellence comparable to other leading American organizations.

ACTIONS FOR ACHIEVING REAL IMPROVEMENT IN COST AND PERFORMANCE

Achieving true "order of magnitude" improvements will be a formidable undertaking, requiring constancy of purpose and the resolve to make tough decisions. Many cultural barriers need to be overcome, and near-term investments may be necessary to gain continuing, long-term cost reductions. The time frames for achieving substantive results may span years, as private sector experience has shown in even the best cases.

The Importance of Goals

Setting improvement goals is an important step in getting the government to engage seriously in the difficult task of change. Leading organizations understand the value of setting aggressive goals to break through institutional complacency and stimulate the redesign of long-established business practices. Targets that call for an "order of magnitude" improvement provide agencies with a powerful incentive to clarify their strategic goals, design work processes that best support those goals, and create a streamlined organizational structure staffed by a skilled and responsive workforce.

Goals should be based on a careful, fact-based analysis of the organization's performance and its environment. They should be driven by customer and stakeholder needs, and stated in measurable terms of cost, quality, and time. Benchmarking against world-class organizations is important in setting specific targets that are both aggressive and attainable.

Leading organizations recognize that goal-setting is a dynamic process. They reexamine targets as needed without allowing refinements to become an excuse for evading the task of improvement. Goals and the goal-setting process are taken seriously, and top managers are held accountable for setting the right targets--and meeting them.

Fortunately, the federal government already has a legislative mechanism for establishing and managing toward goals that are necessary for fundamental improvements in program and service delivery. The landmark GPRA legislation, enacted under the leadership of this Committee, is intended to provide a greater focus on the results of federal programs. GPRA requires agencies to establish a strategic direction, systematically measure their performance, and publicly report on progress in meeting their goals. The central features of GPRA--strategic planning, performance measurement, and public reporting and accountability--can serve as powerful tools for changing the basic culture of government.

Improving the Federal Workforce

The capabilities of people play an important role in achieving the highest levels of performance improvement and cost savings. The federal government continues to pay the price for not having an adequate cadre of professionals in the information management and financial management areas who can help make change happen and improve the accountability of agencies. The private sector has painfully learned that reengineering and streamlining projects can easily be delayed, or fail, if personnel issues are not addressed. In particular, three issues need to be directly confronted:

- the uses of information technology in the workplace are becoming more complex, requiring higher levels of technical sophistication from the workforce,
- rapid technological changes lead to continually evolving opportunities to improve business processes, and
- reengineering business processes necessarily changes the status quo, altering employees' roles, responsibilities and skill needs, and changing or eliminating jobs.

To address these three issues, the federal government needs to attract and retain qualified people, especially in the areas of financial and information management. We need a core set of experienced, professional staff and managers who can take full advantage of opportunities for working with the private sector through outsourcing and partnerships to improve federal information management. In addition, the government needs to develop a human resources system that gives federal workers the incentives, training, and support to help them continually learn and adapt. Mr. Chairman, we strongly endorse your civil service reform goal of developing a highly skilled, educated, and trained workforce that is held accountable for what they do and are more responsive to taxpayers' needs.

Information Management Initiatives for Federal Agencies

Little can be achieved in streamlining processes unless agency leaders take the initiative to institutionalize sound strategic information management practices. We have found that many agencies need and want help to close the cost and performance gap with the leading organizations. Over 14,000 copies of our report on best practices of leading organizations have been requested, and we have given 120 briefings to over 2,000 federal decisionmakers to explain our work.

The following steps are needed to get these practices implemented, not just talked about.

- Agencies should benchmark their current information management practices against the practices of successful, leading organizations to (1) understand where they are deficient and (2) develop an action plan for putting the leading practices in place. We

have developed a methodology for agencies to use in doing self-assessments and are working with several agencies, such as the Department of Housing and Urban Development and IRS, to help them do this.

- Agencies' top executives must assert control over technology investment decisions and ensure that improvement efforts are well-managed and directed toward achieving maximum value in improving operations. The vital area of information technology expenditure warrants a new level of scrutiny--governmentwide--to determine just where risks are highest and how they then can be managed more effectively. To this end, we are working with both OMB and GSA to infuse more discipline and accountability into the government's decisions regarding information technology expenditures. For example, OMB, with our assistance, is developing a guide to help its budget examiners rigorously evaluate technology investments.
- Agencies should be held accountable for understanding what their key information assets are and for protecting their value. This refers not merely to physical systems hardware and software, but to data assets as well. In addition, program managers themselves need to be held accountable for managing the information resources that support their programs.

Information Management Initiatives for the Congress

This Committee has played an important role in building consensus on the need for adopting proven practices for effective strategic information management. We appreciate the letter that you, Mr. Chairman, and Senator Glenn sent to the heads of agencies endorsing the management practices outlined in our study of leading organizations. This stimulated great interest and support for our findings. For example, OMB has incorporated the essence of these practices into its revision of A-130--the basic policy circular for federal information resources management.

This Committee can take additional actions to strengthen the legislative foundation that it has been building so carefully. Presently, the Paperwork Reduction Act provides the primary legislative framework for managing information technology. In the 14 years since its passage, rapid changes in information technology have occurred--changes that now demand new approaches. We encourage the Committee's efforts to refine the act and to develop other legislation to improve accountability for information technology investments and results. Such legislation at a minimum should:

- require agencies to implement sound strategic information management practices, such as making sure that investments are driven by effective business plans aimed at reengineering outmoded processes and that controls over the investments are in place,
- emphasize that information management is an integral part of the government's overall management responsibility and ensure that senior managers are responsible and

accountable for maximizing the net benefits and appropriately managing the risks associated with major information systems initiatives,

- establish a chief information officer (CIO) within each agency to work with the agency's senior management to (1) define and implement effective strategic management practices that integrate information technology decisions with budget, financial, and program management decisions and (2) support program officials and the chief financial officer in defining information needs and developing strategies to meet those needs,
- establish a CIO within OMB who can guide the development of governmentwide plans and identify effective ways to better support information management within agencies, and
- establish measures and accountability for achieving results from information technology investments.

These would all be positive steps. But given the scope of the government's performance problems and the rapid evolution of technology, broader legislative reforms may be needed. We are working with this Committee and Senator Cohen's Subcommittee in defining major potential areas of reform and alternatives for congressional action.

Opportunities to Improve Government Operations

The Committee can also keep the momentum for improvement going by focusing on specific areas where agencies can use reengineering and technology to improve service delivery and reduce costs. Current efforts at IRS, Defense, Agriculture, SSA, and VBA all have tremendous potential if properly designed and managed. In addition, it is important to consider opportunities to streamline across individual agencies by standardizing and consolidating functions, such as financial management, logistics, payroll, and data center services, where the private sector has found a rich harvest of improvement opportunities, especially among larger organizations. Let me point to a few candidates that illustrate this vast potential.

Increasing Efficiency and Responsiveness of Disability Claims Processes

Over the next few decades, SSA will face unprecedented growth in the number of beneficiaries, placing its current work processes under increasing stress. Between 1990 and 2005, the number of persons 65 and over will increase by 4.8 million and the number of disability insurance beneficiaries is expected to more than double to over 8.7 million.

SSA's ability to serve this increasing customer base will depend greatly on its ability to improve the efficiency and effectiveness of its work processes. For example, SSA's disability determination process is highly inefficient and paper-driven. A disability claim can pass

through as many as 26 people to reach an initial disability decision. SSA reports that the average claimant waits up to 155 days from first contact with SSA for an initial decision, although only about 13 hours are spent actually working on a claim. The remainder of the time is associated with waiting for medical evidence, handing off the case to the next step in the process, and waiting between steps.

To SSA's credit, it has recognized the need to improve service and has initiated an effort to reengineer its disability determination process to reduce the average waiting time to approximately 60 days. SSA's effort to reengineer its business processes is an effort we have encouraged and supported. However, as we reported in 1994, SSA's previously planned \$1.125 billion acquisition of 64,000 intelligent workstations and 2,200 local area networks needs to be refocused to support reengineered operations; it cannot continue to be directed at SSA's current, inefficient work processes. Also a business plan is needed that addresses the resources necessary to adequately handle current and future workloads.

Unfortunately, the inefficiencies inherent in disability determination processes are not unique to SSA. The Veterans Benefits Administration faces a similar challenge. In 1992, a veteran had to wait more than a third of a year for an original compensation claim to be processed, while only about 5 hours were actually spent working on the claim. Most of the remaining time involved the claim waiting in queue between the steps in the process.

The claims processing functions, such as those at SSA and VBA, represent ideal candidates for reengineering with modern information technology. The gains in service to the public and reduced government costs could be enormous, provided that the effort is properly designed, implemented, and managed. Similarly, other agencies across the government have similar improvement opportunities in functions, such as processing and reviewing loans.

Reducing the Cost of Inventory Management

For more than a decade, leading businesses have been streamlining inventory processes and stocks on hand to reduce overhead, increase responsiveness, and cut unnecessary carrying costs. The federal government, however, has only begun to take advantage of this opportunity. For example, DOD has spent billions of dollars on excess supplies, burdened itself with the need to maintain them, and failed to acquire the tools or expertise needed to manage them effectively. In September 1993, DOD reported that although it had an inventory of \$77.5 billion, about \$36.3 billion, or about 47 percent, of the inventory represented items not needed to be on hand to support current operating requirements.

DOD generally agrees that it could lower costs and reduce inventories by using commercial practices. For example, DOD stores duplicate inventories of construction, general, and industrial supplies at wholesale and retail locations. In contrast, private sector companies encourage direct delivery of supplies to industrial centers by locating suppliers at "supplier parks" near the centers, and by streamlining the ordering, bill paying, and distribution processes through the use of electronic data interchange systems. The Defense Logistics

Agency (DLA) is currently implementing some commercial practices. For example, DLA has implemented a prime vendor program for medical supplies which has reduced overall wholesale inventories by \$400 million and is achieving cost reductions to military hospitals nationwide.

Improving Accountability Through Effective Financial Management Systems

The antiquated, inefficient financial systems of the federal government are excellent candidates for reengineering through information technology. For example, according to OMB, 34 percent of agency financial management systems are over 10 years old, 54 percent fail to meet agencies' processing requirements, and 51 percent do not meet internal reporting requirements. The private and public sector have achieved significant cost reductions and improved service through financial management systems redesign efforts. For example:

- Electronic Data Systems Corp. (EDS) changed its accounts payable process from a paper-burdened process requiring a series of reviews between the field and central offices to a paperless central on-line computer system, resulting in a 50-percent reduction in staff and a 75-percent reduction in costs.
- Minnesota's Department of Revenue reported redesigning its sales tax system to achieve (1) faster resolution of delinquent filings and payments, which resulted in \$4.3 million in increased receivable collections, (2) \$50 million in taxes received through increased compliance, and (3) over \$900,000 in reduced operating costs.

Other Potential Opportunities for Cost Reduction and Service Improvement

The administration's National Performance Review (NPR), which builds on many past efforts to target areas for improvement, identified numerous opportunities for federal agencies to work better and with lower costs. Some of these opportunities involve improving functions like debt collection at the Departments of Treasury, Justice, and State, to increase collection rates as well as reduce redundancies in personnel and administrative infrastructure. Others involve streamlining field office operations, like those at USDA, to eliminate unnecessary offices, data centers, and telecommunications networks, in order to reduce costs and better serve the public. Over 40 percent of the projected cost savings of the NPR efforts depend on implementing ideas involving reengineering with information technology.

Although most of these opportunities as yet remain unachieved, NPR is taking initial steps toward meaningful cost and service improvements. It is sending a strong signal to agencies on the need to change and is encouraging creative solutions to existing problems. NPR is also beginning to define customer service requirements--a critically important activity. As we note in our recent review of NPR, many of its improvement proposals warrant consideration and further illustrate the potential benefits that a modern government could offer.

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At your request, we are working with this Committee to assess and prioritize a wide range of functional and programmatic areas that can be redesigned, consolidated, privatized, or eliminated altogether. Our work includes selecting a priority group of target opportunities, analyzing the relevant business processes, benchmarking them against world-class organizations with similar processes, and quantifying potential cost savings. We plan to report back to the Committee on our progress with this effort in the spring.

Mr. Chairman, I look forward to working with this Committee as it strives for a better managed government. We would be glad to answer any questions that you or other members of the Committee may have at this time.

ATTACHMENT I: RELATED GAO PRODUCTS

Governmentwide

Reengineering Organizations: Results of a GAO Symposium (GAO/NSIAD-95-34, Dec. 13, 1994).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

Improving Government: GAO's Views on H.R. 3400 Management Initiatives (GAO/T-AIMD/GGD-94-97, Feb. 23, 1994).

Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).

Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OCG-94-1, Jan. 27, 1994).

Information Resources: Summary of Federal Agencies' Information Resources Management Problems (GAO/IMTEC-92-13FS, Feb. 13, 1992).

Financial Management Issues

Financial Audits: CFO Implementation at IRS and Customs (GAO/T-AIMD-94-164, July 28, 1994).

Financial Management: Status of CFO Act Implementation at the Department of the Treasury (GAO/T-AIMD-94-157, July 13, 1994).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD/GGD-94-149, June 21, 1994).

Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements
(GAO/AIMD-94-120, June 15, 1994).

Financial Management: DOD's Efforts to Improve Operations of the Defense Business Operations Fund (GAO/T-AIMD-94-146, Mar. 24, 1994).

Financial Management: Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations (GAO/T-AIMD/NSIAD-94-154, Apr. 12, 1994).

Financial Management: IRS Lacks Accountability Over Its ADP Resources
(GAO/AIMD-93-24, Aug. 5, 1993).

Financial Management: DOD Has Not Responded Effectively to Serious, Long-Standing Problems (GAO/T-AIMD-93-1, July 1, 1993).

Financial Audit: Examination of Army's Financial Statements for Fiscal Years 1992 and 1991 (GAO/AIMD-93-1, June 30, 1993).

Financial Management Issues (GAO/OCG-93-4TR, December 1992).

Financial Management: NASA's Financial Reports Are Based on Unreliable Data
(GAO/AFMD-93-3, Oct. 29, 1992).

Financial Audit: Aggressive Actions Needed for Air Force to Meet Objectives of the CFO Act (GAO/AFMD-92-12, Feb. 19, 1992).

Department of Defense

Defense Management: Impediments Jeopardize Logistics Corporate Information Management
(GAO/NSIAD-95-28, Oct. 21, 1994).

DOD's CALS Initiative (GAO/AIMD-94-197R, Sept. 30, 1994).

Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts
(GAO/NSIAD-94-189, Sept. 23, 1994).

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, Aug. 5, 1994).

Commercial Practices: DOD Could Reduce Electronics Inventories by Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

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