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AN ASSESSMENT OF THE PRESIDENT'S MANAGEMENT AGENDA

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

APRIL 21, 2005

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AN ASSESSMENT OF THE PRESIDENT'S MANAGEMENT AGENDA

THURSDAY, APRIL 21, 2005

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Tom Coburn, Chairman of the Subcommittee, presiding.

Present: Senators Coburn, Collins, Akaka, Carper, and Lautenberg.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. The Subcommittee will come to order. One the things we are going to try do with our Subcommittee is run on a timely basis. I know the Senate does not have the reputation for doing that, but we are going to lead by example.

This year the Federal Government is expected to spend almost $2.5 trillion, making our Federal budget larger than the economies of Canada, Mexico, and Australia combined. Put another way, Washington will spend more than $22,000 per American household this year—$22,000. That is more than the average household income of Oklahoma.

Regardless of one's politics, that is a lot of money. The American public has entrusted both Congress and the President with ensuring that those dollars are spent wisely. Therefore, this Subcommittee convened this hearing today to discuss current efforts by the Administration to strengthen the management and accountability of Federal programs. The Subcommittee Ranking Member, Senator Carper, and I, have had a long interest in ensuring that taxpayer dollars are spent wisely and efficiently.

While Congress has the responsibility to appropriate the funds necessary to operate the government, the Executive Branch is charged with implementing the will of Congress and managing the day-to-day activities of myriad Federal programs. Since assuming office in January 2001, President Bush has sought to make the Federal Government more effective by setting clear goals, bringing reform to entitlement programs, and focusing Federal resources on programs that are effective.

In 2001, the Office of Management and Budget (OMB) launched the President's Management Agenda, referred to as PMA. The

PMA contains a multi-part strategy to strengthen the management of Federal programs and activities and improve government accountability.

The PMA is the latest in a series of initiatives over the past 40 years designed to improve the performance and accountability of Federal agencies. Beginning with President Johnson's "Planning Programming and Budgeting System" in 1966, each successive initiative has been built on the foundation of its predecessors. President Nixon introduced his "Management by Objective" that aimed to expose redundant and ineffective programs by identifying goals and expected results for Federal programs. Later, President Carter introduced the zero-based budgeting concept in 1977 that forced each program to prove its value on an annual basis.

GPRA, the Government Performance Results Act of 1993, signed by President Clinton, is the most recent legislative effort regarding budget and performance integration. GPRA directed Federal agencies to improve management, clarify program responsibility, and account for program performance through strategic and annual performance plans. The Program Assessment Rating Tool (PART), which is an integral component of PMA, builds on GPRA and seeks to better align budgetary decisions with program performance.

As we will hear from our witnesses, the PMA consists of five government-wide initiatives: Strategic management of human capital, competitive sourcing, improved financial performance, e-Government, and budget and performance integration. Each of these initiatives has been developed to streamline Federal programs, to improve the availability and use of important information regarding programmatic and budgetary decisions, and to help the Federal Government meet future challenges.

Through today's assessment of the PMA, we hope to discuss such questions as: In what areas has the PMA been most successful and where can it be more effective? What lessons have been learned and how have those lessons been integrated and applied?

We are pleased to have with us representatives from the Government Accountability Office (GAO), and the Office of Management and Budget, who will offer their assessments regarding how Congress and OMB can work better together to manage this country's finances.

We are privileged to have the Hon. David Walker, Comptroller General of the Government Accountability Office, with us today. GAO has extensive experience with not only the PMA but also GPRA and its predecessor initiatives. Mr. Walker will shed some light on the effectiveness of the PMA and the interaction between PMA's PART process, which aims to link program performance with the budget process, and GPRA.

We will also hear from the Hon. Clay Johnson III, the Deputy Director for Management at the Office of Management and Budget, who will provide us with OMB's perspective on the PMA today. I particularly look forward to hearing from Mr. Johnson regarding the budget and performance integration initiative and the PART process. I am also interested to hear more regarding how the Federal Government is matching money spent on hundreds of programs with program results. Can we achieve the desired results more efficiently, more effectively, and at a lower cost to taxpayers?

I look forward to discussing with both of you ways in which the Executive and Legislative Branches can better work to ensure that taxpayer dollars are spent wisely.

Before I introduce our witnesses, I would like to recognize my Chairman, Senator Collins, who may wish to make an opening statement.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman. I want to congratulate you on chairing what I think is your first Subcommittee hearing since coming to the Senate. You have been a real champion of the taxpayer, always on the watch for waste, fraud, and abuse. I am very pleased that you have chosen to join our Committee, which historically has played an important role in identifying and fighting fraud, waste, and abuse in government programs.

In particular, you have accepted the daunting task of ensuring that Federal agencies are spending taxpayers' dollars wisely and efficiently through the oversight of their financial and information technology management. More and more, as our witnesses well know, financial management systems and technology play a key role in our ongoing efforts to combat waste, fraud, and abuse, and to ensure that the taxpayers get full value for their investment.

Our continued success in this area, then, will depend heavily on the effectiveness of these management systems. Furthermore, the failure of several high-profile Federal IT systems, such as the FBI's Trilogy program, are among the most prominent examples of wasteful Federal spending in recent years.

So, the topic you have chosen for your first hearing, the President's Management Agenda, is an important one and one that I have discussed with both of our witnesses many times. I think that this Subcommittee is going to help ensure that tax dollars are well spent, and I very much am delighted to have you here in your new capacity, and I congratulate you for your leadership.

Senator COBURN. Thank you, Madam Chairman. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I want to recognize the presence of our Chairman, Senator Collins, and thank her for her good work as Chairman of the full Committee on Homeland Security and Governmental Affairs. As the former Ranking Member of this Subcommittee, I want to wish you, Mr. Chairman, and your Ranking Member, Senator Carper, well. Our former colleague, Senator Peter Fitzgerald, and I held many hearings, and successfully sponsored legislation to increase financial transparency within the Federal Government, and draw attention to the national security needs of our country. I know you are truly committed to government efficiency and accountability, Mr. Chairman, and I look forward to working with you.

I also want to join you in welcoming our witnesses today, both of whom appeared before the Subcommittee on Oversight of Government Management 2 months ago to discuss GAO's high-risk list. At our hearing I expressed my disappointment that so many areas within the Department of Defense remain on the list. Out of the

25 high-risk area on this year's list, eight are unique to DOD, and several more are government-wide issues that directly impact DOD. These deficiencies keep DOD from getting a clean audit and result in billions of dollars in waste.

As the Ranking Member of both OGM and Armed Services Readiness Subcommittees, I have worked hard to improve the efficiency of DOD programs and operations. I know the Comptroller General will discuss some of DOD's management shortfalls, and I applaud his persistent focus on the Department's financial performance and program accountability.

Mr. Chairman, last week, I joined with Senator Ensign and Senator Voinovich, who are the Chairmen of the Armed Services Readiness and Oversight of Government Management Subcommittees respectively, to introduce S. 780, legislation to create a new position of Deputy Secretary of Defense for Management. Our bill is based on a recommendation made by Mr. Walker, and I invite you to cosponsor this measure that will designate one person accountable for the integration and implementation of management and defense business reforms.

Another area within the President's Management Agenda is strategic management of human capital. Again, pointing to problems in DOD and a recommendation of the Comptroller General, I note that DOD has failed to develop a comprehensive, strategic workforce plan to guide its human capital efforts.

These are the issues; these are the concerns that we are looking at. I look forward to working with you, Mr. Chairman, Senator Carper and, of course, Senator Collins, and I wish all of you well. Thank you.

Senator COBURN. Thank you, Senator Akaka. Senator Lautenberg.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thanks, Mr. Chairman, and my good wishes also for your first venture as Chairman, and the subject is a very important one. I am glad it is being taken up. So I thank you for convening this hearing.

Mr. Chairman, I come from the business world, and I started a company with a couple of other fellows whose father, like mine, came from factory employment. I left that company 23 years ago that now employs more than 40,000 people, and we would never have gotten there if I had not run a tight ship and I knew what I expected from my program managers, and I held them accountable. But I also rewarded their successes. The result was an outstanding growth record for more than 40 years.

So I understand and I applaud the President's desire to instill the best management practices in our Federal Government. We should be demanding accountability from our government programs and making sure they accomplish the goals we set out for them. Government can be and often is a great force for good in America. It provides health care for poor and the elderly and it helps kids go to college. If I had not had the GI bill to boost me along, I never would have, frankly, been able to go to college as I did. Government also helps keep our communities vital and does research to fight childhood disease and disability.

Mr. Chairman, we have to make sure these programs are accomplishing their goals. It is not only a matter of spending the taxpayers' money wisely, although we must always do that. It is a matter of making sure that money we spend in government gets to the people who need it, actually doing the good work that is required out there in the country.

But I learned something else in my business years, and you get what you pay for. So we may have to make sure that we are measuring the right things. We cannot allow program evaluations to look simply at expenditures without looking at the successes. And I also want to express a serious concern about one of the five key pillars of the PMA, and it is called competitive outsourcing.

Now, last year, the government held 217 competitions with about 12,500 full-time jobs at stake. Federal workers competed against private contractors for their jobs. The public employees won the competition more than 90 percent of the time. And I note from my own experience that what I had by way of support when I was in the corporate sector was very efficient and well done, but I see people in government who come to work for a heck of a lot less than they would make in the private side, with as much enthusiasm and commitment as we see in the private side.

So I ask my colleagues, are we spending more energy on competing jobs than its ultimately worth? Instead of having Federal employees spend time competing for their jobs, why don't we just let them do their jobs? And not without measure and not without expectations of success and commitment.

I always found in my business experience that the employees were our greatest asset, because if we had good performance by our employees, the customers would come, and the same thing is true, I believe, in government. If the programs are successful, if it shows an attempt by government to improve life's conditions, then we will get the support of the people out there.

So we have to maintain good and dedicated employees as part of our organization, and we have to try to keep them reasonably happy. You have to invest in them, help them plan for the future. The Federal Government hasn't done this enough, in my judgment, because very often we throw employee compensation in a basket called waste, fraud, and abuse, and that is not always the case. Indeed, GAO found that during the downsizing in the 1990's, the Federal Government did not plan well for its future in human capital needs. As a result, the Federal workforce has suffered.

Mr. Chairman, we all know that we have to treat people right to get results. We hope that contracting out jobs, because the government has decided on a policy—we have to examine what it is that we get for the changes we make, and I am sure that you will do that, and I thank you, Mr. Chairman.

Senator COBURN. Thank you, Senator.

It is a great privilege for me to have as a Ranking Member and integral, even part of this Subcommittee, Senator Carper. Of note, both of our initials are T.C., so that makes for a lot of fun at times.

I want to commit to him now that this Subcommittee will be run on a bipartisan basis. It will be partisan only on issues that are important to the future of this country, and he has demonstrated his commitment through his life, his votes, and his service to care

about the future of our country and to care about its economic consequences through waste. And so I could not have somebody that I am, first of all, closer to or aligned with in terms of his dedication, and I am very pleased that he is the Ranking Member on this Subcommittee.

And I also know that he has an extreme interest in not only making sure we spend our money wisely but the money that is due the Federal Government from income taxes that are not collected that should be collected is something that we are going to look at, and I make that commitment to him at this hearing that we will do that.

Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thank you, Mr. Chairman. I am glad I came just for that introduction. [Laughter.]

For my colleagues and our guests, along with Senators Lamar Alexander, George Voinovich, and Mark Pryor, I asked our leaders, we asked Senators Tom Daschle and Bill Frist at the end of last year if we could put together really a school for new Senators modeled after the New Governors School within the National Governors' Association—plunk it right down in the middle of the U.S. Senate—and it gave me an opportunity to get to know then Senator-elect Coburn and his wife and all the other new Members. It was a wonderful experience for me. I don't know that it was of great help to our incoming Members, but it sure was helpful to those of us who hosted it and gave us real insights into our new colleagues. And I am delighted that we ended up—T.C. West and T.C. East—on the same Subcommittee and have the chance to work together. And he has been in the Senate now—for what?—3 or 4 months, and I think he has shown as much vigilance in trying to do something about the budget deficit as anybody around, and God knows when we are pushing $400 billion in Federal budget deficit, we need some vigilance and some leadership, and I know we have it right here to my left.

I like being on your right, to the right of you.

Senator COBURN. You are actually on my left to them. [Laughter.]

Senator CARPER. I have a statement I would like to offer, if I could, Mr. Chairman.

Senator COBURN. Please do.

Senator CARPER. All right. First of all, let me just say to General Walker—I saw him almost as much as I saw my wife this week. This is the second hearing today that he has testified at, and I don't know how—maybe they have cloned you. I don't know. There are days I wish we could clone me. That is a scary thought. But we are glad you are here, and, Mr. Johnson, welcome, we look forward to hearing from both of you.

I think it is most appropriate, Mr. Chairman and my colleagues, that at our first hearing we are going to get an update on the President's Management Agenda, and while I don't agree with every single aspect of what the President has put forward, I do applaud him and his team for working aggressively since his first days in Washington to try to make our government work a little

bit better and a little bit smarter. At a time when our Federal budget deficit is not just approaching $400 billion, but I believe if you add in the supplemental, the emergency supplemental that is before us today in the Senate, if you add that in, we are going to be running a deficit that will exceed $400 billion, and we need to do all that we can to make every dollar count.

The Chairman and I have already been talking about not only making sure that we are doing the right thing on the spending side and so forth, but to make sure the folks, businesses or individuals, who owe taxes, that they legally owe, that we are doing the very best job that we can to make sure we collect those dollars. Actually, frankly, we are looking forward to hearing from both of you and from the folks you lead to see how we might do that better.

But I was pleased to learn that many agencies are now getting a better handle on their finances—not all, but many. Agencies are apparently getting their annual written financial statements in earlier, and I believe most of those statements are in better shape than they have been in years gone by, and I think we all agree that is real progress.

I am also pleased the Administration is beginning this year to tackle the problem of improper payments, and more than $45 billion, I am told, in improper payments were made in fiscal year 2004. If that is true, if that is even close to being true, that is a huge number. Whether it is $45 or $35 or $25 billion, we need to work together to tackle this problem, because with every double payment that goes out or inappropriate payment that goes out with every individual vendor who accidentally or fraudulently receives a payment that he or she is not entitled to, a worthy program is denied resources that could be put to better use.

I look forward to our hearing today about how OMB intends to meet the President's goals for reducing improper payments. I would also like to hear about what might need to be done to strengthen our agencies' internal controls to detect and prevent wasteful and unnecessary payments before they happen.

That said, I do have some concerns about the way that some of the initiatives in the President's Management Agenda are being implemented. The President's initiatives to improve human capital management across the Federal Government is a good example, and some of his initiatives in this area are most worthwhile, and I think they are supported by just about all of us.

It is difficult for many agencies to bring qualified personnel on board, for example, and this job will be even more difficult in the coming years as workers from my generation, the boomers, begin to retire.

In addition, there is some logic to the idea that employee performance should play a bigger role in determining how an individual is paid. I believed that as a Governor, and I believe that today. If personnel reform proposals currently being implemented at the Department of Defense and the Department of Homeland Security are indications of how we intend to address these and other human capital problems, in some respects we may want to go back to the drawing board.

I don't need to remind everybody, Mr. Chairman, on this Subcommittee that the employees at the Department of Defense and

the employees at the Department of Homeland Security are for the most part opposed to the new personnel systems at their departments. Some of them may be even suing to prevent the new systems from going into effect out of a concern that proposals in areas like employee appeal and union rights go much too far.

Some are also concerned that the proposed pay-for-performance systems each Department will be phasing in don't provide employees with enough protection against favoritism or other potential management abuses. This is having an effect, I am told, on morale, and the two Departments could very well have an impact on recruitment and retention in the future, and we have all got to be mindful of that and attentive to it.

Before we talk about exporting from the Department of Defense or Department of Homeland Security to other agencies, as the President has suggested, we just need to be mindful of these concerns and, I think, to address them.

And I also have some concerns that I would like to share, Mr. Chairman, about the President's competitive sourcing initiatives. I think maybe Senator Lautenberg may have been addressing this. I am not sure. While I support the idea of increased competition for Federal work that is not inherently governmental, I am not entirely comfortable with the degree to which the revised rules governing how competitions should be run may favor private bidders in some respects and make it more difficult to be sure that the bidder who can do the best work at the lowest price always winds up with the contract.

I would like to see the rules further revised so that Federal employees always have the right to reorganize themselves and to put their best bid forward, and I would also like to see Federal employees given the same right that their competitors in the private sector have to protest decisions made by an agency in a competition. I believe we need to work to refine the rules so we can always say that the winner of a public-private competition is the party that can give the best value to the taxpayers for their money.

And, finally, I would also like to briefly address the President's initiatives on performance-based budgeting and the mechanism being used to enforce it, and that is the Program Assessment Rating Tool. I think it uses an acronym. I don't like to use acronyms, so I am going to try to continue to say that phrase over again: Program Assessment Rating Tool.

I will never be one who will argue that a program that is ineffective or that has served its purpose and is no longer needed should continue to receive funding. I am not interested in that; neither are you. However, we need to be careful before deeming a program a failure and defunding it. And the Program Assessment Rating Tool is, I think, an interesting proposal. I have no problem looking at programs on a regular basis to determine whether or not they are accomplishing what they are intended for them to accomplish when we first created them. We need to be certain, though, that the Program Assessment Rating Tool or whatever mechanism we use to make these evaluations is separated from politics and ideology and is closely coordinated with existing mechanisms that agencies and Congress use to align budgets with program goals and outcomes.

We also need to make sure that a program's intended beneficiaries outside of Washington have a say before an evaluation is completed.

I am going to stop there, Mr. Chairman. I have a bit more, but I would just ask unanimous consent for it to be entered for the record. We welcome our witnesses, and thank you very much.

Senator COBURN. Without objection, it will be entered.

[The prepared statement of Senator Carper follows:]

PREPARED STATEMENT OF SENATOR CARPER

Thank you, Mr. Chairman. I'm pleased to join you here today at the first hearing of the Subcommittee on Federal Financial Management, Government Information and International Security. Our name is long, our jurisdiction is broad and issues we'll be focusing on over the next 2 years are vitally important ones. I look forward to working with you in a bipartisan way to help our government be a better steward of taxpayer dollars and to make our Nation safer from terrorism.

I think it's very appropriate, Mr. Chairman, that at our first hearing we'll be hearing an update on the President's Management Agenda. While I don't agree with every aspect of what the President has put forward, I applaud him for working aggressively since his first days in Washington to try to make government work better and smarter.

At a time when our Federal budget deficit is soaring, we need to do all we can to make every dollar count. I was pleased to learn, then, that many agencies are now getting a better handle on their finances. Agencies are apparently getting their annual financial statements in earlier. And I believe most of those statements are in better shape than they have been in years past. this is real progress.

I'm also pleased that the administration is beginning this year to tackle the problem of improper payments. More than $45 billion in improper payments were made in 2004. We need to work together to tackle this problem. With every double payment that goes out, with every individual or vendor or accidentally or fraudulently receives a payment he or she is not entitled to, a worthy program is denied resources that could be put to good use.

I look forward to hearing today about how OMB intends to meet the President's ambitious goals for reducing improper payments. I'd also like to hear about what might need to be done to strengthen agencies' internal controls to detect and prevent wasteful and unnecessary payments before they happen.

That said, I'm concerned about the way some of the initiatives in the President's Management Agenda are being implemented. The President's initiative to improve human capital management across the Federal Government is a good example.

Some of the President's personnel proposals are worthwhile. It's difficult for many agencies to bring qualified personnel onboard, for example. This job will be even more difficult in the coming years as Federal workers from my generation begin to retire in the coming years. In addition, there's some logic to the idea that employee performance should play a bigger role in determining how an individual is paid. If the personnel reform proposals currently being implemented at the Department of Defense and the Department of Homeland Security are indications of how we intend to address these and other human capital problems, however, we might need to go back to the drawing board.

I don't need to remind anyone on this Subcommittee that the employees at the Department of Defense and the Department of Homeland Security are very much opposed to the new personnel systems at their departments. Some of them are even suing to prevent the new systems from going into effect out of concern that proposals in areas like employee appeals and union rights go much too far. Some are also concerned that the proposed pay-for-performance systems each department will be phasing in don't provide employees with enough protection against favoritism and other management abuses. This is having an impact on morale in the two departments and could very well have an impact on recruitment and retention in the future. Before we talk about exporting the Defense or Homeland Security models to other agencies, as the President has suggested, we need to address some of these issues.

I also have concerns about the President's competitive sourcing initiative. While I support the idea of increasing competition for Federal work that's not inherently governmental, I'm uncomfortable with the degree to which the revised rules governing how competitions should be run favor private bidders, in some respects, and make it more difficult to be sure that the bidder who can do the best work at the

lowest price winds always up with the contract. I'd like to see the rules further revised so that Federal employees always have the right to reorganize themselves and put their best bid forward. I'd also like to see Federal employees given the same right that their competitors in the private sector have to protest decisions made by an agency in a competition. We need to work to refine the rules so we can always say that the winner of a public-private competition is the party that can give taxpayers the best value for their money.

Finally, I'd also like to address briefly the President's initiative on performance-based budgeting and the mechanism being used to enforce it—the Program Assessment Rating Tool, or PART.

I'll never be one who'd argue that a program that's ineffective or that has served its purpose and is no longer needed should continue to receive funding. However, we need to be careful before deeming a program a failure and de-funding it.

PART is an interesting proposal. I have no problem looking at programs on a regular basis to determine whether or not they're accomplishing what we intended for them to accomplish when we first created them. We need to be certain, however, that PART or whatever mechanism we use to make these evaluations is separated from politics and ideology and is closely coordinated with existing mechanisms agencies and Congress use to align budgets with program goals and outcomes. We also need to make sure that a program's intended beneficiaries outside of Washington have a say before an evaluation is completed.

In closing, Mr. Chairman, I'd like to say something about the President's Management Agenda and its impact on the budget. The President's FY 2006 budget proposal states that the management agenda is a critical component of his plan to cut the budget deficit in half by 2009. I have doubts about that plan for a variety of reasons. It's clear to me, however, that even full and successful implementation of the management agenda won't get us there. I can help, but it won't get the job done on its own.

Non-defense discretionary spending, the target of many of the spending reductions in the President's budget proposal, makes up only about 16 percent, I believe, of the total Federal budget. I'm sure we can find ways to improve the management of some of the funding in that 16 percent, or even to find and eliminate waste or inefficient use of resources. If we truly want to tackle the fiscal problems facing us right now, however, we'll need to take a look at the entire budgetary picture, on the spending and revenue side, and make some tough decisions.

Thank you, Mr. Chairman, for holding this hearing. I look forward to working with you on these issues in the coming years.

Senator CARPER. And, Mr. Chairman, I just look forward to working with you and——

Senator COBURN. Well, I just wanted to let my accountant come out in me a little bit. I do have a degree in accounting, and although I am a physician——

Senator CARPER. Well, you are multi——

Senator COBURN. I want for the record to note that the real deficit this year is going to be $640 billion. It is going to be a $410 billion deficit. We are going to add $80 billion on a supplemental right now, and we are going to steal $150 billion from Social Security that we are going to write an IOU for. So in terms of the debt of the country this year, the deficit is going to be at a minimum $640 billion. That is a real problem.

Let me thank our witnesses for coming. A brief introduction, if I may. You are both very well known to the Senate. The first witness is Hon. David Walker, Comptroller General of the United States. He began his 15-year term as the Nation's chief accountability officer and was appointed in 1998 as head of the U.S. General Accounting Office, now referred to as the Government Accountability Office. Through his role as Comptroller General, Mr. Walker oversees GAO's work to improve the performance and accountability of the Federal Government, including measures to improve the efficient use of taxpayers' dollars.

Before his appointment as Comptroller General, Mr. Walker had executive-level experience in both government and private industry. He worked for Arthur Andersen LLP between 1989 and 1998 where he was partner and global managing director for human capital services practice in Atlanta, Georgia. While a partner at Arthur Andersen, he served as a public trustee for Social Security and Medicare from 1990 to 1995.

Our second witness is the Hon. Clay Johnson III, Deputy Director for Management at the Office of Management and Budget. In his role he provides government-wide leadership to Executive Branch agencies to improve agency and program performance. Prior to this position, Mr. Johnson served as Assistant to the President for Presidential Personnel and as Executive Director of the Bush-Cheney transition team. From 1995 to 2000, he also served as appointments director and chief of staff for then-Governor George Bush.

Similar to Mr. Walker, prior to his government service he had an impressive career in the private sector as chief operating officer of the Dallas Museum of Art, president of Horchow and Neiman Marcus mail order divisions.

I would like to thank you both for being here. In the interest of time, your full statements will be made a part of the record, and I would ask that you limit your opening statements to 5 minutes. Mr. Walker.

TESTIMONY OF HON. DAVID M. WALKER,[1] COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Chairman Coburn, Senator Carper, and Senator Lautenberg, it is a pleasure to be back before you. Let me congratulate you, Mr. Chairman, on your assuming this chairmanship. I am very excited about the fact that you are very interested in these issues. You have a lot of enthusiasm for them. I know that Senator Carper and Senator Lautenberg and others do as well. So I look forward to a long and mutually beneficial relationship on issues of mutual interest and concern to the country.

I will provide an executive summary of my statement in the interest of time.

This hearing is about the President's Management Agenda, and let me state for the record that we believe that this has been a very positive initiative in the aggregate. The Administration's implementation of the President's Management Agenda has demonstrated its commitment to improving Federal management and performance. It has served to raise the visibility of key management challenges, increased attention to achieving outcome-based result, and reinforced the need for agencies to focus on making sustained improvements in addressing longstanding problems, including the items on GAO's high-risk list. I might note that there is a very strong correlation between the President's Management Agenda and GAO's high-risk list, and that is not an accident. In fact, we worked together in a very constructive manner to make

[1] The prepared statement of Mr. Walker appears in the Appendix on page 27.

progress on a whole range of fronts, not just limited to the high-risk list but with a special emphasis on the high-risk list.

As was mentioned by Senator Akaka, 14 of 25 high-risk areas relate to the Department of Defense, directly or indirectly. DOD is clearly the biggest major challenge that we have in the business transformation effort in the Federal Government for any single agency, and yet there are a number of challenges that span a number of agencies within the Federal Government. If I can, a few words about each of the key areas on the President's Management Agenda.

First, financial management. In general, there has been improvement with regard to financial management over the last several years. We are continuing to see, as compared to several years ago, a higher number of agencies that are receiving clean opinions in their financial statements. There was an agreement early in the Bush Administration between GAO, OMB, and the Treasury Department to raise the bar on what is the standard for success in financial management. It is not just a clean opinion. The standard is also no major internal control weaknesses, no major compliance problems, and timely, accurate and useful information to make informed decisions on a day-to-day basis. While we have continued to make progress with regard to clean opinions on the financial statements, less than five of the agencies have met that entire list of criteria, and DOD is the laggard for all of the Federal Government with regard to financial management.

I might also note there has been an acceleration of the due date of audited financial statements and related annual reports. Specifically, last year, by November 15, the agencies had to report and then the consolidated financial statements were issued on December 15. That is 45 days after the end of the year for the agencies, 75 days after the end of the year for the Federal Government, a very impressive improvement. At the same point in time, we did see an increase in the number of agency statements that had to be restated from the prior year, which reinforces the importance of getting the systems and controls in place such that you can have not only timely but reliable financial information.

With regard to the second area, eliminating improper payments, you properly pointed out, Senator Carper, there were about $45 billion in improper payments for fiscal year 2004. That is probably understated because there are still some agencies that have not reported and there are others that are refining their methodology. It is, however, important to note that improper payments do not necessarily represent fraud, waste, and abuse. Some of those improper payments may, in fact, have been bona fide items but there was not a proper documentation at the time the payment was made, and so not all of those represent fraud, waste, abuse, and mismanagement. But clearly it is an unacceptable number, and more needs to be done in order to be able to get that number down.

With regard to the strategic management of human capital, as Senator Lautenberg mentioned—I strongly agree that people are the most valuable asset in a knowledge-based enterprise, especially in a knowledge-based economy. For the most part, that is what the government is and, therefore, it is important to recognize that reality.

I would respectfully suggest more progress has been made in the area of human capital in the last several years than in the last couple of decades, in large part not just efforts within the Executive Branch, but also because of actions by the Congress.

But I would also agree it is not important just to give management reasonable flexibility so we could modernize our human capital policies and procedures to recognize 21st Century realities. There need to be adequate safeguards and controls to prevent abuse, and proper implementation of these authorities. Doing this at DOD and at DHS, is of critical importance. How you implement human capital reform matters, and the process that you use is just as important as the policy framework that you are employing.

Another initiative on the President's management agenda is budget and performance integration. The Program Assessment Rating Tool has strong conceptual merit. It is not perfect. No tool is perfect. But the idea that you need to focus more on how to link resources to results, how you can end up making agencies accountable to focus on whether or not they are making a difference in the lives of the American people, and whether or not they are generating a positive return on investment. This clearly has strong conceptual merit.

Unfortunately, it has not yet been used to a great extent in determining actual resource allocations, and in order for this tool to have a real meaningful and lasting impact, it has got to translate into budget proposal actions by the President—which it has to a certain extent, and I am sure that Clay Johnson will talk about that. However, it has to be used on Capitol Hill and incorporated into Congressional decisionmaking in order to make a real and lasting difference.

Chairman Coburn, as you know, and Senator Carper and Senator Lautenberg, because all of you have gotten a copy of the report, "21st Century Challenges: Reexamining the Base of the Federal Government," never before have we had such a compelling need to understand what works and what does not work because we are on an imprudent and unsustainable fiscal path. We need to make some tough choices and we need to have solid facts in order to be able to understand what is working and what is not.

The next initiative is e-Government, and I am about done, Mr. Chairman. The Administration is focusing primarily on 25 OMB-sponsored e-Government initiatives where progress is mixed, but it is an area where additional progress is being made.

And last, for now, is the competitive sourcing issue. This is a complex and controversial topic. I will say that the Administration did issue a new A–76 regulation that, in large part, was consistent with the recommendations of the Commercial Activities Panel, which I chaired. I will also note that the Congress passed and we have now operationalized the authority for agency tender officials to appeal decisions under A–76 on behalf of employees to the GAO. We look forward to executing that responsibility within the statutory 100-day period.

Thank you very much, Mr. Chairman. I look forward to answering any questions you may have.

Senator COBURN. Thank you, General Walker. Mr. Johnson.

TESTIMONY OF HON. CLAY JOHNSON III,[1] DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. JOHNSON. Mr. Chairman, Senators Carper and Lautenberg, I thank you for having me here today. The Federal Government is working to ensure taxpayer dollars buy more and go farther every year. The American taxpayers expect it, and if they do not expect it, they should; and the Federal Government is showing that it can deliver.

Agencies are better managed and achieving greater results. They are managing their finances and investments more professionally and efficiently. They are providing better service to the American people. They are helping civilian employees be more effective and successful, all as David Walker has pointed out.

I personally believe that more has been done in the last 4 years to really change the way the Federal Government works than during any comparable period in recent history. The Federal Government has shown that it can change, and it is a good thing because, as David Walker points out, we must change. We need to change. There is much still to do, but we have already defined what we want and can accomplish in the next few years, and we want to be held accountable for doing it. I have submitted a longer statement for official entry, and I refer you to that for an elaboration on those points.

I look forward to your questions.

Senator COBURN. Thank you, Mr. Johnson.

I just want to advise members we have four votes starting at 3:45. And so what we will do is we will go through the questioning, and if there is no objection—5 minutes apiece, and then we will submit any questions that are left after that, if we might.

Let me start with you, Mr. Johnson. The President's 2006 budget proposal requested or proposed the termination of almost 100 Federal programs, which would reduce spending by $8.8 billion alone in fiscal year 20006.

How did OMB put this list together? How did you determine which programs were effective and ineffective? Why did the budget propose maintaining or even increasing the budgets for some of the programs that were rated ineffective? And how many of the programs proposed for termination have been on this list before?

Mr. JOHNSON. I think I have all of those points, but let me go through and remind me if there is something I did not cover.

We start off evaluating programs with the premise that we want programs to work. We are not engaging in a witch hunt by trying to get rid of things. At some point, we conclude that we have accomplished what we want to accomplish or there is no way we can make it work or there is someone—the private sector, a State, a municipality—that is better prepared to do that work, and we recommend that the program be terminated or be reduced or be combined with something else. But we start off with the premise that we want programs to work, and we cannot figure out how to make them work until we figure out what they are accomplishing now. Are there management deficiencies? Are their definitions of success accurate? Do they have good performance goals, and good output

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 57.

goals, good efficiency measures? Are they set up to succeed? Do they have a chance to succeed? Is the enabling legislation perhaps in need of some rethinking?

So that is the primary answer why some programs that are considered to be results not demonstrated or ineffective have not been recommended for elimination or significant reductions, because our first effort is to try to get them to work.

PART score is—again, someone commented, maybe you, Senator Carper—there is nothing magical about the phrase PART or Program Assessment Rating Tool, and there are 25 or 30 questions that we ask, and there is nothing magical about the questions, although the issues that they address, I think, are magical. Do you have a clear definition of success? Do you have a clear definition of at what cost do you want to achieve success? How are you performing relative to your standards?

In a big percentage of the cases—by now it is 30 percent of all the programs we have assessed—we cannot demonstrate that we are producing a desired result, either because we cannot define the desired result; we can define it but we do not know how to measure it; or we know how to measure it, but we have not had the time yet to collect the measurements to tell how we are performing. Thirty percent. When we first started this program, it was 40 percent or over 40 percent.

But the key is that we ask ourselves questions that get at what we are doing, what are we accomplishing. We are spending the money, but are we getting anything for it? And is what we are getting for it satisfactory? And are we getting the money we spend over here, a return on that investment compared with the spending over here? And if it is lower than this, then might we want to reconsider and put more money here and less money here and so forth?

It gives us information that we would not otherwise have to have a more intelligent, more results-oriented conversation about how we are spending our money. And once we have spent it, it gives program management more information and more targets about how to spend that money to really make a difference.

Senator COBURN. So last year, you had these same programs running. And in the President's proposal last year for his budget, how many programs did you recommend eliminating?

Mr. JOHNSON. Last year I think we recommended 50 or 60 programs be reduced significantly or eliminated.

Senator COBURN. How many did Congress reduce or eliminate?

Mr. JOHNSON. I don't know, but it was less than 10.

Senator COBURN. But that is an important point for us to know. Here we have management under measured guidelines saying this is ineffective. Here is why it is not. Are those 40 or so that weren't eliminated or modified last year in this list again?

Mr. JOHNSON. Almost all of them.

Senator COBURN. So what we are saying is either your evaluations of them are wrong or the political situation is such that we don't have the courage to address it. I mean, there is no question there are politically popular programs that might not be effective that we might duck in our responsibility to address. There is nothing wrong with saying that. It is the real world up here, and we

need to know that. And we need to talk about the ones that are because we ought to be held accountable for it.

So how do you move us based on what you have put forward—of course, part of the purpose of this hearing is to find out why certain programs are there and what they are or are not accomplishing. How do you move us? How do you get the information to the members of this body and the House to make that happen?

Mr. JOHNSON. In the most general sense, we have to make performance more important. We have to make performance good politics, for instance. We have to pay more attention to the performance information that we now have on programs that account for more than half the budget. It is about 60 percent of the total spending, and this year it will be 80 percent, and next year it will be 100 percent.

So there is more discussion about performance now than there was 2 or 3 years ago when there was very little PART information and there was really no standard, performance information or consistently derived performance information to refer to. So it is more than there was before. But it is not enough.

For instance, we have plans and are working to produce a website that will show the American people how their money is being spent. Eventually all 1,200 programs or so that we have in the Federal Government for which we spend all the money will be available in lay terms for the average citizen to see what the program is intended to do, how it is considered to be working, what its goals are, how it is performing relative to those goals, how it is performing relative to last year, and, most importantly, the plan for improving performance next year.

The purpose of all this is to try to create in the Federal Government a culture that we can and we should improve performance of every program every year.

Senator COBURN. Thank you. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman.

Mr. Chairman, I know you said the number, and I thought I caught it, but what did you say the budget deficit was likely to be for this fiscal year when you added in the emergency supplemental?

Senator COBURN. Six hundred forty billion dollars when you consider the money we will take from Social Security and write an IOU. That does not include all the other funds out there that we will take money and write IOUs for.

Senator CARPER. All right. The 100 programs that the Administration I think had called for either downsizing or eliminating, what was the annualized cost for those programs?

Mr. JOHNSON. I think it is $20-some-odd billion.

Senator CARPER. I heard the number $8 billion earlier. What was that?

Mr. JOHNSON. The 150 programs that we have recommended for elimination and reduction, and I think the expenditure of that 150 is 20-some-odd, and maybe the eliminations is $8 billion.

I am sorry. We will get back to you with that information.

Senator CARPER. Whether it is $8 or $20 billion, with a budget deficit of $600-some billion, if that is all we do, clearly it is not enough, which I think reminds us that there is not just the domes-

tic discretionary spending but there is defense spending, there is entitlement programs, and there are revenues and whether or not we are collecting the monies that are owed. And together I think they all need to be part of reducing the budget deficit.

I was Governor of my State during the 1990's so I was not following quite as closely what was going on down here, but I think part of what happened, in order to enable us to actually balance the budget and start running surpluses at the end of the last decade, one was that revenue growth was very strong, the economy was very strong. And that is always helpful. But there was, I think, a little bit of work done on both the discretionary spending side and on the entitlement side, just a little on both sides. So it takes some of all that, so have us keep that in mind.

I want to come back, if I could, to the issue of improper payments for a little bit, if you will. And the number $45 billion is one that I expressed, and I just want to come back. Is that an annual number? We believe that as much as $45 million in improper payments, as you said, not fraudulent, maybe not totally wasteful payments, but $45 billion in improper payments. Give us some example of payments that may be improper, but we would say, well, that is not fraudulent or that is not really wasteful, it is improper. Can you give us some examples of that?

Mr. WALKER. Sure. The $45 billion, Senator, is annual, and that is the fiscal year 2004 estimate from the agencies that have reported so far.

Mr. JOHNSON. It is $40 billion too much and $5 billion too little, so it is a net of $35 billion too much.

Senator CARPER. Oh, OK.

Mr. WALKER. Again, everybody has not reported yet, and many agencies are still refining their methodologies. One example might be where a payment was made, and it might have been a bona fide payment, but they did not have all the supporting documentation they should have had in order to make the payment.

Another example is where the program paid something twice, and, by the way, under current law, if the Federal Government does not pay promptly, it has to pay interest and in some cases penalties. On the other hand, if a contractor is paid twice, not only does the contractor not have to let us know that, but they do not have to pay interest and there is no penalty even if they hold on to the money for an extended period of time. We do not have a level playing field there. So those would be two examples I would give you on each side.

Senator CARPER. Just based on those two examples, is there something that you would want to suggest to us that we do in response to particularly that last situation?

Mr. WALKER. Well, I have suggested before that Congress might want to try to take steps to create a more level playing field with regard to overpayments. Specifically whether there should be some notification requirement or whether under certain circumstances interest should accrue and penalties should be imposed.

Now, in some cases, quite frankly, the government's internal controls are poor and its financial systems are so poor that the government is part of the problem. On the other hand, if the contractor

is aware of it, then it is something that needs to have additional transparency, and we need to improve the related incentives.

Senator CARPER. OK. Well, we might want to explore that a bit further with you, if we could.

One of the things that I think I heard you say, General Walker, was that you started talking about this PART program, and I noted it said not used fully, and that is as far as I got. But can you just go back and complete that paragraph for us, please?

Mr. WALKER. First, I think it is important to have a methodology, and the Program Assessment Rating Tool is the Administration's methodology for assessing the effectiveness of programs. I think it is important that it apply to all major programs. Nothing can really be off the table eventually, and we also need to take the same concept with regard to the tax side, including tax preferences at some point. Right now it is limited to the program side.

Once the assessment is made, then there has to be a point in time where the President will then say, All right, based upon this result, we are going to end up either cutting back, merging, or eliminating programs, and that is what Mr. Johnson was talking about. The Administration does not always do it the first time that they have an ineffective result, but after a reasonable period of time, they may make such a proposal.

But then what has to happen is it comes to the Congress, and then the key question is: What does the Congress do with the information?

Candidly, we are currently on an imprudent and unsustainable fiscal path. The base of government, whether it be on the spending side, mandatory or discretionary, or the tax side, is unsustainable. One of the things that has to happen is a cultural change not just within the Executive Branch, but also within the Legislative Branch to understand that every dollar spent today on an item that is not effective is a dollar we will not have in the future for something that could be effective. And every additional dollar of debt today is a tax increase for our kids and grandkids in the future. That is where we are at. That is how bad our fiscal situation is.

Senator CARPER. Would you describe that as a debt tax?

Mr. WALKER. Well, you do not pay taxes—I think the taxes will come before somebody dies.

Senator CARPER. No. Debt, d-e-b-t.

Mr. WALKER. Oh, debt tax. I thought you said "death tax." You could call it that, Senator. I will give you credit for that.

Senator CARPER. Thank you so much.

Senator COBURN. Senator Lautenberg.

Senator LAUTENBERG. Thanks, Mr. Chairman. Again, we are fortunate to have two such distinguished witnesses here, and it is hard for me to understand how two such intelligent and trained people can be so wrong. But other than that, why—— [Laughter.]

Mr. Chairman, you raised a question in your remarks before that I think deserves some kind of a response, and that was in talking about the deficit and what is happening. And I find it a little bit mysterious to look at the low value of the dollar in trading places and to see our trade deficits continue to expand. Why? We never seem to get a satisfactory answer to that.

And the other thing, Mr. Chairman, in fairness, lots of people who have made their money in business, legitimate entrepreneurs, etc., accumulated fortunes in some cases. Why, in this time of war, was it necessary to reduce our revenues? I will never understand that, and I am a beneficiary—no, I will not even describe it that way—I am a recipient of the tax breaks? But in terms of the legacy—Mr. Walker, you mentioned legacy—to our kids, I have got 10 grandchildren, and the best thing I can leave them is not more money because money in a society that is disgruntled or worse, it does not do any good. I would rather leave them a society that is operating in harmony, where everybody has a chance, where lifesaving research can be conducted, and I do not have to meet with parents and families of kids who have diabetes or cerebral palsy or autism or other conditions. So when we look at our indebtedness, I think we have to look at the whole picture, really including the revenue side of things.

And I would ask either one of you, is the mantra that is being followed here shrinking the size of government? Is that the principal guidepost, a principal guidepost? Let me put it that way.

Mr. JOHNSON. No, sir, it is not. It is making the money we spend work better.

Senator LAUTENBERG. Well, we will all agree to that, but do we find that contractors in the case of competing assignments—I think we had 12,000 of our positions were competed last year; 91 percent of them, I understand, were won by Federal employees. Do they lose their jobs because a private contractor—as we saw, by the way, in the thousands who are employed as screeners at airports, when we had terrible output by the employees of private contractors, still with problems but vastly improved from where they used to be.

How much is due to private contractors being able to pay lower wages or reduce benefits? Do we look at that side of things? Why will someone do this job for less money? How do they get to do it?

Mr. WALKER. Well, Senator, several things. One, first I would say that the management agenda from my standpoint is more about improving economy, efficiency, effectiveness, and responsiveness with regard to existing Federal programs.

With regard to competitive sourcing, you are correct in saying that a majority of the A–76 competitions are won by Federal workers. Even in circumstances where they are not, many times those Federal workers are hired by the contractor who does win because they have knowledge, skills, and experience that are of interest to that contractor.

With regard to compensation, which you touch on, there can be differences in compensation between the government and private sector. Sometimes the private sector pays more, sometimes the government pays more than private sector for positions of similar skills and knowledge. I have some directly relevant experience in seeing that.

But one of the things that happens—as you know, having been one of the founders of ADP—is through leveraging technology and through improving processes, many times you can do more with fewer people and at less cost. Therefore, a lot of the efficiencies

happen through improving processes and leveraging technology rather than necessarily solely based upon the people dimension.

Senator LAUTENBERG. Have you evaluated the morale of the people who are part of the review process? Do we know what effects it has on employee morale?

Mr. WALKER. We have not done a specific study on that, Senator. I will tell you, there is absolutely no question that to the extent that you are going through that exercise, it is a matter of concern to employees; just as when you end up going to a market-based and performance-oriented compensation system, that is also a matter of concern to employees.

That does not necessarily mean you should not do it, but it comes back to what I said before. How you do it, when you do it, on what basis you do it matters. You need to make sure that you have adequate communications and safeguards to maximize the chance of success and minimize the possibility of abuse or counterproductive consequences.

Senator LAUTENBERG. Mr. Walker, you always talk straight, and I appreciate it.

Mr. Chairman, I think this is about the first time that we have seen this country reduce taxes while we are at war, and that is also a mystifying factor for me.

Thank you very much.

Senator COBURN. Thank you, Senator Lautenberg.

I would just put into the record that the Administration asked for slashing of 65 Federal programs in their 2005 budget; 13 ended up on the chopping block because they had received poor grades from the Administration through the PART system. Of those 13 program, Congress eliminated one. Two of them they increased the funding for, totally proven ineffective, not doing what they are supposed to do. That is why I come back to the point that I made earlier.

What you all do and what you all recommend, if we are not paying attention, if we are not exposing, if we are not making sure that the members of this body understand where we are ineffective and allow your processing, observational tools and management tools to be used, then it will be for naught, because if there is no action on the basis of assessment, there is no reason to do the assessment and waste that money.

Let's just take an example of one and, Mr. Johnson, maybe you can help me: Safe and drug-free schools State grants. A really important thing to a lot of people. Personally, in Oklahoma when they have been associated with those programs, but yet it comes up on the block. Why is this State grant program listed as ineffective and targeted for elimination? Can you tell me?

Mr. JOHNSON. I do not know the particulars of that program.

Senator COBURN. OK.

Mr. JOHNSON. PART should clarify what the weaknesses of the program are, and I am sorry, but I do not have that program information here in front of me.

Senator COBURN. Is part of the problem with some of the programs that Congress does not define further down what they want to achieve out of the program? Is part of our problem when we have an idea that is there to assist citizens of this country, we put

the idea out but we do not define it in a clear enough and concise way so that the agencies can carry out the intent of Congress?

Mr. JOHNSON. That is some of the problem where they define it maybe in terms of outputs instead of outcomes.

Another part of the problem is they do not build enough accountability measures into the program. A lot of our money is spent, whether we give it to States or nonprofit organizations or whatever, to do the work locally, and we do not hold them accountable for getting something in return for the money.

Senator COBURN. In other words, no oversight?

Mr. JOHNSON. Well, there is oversight but just no accountability. We need to have oversight within the agencies, and Congress needs to have oversight of the Executive Branch. But then we need to have the ability—rules need to allow us, laws that authorize and the money appropriated for the programs need to allow us to hold local entities accountable for this. CDBG, for instance, is much talked about now as part of the Strengthening America's Communities Initiative. We generally allow municipalities to do pretty much whatever they want to with that money. We do not insist that money be used for creating economic vitality in low-income areas where there would not be economic vitality otherwise. That is why we are proposing that be changed.

Mr. WALKER. Senator, can I comment on that?

Senator COBURN. Sure.

Mr. WALKER. Senator, I think over many years the tendency is, if you give more money to it or if you provide an additional tax preference, the assumption is that you are going to have a positive impact. That is an invalid assumption. There is a need to engage in a much more disciplined, fundamental, and periodic review not just on the spending side, but also on the tax preference side and the regulatory side about what is working and what is not working with regard to the base.

In many cases there is a need to have more transparency over what kinds of activities are going on right now. I mean, you articulated numbers, but those are probably not widely known, and so there needs to be more transparency in order to facilitate more accountability both within the Executive Branch as well as within the Legislative Branch.

Senator COBURN. Let me spend a minute. OMB has a scorecard rating system, and the scorecard issued December 31, 2004. Of the 24 major department agencies listed, OMB received the highest number of failing grades. Out of all these agencies listed, OMB got the highest number of failing grades, and I want to give you a chance to talk with us about that. What is the current status of OMB getting its house in order? If you are going to be assessing people, you have got to assess yourself. And when you have the poorest performance based on the number of grades, it is going to question some people's right for you to assess them. Talk with us about that, if you would.

Mr. JOHNSON. And I am assuming here that the adage of "Do as we say not as we do" won't cut it?

Senator COBURN. No, I don't think that is going to cut it.

Mr. JOHNSON. OK. The most difficult part of the bad grades are that—we measure both progress and status. Progress means did

the agency do what they said they are going to do in the last quarter. We had last quarter three red scores, so in three out of five cases we did not do what we said we were going to do. There is no excuse for that. There were nine in the entire Federal Government. This next quarter, I am reasonably certain that OMB will have no red scores in progress.

So, Director Bolton has made it very clear: Red progress scores are unacceptable. He talked to the operating people at OMB, and we will do as we say we are going to do.

On the progress scores, I think we have a non-red score in the human capital initiative. In the competitive sourcing initiative, we will move off red in competitive sourcing because we have done a study in the budget performance integration. We will move soon off red on budget performance integration because we have a strategic plan now, which was something we said we were going to do which we had not done.

In some areas like IT and financial management, there is a little complication in that we are tied to the Executive Office of the President, and it is hard to audit a separate part of the Executive Office of the President.

Senator COBURN. But you would admit that is an important area, the Executive Office of the President? If he is going to lead this Nation, he ought to be audited and they ought to be efficient and they ought to be doing the same things that everybody else in the government is doing.

Mr. JOHNSON. Yes, the auditing of the Executive Office of the President is important. I don't know about the history of that. General Walker could probably talk to that but, yes, we should be held accountable.

Senator COBURN. Well, it is interesting. Here is the little scorecard that we have in our packet, and I think have you seen this as well. DOD, Defense, has two reds and three yellows. OMB has four reds and a yellow. The Corps of Engineers, which I find tremendously wasteful in this country in terms of what I have seen they have done in my own State, four reds and one yellow, which means they are not—what this really says is they are not managed well. Right?

Mr. JOHNSON. They have opportunities to manage better.

Senator COBURN. Well, you can look at it that way. If we were doing it in a profit scenario in the private sector, some heads would roll in terms of management decisions, and so I wanted to give you a chance to answer that because that is going to be in this, and we need to see—and I guess I would like a commitment from you to hear from you, I would like to hear directly back to our Subcommittee, to Senator Carper and myself, what your performance rating is when you turn the next corner and send that back to——

Mr. JOHNSON. For OMB.

Senator COBURN. Yes, sir.

Mr. JOHNSON. All right.

Senator COBURN. Send that back to us. Senator Carper.

Mr. JOHNSON. Can I make one comment on the scores?

Senator COBURN. Sure.

Mr. JOHNSON. In the fall of 2001, when the scorecard was first utilized—and there are 130 scores there, 5 initiatives, 26 agen-

cies—110 of them were red, bright red. Right now 40 are red, 40 are green, roughly, and 50 are yellow. The average agency now is yellow. The average agency 3½ years ago was red. And if you look in detail at what it takes to be yellow, it is a very different place. It is a very different place to be served by. It is a very different place to work. So OMB has not moved as the Federal Government in general has, but overall the Federal Government is a very different place, fiscally and as a place to work, than it was 4 years ago, and it will be better still 4 years from now.

Senator COBURN. I do not mean to demean your progress.

Mr. JOHNSON. I know.

Senator COBURN. And that is not my intention. I would note for the record that the worst-performing agency is the Smithsonian, and that is something—although not a great big agency, every agency ought to be held accountable to the same standards of performance and review and evaluation of their stated goals, with the efficiency with which they get there.

Senator Carper.

Senator CARPER. Thanks, Mr. Chairman. I want to return, Mr. Chairman, to this notion of improper payments, and I understand, if I have got this right, $40 billion maybe of overpayments, $5 billion of underpayments, for a net of about $35 billion.

My first thought is if we could just somehow cut that in half, instead of having maybe $35 billion in bad payments, we had $17 or $18 billion, that would actually come pretty close to being equal to all the those programs that the Administration had proposed that we downsize or eliminate.

Mr. JOHNSON. Our goal is to eliminate them, not to cut them in half.

Senator CARPER. Good. What further steps do the Chairman here and myself and Members of this Subcommittee, Members of the Senate, what do we need to do to enable you to do that?

Mr. JOHNSON. It varies by program. One thing General Walker talked about is how we are an information economy and an information organization, so you have this person that is making the decision about is this person unemployed, is this person eligible for this payment or that payment. And the way to help that person decide accurately whether the person is eligible or not is to give them the information they need.

So one of the things we have worked with you on, and in a couple of cases successfully, is getting permission to get employment information before someone over here who is making unemployment compensation determinations or income information from over here in front of someone who is making a determination about student loan eligibility.

So there are obviously concerns about privacy we have to be very sensitive about, but Congress has made it possible to provide information from one part of the government to the other part of the government to help us be more intelligent about these kinds of situations. There will be other situations like that, and in the future, openness to that and understanding the dollar impact of this and understanding and demanding that all the necessary steps be taken to protect people's privacy, but at the same time make this information available to help us reduce these costs.

But again, the need is different for each program. There are about seven programs through which 90 percent of these improper payments are made. And, again, the decision to be made, the eligibility decision, is different for each one of them.

Senator CARPER. Any idea if any of those are out of the Department of Defense or some other particular agency, or are they across the government? Are some of them in the defense programs as well as nondefense?

Mr. WALKER. There would be some defense programs to consider. For example, you talk about both sides of the ledger. Part of the issue that Clay Johnson just talked about is data sharing so you can do data matching. One aspect is to ensure that you are only paying payments to people who are entitled to the payment. I would argue that since it is taxpayer money, while you have to be concerned with privacy in some circumstances, the taxpayers have a need to know and a right to know and the agencies that are responsible for administering those programs should be able to do reasonable data sharing and data matching to make sure the taxpayer money is not abused.

On the revenue side, one example would be, in cases where contractors may be delinquent on their taxes. There needs to be more visibility over who we are paying tremendous taxpayer money to for contracts at the same point in time they are delinquent on their Federal income taxes? That is another example of where data sharing and data matching needs to happen.

Senator CARPER. I don't know if it is appropriate to ask for the record, Mr. Chairman, but, Mr. Johnson, is it possible for OMB to share with us on the Subcommittee an example of the $45 billion or the $40 billion in overpayments, or maybe just share with us by agency what they are?

Mr. JOHNSON. Yes.

Senator CARPER. Could you do that, if you would, please.

Mr. JOHNSON. Sure.

Senator CARPER. And let me just ask also for the record—if both of you could do that, I would appreciate it—if you could just submit for the record some specific steps that we ought to be taking to empower you to go after, as you suggest, all of those improper payments, that would be great.

Let me change focus, if you could a little bit, Mr. Chairman, and to our guests, and I want us to focus a little bit on financial statements, the annual financial statements that are being submitted. I am wondering what benefits, if any, do agencies derive by turning in their annual financial statements earlier or on time? The quicker turnaround on these statements, does it lead to more errors? Does it lead to inaccurate data? Or are we just getting more timely, accurate data than maybe was the case before?

Mr. JOHNSON. Let me give you the high-level view and then for a more detailed answer give it to General Walker.

Senator CARPER. What if he wants to give the high-level view?

Mr. JOHNSON. That is why I want to jump in here and go first. [Laughter.]

I was afraid you were going to ask.

It requires a tremendous amount of discipline, day-in and day-out financial management discipline throughout the year, so that

at the end of the year you can publish your audited financial statements in 45 days. If you have 5 months, you really don't need that day-in and day-out discipline. So the key to publishing it is what kind of day-in and day-out discipline it demands of the agencies. And everybody just has to account for their money day in and day out better in order to publish audited financial statements in 45 days. Now, that is the high-level view.

Senator CARPER. How about that low-level view, Mr. Walker?

Mr. WALKER. Well, a couple of comments.

Within the last couple of weeks, I have asked virtually every group that I have spoken to, how many of you have read the financial statements of the U.S. Government? Less than a handful, and it involved hundreds of people.

Part of the problem is that we do not have enough people focused on the annual performance and accountability reports of the Federal Government to understand what our true financial condition—fiscal imbalance is—and what kind of results are being delivered with the resources and authorities agencies have.

But with regard to the issue directly at hand, I believe Clay Johnson is right in saying that one of the problems that we had before was by giving agencies 5 months to be able to publish audited financial statements, what was happening was many of them were doing little to nothing during the year; they were waiting until at or after the end of the year, spending a lot of time and money re-creating records, and basically trying to engage in a range of heroic activities that cost a lot of money, that took a lot of time in order to publish financial statements.

So by accelerating the date, it reinforces the importance of having the right kind of controls and the right kind of systems in place so you can provide timely, accurate, and useful information on a day-to-day basis. Why, because you do not have enough time in 45 days to be able to re-create the books, engage in those heroic efforts, and have a prayer of getting a clean opinion on your financial statement.

So it is really a means to an end rather than an end in and of itself. Nonetheless, as Chairman Coburn said, last year we had a $567 billion budget deficit. This year it is going to be over $600 billion. Most people do not know that. You cannot change something until you know about it and agree that it is something that needs to be changed.

Senator COBURN. I think the important point is that is a tool with which to make decisions to run your agency every day, and if you do not have the numbers evaluating your agency, you really are just running it by the seat of your pants. And so putting accounting and financial controls into running the government makes them better, and we do that in every other area that is competitive in this country, and we ought to be doing in the government.

I also wanted to make a couple other points, and I know we are going to have to go for a vote, and I want to thank each of you for being here.

The competitive bidding process is not designed to get the government out of the business. One of the best benefits of it is it makes the government more efficient because they know they are going to have to competitively bid. And when they know that—and

one of the things I want to talk to Senator Carper about is we have great response in terms of the VA regional medical office. When they let employees start really participating in making decisions to run it, what we have seen is throughput and productivity skyrocket within the VA regional medical offices off the model that was started in my home town at the VA regional Office in Muskogee, Oklahoma. And it has grown throughout the system, throughout the country.

But one of the parts of good management is allowing information to flow up, and once our Federal managers really start learning that, what they are going to find is they are going to find all sorts of ideas on how we become more efficient, we accomplish our tasks, and do it more efficiently.

I would like for you all to agree—we will have some additional questions that we would like it put in writing to you, if we may, Senator Carper and myself and other Members of the Subcommittee. If you would answer those in a timely fashion, we would appreciate it.

Senator CARPER. One last question for you, Mr. Chairman. What was your home town?

Senator COBURN. Muskogee, Oklahoma.

Senator CARPER. So you are an Okie from Muskogee.

Senator COBURN. I am an OB from Muskogee. [Laughter.]

Mr. JOHNSON. But you forget, he does not like acronyms. [Laughter.]

Senator COBURN. I would remind you this is T.C.-squared.

Thank you all very much for being here.

[Whereupon, at 3:50 p.m., the Subcommittee was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

Testimony

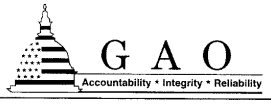
Before the Subcommittee on Federal Financial Management, Government Information, and International Security, U.S. Senate

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MANAGEMENT REFORM

Assessing the President's Management Agenda

Statement of David M. Walker
Comptroller General of the United States



GAO-05-574T

April 21, 2005

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-05-574T, a testimony before the Chairman, Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

As part of its work to improve the management and performance of the federal government, GAO monitors progress and continuing challenges related to the President's Management Agenda (PMA). The Administration has looked to GAO's high-risk program to help shape various governmentwide initiatives, including the PMA. GAO remains committed to working with the Congress and the Administration to help address these important and complex issues.

What GAO Recommends

We are not making any new recommendations in this testimony. Serious and sustained efforts are needed to improve the management and performance of federal agencies and to ensure accountability. To accomplish this, a governmentwide performance plan could help to institutionalize a focus on planning and managing for results while building on the administration's efforts to assess progress and contribute to efforts to compare results across similar programs. In addition, a governmentwide strategic plan, informed by a set of key national indicators to assess the government's performance, position, and progress, could provide an additional tool for governmentwide reexamination of existing, as well as new, programs. The PMA provides a valuable foundation for a fundamental review needed to address a range of 21st Century challenges.

www.gao.gov/cgi-bin/getrpt?GAO-05-574T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact George Stalcup at (202) 512-6806 or stalcupg@gao.gov.

MANAGEMENT REFORM

Assessing the President's Management Agenda

What GAO Found

The administration's implementation of the PMA has been a very positive initiative. It has served to raise the visibility of key management challenges, increased attention to achieving outcome-based results, and reinforced the need for agencies to focus on making sustained improvements in addressing long-standing management problems, including items on GAO's high-risk list. Our work shows that agencies have made progress in the areas covered by the PMA, and the Office of Management and Budget (OMB) has indicated it will continue to focus on high-risk areas during the President's second term. Importantly, OMB needs to place additional attention on the Department of Defense's (DOD) many high-risk areas and overall business transformation efforts. While considerable progress has been made in connection with PMA issues, a number of significant challenges remain.

- In the area of financial performance, the PMA recognizes the importance of timely, accurate and useful financial information and sound internal control. Agencies made significant progress in meeting accelerated financial statement reporting deadlines, and OMB has refocused attention on improving internal controls. However, agencies face several challenges—improvement lags on financial management reforms, especially at DOD which must overhaul its financial management and business operations.
- The PMA established a separate initiative for improper payments to ensure that agency managers are held accountable for meeting the goals of the Improper Payments Information Act of 2002. Effective implementation of this Act will be an important step toward addressing this area, which involves tens of billions of dollars.
- The PMA recognizes that people are an important organizational asset. A governmentwide framework for advancing human capital reform is needed to avoid further fragmentation within the civil service, ensure management flexibility as appropriate, allow a reasonable degree of consistency, provide adequate safeguards within the overall civilian workforce, and help maintain a level playing field among federal agencies competing for talent.
- The initiative to integrate management and performance issues with budgeting is critical for progress in government performance and management. OMB's Program Assessment Rating Tool (PART) is designed to use results-oriented information to assess programs in the budget formulation process. However, more should be done to assess how each program fits within the broad portfolio of tools and strategies used to accomplish federal missions.
- Many e-government initiatives are showing tangible results. However, the government continues to face challenges, such as establishing a federal enterprise architecture intended to provide a framework to guide agencies' enterprise architectures and investments.
- The inclusion of real property asset management on the PMA, an executive order, and agencies' actions are all positive steps in an area that had been neglected for years. However, the underlying conditions—such as excess and deteriorating properties—continue to exist. More needs to be done in areas such as improving capital planning among agencies.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the President's Management Agenda (PMA), which has been a very positive initiative. The administration's implementation of the PMA has demonstrated its commitment to improving federal management and performance. It has served to raise the visibility of key management challenges, increased attention to achieving outcome-based results, and reinforced the need for agencies to focus on making sustained improvements in addressing long-standing problems, including items on GAO's high-risk list.[1] I believe the concept of using red, yellow, and green stoplights both to indicate agencies' status and focus on progress made is an innovative approach. By calling attention to successes and needed improvements, the focus that PMA and the scorecards bring is certainly a step in the right direction, and our work shows that progress has been made in a number of important areas over the last several years. Importantly, OMB needs to place additional attention on the Department of Defense's many high-risk areas and business transformation efforts.

Significant challenges remain particularly at the Department of Defense (DOD), where 14 of the 25 high-risk areas exist. GAO identifies areas that are at high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement as well as the need for broad based transformations to address major economy, efficiency, or effectiveness challenges. DOD's current and historical approach to business transformation has not proven effective in achieving meaningful and sustainable progress, and change is necessary in order to expedite a broad-based transformation. For years, we have reported on inefficiencies and the lack of adequate transparency and appropriate accountability across DOD's major business areas, resulting in billions of dollars of wasted resources annually. DOD has not taken the steps it needs to take to overhaul its financial management and related business operations.

The Bush Administration has looked to our high-risk program to help shape various governmentwide initiatives, including the PMA, which has at its base many of the areas we had previously designated as high risk. To its credit, the Office of Management and Budget (OMB) has worked closely with a number of agencies that have high-risk issues, in many cases establishing action plans and milestones for agencies to complete needed

[1] GAO, *High-Risk Series: An Update* (GAO-05-207, January 2005).

actions to address areas that we have designated as high risk. In this regard, Clay Johnson, OMB's Deputy Director for Management, recently reaffirmed the Bush Administration's desire to refocus on GAO's high-risk list in order to make as much progress as possible in the President's second term. This is very encouraging. OMB will need to be engaged seriously on a sustained basis to make progress on a range of challenges that are costing taxpayers billions of dollars each year. Continued oversight by the Congress will also be key, and in the case of some areas, legislative actions will be needed.

In the PMA, the President has identified five governmentwide initiatives that are interrelated and support each other—improved financial performance, strategic management of human capital, budget and performance integration, electronic government, and competitive sourcing. The PMA also includes program initiatives on eliminating improper payments and real property asset management. Today, as agreed with the subcommittee, my statement will focus on the progress made in these five governmentwide and the two program initiatives in PMA and the next steps our work shows will be key to effectively enhance the management and performance of the federal government. I will also highlight the importance of congressional oversight in continuing to provide the attention needed to improve management and performance across the federal government and ensure accountability. This testimony draws upon our wide-ranging work on federal management and transformation issues, including analysis of PMA initiatives and the President's 2006 Budget of the U.S Government. We conducted our work in accordance with generally accepted government auditing standards.

Improved Financial Performance

The PMA initiative to improve financial performance is aimed at ensuring that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. It focuses on key issues such as data reliability, clean financial statement audit opinions, and effective internal control and financial management systems. Our work in these areas over a number of years demonstrates the importance of the improvement efforts that are underway. The Congress enacted a number of statutory reforms during the 1990s in the area of financial management. Although progress has been made under the PMA, the federal government is a long way from successfully implementing these reforms.

Reliable information, including cost data, is critical for effective performance measurement to support program management decisions in areas ranging from program efficiency and effectiveness to sourcing and

contract management. For effective management, this information must not only be timely and reliable, but also both useful and used. Under this PMA initiative, agencies are expected to implement integrated financial and performance management systems that routinely produce information that is (1) timely—to measure and affect performance immediately, (2) useful—to make more informed operational and investing decisions, and (3) reliable—to ensure consistent and comparable trend analysis over time and to facilitate better performance measurement and decision making. Producing timely, useful, and reliable information is critical for achieving the goals that the Congress established in the Chief Financial Officers (CFO) Act of 1990 and other federal financial management reform legislation.

The executive branch management scorecard for the financial performance area not only recognizes the importance of achieving an unqualified or "clean" opinion from auditors on financial statements, but also focuses on the fundamental and systemic issues that must be addressed in order to routinely generate timely, accurate, and useful financial information and provide sound internal control and effective compliance systems, which represents the end goal of the CFO Act.[2]

For fiscal year 2004, OMB accelerated agencies' financial statement reporting date to November 15, 2004, as compared with January 30, 2004, for fiscal year 2003. Twenty-two of twenty-three CFO Act agencies were able to issue their fiscal year 2004 financial statements by the accelerated reporting date, a significant improvement in the timeliness of these statements. Eighteen of these agencies were able to attain unqualified audit opinions on their financial statements. At the same time, the growing number of CFO Act agencies that restated certain of their financial statements for fiscal year 2003 to correct errors emerged as an issue of concern that merits close scrutiny. Eleven of the twenty-three CFO Act agencies fell into this category in fiscal year 2004, as compared with at least five CFO Act agencies that had restatements of prior year financial statements in fiscal year 2003. Frequent restatements to correct errors can undermine public trust and confidence in both the entity and all responsible parties.

The scorecard also measures whether agencies have any material internal control weaknesses or material noncompliance with laws and regulations,

[2] 31 U.S.C. §§ 901-903.

and whether agencies meet Federal Financial Management Improvement Act (FFMIA) of 1996 requirements.[3] As stated in the PMA, without sound internal controls and accurate and timely financial information, it will not be possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Reinforcing the PMA's emphasis on effective internal controls, OMB revised Circular A-123, Management's Responsibility for Internal Control in December, 2004. These revisions recognize that effective internal control is critical to improving federal agencies' effectiveness and accountability and to achieving the goals that the Congress established in 1950 and reaffirmed in 1982 with passage of the Federal Managers' Financial Integrity Act (FMFIA).[4] The Circular correctly recognizes that instead of considering internal control as an isolated management tool, agencies should integrate their efforts to meet the FMFIA requirements with other efforts to improve effectiveness and accountability. Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. It should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

We support OMB's efforts to revitalize FMFIA, particularly the principles-based approach in the revised Circular A-123 for establishing and reporting on internal control that should increase accountability. This approach provides a floor for expected behavior, rather than a ceiling, and by its nature, calls for greater judgment on the part of those applying the principles. Accordingly, clear articulation of objectives, the criteria for measuring whether the objectives have been successfully achieved and the rigor with which these criteria are applied will be critical. Providing agencies with supplemental guidance and implementation tools, which OMB and the CFO Council are developing, is particularly important in light of the varying levels of maturity in internal control across government as well as the divergence in implementation of a principles-based approach that is typically found across entities with varying capabilities.

A challenge of great complexity that many agencies face is ensuring that underlying financial management processes, procedures, and information

[3] Public Law 104-208, §§ 801-808, September 30, 1996.

[4] 31 U.S.C. §§ 1113, 3512.

systems are in place for effective program management. Agencies need to take steps to (1) continuously improve internal controls and underlying financial and management information systems to ensure that managers and other decision makers have reliable, timely, and useful financial information to ensure accountability; (2) measure, control, and manage costs; (3) manage for results; and (4) make timely and fully informed decisions about allocating limited resources. Meeting FFMIA requirements presents long-standing, significant challenges that will only be met through time, investment, and sustained emphasis on correcting deficiencies in federal financial management systems. The widespread systems problems facing the federal government need sustained management commitment at the highest levels of government to ensure that these needed modernizations come to fruition. PMA provides the visibility needed for sustaining these efforts.

Much work remains to be done across government to improve financial performance, as shown by the December 2004 scorecards. Of the 23 CFO Act agencies that OMB scored, 15 were rated red for financial performance. This is not surprising, considering the well-recognized need to transform financial management and other business processes at agencies such as the Department of Defense (DOD), the results of our analyses under FFMIA, the various financial management operations we have designated as high risk, and known long-standing material weaknesses. Seven agencies improved their scores to green from the initial baseline evaluation for financial performance which was as of September 30, 2001; however, several agencies' scores declined, reflecting increased challenges. Overhauling financial management represents a challenge that goes far beyond financial accounting to the very fiber of an agency's business operations and management culture, particularly at agencies with longstanding problems, such as DOD. For the new Department of Homeland Security (DHS), establishing sound financial management is a critical success factor.

In the area of financial performance, the federal government is a long way from successfully implementing needed financial management reforms. Widespread financial management system weaknesses, poor recordkeeping and documentation, weak internal controls, and the lack of information have prevented the federal government from having the cost information it needs to effectively and efficiently manage operations through measuring the full cost and financial performance of programs and accurately reporting a large portion of its assets, liabilities, and costs. The government's ability to adequately safeguard significant assets has been impaired by these conditions.

Across government, there is a range of financial management improvement initiatives under way that, if effectively implemented, will improve the quality of the government's financial management and reporting. Federal agencies have started to make progress in their efforts to modernize their financial management systems and improve financial management performance as called for in PMA. However, until these challenges are adequately addressed, they will continue to present a number of adverse implications for the federal government and the taxpayers. At the same time, the need for timely, reliable, and useful financial and performance information is greater than ever. Our nation's large and growing long-term fiscal imbalance, which is driven largely by known demographic trends and rising health care costs, coupled with new homeland security and defense commitments and the recent downward trend in revenue as a share of gross domestic product, serves to sharpen the need to fundamentally review and re-examine the base of federal entitlement, discretionary, and other spending and tax policies. Clearly, tough choices will be required to address the resulting structural imbalance.

Eliminating Improper Payments

Improper payments are a longstanding, widespread, and significant problem in the federal government. The Congress enacted the Improper Payments Information Act (IPIA) of 2002 to address this issue of improper payments.[5] The separate improper payments PMA program initiative began in the first quarter of fiscal year 2005. Previously, agency efforts related to improper payments were tracked along with other financial management activities as part of the Improved Financial Performance initiative. The objective of establishing a separate initiative for improper payments was to ensure that agency managers are held accountable for meeting the goals of the IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements.

Across the federal government, improper payments occur in a variety of programs and activities, including those related to health care, contract management, federal financial assistance, and tax refunds. Improper payments include inadvertent errors, such as duplicate payments and miscalculations, payments for unsupported or inadequately supported claims, payments for services not rendered, payments to ineligible beneficiaries, and payments resulting from fraud and abuse by program

[5] 31 U.S.C. § 3321 note.

participants and/or federal employees. Many improper payments occur in federal programs that are administered by entities other than the federal government, such as states, municipalities, and intermediaries such as insurance companies. Generally, improper payments result from a lack of or an inadequate system of internal control, but some result from program design issues.

Federal agencies' estimates of improper payments based on available information for fiscal year 2004 exceeded $45 billion. This estimate could increase significantly over the next several years as agencies become more effective at estimating and reporting improper payment amounts for programs and activities that are susceptible to significant improper payments. Of the 15 agencies identified for this PMA initiative, no agencies were rated green and 10 were rated red in the first scores for this initiative as of December 31, 2004.

These results are consistent with our previous work both agencywide and in specific program areas. For example, our preliminary reviews of 29 federal agencies' fiscal year 2004 PARs suggest that a number of agencies were not well positioned to meet the reporting requirements of IPIA. Additionally, improper payments for specific programs have been identified as a high-risk area. For example, the Centers for Medicare & Medicaid Services has made improvements in assessing the level of improper payments, collecting overpayments from providers, and building the foundation for modernizing its information technology. Nevertheless, much work remains to be done given the magnitude of its challenges in safeguarding program payments. This includes more effectively overseeing Medicare's claims administration contractors, managing the agency's information technology initiatives, and strengthening financial management processes across multiple contractors and agency units. In light of these challenges and the program's size and fiscal significance, Medicare remains on our list of high-risk programs. For Medicaid, an estimate of improper payments was not reported for fiscal year 2004.

Our prior work has demonstrated that attacking improper payments requires a strategy appropriate to the organization and its particular risks. We have found that entities using successful strategies to help address their improper payments shared a common focus of improving the internal control system—the first line of defense in safeguarding assets and preventing and detecting errors and fraud. As discussed in the Comptroller

General's Standards for Internal Control in the Federal Government,[6] the components of any control system are:

- control environment—creating a culture of accountability,
- risk assessment—performing analyses of program operations to determine if risks exist,
- control activities—taking actions to address identified risk areas,
- information and communications—using and sharing relevant, reliable, and timely information, and
- monitoring—tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.

Effective implementation of the IPIA will be an important step towards addressing the longstanding, significant issue of improper payments. OMB has an important role, and we support their efforts to call attention to this issue. Fiscal year 2004 represents the first year that federal agencies were required to report improper payment information required by the IPIA in their Performance and Accountability Reports (PAR). IPIA raised improper payments to a new level of importance by requiring federal agencies to annually review all programs and activities and identify those that may be susceptible to significant improper payments. Federal agencies are required to estimate the annual amount of improper payments for those programs and activities identified as susceptible to significant improper payments. The law further requires federal agencies to report to the Congress the improper payment estimates and information on the actions the agency is taking to reduce the improper payments. OMB implementation guidance required that estimates and, if applicable, the corrective action report, be included in federal agencies' PARs beginning with fiscal year 2004.[7]

OMB's guidance addresses the specific reporting requirements called for in the act and lays out the general steps agencies are to perform to meet those requirements. The guidance defines key terms used in the law, such as programs and activities, and offers criterion that clarify the meaning of the term significant improper payments. It requires that agencies use statistical sampling when estimating improper payments and sets statistical sampling confidence and precision levels for estimation purposes. It also requires that agencies report the results of their improper

[6] GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[7] OMB Memorandum M-03-13, May 21, 2003.

payment activities in their annual PAR. The ultimate success of the legislation and the PMA initiative hinges on each agency's diligence and commitment in identifying, estimating, determining the causes of, taking corrective actions, and measuring progress in reducing all improper payments. Designating this area as a separate program initiative under the PMA, will bring visibility to this problem that we hope will lead to action and further progress.

Strategic Human Capital Management

The PMA recognizes that people are an important organizational asset to an agency. Under the PMA, agencies are to implement a comprehensive human capital plan that aligns with agency mission and goals. Considerable progress has been made in strategic human capital management since we designated it as high risk in 2001.[8] For example, OMB recently reported that agencies are making improvements in addressing key human capital challenges. Nevertheless, ample opportunities exist for agencies to improve their strategic human capital management to achieve results and respond to current and emerging challenges. Specifically, agencies continue to face challenges in four key areas:

- Leadership: Agencies need sustained leadership to provide the focused attention essential to completing multiyear transformations.
- Strategic Human Capital Planning: Agencies need effective strategic workforce plans to identify and focus their human capital investments on the long-term issues that best contribute to results.
- Acquiring, Developing, and Retaining Talent: Agencies need to continue to create effective hiring processes and use flexibilities and incentives to retain critical talent and reshape their workforces.
- Results-Oriented Organizational Cultures: Agencies need to reform their performance management systems so that pay and awards are linked to performance and organizational results.

Going forward, federal agencies need to develop and effectively implement the human capital approaches that best meet their needs, resources, context, and authorities. While these approaches will depend on each organization's specific situation, leading public sector organizations build an infrastructure that at a minimum, includes (1) a

[8]GAO, *High-Risk Series: An Update* (GAO-01-263, January 2001).

human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals, mission, and desired outcomes; (2) the capabilities to effectively develop and implement a hew human capital system; and importantly, (3) the existence of a modern, effective, and credible performance management system that includes adequate safeguards (such as reviews and appeal processes) to ensure fair, effective, non-discriminatory, and credible implementation of the new system. Our observations follow.

Conducting strategic human capital planning: Such planning aligns human capital programs with programmatic goals and develops strategies to acquire, develop, and retain staff to achieve these goals.[9] As part of the PMA, agencies are to implement a workforce planning system to identify and address gaps in mission critical occupations and competencies and develop succession strategies.

Agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time in the wake of extensive downsizing during the early 1990s that was done largely without sufficient consideration of the strategic consequences. Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to fill certain mission-critical jobs, a situation that could significantly drain agencies' institutional knowledge. For example, the achievement of DOD's mission is dependent in large part on the skills and expertise of its civilian workforce. We recently reported that DOD's future strategic workforce plans may not result in workforces that possess the critical skills and competencies needed.[10] Among other things, DOD and the components do not know what competencies their staff needs to do their work now and in the future and what type of recruitment, retention, and training and professional development workforce strategies should be developed and implemented to meet future organizational goals. It is questionable whether DOD's implementation of its new personnel reforms will result in the maximum effectiveness and value.

Building the capability to develop and implement human capital systems: An essential element to acquiring, developing, and retaining a high-quality

[9] GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

[10] GAO, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, GAO-04-753 (Washington, D.C.: June 30, 2004).

workforce is effective use of human capital flexibilities. These flexibilities represent the policies and practices that an agency has the authority to implement in managing its workforce. As part of the PMA, agencies are to establish goals to accelerate their hiring processes, monitor their progress, and implement needed improvements.

We reported that agencies must take greater responsibility for maximizing the efficiency and effectiveness of their individual hiring processes within the current statutory and regulatory framework that Congress and the Office of Personnel Management (OPM) have provided and recommended that OPM take additional actions to assist agencies in strengthening the federal hiring process.[11] We subsequently reported that although Congress, OPM, and agencies have all undertaken efforts to help improve the federal hiring process, agencies appeared to be making limited use of the new hiring flexibilities provided by Congress in 2002—category rating and direct hire.[12]

Consistent with our findings and recommendations, OPM has taken a number of important actions to assist agencies in their use of hiring flexibilities. For example, OPM issued final regulations on the use of category rating and direct-hire authority, providing some clarification in response to various comments it had received in interim regulation. Also, OPM conducted a training symposium to provide federal agencies with further instruction and information on ways to improve the quality and speed of the hiring process.

Implementing modern, effective, and credible performance management systems: Effective performance management systems can help drive internal change and achieve external results. Such systems are not merely used for expectation setting and rating processes, but are also used to facilitate two-way communication so that discussions about individual and organizational performance are integrated and ongoing. Leading public sector organizations have created a clear linkage—"line of sight"—between individual performance and organizational success. Under the

[11] GAO, *Human Capital: Opportunities to Improve Executive Agencies' Hiring Processes*, GAO-03-450 (Washington, D.C.: May 30, 2003).

[12] GAO, *Human Capital: Increasing Agencies' Use of New Hiring Flexibilities*, GAO-04-959T (Washington, D.C.: July 13, 2004); *Human Capital: Additional Collaboration Between OPM and Agencies Is Key to Improved Federal Hiring*, GAO-04-797 (Washington, D.C.: June 7, 2004); and *Human Capital: Status of Efforts to Improve Federal Hiring*, GAO-04-796T (Washington, D.C.: June 7, 2004).

PMA, agencies are to establish performance appraisal plans for all senior executives and managers that link to agency mission, goals, and outcomes.

Recently, Congress and the administration have sought to modernize senior executive performance management systems by establishing a new performance-based pay system for the Senior Executive Service (SES) that is designed to provide a clear and direct linkage between SES performance and pay.[13] With the new system, an agency can raise the pay cap for its senior executives if OPM certifies and OMB concurs that the agency's performance management system, as designed and applied, makes meaningful distinctions based on relative performance. However, data suggest that more work is needed in making such distinctions. Agencies rated about 75 percent of senior executives at the highest level their systems permit in fiscal year 2003, the most current year for which data are available, which is about the same percent of executives as fiscal year 2002.

Framework for Human Capital Reform

Congress has recently given agencies such NASA, DHS, and DOD statutory authorities to help them manage their human capital strategically to achieve results. Consequently, in this environment, the federal government is quickly approaching the point where "standard governmentwide" human capital policies and processes are neither standard nor governmentwide. To be effective, human capital reform needs to avoid further fragmentation within the civil service, ensure reasonable consistency within the overall civilian workforce, and help maintain a reasonably level playing field among federal agencies competing for talent.

To help advance the discussion concerning how governmentwide human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.[14] While there were divergent views among the forum participants, there was general agreement on a set

[13] See section 1322 of Public Law 107-296, November 25, 2002, and section 1125 of Public Law 108-136, November 24, 2003.

[14] GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, GAO-05-69SP (Washington, D.C.: Dec. 1, 2004).

of principles, criteria, and processes that would serve as a starting point for further discussion in developing a governmentwide framework in advancing needed human capital reform, as shown in figure 1.

Figure 1: Principles, Criteria, and Processes

- **Principles that the government should retain in a framework for reform because of their inherent, enduring qualities:**
  - Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
  - Ability to organize, bargain collectively, and participate through labor organizations
  - Certain prohibited personnel practices
  - Guaranteed due process that is fair, fast, and final
- **Criteria that agencies should have in place as they plan for and manage their new human capital authorities:**
  - Demonstrated business case or readiness for use of targeted authorities
  - An integrated approach to results-oriented strategic planning and human capital planning and management
  - Adequate resources for planning, implementation, training, and evaluation
  - A modern, effective, credible, and integrated performance management system that includes adequate safeguards to help ensure equity and prevent discrimination
- **Processes that agencies should follow as they implement new human capital authorities:**
  - Prescribing regulations in consultation or jointly with the Office of Personnel Management
  - Establishing appeals processes in consultation with the Merit Systems Protection Board
  - Involving employees and stakeholders in the design and implementation of new human capital systems
  - Phasing in implementation of new human capital systems
  - Committing to transparency, reporting, and evaluation
  - Establishing a communications strategy
  - Assuring adequate training

Source: GAO.

There is general recognition for a need to continue to develop a governmentwide framework for human capital reform that Congress and the administration can implement to enhance performance, ensure accountability, and position the nation for the future. Nevertheless, how it is done, when it is done, and on what basis it is done can make all the difference. Agencies authorized to implement any statutory authority

should demonstrate that they have the capacity, not just the design, to do so. The principles, criteria, and processes suggested above can help ensure consistency when granting both (1) agency-specific human capital authorities so agencies can design and implement effective human capital systems to help them address 21st century challenges and succeed in their transformations and (2) governmentwide reform to provide broad consistency where desirable and appropriate.

Budget and Performance Integration

The current administration has taken several steps to strengthen the integration of budget, cost, and performance information for which the Government Performance and Results Act (GPRA), the CFO Act, and the Government Management Reform Act (GMRA) laid the groundwork. The budget and performance integration initiative includes elements such as the Program Assessment Rating Tool (PART) used to review programs, an emphasis on improving outcome measures, and improving monitoring of program performance. Another effort is budget restructuring, which is meant to improve the alignment of resources with performance. None of these efforts are simple or straightforward.

Integrating management and performance issues with budgeting is absolutely critical for progress in government performance and management. Such integration is obviously important to ensuring that management initiatives obtain the resource commitments and sustained leadership commitment throughout government needed to be successful. GPRA was enacted to provide a greater focus on performance in the federal government with the expectation that this would be linked and integrated with the budget. GPRA has succeeded in 10 years in expanding the supply of information and institutionalizing a culture of performance.[15]

In 2002, OMB introduced a formal assessment tool into executive branch budget deliberation: PART is the central element in the performance budgeting piece of the PMA.[16] GPRA expanded the supply of performance information generated by federal agencies. OMB's PART builds on GPRA

[15] 5 U.S.C. § 306, 31 U.S.C. §§ 1115-1119.

[16] PART applies 25 questions to all "programs" under four broad topics: (1) program purpose and design, (2) strategic planning, (3) program management, and (4) program results (i.e., whether a program is meeting its long-term and annual goals) as well as additional questions that are specific to one of seven mechanisms or approaches used to deliver the program.

by actively promoting the use of results-oriented information to assess programs in the budget. It has the potential to promote a more explicit discussion and debate between OMB, the agencies, and the Congress about the performance of selected programs.

The promise of performance budgeting is that it can help shift the focus of budgetary debates and oversight activities by changing the agenda of questions asked. Performance information can help policymakers address a number of questions such as whether programs are (1) contributing to their stated goals, (2) well-coordinated with related initiatives at the federal level or elsewhere, and (3) targeted to those most in need of services or benefits. Results-oriented information is also needed for better day-to-day management and agency decisionmaking. It can provide information on what outcomes are being achieved, whether resource investments have benefits that exceed their costs, and whether program managers have the requisite capacities to achieve promised results. PART reviews are directed towards answering many of these questions; in many cases these reviews illustrated how far we have to go before performance information can be used with complete confidence.

While no data are perfect, agencies need to have sufficiently credible performance data to provide transparency of government operations so that Congress, program managers, and other decision makers can use the information. However, as our work on PART and GPRA implementation shows, limited confidence in the credibility of performance data has been a longstanding weakness.[17]

Credible performance information can facilitate a fundamental reassessment of what the government does and how it does business by focusing on the outcomes—or program results—achieved with budgetary resources. Our work has shown that agencies are making progress, but improvement is needed to ensure that agencies measure performance toward a comprehensive set of goals that focus on results.[18] We have previously reported that stakeholder involvement appears critical for

[17] GAO has suggested various approaches to addressing this and other challenges in *The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven*, GAO/GGD-97-109 (Washington, D.C.: June 1997).

[18] GAO, *Performance Reporting: Few Agencies Reported on the Completeness and Reliability of Performance Data*, GAO-02-372 (Washington, D.C.: Apr. 26, 2002); and *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans*, GAO/GGD/AIMD-99-215 (Washington, D.C.: July 20, 1999).

getting consensus on goals and measures. Although improving outcome measures continues to be a major focus of PART reviews, as we reported in our January 2004 report,[19] these assessments are conducted during the executive branch budget formulation process. An agency's communication with stakeholders, including Congress, about goals and measures created or modified during the formulation of the President's budget is likely to be less than during the development of the agency's own strategic or performance plan.

Moreover, in order for performance information to more fully inform resource allocations, decision makers must also feel comfortable with the appropriateness and accuracy of the performance information and measures associated with these goals. It is unlikely that decision makers will use performance information unless they believe it is credible and reliable and reflects a consensus about performance goals among a community of interested parties. Similarly, the measures used to demonstrate progress toward a goal, no matter how worthwhile, cannot serve the interests of a single stakeholder or purpose without potentially discouraging use of this information by others.

Regarding OMB's budget restructuring effort, this represents more than structural or technical changes. It reflects important trade-offs among different and valid perspectives and needs of these different decision makers. The structure of appropriations accounts and congressional budget justifications reflects fundamental choices and incentives considered most important. As such, changes to the account structure have the potential to change the nature of management and oversight and ultimately the relationship among the primary budget decision makers—Congress, OMB, and agencies.[20] This suggests that the goal of enhancing the use of performance information in budgeting is a multifaceted challenge that must build on a foundation of accepted goals, credible measures, reliable cost and performance data, tested models linking resources to outcomes, and performance management systems that hold agencies and managers accountable for performance.

[19] GAO, Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget, GAO-04-174. (Washington, D.C.: Jan. 30, 2004).

[20] GAO, Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance, GAO-05-117SP (Washington, D.C.: Feb. 1, 2005).

Understanding performance issues requires an in-depth evaluation of the factors contributing to the program results. Targeted evaluation studies can be designed to detect important program side effects or to assess the comparative advantages of current programs to alternative strategies for achieving a program's goals. Further, although the evaluation of programs in isolation may be revealing, it is often critical to understand how each program fits with a broader portfolio of tools and strategies to accomplish federal missions and performance goals. Such an analysis is necessary to capture whether a program complements and supports other related programs, whether it is duplicative and redundant, or whether it actually works at cross-purposes with other initiatives. Although the administration has taken some steps to use PART for crosscutting reviews, this falls short of the more expansive planning and review process called for in GPRA.

Although clearly much more remains to be done, the statutory reforms of the 1990s have laid the foundation for performance budgeting by establishing infrastructures in the agencies to improve the supply of information on performance and costs. Merely the number of programs "killed" or a measurement of funding changes against performance "grades" cannot measure the success of performance budgeting. Rather, success must be measured in terms of the quality of the discussion, the transparency of the information, the meaningfulness of that information to key stakeholders, and how it is used in the decision-making process. The determination of priorities is a function of competing values and interests that may be informed by performance information but also reflects such factors as equity, unmet needs, and the perceived appropriate role of the federal government in addressing these needs. If members of Congress and the executive branch have better information about the link between resources and results, they can make the trade-offs and choices cognizant of the many and often competing claims on the federal budget.

Expanded Electronic Government

Electronic government, or e-government, has been seen as promising a wide range of benefits based largely on harnessing the power of the Internet to facilitate interconnections and information exchange between citizens and their government. Federal agencies have implemented a wide array of e-government applications, including using the Internet to collect and disseminate information and forms; buy and pay for goods and services; submit bids and proposals; and apply for licenses, grants, and

benefits. Although substantial progress has been made, the government continues to face challenges in fully reaching its potential in this area.[21]

Recognizing the magnitude of challenges facing the federal government, Congress has enacted important legislation to guide the development of e-government. Specifically, in December 2002, Congress enacted the E-Government Act of 2002 with the general purpose of promoting better use of the Internet and other information technologies to improve government services for citizens, internal government operations, and opportunities for citizen participation in government.[22] Among other things, the act required the establishment of an Office of Electronic Government within OMB to oversee implementation of the act's provisions. The act also mandated additional actions to strengthen e-government activities in a number of specific areas, including accessibility and usability of government information, protection of personal privacy, coordination of information related to disaster response and recovery, and common protocols for geographic information systems. Additionally, title III of the act includes provisions to strengthen agency information security, known as the Federal Information Security Management Act of 2002.

To implement the PMA initiative, OMB has taken a number of actions. The centerpiece of the effort has been oversight of 25 high-profile e-government projects covering a wide spectrum of government activities, ranging from the establishment of centralized portals on government information to eliminating redundant, nonintegrated business operations and systems.[23] For example, Grants.gov is a Web portal for all federal grant customers to find, apply for, and ultimately manage federal grants online. Other e-government efforts, such as the e-payroll initiative to consolidate federal payroll systems, do not necessarily rely on the Internet. The results of these e-government initiatives, according to OMB, could produce several billion dollars in savings from improved operational efficiency. More recently, OMB has initiated efforts to develop common business-

[21] GAO, *Electronic Government: Initiatives Sponsored by the Office of Management and Budget Have Made Mixed Progress*, GAO-04-561T (Washington, D.C., March 24, 2004) and GAO, *Electronic Government: Proposal Addresses Critical Challenges*, GAO-02-1083T (Washington, D.C., Sept. 18, 2002).

[22] Public Law 107-347, December 17, 2002.

[23] For more information about the selection of initiatives, see GAO, *Electronic Government: Selection and Implementation of the Office of Management and Budget's 24 Initiatives*, GAO-03-229 (Washington, D.C., Nov. 22, 2002).

driven, government-wide solutions in five e-government "lines of business": case management, federal health architecture, grants management, human resources management, and financial management. These efforts are also expected to reap cost savings and gains in efficiency.

While many e-government initiatives are showing tangible results, we found, in March 2004, that overall progress on the 25 OMB-sponsored e-government initiatives was mixed. At that time we reported that, of the 91 objectives originally defined in the initiatives' work plans, 33 had been fully or substantially achieved; 38 had been partially achieved; and for 17, no significant progress had been made. In addition, three of the objectives were no longer being pursued, because they had been found to be impractical or inappropriate. We found that the extent to which the 25 initiatives had met their original objectives could be linked to a common set of challenges that they all faced, including (1) focusing on achievable objectives that address customer needs, (2) maintaining management stability through executive commitment, (3) collaborating effectively with partner agencies and stakeholders, (4) driving transformational changes in business processes, and (5) implementing effective funding strategies. Initiatives that had overcome these challenges generally met with success in achieving their objectives, whereas initiatives that had problems dealing with these challenges made less progress.

Additionally, as we reported in December 2004, in most cases, OMB and federal agencies have taken positive steps toward implementing major provisions of the E-Government Act of 2002.[24] For example, OMB established the Office of E-Government in April 2003, and published guidance to federal agencies on implementing the act in August 2003. Apart from general requirements applicable to all agencies (which we did not review), we found that in most cases, OMB and designated federal agencies had taken action to address the act's requirements within stipulated timeframes. To help ensure that the act's objectives are achieved, we made recommendations to OMB regarding implementation of the act in the areas of e-government approaches to crisis preparedness, contractor innovation, and federally funded research and development.

[24] GAO, *Electronic Government: Federal Agencies Have Made Progress Implementing the E-Government Act of 2002*, GAO-05-12, (Washington, D.C., Dec. 10, 2004).

OMB's PMA scorecard for the expanded electronic government initiative reflects a broad view of the many components of an effective program for expanding electronic government. For example, the scorecard assesses whether an agency has an enterprise architecture[25] in place that is linked to the Federal Enterprise Architecture, which is intended to provide a government wide framework to guide and constrain federal agencies' enterprise architectures and information technology investments. The federal government's efforts in this area are still maturing. In May 2004, we reported that the Federal Enterprise Architecture remained very much a work in progress and that agencies' enterprise architectures were likewise still maturing.[26] When we surveyed agencies in 2003, we found that only 20 of 96 agencies had established at least the foundation for effective architecture management and that the level of maturity had not changed much over the previous years.[27]

In addition, OMB's e-government scorecard requires agencies to properly secure their information technology systems, a task that has been daunting for many government agencies. We recently reported that although agencies were generally reporting an increasing number of systems meeting key statutory information security requirements, challenges nevertheless remained.[28] For example, only 7 of 24 agencies reported that they had tested contingency plans for 90 percent or more of their systems. Contingency plans provide specific instructions for restoring critical systems in case the usual facilities are significantly damaged or cannot be accessed due to unexpected events, and testing of these plans is essential to determining whether they will function as intended in an emergency situation.

[25] An enterprise architecture is a blue print, defined largely by interrelated models, that describes (in both business and technology terms) an entity's "as is" or current environment, its "to be" or future environment, and its investment plan for transitioning from the current to the future environment.

[26] GAO, *Information Technology: The Federal Enterprise Architecture and Agencies' Enterprise Architectures Are Still Maturing*, GAO-04-798T (Washington, D.C.: May 19, 2004).

[27] GAO, *Information Technology: Leadership Remains Key to Agencies Making Progress on Enterprise Architecture Efforts*, GAO-04-40 (Washington, D.C.: Nov. 17, 2003).

[28] GAO, *Information Security: Continued Efforts Needed to Sustain Progress in Implementing Statutory Requirements*, GAO-05-483T (Washington, D.C.: Apr. 7, 2005).

Competitive Sourcing

The federal government needs to undertake a fundamental review of who will do the government's business in the 21st Century. In this regard, agencies are assessing what functions and transactions the private sector could perform, and in many cases they are asking agency employees to compete with private entities for this business. The objectives of the PMA initiative on competitive sourcing are to improve quality and reduce costs.

Aspects of the government's process for making sourcing decisions had been criticized as cumbersome, complicated, and slow. Against this backdrop, and in response to a requirement in the National Defense Authorization Act for fiscal year 2001, I convened a panel of experts to study the process. The Commercial Activities Panel, consisting of representatives from agencies, federal labor unions, private industry, and other individuals with expertise in this area, conducted a yearlong study. The panel members heard repeatedly about the importance of competition and its central role in fostering economy, efficiency, and continuous performance improvement. The panel strongly supported continued emphasis on competition and concluded that whenever the government is considering converting work from one sector to another, public-private competitions should be the norm, consistent with the 10 overarching principles adopted unanimously by the panel.[29]

As part of the administration's efforts to advance this PMA initiative and implement the recommendations of the Commercial Activities Panel, OMB revised circular A-76, which sets forth federal policy for determining whether federal employees or private contractors will perform commercial activities. The revisions are broadly consistent with the principles and recommendations of the Panel. In particular, the revised circular stresses the use of competition in making sourcing decisions and, through reliance on procedures contained in the Federal Acquisition Regulation, should result in a more transparent, expeditious, fair, and consistently applied competitive process. We continue to review various aspects of this initiative.

One issue not fully addressed in the revised Circular was the right of federal employees or their representatives to file protests challenging the conduct or the outcomes of public-private competitions. In April 2004, we

[29] *Improving the Sourcing Decisions of the Government.* Final report of the Commercial Activities Panel (Washington, D. C.: April 2002).

issued a decision holding that federal employees lacked standing to file such protests under the Competition in Contracting Act (CICA).[30] We pointed out that the Congress would have to amend CICA in order to provide that right. Congress amended CICA late last year,[31] and just last week, after receiving and considering various public comments, we issued final regulations implementing the change.[32]

Federal Real Property Asset Management

The federal real property portfolio is vast and diverse—over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land worth hundreds of billions of dollars. Unfortunately, much of this vast, valuable portfolio reflects an infrastructure based on the business model and technological environment of the 1950s. Many of these assets are no longer effectively aligned with, or responsive to, agencies' changing missions. Further, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Maintaining underused or unneeded federal property is also costly due to day-to-day operational costs, such as regular maintenance, utilities fees, and security expenses. Compounding these problems are the lack of reliable governmentwide data for strategic asset management; a heavy reliance on costly leasing, instead of ownership, to meet new needs; and the cost and challenge of protecting these assets against terrorism. In January 2003, we designated federal real property as a high-risk area due to these longstanding problems.

In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327 to address challenges in this area. The order requires senior real property officers at all executive branch departments and agencies to, among other things, develop and implement an agency asset management plan; identify and categorize all real property owned, leased, or otherwise managed by the agency; prioritize actions needed to improve the operational and financial management of the agency's real property inventory; and make life-cycle cost estimations associated with the

[30] B-293590.2, April 19, 2004, 2004 CPD ¶ 82.

[31] Public Law 98-369, July 18, 1984, as amended by Public Law 108-375, § 326(d), October 28, 2004.

[32] 70 Fed. Reg. 19679-19681 (Apr. 14, 2005).

prioritized actions. In addition, the senior real property officers are responsible, on an ongoing basis, for monitoring the real property assets of the agency. The order also established a new Federal Real Property Council (the Council) at OMB.

In April 2005, OMB officials updated us on the status of the implementation of the executive order. According to these officials, all of the senior real property officers are in place, and the Council has been working to identify common data elements and performance measures to be captured by agencies and ultimately reported to a governmentwide database. In addition, OMB officials reported that agencies are working on their asset management plans. Plans for DOD, the Departments of Veterans Affairs, (VA) and Energy, and the General Services Administration (GSA) have been completed and approved by OMB. The Council has also developed guiding principles for real property asset management. These guiding principles state that real property asset management must, among other things, support agency missions and strategic goals, use public and commercial benchmarks and best practices, employ life-cycle cost-benefit analysis, promote full and appropriate utilization, and dispose of unneeded assets.

In addition to these reform efforts, Public Law 108-447 gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 and to use such proceeds for GSA's real property capital needs.[33] Also, Public Law 108-422 established a capital asset fund and gave VA the authority to retain the proceeds from the disposal of its real property for the use of certain capital asset needs such as demolition, environmental clean-up, and major repairs.[34] And, agencies such as DOD and VA have made progress in addressing longstanding federal real property problems and governmentwide efforts in the facility protection area are progressing. For example:

- VA has implemented a process called Capital Asset Realignment for Enhanced Services (CARES) to address its aging and obsolete portfolio of health care facilities. In March 2005, we reported that through CARES, VA identified 136 locations for evaluation of alternative ways to align inpatient services: 99 of these facilities had potential duplication of services with

[33] Division H, § 412, December 8, 2004.

[34] Sec. 411, November 30, 2004.

another nearby facility or low acute patient workload.[35] VA made decisions to realign inpatient health care services at 30 of these locations. For example, it will close all inpatient services at five facilities. VA's decisions on inpatient alignment and plans for further study of its capital asset needs are tangible steps in improving management of its capital assets and enhancing health care. Accomplishing its goals, however, will depend on VA's success in completing its evaluations and implementing its CARES decisions to ensure that resources now spent on unneeded capital assets are redirected to health care.

- In DOD's support infrastructure management area, which we identified as high-risk in 1997, DOD has made progress and expects to continue making improvements. In April 2005, we testified that DOD's infrastructure costs continue to consume a larger-than-necessary portion of its budget than DOD believes is desirable.[36] For several years, DOD has been concerned about its excess facilities infrastructure, which affects its ability to fund weapons system modernization and other critical needs. DOD has achieved some operating efficiencies from such efforts as base realignments and closures, consolidations, and business process reengineering. Despite this progress, much work remains for DOD to transform its support infrastructure so that it can concentrate resources on critical needs. DOD also needs to strengthen its recent efforts to develop and refine its comprehensive long-range plan for its facility infrastructure to ensure adequate funding for facility sustainment, modernization, and recapitalization.
- In light of the need to invest in facility protection since September 11, funding available for repair and restoration and preparing excess property for disposal may be further constrained. The Interagency Security Committee (ISC), which is chaired by DHS, is tasked with coordinating federal agencies' facility protection efforts, developing standards, and overseeing implementation. In November 2004, we reported that ISC had made progress in coordinating the government's facility protection efforts by, for example, developing security standards for leased space and design criteria for security in new construction projects.[37] Despite this progress,

[35] GAO, *VA Health Care: Important Steps Taken to Enhance Veterans' Care By Aligning Inpatient Services with Projected Needs*, GAO-05-160 (Washington, D.C.: Mar. 2, 2005).

[36] GAO, *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, GAO-05-520T (Washington, D.C.: Apr. 13, 2005).

[37] GAO, *Homeland Security: Further Actions Needed to Coordinate Federal Agencies' Facility Protection Efforts and Promote Key Practices*, GAO-05-49 (Washington, D.C.: Nov. 30, 2004).

we found that its actions to ensure compliance with security standards and oversee implementation have been limited. Nonetheless, the ISC serves as a forum for addressing security issues, which can have an impact on agencies' efforts to improve real property management.

The inclusion of real property asset management on the President's Management Agenda, the executive order, and agencies' actions are clearly positive steps in an area that had been neglected for many years. However, despite the increased focus on real property issues in recent years, the underlying conditions—such as excess and deteriorating properties and costly leasing—continue to exist and more needs to be done to address various obstacles that led to our high risk designation. For example, the problems have been exacerbated by competing stakeholder interests in real property decisions, various legal and budget related disincentives to businesslike outcomes, and the need for better capital planning among real property-holding agencies. In light of this, we continue to believe that there is a need for a comprehensive and integrated transformation strategy for federal real property. Realigning the government's real property assets with agency missions, taking into account the requirements of the future federal role and workplace, will be critical to improving the government's performance and ensuring accountability within expected resource limits. A transformation strategy could serve as a useful guide for implementing further change and achieving such results.

Continuing Attention Is Needed to Improve Management and Performance Across the Federal Government

As my testimony today has highlighted, serious and disciplined efforts are needed to improve the management and performance of federal agencies and to ensure accountability. Along with OMB's leadership in implementing PMA, it will only be through the attention of Congress, the administration, and federal agencies, that progress can be sustained and, more importantly, accelerated. The stakes associated with federal program performance are large, both for beneficiaries of these programs and the nation's taxpayers. Policymaking institutions will be challenged to shift from the traditional focus on incremental changes in spending or revenues to look more fundamentally at the programs, policies, functions, and activities in addressing current and emerging national needs and problems across levels of government and sectors, including all major areas of the federal budget—discretionary spending, entitlements and other mandatory spending, and tax policies and programs.

Congressional support has proven to be critical in sustaining interest in management initiatives over time. Congress has served as an institutional

champion for many reform initiatives over the years, such as the CFO Act and GPRA. Our March 2004 report on GPRA found that it has established a solid foundation for achieving greater results, but that significant challenges to GPRA implementation still exist.[38] Our survey data suggested that more federal managers, especially at the SES level, believed that OMB was paying attention to their agencies' efforts under GPRA. However, we found inconsistent commitment in other areas where OMB could further enhance its leadership. Agencies' plans and reports still suffer from persistent weaknesses and could improve in a number of areas, such as attention to issues that cut across agency lines, and better information about the quality of the data that underlie agency performance goals. We recommended that OMB improve its guidance and oversight of GPRA implementation, as well as develop a governmentwide performance plan.

As discussed earlier, GPRA requires a governmentwide performance plan, but OMB has not issued a distinct plan since 1999. Most recently, the President's fiscal year 2006 budget described agencies' progress in addressing the PMA and the results of PART reviews of agencies' programs. While such information is important and useful, alone it is not adequate to provide a broader and more integrated perspective of planned performance on governmentwide outcomes. The PART focus on individual programs needs to be supplemented by a more crosscutting assessment of the relative contribution of portfolios of programs and tools to broader outcomes. Most key performance goals of importance—ranging from low income housing to food safety to counterterrorism—are addressed by a wide range of discretionary, entitlement, tax, and regulatory approaches that cut across a number of agencies.

Preparing a governmentwide plan could build on the administration's efforts to assess progress across the government as well as contribute to efforts to compare the performance results across similar programs that address common outcomes. Although there has been limited progress, efforts to date have not provided the Congress and others with an integrated perspective on the extent to which programs and tools contribute to national goals and position the government to successfully meet 21st century demands.

[38] GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C., March 10, 2004).

We also suggested that Congress consider amending GPRA to require that the President develop a governmentwide strategic plan. Although it generally agreed with our recommendations, OMB stated that the President's Budget can serve as both a governmentwide strategic and annual plan. However, we believe that the budget provides neither a long-term nor an integrated perspective on the federal government's performance. A strategic plan for the federal government, supported by a set of key national indicators to assess the government's performance, position, and progress, could provide an additional tool for governmentwide reexamination of existing programs, as well as proposals for new programs. Such a plan could be of particular value in linking agencies' long-term performance goals and objectives horizontally across the government and could provide a basis for integrating, rather than merely coordinating, a wide array of federal activities. This raises the issue of the need for a set of key indicators to inform decision makers about the position and progress of the nation as a whole and to help set agency and program goals and priorities.

Further, given the financial constraints we are likely to face for many years to come and the trends at work that are changing the world in which our government operates, a fundamental review of major program and policy areas is needed to update the federal government's programs and priorities to meet current and future challenges. Our recent report on 21st Century Challenges is intended to help the Congress in reviewing and reconsidering the base of federal spending and tax programs.[39] As this Subcommittee is well aware, the nature and magnitude of the fiscal, security, and economic and other adjustments that need to be considered are not amenable to "quick fixes;" rather they will likely require an iterative, thoughtful process of disciplined changes and reforms over many years. Therefore, providing an ongoing and consistent focus, such as the PMA has provided on management reform efforts, is an important element in helping to ensure that the federal government is managed effectively to achieve results important to the American people.

Our report on 21st century challenges laid out some of the most pressing issues for policymakers to consider as the government increasingly relies on new networks and partnerships to achieve critical results. A complex network of governmental and nongovernmental entities—such as federal

[39] U.S. Government Accountability Office, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

agencies, domestic and international non- or quasi-governmental organizations, for-profit and not-for-profit contractors, and state and local governments—contribute to shaping the actual outcomes achieved. Some of the issues are consistent with those raised by the PMA, such as in the area of real property asset management—focusing on opportunities to more strategically manage the federal government's assets to make the federal portfolio more relevant to current missions and less costly. Moving forward, some additional questions that are particularly relevant to the focus of this hearing on improving governance include the following:

- In a modern society with advanced telecommunications and electronic information capabilities, which agencies still need a physical presence in all major cities?
- How can agencies more strategically manage their portfolio of tools and adopt more innovative methods to contribute to the achievement of national outcomes?
- How can greater coordination and dialogue be achieved across all levels of government to ensure a concerted effort by the public sector as a whole in addressing key national challenges and problems?
- What are the specific leadership models that can be used to improve agency management and address transformation challenges? For example, should we create chief operating officer or chief management officer positions with term appointments within selected agencies to elevate, integrate, and institutionalize responsibility and authority for business management and transformation efforts?

Mr. Chairman, we are pleased to be able to participate in this hearing today. We have issued a large body of reports, guides, and tools on issues directly relevant to PMA, and plan to continue to actively support congressional and agency actions to address today's challenges and prepare for the future. As I have discussed in my statement today, although efforts to transform agencies by improving their management and performance are under way, more remains to be done to ensure that the government has the capacity to deliver on its promises meet current and emerging needs, and to remain relevant in the 21st Century. Decisive action and sustained attention will be necessary to make the hard choices needed to reexamine and transform the federal government, maximize its performance, and ensure accountability.

This concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the subcommittee may have.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

Testimony of

The Honorable Clay Johnson III
Deputy Director for Management, Office of Management and Budget

before the

Subcommittee on Federal Financial Management, Government Information and International Security of the
Senate Committee on Homeland Security and Governmental Affairs

April 21, 2005

With the help of the President's Management Agenda (PMA), the Federal Government is working to ensure that taxpayer dollars buy more and go farther every year. The American taxpayers expect it, and the Federal Government can deliver it.

Agencies are better managed and achieving greater results. They are managing their finances and investments more professionally and efficiently. They are providing better service to the American people. They are better directing and helping the civilian workforce be more effective and successful.

Because of this committee's interest in financial management in particular, I would like to share with you some of the tangible results agencies have achieved in cutting costs and eliminating waste.

Cutting Costs and Eliminating Waste

The government is: eliminating the $40 billion we overpay each year; reducing by $6 billion per year what we pay for commercial services; disposing of $15 billion in unneeded government real property and redirecting funds to higher priority asset management uses; using technology to cut costs; holding agencies accountable for program performance to get more out of every dollar we spend; and strengthening

financial disciplines so as to provide managers with the timely and accurate financial information they need to make smarter cost decisions.

Eliminating $40 Billion Per Year in Overpayments

For the first time, the Federal Government is regularly reviewing its expenditures to better ensure that each taxpayer dollar is directed to its intended purpose. Total improper payments are estimated to be $45.1 billion (about $40 billion in overpayments and $5 billion in underpayments), representing a 3.9% rate of total government expenditures subject to risk of error in payment.

- **$1.6 billion in improper payments eliminated at HUD since FY 2000.** To achieve these savings, the Department of Housing and Urban Development (HUD) clarified its program guidance and strengthened its training and oversight activities. In addition, HUD intermediaries are making better decisions on who is eligible for payments by verifying the accuracy of income information reported by program recipients.

- **$593 million in projected savings at SSA.** The Social Security Administration expects these savings in its Supplemental Security Income (SSI) program by FY 2007, in addition to the $100 million reduction in SSI improper payments already realized. SSA is accomplishing these cost savings through improved data matches that verify income, thereby ensuring an accurate payment.

- **$371 million improper payments to be eliminated at DOL.** The Department of Labor projects these savings over the next 10 years by having access to the Department of Health and Human Services' National Database of New Hires. By using this database for income verification purposes, Labor can better prevent unqualified persons – those who have returned to work – from continuing to collect unemployment insurance.

Reducing the Cost of Commercial Activities by $6 Billion Per Year

In the past two years alone, the government has determined that the commercial work performed by approximately 30,000 Federal employees can be performed for $500 million per year less than we spend currently. We estimate that after reviewing the most efficient way to perform all our commercial activities, we will be able to reduce total commercial activity costs by more than $6 billion per year.

- **$1.7 billion in savings from an FAA competition**. The Department of Transportation's Federal Aviation Administration will engage a private contractor to perform its flight service station work to improve service and reduce costs $1.7 billion over the next 10 years. (These projected savings are not included in the to-date savings identified above.)

- **$207 million in projected savings at IRS.** The Department of the Treasury's Internal Revenue Service will consolidate its three Area Distribution Centers into one location ($108 million) and improve the efficiencies at its information technology operations centers ($99 million).

- **$147 million from a Forest Service competition**. The United States Department of Agriculture's Forest Service will consolidate its approximate 150 IT operations into ten "server farms" to save $147 million over 5 years.

- **$73 million from a Navy competition.** The United States Navy will leverage technology and adopt customary commercial practices to save $73 million over 5 years.

Better Use of $15 Billion Worth of Unneeded Federal Real Property

The Federal Government estimates that within four years it can liquidate $15 billion, or 5%, of the properties it no longer needs and put the money toward higher priority asset management uses.

- **$649.5 million sale conducted by GSA.** On behalf of the United States Navy, the General Services Administration sold 3,700 acres of surplus land in Southern California. This property included the former Marine Corps Air Station El Toro closed by the U.S. Defense Base Closure and Realignment Commission (BRAC), and it is now expected to be used by the City of Irvine for a variety of commercial, residential, and recreational uses. Upon close of the sale, the bulk of the proceeds will be deposited in the Navy BRAC account and directed to environmental cleanup efforts.

- **$602.5 million sale conducted by GSA**. GSA assisted the Department of Interior's Bureau of Land Management with a public auction sale of 2,284 acres. Scheduled to close in August 2005, the sale is expected to create parks and natural areas, as well as support conservation initiatives and restoration projects.

Using Technology to Save over $1 Billion

The E-Government initiatives are saving millions of taxpayer dollars by taking advantage of new technologies and improved electronic processes.

- **$1 billion over 10 years in projected savings from E-payroll.** The E-payroll initiative expects to reduce costs by consolidating the government's 26 payroll providers into two payroll provider partnerships.
- **$50 million in projected savings from Free File.** The Internal Revenue Service Free File initiative projects these savings over the next five years. By allowing citizens to file their taxes online at no cost, this program is significantly improving service to millions of taxpayers each year.

Getting More Out of Every Dollar We Spend

Using the Program Assessment Rating Tool (PART), we are establishing clear definitions of success – for both performance and cost – and setting aggressive targets for reducing the cost of achieving results. Three years into this initiative, the government has assessed more than 600 programs.

- **67% of assessed programs are rated either "Effective," "Moderately Effective," or "Adequate."** This compares to 45% in 2002, the first year the PART was used. We're getting better at demonstrating results – although 33% of government programs are not yet performing at desired levels.
- **71% of assessed programs have defined and are tracking clear outcome goals to measure their results.** The remaining 29% of government programs must establish better definitions of success.
- **67% of assessed programs have efficiency measures in place to reduce costs.** 33% of programs are working to establish measures of the cost of doing business.

Programs are not only improving their performance, they are achieving more for less. Program managers are isolating the cost factors that drive performance and working to reduce those costs.

- **Reducing the cost of admitting refugees.** Following a sharp rise in costs after 9/11, the Department of State's Refugee Admissions program has reduced the cost of admitting refugees to the United States by nearly $1,000 per person. The Department will continue its efforts to further increase the efficiency and cost-effectiveness of the program, while addressing the needs of the new security environment.

- **Providing more drinking water for less.** The Environmental Protection Agency's Drinking Water State Revolving Fund is increasing the percent of population served by water systems that comply with health-based drinking water standards. This effort is improving efficiency and increasing the number of people drinking water that complies with health standards from 202,840 per million dollars spent to 233,645 per million dollars spent.

- **Eliminating excess DOE building space.** The Department of Energy Facilities and Infrastructure program eliminated 1.7 million square feet of excess building space in 2004 after looking at the efficiency of separate physical structures.

- **Reducing costs to process SBA loans**. The Small Business Administration is reducing the administrative costs of its Section 7(a) Guaranteed Loan Program loans by nearly $1,400 per loan.

Making Better Cost Decisions with the Help of Better Financial Information

Federal agencies are changing the way its finances are managed and accounted for to provide timely and accurate financial information to its managers so they can make better cost management decisions.

- **Timely Financial Statements.** Federal agencies have installed the financial disciplines that allow them to produce their financial statements in a shorter amount of time than ever before. A record 22 of the 24 major agencies submitted their financial reports by November 15. This 47-day financial reporting average – possible only because of recently installed, improved financial management disciplines – is more than one month faster than last year, more than three months faster than four years ago, and nearly a month faster than the 75 day-deadline for publicly-held companies in FY 2004.

- **Reliable Financial Data.** The quality of agencies' financial information did not deteriorate as they accelerated the preparation and audit of their financial statements; the number of unqualified audit opinions remained the same.

- **More Accurate Data.** In FY 2004, agencies reported more accurate data in their financial statements, as shown by an 82 percent decrease in material errors from seven years ago and 11 percent from last year.

Looking Ahead – Keeping the Focus on Cost Reduction

The Federal Government is managing its costs and spending taxpayer dollars better every year. Every dollar spent by the government should be spent in the most efficient and effective way possible. Through the initiatives of the PMA, the government is cutting costs, saving money, and getting its programs to perform better for the benefit of all citizens and taxpayers. The American people expect it, and the Federal Government is doing it.

Implementing the PMA is hard work, requiring significant, unequivocal attention by management. There is much, much, more to be done. We will sustain the improvements we have made and build upon them so that we can say to you and the American people in just a few years' time we are getting more for your money every year.

Responses to Questions for Comptroller General Walker
Government Accountability Office
April 21, 2005

Question 1: Taxpayers deserve to know how the federal government is spending their money. During the Joint Financial Management Improvement Program's last annual conference on March 10, 2005, you urged federal managers to address the problem by creating more readable financial information sharpening financial accounting and reporting procedures, and developing new ways of measuring the costs of programs. Can you provide us with some specific examples of ways that OMB can help make federal spending more transparent?

Current financial reporting does not clearly and transparently show the wide range of responsibilities, programs, and activities that may either obligate the federal government to future spending or create an expectation for such spending. In addition, current reporting does not place enough emphasis on the results or outcomes achieved by the government. Thus, current reporting provides an incomplete, unrealistic and even misleading picture of the federal government's overall performance, financial condition, and future fiscal outlook. In addition, too many significant earmarked federal government revenues—as well as commitments and obligations such as those associated with Social Security and Medicare—are not adequately and consistently disclosed in the federal government's consolidated financial statements and budget, and current federal financial reporting standards do not require such disclosure.

Truth and transparency in government operations, including financial reporting is crucial to understanding the performance, financial condition, and fiscal outlook of the nation. The federal government should provide a fuller and fairer picture of existing budget deficits, the so-called "trust funds," and the growing financial burdens facing every American.

Some examples of ways OMB and others can help make federal spending more transparent include:

- Preparing a summary annual report for the federal government

In addition to the annual financial report each year for the federal government, a summary annual report should be prepared to provide citizens with a better understanding of their government's finances. The financial report produced each year for the federal government as a whole contains consolidated financial statements and detailed disclosures along with management's discussion and analysis. A summary could provide key information for understanding the federal government's finances, challenges, and progress in an easy to understand format and simple, clear language to improve transparency and accountability. When I was a public trustee for Social Security and Medicare, my fellow public trustees and I inherited what has now become an annual practice of preparing a summary annual report of the various Social Security and Medicare Trustees' reports. This was a very positive and popular step and can serve as a

potential basis for doing the same in connection with the federal government's annual financial report.

- Revising draft OMB reporting guidance to require adequate segregation of earmarked funds and activities through columnar presentation in the federal government's financial statements

OMB recently issued new draft guidance for preparing federal agency and consolidated financial statements that should be further revised to improve its implementation of a new accounting standard related to the presentation of earmarked funds, such as social security revenue. We strongly believe these funds and activities should be separately set apart in *columnar presentation* from other general government activities because of the significance and importance of these activities to the American public. Such reporting is more transparent and clearly discloses the government's earmarked funds and related activities separate from other government activities. We believe that the guidance with respect to earmarked funds in the proposed guidance does not adequately segregate earmarked funds and earmarked fund activities from other government activities.

- Establishing an OMB annual report on fiscal exposures, including appropriate measures and how to address them.

Figure 1 shows some selected fiscal exposures facing our government. The spectrum of these exposures ranges from explicit liabilities shown on the consolidated financial statements to implicit promises embedded in current policy or public expectations.[1] These liabilities, commitments, and promises have created a fiscal imbalance that will put unprecedented strains on the nation's future spending and tax policies. Although economic growth can help, the projected fiscal gap is now so large that the federal government will not be able to simply grow its way out of the problem. Tough choices by the President and the Congress are inevitable.

1 While the selected fiscal exposures list provides some perspective on the range and magnitude of exposures facing the federal government, it is neither meant to be comprehensive nor to represent a universally agreed-upon list. A broader discussion of fiscal exposures and ways to report and control them can be found in GAO, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, GAO-03-213 (Washington, D.C.: Jan. 24, 2003).

Figure 1: Selected Fiscal Exposures: Sources and Examples 2005[a]

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt ($4,297) Military and civilian pension and post-retirement health ($3,059) Veterans benefits payable ($925) Environmental and disposal liabilities ($249) Loan guarantees ($43)
Explicit financial commitments	Undelivered orders ($596) Long-term leases ($39)
Financial contingencies	Unadjudicated claims ($4) Pension Benefit Guaranty Corporation ($96) Other national insurance programs ($1) Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts ($3,071)[b] Future Social Security benefit payments ($4,017)[c] Future Medicare Part A benefit payments ($8,561)[c] Future Medicare Part B benefit payments ($12,384)[c] Future Medicare Part D benefit payments ($8,686)[c] Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

[a] All figures are for end of fiscal year 2004, except Social Security and Medicare estimates, which are as of January 1, 2005.

[b] This amount includes $845 billion held by military and civilian pension and post-retirement health funds that would offset the explicit liabilities reported by those funds.

[c] Figures for Social Security and Medicare are net of debt held by the trust funds ($1,687 billion for Social Security, $268 billion for Medicare Part A, and $19 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be $11.1 trillion, $24.1 trillion for Medicare Part A, $25.8 trillion for Medicare Part B, and $18.2 trillion for Medicare Part D.

Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Revised 3/29/05

- Working with GAO and other members of the Federal Accounting Standards Advisory Board (FASAB) to further enhance existing financial reporting

Several additional actions to enhance federal financial and performance reporting would be desirable. For example, creating a new "burden statement" that would combine existing liabilities and accrued obligations and commitments while showing the per-capital, intergenerational, and other implications could be a major step forward in helping to highlight our large and growing fiscal challenges.

- Providing more information on the long-term costs of major spending and tax proposals prior to Congressional votes

On the budget side, the current 10-year cash-flow projections are an improvement over past practices. But given known demographic trends, even these projections fail to capture the long-term consequences of today's spending and tax policy choices. Congress needs to have access to the long-term cost of selected spending and tax proposals before they enact related laws. The Congress should have more explicit and

long-term information on the present-value dollar costs of major spending and tax bills, before voting. The fiscal risks just mentioned can be managed only if they are properly accounted for and publicly disclosed, including the many existing commitments facing the federal government.

- Developing a set of key national performance and outcome-based indicators

From a more strategic and results- based perspective, a set of key national performance and outcome-based indicators to measures America's position and progress on a range of economic, security, environmental and social issues should be developed. Key indicators can help to inform strategic planning, enhance performance and accountability reporting, and improve key decision making. Several countries, states, and localities have already adopted key indicator systems.

Question 2: As a member of the Senate Armed Services Committee, I noticed that your testimony points out that DOD is solely responsible for 8 of the 25 high-risk areas and shares responsibility for 6 additional governmentwide areas. Moreover, DOD is responsible for two of the four new high-risk areas added in your last update. All of these high-risk areas involve DOD's business operations. What specifically does DOD need to do to get off the high-risk list?

Although DOD has a number of initiatives to address its high-risk areas, we believe that DOD must fundamentally change its approach to overall business transformation efforts before it is likely to succeed. We believe there are three critical elements of successful transformation: (1) developing and implementing an integrated and strategic business transformation plan, along with an enterprise architecture to guide and constrain implementation of such a plan; (2) establishing central control over systems investment funds; and (3) providing sustained leadership for the overall business transformation effort. To ensure these three elements are incorporated into the department's overall business management, we believe Congress should legislatively create a full-time, high-level executive with long-term "good government" responsibilities that are professional and nonpartisan in nature. This executive, the Chief Management Official (CMO), would be a strategic integrator responsible for leading the department's overall business transformation, including developing and implementing a related strategic plan. The CMO would not assume the responsibilities of the undersecretaries of defense, the service secretaries, and heads of other DOD entities for the day-to-day management of business activities. However, the CMO would be responsible and accountable for ensuring that all DOD business policies, procedures, and reform initiatives are consistent with an approved strategic plan for business transformation.

With regard to the other high-risk areas, we are currently working with OMB and DOD as they develop specific criteria and related action plans for addressing the problems that led GAO to designate these areas as high-risk. OMB and DOD are initially focusing on

the supply chain management high-risk area with the goal of developing a model action plan that can be used in other high-risk areas.

Question 3: In January 2005, OMB reported that fiscal year 2004 governmentwide improper payments totaled about $45 billion. Do you believe the $45 billion in improper payments reported by OMB fully realizes the magnitude of the governmentwide improper payments problem?

The magnitude of the governmentwide improper payments problem is still unknown, because not all agencies have reported an estimate. This includes some of the largest risk-susceptible federal programs such as HHS's Medicaid program, with outlays exceeding $175 billion annually and Department of Education's Title I Program, with outlays of over $10 billion annually.

Do you think we will see an increase in the amount of improper payments reported in fiscal year 2005?

As OMB indicates in their January 2005 report,[2] any potential reductions in improper payments will be affected by outlay changes. The amount will also be affected as additional programs estimate amounts along with changes in the methodologies agencies use to identify and measure improper payments in their programs.

Question 4: You have stated that a chief operating officer (COO)/chief management official (CMO) position would be helpful for selected federal departments and agencies, like DOD and DHS, facing major management and transformation challenges. In particular, how would a COO/CMO help to elevate, integrate, and institutionalize attention on major management and transformation challenges in these departments and agencies?

Could you please describe the key responsibilities, qualifications and accountability mechanism that you envision for such a position(s) (i.e.; need for an elevated executive or deputy position, term appointment, performance agreement, etc.)?

As the Departments of Defense (DOD), Homeland Security (DHS) and other agencies across the federal government embark on large-scale organizational transformations to address 21st century challenges, there is a compelling need to (1) elevate attention on management issues and transformational change (2) integrate various key management and transformational efforts; and (3) institutionalize accountability for addressing key

[2] Office of Management and Budget: *Improving the Accuracy and Integrity of Federal Payments*, dated January 25, 2005.

management issues and leading transformational change.[3] Due to the complexity and long-term nature of these efforts, strong and sustained executive leadership is needed if they are to succeed. As we have reported, a Chief Operating Officer (COO) or Chief Management Official (CMO) may effectively provide the continuing, focused attention essential to successfully completing these multiyear transformations in agencies like DOD and DHS.

In the case of DOD, in April 2005, we testified that as DOD embarks on large-scale organizational change initiatives, such as business management transformation, the complexity and long-term nature of these initiatives requires the development of an executive position capable of providing strong and sustained leadership—over a number of years and various administrations.[4] As noted in our response to question number two, one way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management. Such leadership would provide the attention essential for addressing key stewardship responsibilities, such as strategic planning, enterprise architecture development and implementation, information technology management, and financial management, while facilitating the overall business management transformation within DOD. At DHS, we reported that the COO concept would provide the department with a single organizational focus for the key management functions involved in the business transformation of the department, such as human capital, financial management, information technology, acquisition management, and performance management, as well as for other organizational transformation initiatives.[5] In our March 2005 review of DHS's management integration efforts, we suggested that Congress reassess whether it needs to statutorily adjust existing positions at DHS or create a new position, such as a COO/CMO, that has the necessary responsibilities and authorities to more effectively drive the department's management integration.[6] We have also recently testified that a COO/CMO can effectively provide the continuing, focused attention essential to successfully complete the implementation of DHS's new human capital system, a large-scale, multiyear change initiative.[7] Specifically, such a position would serve to elevate attention that is essential to overcome an organization's resistance to change, integrate the human capital system with various management responsibilities so they are no longer stovepiped, and

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[3] On September 9, 2002, GAO convened a roundtable of government leaders and management experts to discuss the COO concept and how it might apply within selected federal departments and agencies. See U.S. GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

[4] U.S. GAO, *DOD High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, GAO-05-520T (Washington, D.C.: Apr. 13, 2005).

[5] U.S. GAO, *The Chief Operating Officer Concept and its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R (Washington, D.C.: June 28, 2004).

[6] U.S. GAO, *Department of Homeland Security: A Comprehensive and Sustained Approach Needed to Achieve Management Integration*, GAO-05-139 (Washington, D.C.: Mar. 16, 2005).

[7] U.S. GAO, *Human Capital: Observations on Final DHS Human Capital Regulations*, GAO-05-391T (Washington, D.C.: March 2, 2005), and U.S.GAO, *Human Capital: Preliminary Observations on Final Department of Homeland Security Human Capital Regulations*, GAO-05-320T (Washington, D.C.: Feb. 10. 2005).

institutionalize accountability so that implementation of this critical human capital initiative can be sustained.

The specific focus and structure of any COO/CMO position, however, must be determined within the context of the particular facts, circumstances, challenges and opportunities of each individual agency. In addition, certain characteristics can serve to augment the position, and thus further strengthen and integrate business transformation efforts. These include articulating the role of the COO/CMO in statute in order to make clear its broad responsibilities and qualifications, using performance agreements to clarify individual performance expectations, and setting a term appointment for the position to help ensure stability and accountability over the long term. For example, the Congress could articulate in statute the COO/CMO's qualifications, such as the need for strong leadership skills and a demonstrated ability in managing large-scale change management initiatives. In addition, it is important to use clearly defined, results-oriented performance agreements accompanied by appropriate incentives, rewards, and accountability mechanisms for these positions. The COO/CMO's progress in meeting the terms of the performance agreements would form the basis of any performance bonuses, as well as any decisions on removal or reappointment of the COO/CMO. Large-scale change initiatives and organizational transformations require a long-term, concerted effort, and can take years to complete. Providing a COO/CMO with a term appointment of at least 5 to 7 years would be one way to help ensure that these long-term transformation initiatives are successfully completed. Finally, strong and continuing congressional oversight can help determine how best to elevate, integrate, and institutionalize key management and transformation responsibilities in federal agencies.

Questions from Senator Carper

Financial Management

1. According to the OMB scorecard, financial management appears to be a weakness across the federal government. In your view, what are the reasons behind his? What steps do OMB and the agencies need to take to address their financial problems? Are there any special problems in agencies like the Department of Defense that have had severe, long-term problems in the financial management area?

Establishing effective financial management operations, including sound processes, strong controls, and modern systems, has been a long-standing challenge at most federal agencies. While a number of agencies are receiving unqualified or "clean" opinions on their financial statements, continued widespread financial management weaknesses—as shown by the OMB scorecard–indicate that federal agencies still have a long way to go before they can routinely generate reliable, useful, and timely financial information supporting day-to-day agency management and accountability to taxpayers and the Congress.

To address these challenges, many agencies have efforts underway to improve their processes and controls and implement new or upgrade existing financial management systems. However, given the longstanding, complex, and deeply-rooted nature of the financial management problems that many agencies are facing, their full resolution will take time, investment, and a sustained emphasis. Implementing updated and integrated management and financial information systems, in particular, is a difficult job and brings a degree of risk. For example, our work at the Department of Health and Human Services and the National Aeronautics and Space Administration has highlighted significant problems in implementing new financial management systems.

Effectively addressing the financial management deficiencies at the Department of Defense (DOD) is particularly crucial. DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an opinion on the U. S. government's consolidated financial statements. DOD is uniquely challenging in that problems with its financial management operations go far beyond its accounting and finance processing and systems. The department continues to rely on a reported 4,000 or more legacy and non-integrated finance, logistics, personnel, acquisition, and other management information systems to gather the data needed to support day-to-day management decision making and reporting. These systems have evolved into the overly complex and error-prone operation that exists today. For example, DOD's current systems have (1) little standardization, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, and (4) manual entry of the same data into multiple systems.

DOD's efforts to date have not adequately addressed key underlying causes of past reform efforts. Reforming DOD's business operations is a monumental challenge and many well-intentioned efforts have failed over the past several decades. Successful transformation will require an effective transformation plan, adequate human capital, effective processes and proven transformation tools (such as a business enterprise architecture), and results oriented performance measures that link institutional, unit, and individual personnel goals and expectations. Further, lessons learned from previous reform attempts include the need for focused and sustained leadership at the highest level with appropriate authority over all of DOD's business operations, as well as centralized control of all business transformation-related funding with the designated approval authorities assigned responsibility for transformation activities within their specific business process areas. This leadership could be provided through the establishment of a Chief Operating Officer/Chief Management Official in the department that would require additional legislation.

Human Capital

1. You've stated in the past that your believe we need to give the Department of Defense and the Department of Homeland Security more time to implement and evaluate their new personnel systems before we move to expand them to other agencies. As you know, however, the President's FY2006 budget proposal suggests doing the opposite. Is your opinion on this issue still the same?

We believe that whether through government-wide or agency-specific human capital legislation, new human capital systems should be put in operation only when an agency has the institutional infrastructure in place to use the new authorities effectively. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency' human capital policies, strategies, and programs; the capabilities to develop and implement a new human capital system effectively; and a modern, effective, credible, and validated performance management system that provides a clear linkage between institutional, unit, and individual performance-oriented outcomes and includes adequate safeguards to ensure the fair, effective, and nondiscriminatory implementation of the system.

Importantly, it is possible to enact broad-based human capital reforms that would enable agencies to move to a more market-oriented and performance-based system. However, any such effort should require that the agency not implement key reforms until after it meets certain procedural management assessment and independent certification requirements relating to the above referenced criteria.

2. According to the OMB scorecard, most agencies are making significant progress in implementing the President's initiatives in the area of human capital planning and management. What steps are these agencies taking? In your view, are they taking full advantage of personnel flexibilities in existing law, including those we've enacted in recent years?

Overall, the federal government has made some strides toward increasing agencies' use of existing personnel flexibilities, including those enacted in recent years. As an example, in June 2004 we reported that agencies appeared to be making limited use of two new flexibilities that could help in expediting and controlling their hiring processes – category rating and direct-hire authority.[8] In a subsequent congressional hearing on this issue, we noted that the Office of Personnel Management had taken additional actions to help ensure that agencies were more aware of existing hiring flexibilities as well as to more directly assist agencies in taking full advantage of these flexibilities.[9]

Still, we have reported that federal agencies should make more frequent and effective use of the human capital flexibilities already available to them.[10] Generally speaking, as a first priority, it is important for agencies to assess and determine which human capital flexibilities are most appropriate for managing their workforces. We have noted that agencies sometimes overlook the effectiveness of these tools in recruiting, retaining, and

[8] GAO, *Human Capital: Additional Collaboration Between OPM and Agencies Is Key to Improved Federal Hiring*, GAO-04-797 (Washington, D.C.: June 7, 2004).
[9] GAO, *Human Capital: Increasing Agencies' Use of New Hiring Flexibilities*, GAO-04-959T (Washington, D.C.: July 13, 2004).
[10] GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

motivating staff.[11] As we have recently reported, federal agencies possess a variety of differing statutory authorities for managing their workforces.[12] In previous reports and testimonies, we have emphasized that in addressing their human capital challenges, federal agencies should first identify and use the flexibilities already available under existing laws and regulations and then seek additional flexibilities only when necessary and based on sound business cases.

Our previous work also identified several significant reasons why agencies have not made greater use of the human capital flexibilities available to them.[13] These barriers that have hampered agencies in maximizing their use of available flexibilities include agencies' weak strategic human capital planning and inadequate funding due to competing priorities; managers' and supervisors' lack of awareness and knowledge of the flexibilities; and managers' and supervisors' belief that approval processes to use specific flexibilities are often burdensome and time-consuming. Agencies need to take concerted actions to overcome these barriers when assessing how the flexibilities fit into their overall strategic human capital planning processes.

E-Government

1. Earlier this month, the House Committee on Government Reform held a hearing to highlight the grades they give to agencies on their compliance with the Federal Information Security Management Act (FISMA). Several agencies received failing grades, including the Department of Homeland Security. At the hearing it was suggested that OMB could reduce the budgets of federal departments that do no improve their information technology security. What do you believe OMB should be doing to ensure that agencies comply with the FISMA?

According to FISMA, OMB is required to approve/disapprove the information security programs at the agencies. According to OMB officials, they are using the annual reporting by the agencies and the IGs, as well as some information from the budget process, to do this. We have not looked at this aspect of the FISMA process at this time. However, OMB is planning to issue new guidelines on the annual reporting and the approval/disapproval process this year.

In our opinion, OMB needs to ensure that agencies whose programs do not warrant full approval produce detailed plans for improving their programs, including milestones, timeframes, and resources needed. These plans could then be used by OMB to analyze and act on resource requests by the agencies.

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[11] GAO, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C.: Sept. 17, 2001).
[12] GAO, *Human Capital: Selected Agencies' Statutory Authorities Could Offer Options in Developing a Framework for Governmentwide Reform*, GAO-05-398R (Washington, D.C.: Apr. 21, 2005).
[13] GAO-03-2.

RESPONSES TO QUESTIONS FOR CLAY JOHNSON, III,
DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Coburn

Proposed Program Terminations

Question: The President's FY 2006 Budget Request proposes the termination of almost 100 federal programs, which would reduce spending by approximately $8.8 billion in FY 2006. *How did OMB put this list together?*

Answer: As the Administration drew up its list of proposed major reforms and budget savings, we were guided by three major criteria:

- Does the program meet the Nation's priorities? The budget increases funding to strengthen our Armed Forces, improve our homeland defenses, promote economic opportunity, and foster compassion.
- Does the program meet the President's principles for appropriate use of taxpayer resources? If an appropriate Federal role could not be identified in a program's mission, the Budget generally proposes to reduce or eliminate its funding.
- Does the program produce the intended results? The Bush Administration is measuring the effectiveness of the government's programs – and the results are helping us make budgeting decisions.

How do you determine what programs are effective or ineffective?

Answer: A program's effectiveness is evaluated with the Program Assessment Rating Tool (PART), which is designed to help assess the management and performance of individual programs. The PART evaluates a program's purpose, design, planning, management, results, and accountability to determine its overall effectiveness.

Divided into four distinct sections, each PART asks 25 basic questions. Some additional questions are included, which are tailored to the program's type. The first section gauges whether a program's design and purpose is clear and defensible. The second section involves strategic planning, and weighs whether the agency establishes valid annual and long-term goals for its programs. The third section rates the management of an agency's program, including financial oversight and program improvement efforts. The fourth section of questions focuses on results that programs can report with accuracy and reliability.

Why did the Budget propose maintaining or even increasing the budgets for some programs that were rated ineffective?

Answer: Just as a high PART rating does not automatically result in a funding increase, a low PART rating does not automatically result in a funding decrease. A PART assessment is an important factor, but not the only factor, in funding decisions.

How many of the programs proposed for termination have been on this list before?

Answer: 59 programs proposed for termination have been proposed in previous budgets.

Why has funding for these programs continued despite their inability to demonstrate results?

Answer: Many of these programs are popular and therefore are difficult to terminate or even reduce in funding. All programs, whether proposed for termination or not, are working to improve.

How many programs did you recommend be terminated last year? How many did Congress eliminate?

Answer: We recommended 65 programs for termination last year. Of that, 7 programs were terminated.

Example 1 – Safe and Drug Free Schools State Grants
The Safe and Drug-Free Schools State Grants program, which started in 1986, provides formula grants to States and school districts for a number of activities intended to reduce youth crime and drug-abuse. The program received $437 million dollars in the FY 2005 budget even though the program is nearly twenty years old and cannot demonstrate that it accomplishes anything.

Why is the Safe and Drug Free Schools State Grants program listed as ineffective and targeted for elimination?

Answer: The program received an ineffective rating for a few primary reasons: 1) A RAND study concluded that the programs' design is fatally flawed because it spreads funds too thinly to have any impact. As a result, the program provides approximately $7 per student per year. 2) The program supports so many purposes, it has been virtually impossible to determine how the program will measure and achieve success. The Department of Education has been unable to show that the program has had an impact on reducing drug use or violence. The PART analysis became the basis for the elimination of this program.

How does the President's Management Agenda give the executive branch data and analytical tools upon which evaluations of effectiveness can be made?

Answer: The Budget and Performance Integration aspect of the PMA launched the PART, which has proved to be a useful tool in analyzing this program, and more importantly, in making that analysis available to the public.

It is my understanding that the law authorizing this program gives very poor direction because it was "written to address multiple purposes, including drug prevention, alcohol prevention, and violence prevention."

Is it true that the program does not have a limited number of annual performance goals?

Answer: The Department of Education has had difficulty defining performance goals, and gathering data on goals, that truly reflect the impact of the program.

Is it also true that the major reason for this lack of focus is that the authorization calls for States and school districts to state their own objectives?

Answer: Certainly one of the reasons for the failure of this program is the lack of consensus on what success looks like, how we measure it, and how you attribute results to a program that spreads funds so thinly it. It could be possible for state and districts to develop useful performance measures if they were within an agreed-upon framework.

Example 2 – Byrne Justice Assistance Grants
This program, referred to as JAG, is a formula grant program intended to assist state and local law enforcement control violent and drug-related crime. It was formed by the merger of the Byrne Formula Grant and the Local Law Enforcement Block Grant, and was first funded by Congress in FY 2005 at $626 million.

It is my understanding that OMB has proposed to terminate the Byrne Justice Assistance Grants program in FY 2006 because it and its predecessor grant programs have spent more than $4 billion since 2001 without having demonstrated an impact on crime.

Answer: The Administration has proposed eliminating the Byrne Formula and Local Law Enforcement Block Grants in each Budget since FY 2003. These programs did not have meaningful performance measures or reporting that allowed for an assessment of their influence on crime. The Byrne Justice Assistance Grants program merges features of the two pre-existing programs. The Department of Justice is considering modifications to performance reporting, but at present there is no data to link the program to crime trends.

Example 3 – Health Resources and Services Administration (HRSA) Health Facilities Construction Congressional Earmarks
The President proposes to cut earmarks through HRSA, which received almost half a billion dollars in FY 2005. The Administration points out that since 2001, Congress has directed more than $1.7 billion through HRSA to individual awardees. Examples of HRSA awards in 2005 include an award to a policy institute to develop internet-based educational materials and for integrative medicine and to a health department for medical resident stipends.

Did the Administration propose terminating these earmarks in previous budget cycles? If so, when and why?

Answer: The Executive Branch historically has sought to eliminate these earmarks. The earmarked projects often serve local interests and do not fulfill national priorities or Federal responsibilities. Earmarks are not subject to a competitive or merit-based process to ensure higher priorities are funded first.

Are there clearly defined goals for these earmarks, and have they demonstrated their effectiveness?

Answer: The program does not have goals and has not demonstrated results.

How is this a good use of taxpayer dollars?

Answer: The Administration does not believe that these earmarks represent an effective use of Federal dollars. In 2005, Congress funded over 900 individual projects at a record level of $483 million, $361 million (+296%) above the FY 2000 level. These projects divert funding from other higher priority programs, circumvent competitive processes and divert people and associated financial resources from HRSA's core mission activities.

Wouldn't the public be better served if these grants were peer reviewed and rationally targeted toward high priority needs?

Answer: Even if the Health Care Facilities Construction program was administered as a competitive grant, it would be highly duplicative of other Federal, state, and private efforts. The Medicare and Medicaid programs already support health care infrastructure. For example, Medicare capital payments to inpatient hospitals will total an estimated $9.1 billion in FY 2005. In FY 2005, NIH will directly award $179 million to Extramural Biomedical and Behavioral Research Facilities Funding and will fund approximately $2.5 billion for facilities-related expenses associated with research grants. The program also includes earmarks that are duplicative of Rural Health programs, Maternal Child Health Programs, Ryan White, and Health Centers.

OMB's Scorecard Rating

Question: In the latest Scorecard issued December 31, 2004, of the 24 major departments and agencies listed, OMB received the highest number of failing grades for both its current status and its progress in implementing the PMA. OMB received red ratings in all but one initiative – human capital, which received a yellow grade – for its current status. It received three red grades and two green ratings (financial performance and e-government) for its progress.

Why is OMB failing at implementing its own initiative?

Answer: The criteria we use to score agencies on the President's Management Agenda are strict and challenging to achieve. We have intentionally applied the Management Scorecard

to OMB because we want to hold ourselves to the same test that we hold agencies to. Like all agencies, we struggle with the scorecard.

What steps are you taking to improve OMB's Scorecard ratings?

Answer: The scorecard is serving its purpose at OMB. We use it to continuously monitor our progress and to ensure we take appropriate action to improve our efficiency and effectiveness. We are making solid progress in all areas, and realize the great opportunity to better manage OMB. We will do better.

Will we see progress from OMB reflected in the next Scorecard, which I believe is to be released sometime next week?

Answer: In the scorecard referred to in the question, OMB's progress rating improved in three of five areas.

According to the most recent Scorecard, the Smithsonian Institute received red grades for all five initiatives. Why does the Smithsonian appear to be lagging behind the other 23 departments and agencies?

The Smithsonian Institution is currently red on all five initiatives; however, over the last 5 quarters, the Institution has shown consistent improvement in its progress scores. Currently, the Smithsonian has green progress scores in all areas except Competitive Sourcing. This improvement is indicative of the fact that the senior leadership of the Smithsonian is very much focused on changing how it manages and operates its museums and programs along the lines laid out within the PMA initiatives. Given the recent progress, we anticipate seeing upgrades in some of the initiative status scores in the next few cycles. The reason that the Smithsonian is "lagging" the other departments and agencies could be due to two factors: (1) unlike many larger agencies, the Smithsonian was not involved in examining "PMA-like" management best practices prior to implementation of the PMA and thus had a larger "learning curve" to overcome, and (2) as a small agency, the Smithsonian does not have the resources or expertise to make quantum leaps in the short-term.

Program Assessment Rating Tool (PART)

Question: *Please provide an example of a program that has not demonstrated results, and explain OMB's assessment process (i.e., PART).*

Answer: See the attached list for programs that have not demonstrated results as well as those rated "Ineffective." Regardless of overall PART score, a rating of Results Not Demonstrated is given when programs do not have agreed-upon performance measures or lack baselines and performance data. Specifically, a program that has not been able to establish long-term *and* short-term performance measures or does not have data to indicate how it has been performing under measures that have been established will receive a rating of Results Not Demonstrated.

Question: *How does OMB work with that agency or program to improve its performance? Do you set specific goals with time frames for completion?*

Answer: In response to each PART assessment, agency and OMB work together to identify follow-up actions to improve performance. These actions can include management actions the agency will take, funding proposals included in the President's Budget, and legislative proposals to address program design flaws. Agency efforts to complete these actions and improve program performance are tracked in the President's Management Agenda scorecard for Budget and Performance Integration, as well as through PART updates each year.

Furthermore, when a program provides evidence of significant improvement, it has the opportunity to be reassessed so that it may also improve its rating. OMB and agencies agree on which programs will be assessed typically during February when they are identifying which programs will be reviewed with the PART during the following spring and summer.

Question: *How closely do you monitor their progress?*

Answer: Each assessed program comes up with follow-up actions to improve performance and dates by which those actions will be taken. OMB budget examiners work with the program managers throughout the year to implement the follow-up actions. At least twice a year, agencies are asked to report on their overall status in implementing follow-up actions, and the quality of implementation is a factor in agency progress scores for the Budget and Performance Integration Initiative.

Question: *Should an agency or program not improve its performance or not demonstrate results, are there other mechanisms you can use (aside from recommending to Congress to terminate their budget) to force change?*

Answer: The Budget and Performance Integration scorecard is a useful tool to track program performance and general use of the PART. Specifically, if an agency does not demonstrate specific program results than they will not be elevated to green (the highest status) and if performance is really suffering they may be reduced to red (the lowest status).

Question: *Are there particular types of abuse or waste that occur year after year without improvement, despite efforts to improve? If so, what is the impediment to progress?*

Answer: There are no particular types of abuse or waste that are identified through the PART. However, many programs have difficulty coming up with the right way to measure their success. Much of what the government does is difficult to measure. OMB and agencies work hard to find the right goals and measures for programs.

Question: One of the weaknesses that GAO has pointed out of the PMA and PART is the lack of performance data for federal programs that is needed to assess their effectiveness. It is my understanding that this is one of the reasons why GAO believes the Government Performance and Results Act (GPRA) should remain an important tool in our efforts to assess what programs are and are not working for the taxpayer.

How is OMB working to improve the quality of information agencies collect and use to track the results of their programs?

Answer: Agencies are provided resources to collect such information or conduct evaluations of their program performance. OMB considers requests for such funding in light of all other budget priorities.

Question: *How do PART and GPRA consider certain activities, like research programs, that may be difficult to measure in any given year?*

Answer: All programs can define aggressive, outcome-oriented measures of success. Research programs are no exception. Applied research programs must focus on achieving well-defined practical outcomes. Basic research programs must target their investments is such a way that the quality and relevance of their research improves.

Question: *Why have previous efforts failed? What lessons can we take from those failures and apply to the PMA to ensure that the PMA will have a long-term effect on improving the efficiency and effectiveness of Government? How can Congress work with OMB and the executive branch to improve the effectiveness of the PMA?*

Answer: The PART is the next step, begun with the Government Performance and Results Act (GPRA), in the Federal Government's effort to assess and continuously improve the results we achieve on behalf of the American people. It is the first comprehensive, consistent assessment of all the government's programs. Prior to the PART, few consistently asked of all programs whether they were achieving the desired result or not. Requiring in statute that agencies and OMB conduct assessments like the PART would further institutionalize the Federal Government's commitment to results.

RESPONSES TO QUESTIONS FOR CLAY JOHNSON, III,
DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Carper

Financial Management

Question: Please provide the subcommittee with a breakdown of annual improper payment estimates by department and agency. *Are there any specific legislative steps we can take to help meet the President's goals for reducing improper payments?*

Answer: Federal agencies have made significant plans to eliminate improper payments, which they estimate to have been $45 billion in fiscal year (FY) 2004. The enclosed Office of Management and Budget (OMB) report, *Improving the Accuracy and Integrity of Federal Payments*, provides the clearest picture to date on the extent of government-wide improper payments, as well as the significant efforts underway to eliminate them. For specific information on the annual breakdown of improper payment estimates by reporting department or agency, please see Table 2 of the report. Key findings in the report include:

- Agencies reported a total of $45.1 billion in improper payments in FY 2004, which represents a 3.9% government-wide improper payment rate;
- Seven programs account for 95% of the improper payments reported (Medicare, Earned Income Tax Credit, Unemployment Insurance, Supplemental Security Income, Old-Age, Survivors, and Disability Insurance, Public Housing/Rental Assistance, and Food Stamps); and
- The overall improper payments total for programs and activities measured and reported in FY 2004 is expected to decrease by nearly $5 billion in FY 2005, more than $8 billion in FY 2006, and more than $12 billion in FY 2007.

With regard to your question about specific legislative steps for eliminating improper payments, the President's FY 2006 Budget contains several proposals that, if enacted, would facilitate agency efforts to meet these aggressive reduction targets. Specifically, the Administration proposes:

- Program integrity adjustments to the discretionary caps that are designed to support agency efforts to eliminate improper payments in the Medicare, Unemployment Insurance, Supplemental Security Income, and Old-Age, Survivors, and Disability Insurance programs, by including funds for the enforcement initiative in the overall discretionary spending total sought by the Administration, while preventing the diversion of these funds for other purposes;
- Amendments to the Social Security Act and the Internal Revenue Code that will further reduce improper payments in the Unemployment Insurance program, by providing a financial incentive for states to recover benefit overpayments, enlist debt collection agencies in efforts to collect overpayments, impose penalties for fraud, charge employers when their actions lead to overpayments, and collect delinquent overpayments through garnishment of tax refunds; and

- Authorization for state Food Stamp agencies to use the National Directory of New Hires database to verify employment and wage information on food stamp applications and reports.

The Administration also supports amending the Tax Code to allow the Department of Education access to Internal Revenue Service data for the purpose verifying income information on student aid applications. If enacted, and when fully implemented, this proposal would eliminate virtually all of the $621 million in improper payments reported in the Pell Grant program in FY 2004. (This legislative proposal was previously introduced in the 108th Congress by Congressman Sam Johnson in the form of H.R. 3613.)

Question: *Please provide the subcommittee with a list of programs evaluated under the Program Assessment Rating Tool that have received "Ineffective" or "Results Not Demonstrated" ratings. Which of these programs has the President recommended eliminating in his budget proposals? Have any of the programs shown improvement in subsequent evaluations?*

Answer: I have included a table of programs rated "Ineffective" or "Results Not Demonstrated" that shows the President's funding recommendation, including terminations and reductions, for each program. Additionally, I've provided a list of reassessed programs that shows many programs previously rated "Results Not Demonstrated" have improved their ratings.

Human Capital

Question: As you know, the administration in recent years has pressed Congress to adopt a number of major changes in the pay, bargaining and due process rights of employees at the Department of Defense and the Department of Homeland Security. The administration claimed at the time that the changes were necessary for national security reasons. However, the President's FY 2006 budget calls for taking what's currently being implemented at DoD and DHS and expanding it to all other federal agencies. *As you know, the new personnel systems at DoD and DHS are years away from being fully implemented – wouldn't it make more sense to study their impact and make any necessary adjustments before expanding them to other agencies?*

Answer: DoD's and DHS's success at implementing their new rules will depend on how well they train their managers to be good managers, to give their employees clear feedback about how they are performing and what they can do to grow professionally. Other agencies' success at implementing new civil service rules will depend on how well they do the same thing, not on how successful DoD and DHS are. The longer DoD and DHS have a superior ability to motivate and retain quality people, the more likely other agencies are to lose good people to these agencies.

Competitive Sourcing

Question: *Are there any instances in which OMB has given credit to agencies towards the achievement of the goals included in their "competitive sourcing" plans for using alternatives to public-private competition for the generation of efficiencies in the delivery of services? Can agencies only receive positive ratings on OMB's scorecard in this area by conducting competitions under the rules set out in A-76?*

Answer: Agencies are encouraged to find efficiencies in whatever way they can. But the competitive sourcing initiative is focused on how well agencies use competition as a management tool to reduce costs, increase efficiencies, and eliminate waste. OFPP will be working with agencies' Competitive Sourcing Officials (CSOs) on guidance to determine how agencies might develop "high performing organizations" where competition doesn't make sense.

Question: I understand OMB projects that competitions being conducted under A-76 will save the federal government about $2.5 billion over five years without any major reduction in federal employment. *Can you provide the subcommittee with actual evidence of cost savings that have been achieved to date, taking into accounting any costs associated with running the competitions? How were these savings achieved?*

Answer: RAND has studied competitions conducted under A-76 and found resulting savings of between 34 to 59 percent. But most competitions have not been implemented long enough (i.e., a year after completion of the transition to the new contractor or "most efficient organization" (MEO)) to measure whether savings have been realized. But OMB intends to ensure that promises are kept. Many of our green agencies already are making plans to independently validate results using independent offices within the agency, agency inspectors general, or independent contractors. We have asked the President's Council on Integrity and Efficiency (comprised of agency inspectors general) to work with all agencies to ensure competition decisions are being implemented properly and in a timely manner.

Question: David Safavian, the Administrator of the Office of Federal Procurement Policy, in responses to pre-hearing questions during his confirmation process in the 108th Congress, said that he would encourage groups of federal employees involved in a public-private competition to develop most efficient organizations "as a matter of routine, including for streamlined competitions." *Why, then, has OMB opposed any legislation that would ensure that in-house service providers are always allowed to develop most efficient organizations as part of any public-private competition?*

Answer: OMB has opposed legislation calling for the development of most efficient organizations (MEOs) because it typically has been coupled with objectionable provisions, such as requirements that agencies choose the cheapest provider rather than the one that offers the best value to the taxpayer. In addition, statutory language is unnecessary because Circular A-76 already provides a strong foundation for the development of MEOs: the Circular requires MEOs for all standard competitions and encourages MEOs for all streamlined competitions. FY 2004 data from the agencies shows a trend towards greater use of standard competitions and streamlined competitions with MEOs.

Question: Administrator Safavian also said in his responses to pre-confirmation hearing questions that he "would not object to removing the five-year re-competition provision from the Circular and relying on agencies to determine appropriate performance periods based on the nature and risk associated with the services to be provided." *Has this change been made? If not, why?*

Answer: Yes, a change has been made. In April 2004, OMB issued a memorandum to advise agency heads that the five-year performance limitation no longer applies. The memorandum vests agencies with the discretion to determine an appropriate performance period considering the nature and risk of the service.

Question: Director Bolten, in his responses to post-hearing questions following his confirmation hearing during the 108th Congress, said: "If confirmed, I will ask the Administrator for Federal Procurement to recommend ways to improve opportunities for federal employees to compete for new work and for work currently performed by contractors." Please provide the subcommittee with a list of those recommendations and please identify specific instances in specific agencies in which federal employees have been allowed to compete for new work and contractor work.

Answer: The OFPP Administrator has reviewed the Circular's provisions for federal employee performance of new work and contracted work and concluded that these provisions are fair and reasonable. They permit agencies to consider in-sourcing or performing new work by demonstrating through competition that this action will achieve the best value. We do not have data on insourcing actions. However, we expect that, in many cases, agencies will have difficulty demonstrating that insourcing is cost-effective after taking into account the cost of building a new internal infrastructure and the fact that competing private sector contractors will already have an efficient structure in place. Insourcing of highly commercial activities would also likely undermine agency efforts to redirect their workforce to higher priority core and inherently governmental activities.

Agencies that have developed highly efficient internal operations and have the capacity to handle common support functions for multiple agencies will soon have the opportunity to compete for this work from other agencies, beginning with financial management and human resources, as part of OMB's efforts to reduce duplication in lines of business through cost-effective migration and consolidation. If a private sector source wins a competition, the government providers will have another opportunity to compete when the work comes up for recompetition.

Question: There has been some debate about who should be able to represent a group of employees protesting an agency contracting decisions when they take their case to GAO. *Do you believe that the Agency Tender Official (ATO) has the same interests as federal employees actually being reviewed for privatization, given that the ATO is an inherently governmental official (i.e., is not and can never be part of the group of employees whose jobs are being reviewed for privatization) as well as a senior procurement official whose job it is to implement the Administration's competitive sourcing effort? Why does the ATO have sufficient incentive, autonomy, and resources to represent the interests of the federal*

employees whose jobs are being reviewed for privatization? Is it realistic to expect that the ATO would sue his or her agency in all but the most isolated instances?

Answer: GAO's authority to hear protests by ATOs is new and approximately 90 percent of competitions completed over the past two years have been won by the in-house provider, so it would be impossible to draw any conclusions based on experience with the GAO. However, there is good reason to believe that ATOs will pursue protests at the GAO when there is a reasonable basis. First, we have already seen a number of ATOs file administrative contests challenging decisions that have been adverse to federal employees. Second, ATOs will be required by law to notify Congress whenever they fail to pursue a protest before the GAO that has been requested by directly affected employees.

Question: The Federal Aviation Administration's (FAA) Office of Dispute Resolution Authority (ODRA) wrote recently that "the interests of the ATO may not always coincide for all purposes with those of the majority of the directly affected employees. The ODRA Contest Rules therefore expressly permit a private sector provider, the ATO and an employee representative…to file a Contest." (Emphasis original) An employee representative given standing by ODRA to represent a majority of directly affected FAA employees can, like ATO and contractors, appeal the Administrator's decision to federal district court for independent review. *Does OMB object to FAA's decision?*

Answer: FAA's ODRA procedures specify who may file an administrative contest to a decision under a public-private competition. These rules are consistent with the Circular, which does not limit challenges addressing the interests of directly affected employees just to those taken by the ATO. The Circular also authorizes administrative challenges by a single individual appointed by a majority of directly affected employees as their agent. OMB has issued guidance making clear that the named agent may seek legal or other assistance in representing the directly affected employees. For example, the named agent may seek legal or other assistance from the employees' union.

Question: In an article posted on GovExec.com on January 14, 2005, Administrator Safavian said he was considering allowing agencies to shift work to contractors without competition, a practice known as direct conversion. According to a May 30, 2003, posting on GovExec.com, "In a late April interview with Government Executive, Angela Styles, the director of the Office of Federal Procurement Policy, said curbing direct conversions was part of OMB's effort to prove that competitive sourcing is about competition, and not shifting contracts to private firms. 'People have criticized us for this being an outsourcing initiative and I've been trying to tell them that it's really not, that what we want is competition and the best value for the taxpayer at the lowest cost. I think this adds a little more meat to what we're saying,' Styles said. On Wednesday, an OMB official said the idea of banning direct conversions was 'presented to OMB by federal employee organizations and their members, and we listened to them. Direct conversions for fewer than 10 [full-time equivalent] employees are now a thing of the past. We believe that fiscal responsibility demands that decisions be made by facts, and the new streamlined approach requires knowledge of the costs and agency accountability.'" Please indicate why OMB's thinking may have changed and update us as to OMB's intentions with regard to its support for reviving the practice of direct conversion.

Answer: As a general matter, we will expect agencies to continue using public-private competitions that take cost into careful consideration when deciding whether work should be converted from public to private sector performance. At the same time, there may be cases where direct conversions of small numbers of positions may make sense (e.g., clearly commercial, non-core work, where direct conversion may help the agency expeditiously redirect its workforce to mission critical activities that are not suitable for private sector performance.)

Question: The American Federation of Government Employees (AFGE) wrote to OMB on March 2, 2004 about the Equal Employment Opportunity Commission's decision to contract out work performed by federal employees without public-private competition. They wrote to you, on March 26, 2004, about the Defense Financing and Accounting Service's (DFAS) decision to do the same thing. If you have responded to those letters, would you please provide us with copies? If not, why have you chosen not to respond? In both cases, I understand that AFGE tried to persuade OMB to enforce A-76 and require the agency to subject the work performed by federal employees to public-private competition, absent a waiver from OMB. Did OMB grant EEOC and DFAS waivers that would have exempted them from the requirement in A-76 that the work be subjected to public-private competition before being given to contractors? If so, please provide all correspondence associated with such waiver requests and explain why OMB believes it was appropriate for this work to be contracted out without competition. If no waivers were provided, please explain why OMB chose not to enforce the circular's competition. *What role, if any, do you see for OMB in enforcing the circular's requirement for public-private competition for work performed by federal employees before it is given to contractors?*

Answer: After receipt of AFGE's letters, OMB followed up with the Equal Employment Opportunity Commission (EEOC) and DFAS to better understand their actions. Based on these discussions, we concluded that their actions were consistent with OMB Circular A-76 and no deviations were required. In both cases, the work in question could be considered new work which, under the terms of the Circular, may be contracted directly with the private sector without public-private competition. EEOC awarded a contract for call center operations that involves new services, including the ability to handle calls in different languages as well as after hours. We understand that EEOC will evaluate the effectiveness of the call center during the next 18 months before deciding whether to continue relying on contractor services. The DFAS competition also involves a new requirement – i.e., acquiring desktop computing capability as a performance based service on a per employee "seat" basis. As a result, DFAS has no continuing need for the function that was being performed by DFAS employees, namely installing, supporting, or maintaining government-owned desktop assets. We will be providing this information to AFGE in the future.

E-Government

Question: A report released by The President's Information Technology Advisory Committee this past February called for more research on information security and greater funding for the information technology workforce. In addition, the House Committee on

Government Reform held a hearing recently to highlight the grades they give to agencies on their compliance with the Federal Information Security Management Act (FISMA). Several agencies received failing grades, including the Department of Homeland Security. *How does OMB plan to respond to these developments? Are there efforts underway to revise or strengthen OMB's guidance to agencies in this area?*

Answer: Improving information security is a priority of this Administration. The President's budget puts appropriate emphasis and requests additional resources for both research and personnel. OMB will also use existing management and budget processes and the new information systems security line of business to promote greater compliance with law, policy, and guidance and thereby improve agency-specific and the government-wide information security.

As background, on March 23, 2005, OMB kicked off an information systems security line of business co-managed by the Department of Homeland Security and the National Security Agency. The task force comprises representatives from all 24 CFO Act agencies, the Small Agency Council, the IG community, and NIST.

The task force has set the following goals:

- Identify problems and propose solutions to strengthen the ability of all agencies to identify and manage information security risks,
- Develop improved, consistent, and measurable information security processes and controls across government, and,
- Achieve savings or cost-avoidance through reduced duplication and economies of scale.

Task force members will develop recommendations for common solutions, collaboration, or standardization of information security processes. Consolidated business cases will then be developed to implement any common solutions and inform the agencies' FY 2007 budget requests and OMB's decisions.

Question: I understand that a number of agencies have contracts with data storage firms such as ChoicePoint and Lexis-Nexis whose security lapses have been in the news lately. *To the extent that the federal government is using these types of firms to store sensitive data, what steps has OMB taken to ensure that this information is protected and can't get into the wrong hands? How will the recent controversies involving ChoicePoint and Lexis-Nexis affect future contracts agencies have with data storage firms?*

Answer: It is an agency's responsibility to ensure its contractors have sufficient information security practices in place. The Federal Information Security Management Act (FISMA) describes Federal agency security responsibilities as including "information systems used or operated by an agency or by a contractor of an agency or other organization on behalf of an agency." Agencies must ensure their policies for information security oversight of contractors and other users ensure that only those with privileged access to Federal data get such access. Agencies are fully responsible and accountable for ensuring all FISMA and related policy requirements are implemented, reviewed by the agency and included in the terms of the contract. The agency is also responsible for ensuring contractor personnel receive appropriate security training. Agency CIOs and Inspectors General are reviewing and reporting, at least annually, to OMB and Congress on their implementation of FISMA, including their efforts to safeguard information and systems used by contractors.

RESPONSES TO QUESTIONS FOR CLAY JOHNSON, III,
DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Collins

CIO/CFO Coordination

Question. During her 2003 confirmation hearing before our full Committee, OMB's former Controller and head of the Office of Federal Financial Management, Linda Springer, stated that she did not think that there was any more important partnership in the agencies than between the chief information officer and the chief financial officer. She said "without the integrity and the timeliness of good data, the chief financial officer or any other senior officer in the agency will not be able to make informed decisions." She also noted that there was little uniformity in terms of reporting relationships between the chief information officers and the chief financial officers.

How well are these officials working together today?

Answer: As the Chair of both the Chief Financial Officers (CFO) Council and the Chief Information Officers (CIO) Council, I am generally pleased by the work of these Councils and the level of cooperation between the CFO and CIO offices. Of course, the specific responsibilities of the CFO and CIO offices, as well as the reporting structure, differ from agency to agency. Therefore, the relationship between the CFO and the CIO at one particular agency may be quite different from another.

New initiatives and statutory requirements often require greater collaboration between the CIOs and CFOs. Given the overall success agencies have achieved on a government-wide basis – such as improved information security, enhanced use of information technology through E-Gov initiatives, accelerated reporting of financial statements, achieving unqualified audit opinions, decreasing material weaknesses, and implementation of the Financial Management Line of Business – the relationship between these two offices are certainly working in many cases.

What additional reforms are needed in the federal financial management community to become service oriented?

The Councils continue to look for ways in which the CIOs and CFOs may improve their services to each other. Implementing changes to standardize and consolidate financial systems and accounting operations allow financial managers to focus their attention on better reporting and analysis, rather than operations. Agencies must continue to work to improve financial management processes so that management, and ultimately the taxpayers, are provided with the best services. For example, through the Financial Management Line of Business and other changes, we are beginning to see some of those improvements at work.

GAO High Risk

Question: Many initiatives on the President's Management Agenda mirror areas that GAO has designated as high-risk. A number of these areas have been on that list for along time, and GAO has made recommendations over the years for need corrective actions. *What can*

OMB do to help prompt needed corrective actions on the part of the Executive Branch and does it have strategies for doing so? With the Department of Defense being involved in 14 of the 25 areas GAO has designated as high-risk, what role does OMB plan to play in addressing those problems?

Answer: OMB, GAO, and the relevant Members of Congress will ensure that there is agreement on what needs to be accomplished and the plans of action for achieving it for the high-risk areas not only at DoD, but in all areas on GAO's high-risk list.

PART

Question: *How might OMB use its leadership platform to work with agencies to reexamine portfolios of programs to ascertain their continued relevance for the 21st Century?*

Answer: The Administration continues to look for new ways to improve the performance of programs with similar purpose or design by using the PART to analyze performance across agencies (i.e. cross-cutting analysis). Cross-cutting analysis can improve coordination and communication by getting managers from multiple agencies to agree to a common set of goals and placing the focus on quantifiable results, as well as identifying common barriers to improved performance and ways to overcome them. This type of analysis breaks down barriers across the Federal government and at the state and local levels so that all are working toward the same goal.

Question: *GAO's testimony notes that PART has not been fully accepted throughout the federal government. How can PART gain support as an assessment tool throughout the budget process?*

Answer: The Budget and Performance Integration Initiative is making the link between a program's performance and decisions about its funding more routine. The PART has been central in strengthening this connection and has driven a sustained focus on results. To earn a high PART rating, a program must use performance to manage, justify its resource requests based on the performance it expects to achieve, and continually improve efficiency. It has led to a new sense of accountability, which has been welcomed by many, but not all. In all cases, though, it has held program managers accountable for results. OMB and agencies will continue to drive the use of performance information and performance assessments in decisions Congress and the executive branch make about program budgets.



Office of Management and Budget

Improving the Accuracy and Integrity of Federal Payments

January 25, 2005

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I. EXECUTIVE SUMMARY

The Administration has made the elimination of improper payments a major focus of the President's Management Agenda (PMA). An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, or the recipient uses the funds in an improper manner. Through the Improving Financial Performance initiative of the PMA and now the newly created Eliminating Improper Payments program initiative, the President is holding agency managers accountable for strengthening financial management controls so that Federal agencies can better detect and prevent improper payments, and thus better ensure that taxpayer dollars are spent wisely and efficiently.

To further institutionalize Federal agency efforts to eliminate improper payments, the President signed the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300) into law on November 26, 2002. The central purpose of the IPIA is to enhance the accuracy and integrity of Federal payments. To achieve this objective, the IPIA provides an initial framework for Federal agencies to identify the causes of, and solutions to, reducing improper payments. In turn, guidance issued by the Office of Management and Budget (OMB) in May of 2003 (Memorandum 03-13) requires agencies to: (i) review every Federal program, activity, and dollar to assess risk of significant improper payments; (ii) develop a statistically valid estimate to measure the extent of improper payments in risk susceptible Federal programs; (iii) initiate process and internal control improvements to enhance the accuracy and integrity of payments; and (iv) report and assess progress on an annual basis.

Pursuant to Memorandum 03-13, Federal agencies implemented the various requirements of the IPIA for the first time in Fiscal Year (FY) 2004. The results of these efforts are captured in a common reporting format in each agency's Performance and Accountability Report. *Improving the Accuracy and Integrity of Federal Payments* (hereinafter, "Report") aggregates the results of the agency-specific reports, highlighting significant findings, agency accomplishments, and remaining challenges.

This Report, along with agency-specific reports, provides the clearest picture policy-makers and Federal agency managers have ever had on the extent of improper payments and the critical challenges faced in eliminating them. This first year of reporting represents a vital step in meeting the objectives of the IPIA because it establishes the baseline from which short and long-term program improvement strategies and priorities will be based. The following are several notable facts and findings highlighted in this Report:

- Federal agencies completed a risk assessment of all programs and dollars spent, determining that more than 60% of government outlays for FY 2004 (or $1.4 trillion out of $2.3 trillion) were risk susceptible for a significant level of improper payments. The remaining $0.9 trillion that was deemed not to be risk susceptible is made up of compensation ($160 billion), contracts/administrative ($285 billion), net interest on public debt ($160 billion), and small outlay/low risk programs ($295 billion).

- Federal agencies were able to establish improper payment rates (and amounts) for programs that account for more than 80% of risk susceptible dollars. Specifically, of the $1.4 trillion in risk susceptible outlays, improper payment rates are reported on programs

that total $1.2 trillion of those outlays. In a small number of risk susceptible programs, the absence of an improper payment rate in FY 2004 reporting is the result of measurement challenges as well as time and resource constraints that will be resolved in future reporting years.

- Agencies reported a total of $45.1 billion in improper payments in FY 2004 out of $1.2 trillion in risk susceptible outlays where an improper payment measurement was provided. This represents a 3.9% improper payment rate. The Administration previously published an estimate of $35 billion in annual improper payments based on a review of available data in FY 2001. The increase in the estimate of $10.1 billion is explained primarily by improved error detection in Medicare, where reported improper payment dollars have increased by $9.6 billion since 2001. Notably, for all Federal programs other than Medicare which measured improper payments, the government-wide improper payment rate is 2.7%.

- Approximately 92% of improper payments are overpayments.

- As demonstrated below, seven programs alone account for approximately 95% of the improper payments reported in FY 2004.

Improper Payments Reported in FY 2004
(in billions)

Program	Amount	Percent of Total
Medicare	$21.7	48.1%
Earned Income Tax Credit	8.7 to 10.6	21.5
Unemployment Insurance	3.9	8.6
Supplemental Security Income	2.6	5.8
Old-Age, Survivors, and Disability Insurance	1.7	3.8
Public Housing/Rental Assistance	1.7	3.8
Food Stamps	1.6	3.5
Subtotal	*42.9*	*95.1*
Other Measured Programs	2.2	4.9
TOTAL	**$45.1**	**100.0%**

- The government-wide improper payments total for the programs measured and reported in FY 2004 is expected to decrease when reported in Fiscal Year 2005, based on agency-established reduction targets. However, it is expected that the decrease will be impacted by outlay changes as well as the identification of new improper payments, as additional programs are measured and detection methods are enhanced for currently measured programs.

- Several agencies have achieved significant accomplishments in reducing improper payments in recent years. For example, the Department of Housing and Urban Development lowered their agency-wide improper payments by approximately $1.6 billion since FY 2000; the Social Security Administration reduced the Supplemental

Security Income improper payments by more than $100 million since levels reported in FY 2003; and DOL reduced improper payments in the Federal Employee Compensation Act program by $12 million since FY 2003.

With the baseline now in place, and the tools of the IPIA and the PMA in effect, the Federal government is in a strong position to continue its efforts toward eliminating improper payments government-wide. The Administration will utilize these tools to ensure that agencies are prioritizing resources so that corrective action plans are thoughtfully developed and successfully carried out for critical risk susceptible programs. Increased attention and resources will be dedicated to achieving reduction targets in the seven critical programs that make up 95% of the improper payments total reported in FY 2004. Moreover, the Administration will continue efforts to ensure that agencies report an improper payment measurement for all risk susceptible programs on an annual basis.

II. INTRODUCTION

The President's Management Agenda (PMA) strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently, are appropriately accounted for, and are protected from fraud or misuse. To advance these important objectives, the Administration has made the elimination of improper payments a major focus of the PMA. An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, or the recipient uses the funds in an improper manner.

Since 2000, Federal agencies have reported efforts to reduce improper payments through the Office of Management and Budget's (OMB) Circular A-11, Section 57. This reporting requirement focused on 40 to 45 of the largest Federal programs, accounting for approximately half of all Federal outlays. With the passage and signing of the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), as implemented through OMB guidance, the President and Congress have created a permanent framework for assessing every Federal program and dollar for risk of improper payments, annually measuring the accuracy of payments, and initiating program improvements to ensure that payment errors and improprieties are reduced and ultimately eliminated.

Pursuant to the IPIA, OMB issued implementing guidance in May of 2003. OMB Memorandum 03-13 (M-03-13) requires agencies, beginning in Fiscal Year (FY) 2004, to take the following steps to comply with law:

- Risk Assessments. Agencies are required to review all programs and activities and identify those that are risk susceptible to significant improper payments. A program or activity with significant improper payments is one where improper payments exceed both $10 million and 2.5% of program payments on an annual basis. Notably, all programs listed in Section 57 of OMB Circular A-11 are automatically deemed to be risk susceptible to significant improper payments.

- Statistical Estimates. Agencies are required to develop a statistically valid estimate of improper payments for all programs and activities identified as susceptible to significant improper payments in the risk assessment. The statistical estimate must be based on a sample size sufficient to yield an estimate with a 90% confidence interval, plus or minus 2.5%.

- Corrective Action Plans. For all programs where the statistical estimate exceeds $10 million in annual improper payments, agencies are required to develop a remediation plan for eliminating improper payments. The remediation plan must contain annual targets for reducing improper payment levels.

- Reporting. Agencies are required to report the results of IPIA activities on an annual basis in their Performance and Accountability Report (PAR).

During FY 2004, as agencies worked to meet IPIA requirements for the first time, the Administration took several steps to facilitate agency efforts. OMB announced a new PMA

program initiative beginning in the first quarter of FY 2005 entitled Eliminating Improper Payments. Previously, agency efforts to eliminate improper payments were tracked along with other financial management activities through the Improving Financial Performance initiative. By dedicating a separate initiative to improper payments, the Administration is ensuring that agency managers are held accountable for meeting the goals of the IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements.

In addition, the CFO Council's Working Group on Improper Payments advanced the goals of the IPIA by developing a common format for reporting IPIA results in the PAR, and researching strategies to more efficiently verify the accuracy and integrity of sampled payments by leveraging existing audits and consolidating reviews on common payment recipients. Moreover, the Working Group, in consultation with representatives from the Inspector General community, developed guidance to help agencies develop annual statistical estimates of improper payments in large and complex programs.

Agency-specific IPIA reporting for FY 2004 is provided in agency PARs (typically available on agency websites). This Report aggregates the results of the agency-specific reports, highlighting accomplishments and remaining challenges.

III. FISCAL YEAR 2004 BASELINE ASSESSMENT

The purpose of the IPIA is to enhance the accuracy and integrity of Federal payments. To achieve this objective, the IPIA, as implemented through OMB guidance, provides a framework for Federal agencies to measure the extent of improper payments on an annual basis and to track success in eliminating such payments over time. The FY 2004 reporting represents a critical step in meeting the goals of the IPIA because it establishes the baseline from which short and long-term program improvement strategies and priorities will be based.

Risk Assessment and Statistical Sampling Results

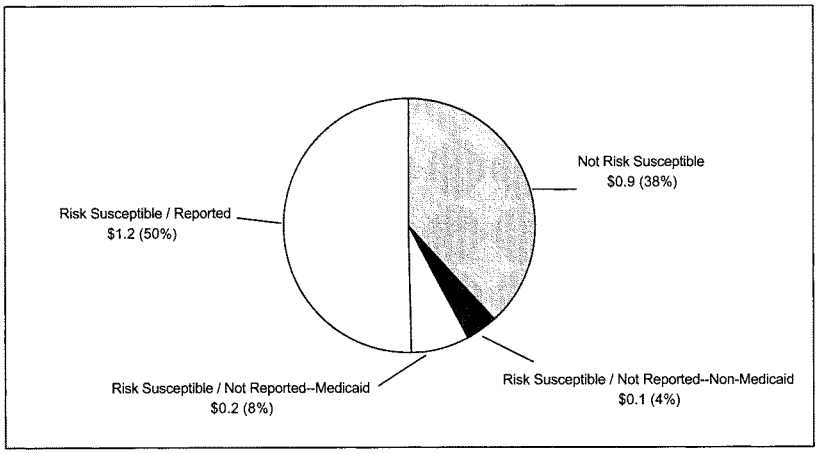
For the first time ever, agencies assessed all Federal outlays in FY 2004 ($2.3 trillion) for risk of significant improper payments. Agencies utilized a variety of techniques in order to determine whether programs were risk susceptible or not. At a minimum, all agencies based risk assessments on the relative complexity and size of the program, as well as any available findings/reports with respect to improper payments from independent sources such as Inspectors General, Government Accountability Office, and audits performed under the Single Audit Act. Some agencies, such as the Department of Commerce, completed preliminary statistical sampling in order to gauge risk. (See Table 1 of the Appendix to this Report for a list of risk susceptible programs identified in FY 2004 and associated outlay totals.)

As required by the IPIA and OMB M-03-13, once programs or activities were classified as risk susceptible, agencies set out to generate a valid statistical estimate for such programs. The results of these efforts are reported in Table 2 of the Appendix to this Report. Notable results from the FY 2004 risk assessments and statistical sampling include:

- More than 60% of all government outlays for FY 2004 (or $1.4 trillion out of $2.3 trillion) were deemed risk susceptible for improper payments.

- The remaining $0.9 trillion that was deemed not to be risk susceptible is made up of compensation ($160 billion), contracts/administrative ($285 billion), net interest on public debt ($160 billion), and small outlay/low risk programs ($295 billion). It is noteworthy that a significant number of government contracts are reviewed for improper payment under the recovery auditing process. See Section 831 of the Defense Authorization Act for Fiscal Year 2002 (31 U.S.C. §§ 3561-3567).

Figure 1: Risk Profile of $2.3 Trillion Federal Outlays in FY 2004[1]
(in trillions)



- Federal agencies reported an FY 2004 improper payment rate (and amount) for programs that account for more than 80% of risk susceptible dollars. In other words, of the $1.4 trillion in risk susceptible outlays, improper payment rates have been established for programs that total $1.2 trillion. Once an improper payment rate is established for Medicaid (expected in FY 2005), Federal agencies will be reporting improper payment rates for programs that total more than 90% of risk susceptible dollars. Other non-reported risk susceptible programs, including the Department of Health and Human Service's Foster Care program, anticipate reporting improper payment rates in FY 2005.

- Agencies reported a total of $45.1 billion in improper payments in FY 2004 out of $1.2 trillion in risk susceptible outlays where an improper payment measurement was provided. This represents a 3.9% improper payment rate. The Administration previously published an estimate of $35 billion in annual improper payments based on a review of

[1] The numbers in Figure 1 have been rounded.

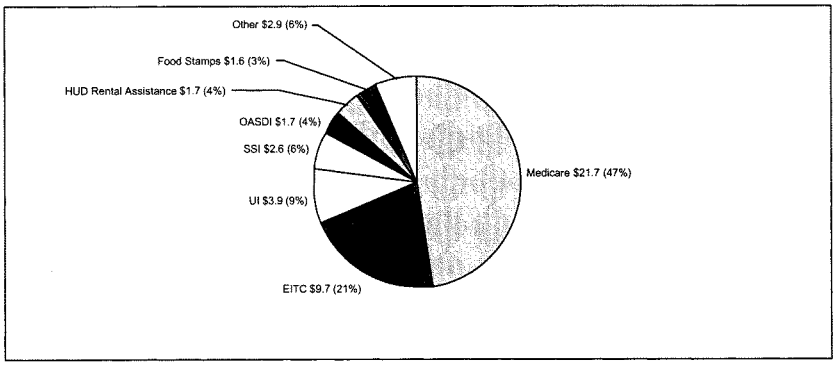
available data in FY 2001. The increase in the estimate of $10.1 billion is explained primarily by improved error detection in Medicare, where reported improper payment dollars have increased by $9.6 billion since 2001. Notably, for all Federal programs which measured improper payments, other than Medicare, the government-wide improper payment rate is 2.7%.

- Approximately 92% of improper payments are overpayments. Of the $45.1 billion in total improper payments reported in FY 2004, Federal agencies maintain detailed information on overpayments vs. underpayments on approximately $42.3 billion, with $39.1 billion reported in overpayments and $3.2 billion in underpayments. (See Table 3 of the Appendix to this Report.)

Agency-Specific Highlights

As demonstrated in Figure 2 below, seven individual programs account for approximately 95% of the improper payment total reported in FY 2004. Therefore, achieving the objectives of the IPIA will hinge on the development and successful implementation of effective corrective action plans in these seven programs. In these programs, agencies have been working for many years to instill the necessary controls and program integrity improvements to detect and reduce improper payments. Thus, there is a solid foundation in place that will help ensure success going forward.

Figure 2: $45.1 Billion Improper Payments by Major Program
(in billions)



Medicare – Department of Health and Human Services (HHS)

Medicare, the second largest Federal benefit program representing nearly $300 billion in outlays annually, is government-sponsored health insurance for America's seniors and disabled citizens. The Fee-for-Service portion of the program reported a 10.1% improper payment rate in FY 2004 or a total improper payment amount of $21.7 billion. The key causes of error in this part of the Medicare program are incorrect dollar amounts charged by and/or paid to physicians,

diagnostic and procedure coding errors, and insufficient documentation in support of benefit payments. HHS anticipates significant reductions in the Fee-for-Service improper payment rate in FY 2005 and beyond. (See Table 2 of the Appendix to this Report.) In order to achieve these improvements, HHS plans to use the findings from the FY 2003 Comprehensive Error Rate Testing (CERT) study to enhance ongoing corrective actions as well as implementing a series of new corrective actions.

Improvements to ongoing corrective actions include:

- Increasing and refining one-on-one educational contacts with providers who are billing in error;
- Revising letters requesting medical records by clarifying the role of the CERT contractor, ensuring the requests do not violate the Health Insurance Portability and Accountability Act of 1996;
- Allowing for faxing of medical records;
- Requesting medical records in Spanish as appropriate;
- Performing more intense follow-up on providers not providing records;
- Developing a website to track provider non-response;
- Referring provider non-responses on claims exceeding $40 to the Office of Inspector General;
- Making it easier for providers to find Medicare rules by developing a website of national coverage, coding, and billing articles;
- Establishing a process to detect "clearly erroneous" claims that can be identified without supporting medical record information; and
- Encouraging the use of Electronic Medical Record submission pilots to facilitate process of submitting medical records.

Additional corrective actions planned for FY 2005 include:

- Hiring an error rate documentation contractor whose primary focus will be lowering non-response and insufficient documentation rates;
- Releasing a List of Over-utilized Codes that show error rates and improper payments by contractor/by service;
- Accounting for contractor-specific error rates in the evaluation of contractors beginning in 2005;
- Conducting a demonstration in three States to determine whether the use of recovery auditing contractors can help lower the error rates in these States;
- Conducting an insufficient documentation special study to better understand the causes of insufficient documentation;
- Working with the American Medical Association to clarify evaluation and management code documentation guidelines;
- Opening satellite offices focused on identifying and preventing improper payments to providers in high risk areas; and
- Developing new data analysis procedures to help identify payment aberrancies and using that information in order to stop improper payments before they occur.

Earned Income Tax Credit (EITC) – Treasury Department

This program provides a tax credit to low income citizens and is one of the largest Federal programs helping America's poor. Eligibility for the credit is based on income level, filing status, and number of dependents. In FY 2004, the program reported an improper payment amount range of $8.7 billion to $10.6 billion (or a 22% to 27% improper payment rate). This estimate is a projection based on the most recent EITC error study from tax year 1999. The three most significant causes of error in the program are: (i) Qualifying Child – whether the child lives with the individual claiming the credit and passes the "relationship test;" (ii) Filing Status of the Taxpayer – whether the individual claiming the credit has properly filed as single/head of household versus married; and (iii) Underreporting of Income – whether the individual claiming the credit has properly stated his/her income.

The Treasury Department anticipates reducing reported improper payments by approximately $135 million in FY 2005 and $1.1 billion by FY 2007. (See Table 2 of the Appendix to this Report.) The Treasury Department has a series of ongoing corrective actions to address error, including:

- Reducing the backlog of pending EITC examinations to ensure that eligible taxpayers whose returns are being examined receive their refunds quickly;
- Reducing the burden and enhancing the quality of communications with taxpayers by improving the existing audit process;
- Encouraging eligible taxpayers to claim the EITC by increasing outreach efforts and making the requirements for claiming the credit easier to understand;
- Refocusing compliance efforts on taxpayers who claimed the credit but were ineligible because their income was too high; and
- Piloting a certification effort to substantiate qualifying child residency eligibility for claimants whose returns are associated with a high risk for error.

More recently, the Treasury Department initiated several tests to evaluate new ways of reducing erroneous EITC payments, including:

- Qualifying Child Test: requires high risk EITC claimants to certify that they meet qualifying child residency requirements before paying out the refund (tested on 25,000 high risk EITC applicant in FY 2004);
- Filing Status Test: reviews filing status claims to ensure they are correct. IRS selected claimants whose filing status had changed to one that increased the value of the credit (generally, from married filing jointly to head of household); and
- Misreporting Income (Automated Underreporter) Test: enhances error detection through the automated underreporter program. This test focuses not on the number of cases IRS is reviewing, but on improved selection methodologies.

The results of the National Research Program study – which provides an updated and comprehensive review of EITC error – will be available in June 2005 and should provide

valuable information for ensuring that the Treasury Department's are appropriately tailored so that error reduction goals are achieved.

Unemployment Insurance (UI) – Department of Labor (DOL)

DOL's UI program provides unemployment benefits to eligible workers who become unemployed and meet certain eligibility requirements. The program reported a 10.3% improper payment rate in FY 2004 or a total improper payment amount of $3.9 billion. The largest cause of error in the UI program is "Benefit Year Earnings" (BYE), which are payments received by claimants who continue to claim benefits despite having returned to work. Another significant cause of error is claimants obtaining benefits despite separations from work that violate eligibility rules. The Department of Labor anticipates reducing reported improper payments by $74 million in FY 2005 and $259 million by FY 2007. (See Table 2 of the Appendix to this Report.) This reduction will be achieved through a variety of corrective actions, including increasing the use of state level data matches with the State Directory of New Hires, the National Directory of New Hires, and Social Security Administration data to detect and prevent BYE payments and overpayments made due to fraudulent or mistaken use of Social Security Numbers.

Supplemental Security Income (SSI) – Social Security Administration (SSA)

SSI provides cash benefits to low-income elderly and disabled individuals. The program reported a 7.3% improper payment rate in FY 2004 (based on FY 2003 payments) or a total improper payment amount of $2.6 billion. The main reasons for payment errors are incorrect records of beneficiaries' wages and beneficiaries having assets that make them ineligible for benefits that SSA does not know about. Benefit levels depend on an individual's wages. If an individual doesn't report changes in monthly wages and/or SSA does not process the reported information promptly, improper payments will be made. SSA anticipates that it will report a 6.8% improper rate in FY 2005 and 5.8% rate in FY 2007. While expected program growth, and thus an increase in base payments, will yield a higher level of improper payments dollars reported in FY 2005, SSA anticipates reducing reported improper payments by $493 million in FY 2007. (See Table 2 of the Appendix to this Report.) These reductions will be achieved through eligibility re-determinations, automated checks with financial institutions for undisclosed assets, and improved wage reporting.

Old Age and Survivors' Disability Insurance (OASDI) – Social Security Administration (SSA)

Program beneficiaries are retirees, disabled people, and their surviving spouses and minor children. The program reported a 0.34% improper payment rate in FY 2004 (based on FY 2003 payments) or a total improper payment amount of $1.7 billion. Payment errors are largely the result of mistakes in computations, inaccurate wage or self-employment income records, and disabled beneficiaries earning more than program rules allow. Despite being the largest entitlement program in the Federal Government with nearly $500 billion in annual outlays, the improper payment rate is exceedingly low — less than half of one percent. SSA has specific corrective action plans in place to continue to monitor and improve payment accuracy in this program, including an initiative to correct computation errors and additional due diligence measures to respond quickly to reports from disabled beneficiaries that they have gone back to work.

Food Stamps – Department of Agriculture (USDA)

The Food Stamp program targets improving the nutrition of the neediest of our citizens. Recipients receive benefits redeemable for food at authorized grocery stores, markets, and similar establishments. USDA has successfully implemented the use of an electronic benefits transfer card that reduces the risk of fraudulent use or theft. In FY 2004, the program reported a 6.64% improper payment rate (based on FY 2003 payments) or a total improper payment amount of $1.6 billion. Errors occur when recipients report incorrect information and when state agencies make mistakes in implementing program rules. Since publishing its FY 2004 PAR, USDA has updated its projections and now anticipates improving the improper payment rate from the current rate 6.64% to 6.2% by FY 2007. These reductions are expected through ongoing implementation of changes to rules that simplify program administration, and effective corrective actions, including working with States to enhance quality control efforts, data analysis, and dissemination of best practices.

Public Housing/Rental Assistance – Department of Housing and Urban Development (HUD)

Prior to the enactment of the IPIA, HUD had established an improper payments reduction program for its various rental housing assistance programs – including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance. These programs are administered by over 26,000 public housing agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, the program benefits paid represent the difference between 30 percent of an eligible household's adjusted income and the balance of the housing operating costs or an established rent level. HUD reported a 6.9% improper payment rate in FY 2004 for these programs or a total improper payment amount of $1.7 billion. Key causes of error include: the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent and subsidy levels; the tenant beneficiary's failure to properly disclose all income sources; and errors in the billing and payment of HUD subsidies. Through corrective action plans, such as income verification using computer matching and state wage data matching, HUD anticipates reducing improper payments by $232 million when reported in FY 2006 and $478 million when reported in FY 2007. (See Table 2 of the Appendix to this Report)

Other Recent Accomplishments

In addition to these planned improvements for the future, several agencies achieved significant accomplishments in eliminating improper payments in recent years. Specifically,

- HUD has reduced their improper payments by more than $1.6 billion since 2000. This reduction was achieved through a series of successfully implemented corrective actions, including statutory and regulatory simplification, use of structured firms and training, increased use of automated sources of income data during rent and subsidy determinations, increased monitoring of program processing by HUD's intermediaries

through use of risk-based targeting indicators, automated billing verifications, and stronger performance incentives and sanctions with HUD intermediaries and tenants.

- SSA reduced Supplemental Security Income (SSI) improper payments by more than $100 million from previous estimate. Efforts that began in January 2001 are yielding results as evidenced by using online queries to access the Office of Child Support Enforcement's quarterly wage data and new hires directory. These improved data matches provide income verification which in turn identify and prevent the incorrect amount of SSI benefit being paid.

- DOL reduced improper payments in the Federal Employees Compensation Act (FECA) program by nearly $12 million since FY 2003. Beginning in September 2003, DOL began using a private sector firm to process and pay medical claims. This firm uses automated front-end editing operations to verify provider and claimant eligibility and monitor submissions for duplicate claims. The service also uses proprietary software to screen professional medical and outpatient hospital bills to check for improper billing practices. Results are monitored for patterns and trends which may require remedial action. In addition, DOL plans to implement an automated tracking mechanism in January 2005 that will alert claims staff when medical evaluations are due. This system will greatly reduce the number of payments made incorrectly to claimants whose medical condition has improved to the point that they are no longer eligible for benefits.

IV. OUTLOOK FOR FISCAL YEAR 2005 AND BEYOND

The FY 2004 reporting provides the clearest picture policy-makers and Federal agency managers have ever had on the extent of improper payments and the critical challenges faced in eliminating them. With the baseline now in place, and the tools of the IPIA and the PMA in effect, the Federal Government is positioned to continue eliminating improper payments government-wide.

Expected Improper Payments Reported for FY 2005, 2006, and 2007

A critical part of agency compliance with the IPIA is the establishment of corrective action plans and future year targets for improved performance in reducing improper payments. The targets reflect the reduction in improper payments the agency believes it can achieve, accounting for process and internal control improvements, resource constraints, and other relevant factors.

Table 2 of the Appendix to this Report details the improper payment amounts that agencies expect to report in future years. When expected outlay changes are excluded, the government-wide improper payments total reported in FY 2004 is expected to decrease by approximately $4.9 billion in FY 2005, $8.1 billion in FY 2006, and $12.3 billion in FY 2007.

As detailed above, achieving these improved levels will hinge largely on successful implementation of corrective action plans in the largest seven programs. Most notably, the Medicare program is on the cusp of implementing a variety of new program integrity

improvements that are expected to yield significant results in terms of error reduction. The UI program, SSI, and Public Housing/Rental Assistance are also expecting program improvements to drive expected reductions of more than $1.2 billion when the Fiscal Year 2007 PARs are issued.

The Administration plans to utilize the new PMA initiative, Eliminating Improper Payments, to ensure that agencies are held accountable for achieving planned reduction targets. Milestones and deliverables related to implementation of program improvements will be established for each quarter of the fiscal year. Agencies will be graded on evidence that corrective actions are being carried out timely and effectively.

Planned Reporting Improvements

Government-wide efforts to comply with the IPIA are progressing on two fronts: (i) initiating the necessary program improvements to reduce and eliminate improper payments where they are currently known; and (ii) improving detection and measurement of improper payments to better understand the nature and extent of the problem.

The Administration remains committed to enhancing reporting so that all risk susceptible programs report an annual measurement of improper payments and programs that currently report an improper payment measurement are capturing all relevant sources of error. For example, while the Environmental Protection Agency, Department of Transportation, and National Science Foundation all report an annual improper payment measurement for their risk susceptible programs, each agency has committed to enhance its measurement approach going forward in order to more comprehensively capture improper payments that occur in the later stages of the payment lifecycle (e.g., at the point the ultimate recipient spends Federal dollars).

In addition, and as noted above, agencies in FY 2004 reported an improper payment measurement for more than 80% of risk susceptible dollars. A few key risk susceptible programs without a current measurement make up the balance include Medicaid, National School Lunch/Breakfast Program, Special Supplemental Nutrition Program for Women Infants and Children (WIC), and Foster Care. The absence of an improper payment measurement is due in large part to the size and complexity of these programs, as well as resource and timing constraints.

The CFO Council Working Group on Improper Payments worked very closely with these programs during FY 2004 to develop alternative strategies for obtaining improper payment measurements as soon as practical. The result of these efforts is embodied in "Alternative for Estimating Improper Payment Amounts," a guidance document issued by the Working Group in September of 2004, that applies solely to a small number of specifically identified Federal programs.[2] In all other cases, OMB Memorandum 03-13 sets out the minimum requirements for annually measuring improper payments.

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[2] The programs include: National School Lunch/Breakfast Program (USDA); Special Supplemental Nutrition Program for Women, Infants and Children (USDA); Child and Adult Food Program (USDA); Child Care and Development Fund (HHS); Medicaid/State Children's Health Insurance Program (HHS); Temporary Assistance to Needy Families (HHS); Foster Care (HHS); Earned Income Tax Credit (Treasury).

Developed collaboratively by members of the CFO Council and Inspector General community, the alternative Guidance supports the objectives of IPIA by ensuring a more timely and accurate assessment of government-wide improper payments. Prior to the Guidance, the unique measurement challenges in these programs resulted in less timely and less reliable improper payment estimates. In some of these cases, strict adherence to the M-03-13 requirements meant no valid annual improper payment amount of any kind would be attainable. The Guidance ensures that, in the short term, an improper payment measurement plan is established which will yield an annual rate within three years. In the interim, a component improper payment rate is determined annually. Moreover, in the long term, additional risk components will be assessed so that ultimately a comprehensive, annual improper payment amount is established and tracked for each program.

As detailed in Table 4 in the Appendix to this Report, each risk susceptible program, that currently lacks an improper payment measurement, except for Temporary Assistance for Needy Families and Workforce Investment Act Grants, has a plan in place to capture an improper payment measurement no later than FY 2006. Many of these programs are employing measurement approaches consistent with the Working Group guidance discussed above.

The Working Group plans to now focus efforts on potential crosscutting solutions that will help improve improper payment detection and elimination government-wide. By forging synergies with other Federal agencies, the private sector, and States, the Working Group hopes to develop common solutions that impact multiple programs, including for example, initiatives related to enhanced approaches to risk management, data matching, and card technology.

V. CONCLUSION

The Administration is committed to eliminating improper payments. Through actions to implement the IPIA in FY 2004, Federal agencies established a strong foundation for annually measuring improper payments, identifying and implementing the necessary corrective actions, and tracking success over time. Moreover, the IPIA compliance activities completed and reported in FY 2004 will help government managers and other policy-makers define the necessary steps to overcome emerging challenges so that improper payments can be more effectively measured and eliminated on an ongoing basis.

Moving forward, the Administration plans to focus its efforts on areas where the taxpayer will receive the best possible return on investment for Federal time and resources expended. For example, considerable attention will be given to successful implementation of HHS' corrective action plan for Medicare, which is expected to eliminate a significant amount of improper payments each year. Moreover, the Improper Payment Working Group of the CFO Council will continue its efforts to develop cost effective measurement, prevention, and recovery solutions.

The PMA will continue to play an integral role in advancing improved financial management, including enhancing the integrity and accuracy of Federal payments. As a direct result, the elimination of improper payments will remain a top priority of the Administration, government managers, and the entire Federal financial management community.

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

Department or Agency		FY 2004 Outlays ($)	Percentage (%) of Agency Total
Department of Agriculture			
Food Stamps		$ 24,298	33.9 %
Market Loan Assistance[1]		8,768	12.2
National School Lunch/Breakfast Program		8,390	11.7
Special Supplemental Nutrition Program for Women, Infants, and Children		4,764	6.6
Federal Crop Insurance Program		2,500	3.5
Child and Adult Food Program		1,989	2.8
Natural Resource Conservation Service		1,027	1.4
Rental Assistance		710	1.0
	Risk Total	$ 43,508	60.7 %
	Non-Risk Total	$ 28,206	39.3 %
	Outlay Total	$ 71,714	100.0 %
Department of Defense			
Military Retiree Benefits		$ 35,800	8.2 %
Military Health Benefits		4,600	1.1
	Risk Total	$ 40,400	9.2 %
	Non-Risk Total	$ 396,711	90.8 %
	Outlay Total	$ 437,111	100.0 %
Department of Education			
Pell Grants		$ 12,680	20.2 %
Title I		10,277	16.4
	Risk Total	$ 22,957	36.5 %
	Non-Risk Total	$ 39,857	63.5 %
	Outlay Total	$ 62,814	100.0 %

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

Department or Agency		FY 2004 Outlays ($)	Percentage (%) of Agency Total
Department of Health and Human Services			
Medicare		$ 296,800	54.6 %
Medicaid		175,285	32.3
Temporary Assistance to Needy Families		17,725	3.3
HeadStart		6,555	1.2
Child Care and Development Fund		4,832	0.9
Foster Care		4,707	0.9
State Children's Health Insurance Program		4,607	0.8
	Risk Total	$ 510,511	94.0 %
	Non-Risk Total	$ 32,704	6.0 %
	Outlay Total	$ 543,215	100.0 %
Department of Homeland Security	Risk Total	$ 0	0.0 %
	Non-Risk Total	$ 26,665	100.0 %
	Outlay Total	$ 26,665	100.0 %
Department of Housing and Urban Development			
Public Housing/Rental Assistance		$ 26,069	57.9 %
Single Family Property Management Activity		385	0.9
	Risk Total	$ 26,454	58.8 %
	Non-Risk Total	$ 18,570	41.2 %
	Outlay Total	$ 45,024	100.0 %
Department of Labor			
Unemployment Insurance		$ 37,335	65.7 %
Workforce Investment Act		3,100	5.5
Federal Employment Compensation Act		2,544	4.5
	Risk Total	$ 42,979	75.7 %
	Non-Risk Total	$ 13,805	24.3 %
	Outlay Total	$ 56,784	100.0 %

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

Department or Agency		FY 2004 Outlays ($)	Percentage (%) of Agency Total
Department of Transportation			
Highway Planning/Construction Grants		$ 30,049	55.1 %
Federal Transportation Formula Grants		4,836	8.9
Airport Improvement Program		2,961	5.4
Federal Transportation Capital Investment Grants		2,793	5.1
	Risk Total	$ 40,639	74.5 %
	Non-Risk Total	$ 13,900	25.5 %
	Outlay Total	$ 54,539	100.0 %
Department of the Treasury			
Earned Income Tax Credit	Risk Total	$ 39,400	74.0 %
	Non-Risk Total	$ 13,831	26.0 %
	Outlay Total	$ 53,231	100.0 %
Department of Veterans Affairs			
Compensation/Dependency & Indemnity		$ 26,536	44.6 %
Loan Guaranty[1]		9,176	15.4
Pension		3,326	5.6
Education		2,306	3.9
Insurances		1,705	2.9
Vocational Rehabilitation		550	0.9
	Risk Total	$ 34,579	58.1 %
	Non-Risk Total	$ 24,971	41.9 %
	Outlay Total	$ 59,550	100.0 %
Environmental Protection Agency			
Clean & Drinking Water State Revolving Funds	Risk Total	$ 2,105	25.3 %
	Non-Risk Total	$ 6,230	74.7 %
	Outlay Total	$ 8,335	100.0 %

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

Department or Agency		FY 2004 Outlays ($)	Percentage (%) of Agency Total
National Science Foundation			
Education/Research Grants	Risk Total	$ 4,742	92.7 %
	Non-Risk Total	$ 376	7.3 %
	Outlay Total	$ 5,118	100.0 %
Office of Personnel Management			
Federal Employee Retirement Programs		$ 52,277	58.6 %
Federal Employee Health Benefit Programs		27,418	30.7
Federal Employee Life Insurance Programs		2,119	2.4
	Risk Total	$ 81,814	91.7 %
	Non-Risk Total	$ 7,367	8.3 %
	Outlay Total	$ 89,181	100.0 %
Small Business Administration			
Small Business Investment Centers[1]		$ 2,787	63.5 %
Disaster Loans[1]		806	18.4
7(a) Business Loans[1]		748	17.1
(504) Certified Development Company Debentures[1]		170	3.9
	Risk Total	$ 3,277	74.7 %
	Non-Risk Total	$ 1,110	25.3 %
	Outlay Total	$ 4,387	100.0 %

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

Department or Agency		FY 2004 Outlays ($)	Percentage (%) of Agency Total
Social Security Administration			
Old-Age, Survivors, & Disability Insurance		$ 488,000	92.0 %
Supplemental Security Income		39,000	7.4
	Risk Total	$ 527,000	99.4 %
	Non-Risk Total	$ 3,206	0.6 %
	Outlay Total	$ 530,206	100.0 %
Total	**Risk Total[1]**	**$ 1,420,365**	**61.8 %**
	Non-Risk Total	**$ 627,509**	**27.3 %**
	Other Outlay Total	**$ 249,493**	**10.9 %**
	Outlay Total[1]	**$ 2,297,367**	**100.0 %**

[1] The outlay amount shown for all credit programs reflect disbursements. The individual agency outlay totals and the overall outlay totals aggregate budget authority outlays for all programs.

Table 2: Improper Payments Reported in FY 2004 PARs by Program
(Dollar amounts in millions)

Department or Agency	FY 2004[1] Reported		FY 2005 Projected		FY 2006 Projected		FY 2007 Projected	
	Dollars	Percent	Dollars[2]	Percent	Dollars[2]	Percent	Dollars[2]	Percent
Department of Agriculture								
Food Stamps[3, 4]	$ 1,613	6.64 %	$ 1,603	6.60 %	$ 1,579	6.50 %	$ 1,506	6.20 %
Federal Crop Insurance Program	125	5.0	123	4.9	120	4.8	118	4.7
Department of Defense								
Military Retiree Benefits	$ 34	0.10 %	$ 33	0.09 %	$ 32	0.09 %	$ 31	0.09 %
Military Health Benefits	100	2.16	92	2.0	92	2.0	92	2.0
Department of Education								
Pell Grants	$ 621	4.90 %	$ 621	4.90 %	$ 621	4.90 %	$ 621	4.90 %
Department of Health and Human Services								
Medicare[3, 5]	$ 21,705	10.10 %	$ 16,977	7.90 %	$ 14,828	6.90 %	$ 11,605	5.40 %
HeadStart	255	3.9	229	3.5	203	3.1	184	2.8
Department of Housing and Urban Development								
Public Housing/Rental Assistance[3]	$ 1,707	6.90 %	$ 1,707	6.90 %	$ 1,475	6.00 %	$ 1,229	5.00 %
Single Family Property Management Activity[3]	26	6.8	15	4.0	10	2.5	6	1.5
Department of Labor								
Unemployment Insurance	$ 3,861	10.34 %	$ 3,786	10.14 %	$ 3,713	9.94 %	$ 3,601	9.64 %
Federal Employment Compensation Act	6.4	0.25	6.4	0.25	6.3	0.248	6.2	0.244
Department of Transportation								
Highway Planning/Construction Grants	$ 0	0 %	$ 0	0 %	$ 0	0 %	$ 0	0 %
Federal Transportation Formula Grants	0	0	0	0	0	0	0	0
Airport Improvement Program	0	0	0	0	0	0	0	0
Federal Transportation Capital Investment Grants	0	0	0	0	0	0	0	0
Department of the Treasury								
Earned Income Tax Credit[3]	See Note 6	See Note 6	See Note 6	See Note 6	See Note 6	See Note 6	See Note 6	See Note 6
Department of Veterans Affairs								
Compensation/Dependency & Indemnity	$ 239	0.90 %	$ 212	0.80 %	$ 159	0.60 %	$ 119	0.45 %
Pension	262	7.9	236	7.1	210	6.3	193	5.8
Education	55	2.4	53	2.3	53	2.3	51	2.2
Insurances	0.3	0.02	0.3	0.02	0.3	0.02	0.3	0.02

Table 2: Improper Payments Reported in FY 2004 PARs
by Program
(Dollar amounts in millions)

Department or Agency	FY 2004[1] Reported		FY 2005 Projected		FY 2006 Projected		FY 2007 Projected	
	Dollars	Percent	Dollars[2]	Percent	Dollars[2]	Percent	Dollars[2]	Percent
Environmental Protection Agency								
Clean & Drinking Water State Revolving Funds	$ 10.3	0.49 %	$ 9.5	0.45 %	$ 8.4	0.40 %	$ 7.4	0.35 %
National Science Foundation								
Education/Research Grants	$ 44	0.93 %	$ 44	0.93 %	$ 44	0.93 %	$ 44	0.93 %
Office of Personnel Management								
Federal Employee Retirement Programs	$ 193	0.37 %	$ 188	0.36 %	$ 183	0.35 %	$ 178	0.34 %
Federal Employee Health Benefit Programs	87	0.32	84	0.31	82	0.30	79	0.29
Federal Employee Life Insurance Programs	4.7	0.22	4.4	0.21	4.4	0.21	4.4	0.21
Small Business Administration								
Small Business Investment Centers	$ 129	4.70 %	$ 70	2.50 %	$ 70	2.50 %	$ 70	2.50 %
Disaster Assistance	1	0.13	8	1.00	8	1.00	8	1.00
(504) Certified Development Company Debentures	0	0	0	0	0	0	0	0
Social Security Administration								
Old-Age, Survivors, & Disability Insurance[3]	$ 1,707	0.34 %	$ 1,952	0.40 %	$ 2,040	0.40 %	$ 2,140	0.40 %
Supplemental Security Income[3]	2,639	7.30	2,652	6.80	2,520	6.30	2,146	5.80
Total	**$ 45,078**		**$ 40,224**		**$ 36,984**		**$ 32,752**	

1. This column represents the improper payment amount and rate reported by each agency in FY 2004. During the development of agency-specific IPIA reports, OMB requested that agencies report improper payments based on the most recently available data. In some cases the values reflect an evaluation of payments made in FY 2004, while in other cases the values reflect an evaluation of payments made in FY 2003.

2. Projected improper payment amounts and rates assume the FY 2004 outlay total remains constant for FY 2005-2007, except for EITC, Old-Age, Survivors, and Disability Insurance, and Supplemental Security Income programs which are adjusted to reflect estimated outlay increases. In the remaining cases, while projected dollars provide a tangible measure of progress, they may not fully reflect the improper payment amount estimated for a given program.

3. The improper payment amount and rate reported in FY 2004 for these programs is based on a review of FY 2003 payments.

4. The improper payment amount shown for FY 2004 reflects the FY 2003 improper payment rate of 6.64% applied to the FY 2004 outlay total. Since publishing its PAR, USDA has updated its future year improper payment rate projections for this program, including an FY 2004 improper payment rate (to be reported in the FY 2005 PAR) of 5.7-6.6%. The FY 2005 column reflects the upper range of this estimate.

5. The improper payment amount and rate shown for FY 2004 is based on a review of the Fee-for-Service portion of the Medicare program which represents $213.5 billion in outlays.

6. A comprehensive assessment of the EITC improper payment amount and rate was last performed in FY 2001 based on FY 1999 data. For FY 2004 reporting purposes, the Treasury Department has "aged" the previously reported rate using available data and statistical analyses. Based on limitations with this approach, the Treasury Department reports a range, rather than a single point estimate. The relevant ranges are as follows: FY 2004 - $8,668 million to $10,638 million (22% to 27%); FY 2005 - $8,505 to $10,500 (21% to 26%); FY 2006 - $7,785 million to $9,960 million (19% to 24%); FY 2007 - $7,650 million to $9,775 million. For the purposes of deriving government-wide totals, the midpoint of the EITC range is used.

Table 3: Over and Under Payments
2004 Improper Payment Reporting
(Dollar amounts in millions)

Department or Agency	Over-payments	Under-payments	Gross $	Net $
Department of Agriculture				
Food Stamps	$ 1,227	$ 386	$ 1,613	$ 841
Department of Education				
Pell Grants	$ 393	$ 228	$ 621	$ 165
Department of Health and Human Services				
Medicare	$ 20,805	$ 900	$ 21,705	$ 19,905
Department of Housing and Urban Development				
Public Housing/Rental Assistance	$ 1,010	$ 697	$ 1,707	$ 313
Department of Labor				
Unemployment Insurance	$ 3,622	$ 239	$ 3,861	$ 3,383
Department of the Treasury				
Earned Income Tax Credit[1]	9,653 See Note 1	See Note 1	9,653 See Note 1	9,653 See Note 1
Department of Veterans Affairs				
Compensation/Dependency & Indemnity	$ 145	$ 111	$ 256	$ 34
Pension	269	15	284	254
Office of Personnel Management				
Federal Employee Retirement Programs	$ 198	$ 167	$ 365	$ 31
Federal Employee Life Insurance Programs	1.6	3.1	4.7	-1.5
Social Security Administration				
Supplemental Security Income	$ 1,794	$ 468	$ 2,262	$ 1,326
Total Where Known	**$ 39,118**	**$ 3,214**	**$ 42,332**	**$ 35,904**
Total Where Unknown			**$ 2,746**	
Total			**$ 45,078**	

[1] Improper payment rates for this program are reported as a range. In FY 2004, the Department of Treasury reported an improper payment range of $8,668 million to $10,638 million. For the purposes of this report, all improper payments related to this program are considered overpayments. When totals are aggregated, the mid-point of the range is used.

Table 4: Improper Payment Measurements for Risk Susceptible Programs not reported in FY2004
(Dollar amounts in millions)

Department or Agency	FY 2004 Outlays	Measurement Expected
Department of Agriculture		
Market Loan Assistance[1]	$ 8,786	FY 2005
School Programs	8,390	FY 2006
Special Supplemental Nutrition Program for Women, Infants, and Children	4,764	FY 2006
Child and Adult Food Program	1,989	FY 2006
Natural Resource Conservation Service	1,027	FY 2005
Rental Assistance	710	FY 2005
Department of Education		
Title I	$ 10,277	FY 2005
Department of Health and Human Services		
Medicaid	$ 175,285	FY 2005
Temporary Assistance to Needy Families	17,725	To be determined
Child Care and Development Fund	4,832	FY 2005
Foster Care	4,707	FY 2005
State Children's Health Insurance Program	4,607	FY 2005
Department of Homeland Security		
Agency risk assessments in process	$ 26,665	FY 2005
Department of Labor		
Workforce Investment Act	$ 3,100	To be determined
Department of Veterans Affairs		
Loan Guaranty	$ 9,176	FY 2005
	156	
Vocational Rehabilitation	550	FY 2005

Table 4: Improper Payment Measurements for Risk Susceptible Programs not reported in FY2004
(Dollar amounts in millions)

Department or Agency	FY 2004 Outlays	Measurement Expected
Small Business Administration		
7(a) Business Loans[1]	$ 748	FY 2005
Outlay Total Not Reported	$ 265,926	
Outlay Total Reported	$ 1,154,439	
Outlay Total for All Risk	$ 1,420,365	

[1] The outlay amount shown for all credit programs reflect disbursements. The overall outlay totals aggregate budget authority outlays for all programs.

PART SCORES AND PROGRAM FUNDING LEVELS
SUMMARY
(dollars in millions)

	2005 Enacted	2006 Budget	Change from 2005	
Ineffective (22)	18,064	10,438	-7,626	-42.2%
Results Not Demonstrated (179)	142,262	139,905	-2,357	-1.7%

PART SCORES AND PROGRAM FUNDING LEVELS
INEFFECTIVE PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
nt Grant Program	EPA	48%	20	19	-1	-5.0%
	DOE	48%	34	10	-24	-70.6%
ation	DOD	46%	1,454	1,406	-48	-3.3%
Credit (EITC) Compliance	Treasury	45%	165	169	4	2.4%
	DOL	45%	1,012	960	-52	-5.1%
sistance	DOL	45%	1,060	969	-91	-8.6%
ogies	DOE	44%	45	10	-35	-77.8%
	ED	43%	313	0	-313	-100.0%
evention and Treatment Block Grant	HHS	43%	1,775	1,775	0	0.0%
	HUD	42%	143	-143	-286	-200.0%
	HHS	40%	416	129	-287	-69.0%
al Farmworkers	DOL	38%	78	0	-78	-100.0%
l Assistance	HUD	35%	4,950	4,682	-268	-5.4%
conomic Development	HUD	32%	24	0	-24	-100.0%
s	EPA	31%	45	15	-30	-66.7%
ment Block Grant (Formula)	HUD	30%	4,117	0	-4,117	-100.0%
ity Block Grants	DOJ	30%	54	0	-54	-100.0%
	ED	29%	225	0	-225	-100.0%
Employment for Older Americans	DOL	28%	437	437	0	0.0%
Schools State Grants	ED	25%	437	0	-437	-100.0%
n State Grants	ED	22%	1,194	0	-1,194	-100.0%
ns	ED	16%	66	0	-66	-100.0%
ffective programs[2]			18,064	10,438	-7,626	-42.2%

were not published in the Budget.
sent program level and include BA. Obligations, user fees, loan levels, etc. as appropriate.

PART SCORES AND PROGRAM FUNDING LEVELS
RESULTS NOT DEMONSTRATED PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
1 Consumer Product Safety Commission	CPSC	83%	62	62	0	0.0%
2 Community Development Revolving Loan Fund -- Loan and Technical Assistance Grants	NCUA	81%	6	6	0	0.0%
3 Enforcement Program	CFTC	81%	38	40	2	5.3%
4 Minerals Revenue Management	DOI	76%	103	104	1	1.0%
5 Submission Processing (SP)	Treasury	76%	1,276	1,274	-2	-0.2%
6 Abandoned Mine Land Reclamation	DOI	76%	168	170	2	1.2%
7 Rural Water and Wastewater Grants and Loans	USDA	75%	548	450	-98	-17.9%
8 Regulation of Surface Coal Mining Activities	DOI	75%	71	71	0	0.0%
9 Flood Damage Reduction	Corps	73%	1,059	967	-92	-8.7%
10 Biological Sciences Research	NASA	71%	482	385	-97	-20.1%
11 Food Safety Research	USDA	71%	103	108	5	4.9%
12 Housing Opportunities for Persons with AIDS	HUD	70%	282	268	-14	-5.0%
13 Crop Insurance	USDA	69%	3,091	3,730	639	20.7%
14 Drug Courts	DOJ	69%	39	70	31	79.5%
15 Energy Information Administration (EIA)	DOE	69%	84	86	2	2.4%
16 National Resources Inventory	USDA	68%	37	37	0	0.0%
17 Search and Rescue	DHS	68%	768	794	26	3.4%
18 Border Patrol	DHS	67%	1,547	1,606	59	3.8%
19 Farmland Protection Program	USDA	66%	112	84	-28	-25.0%
20 Aids to Navigation	DHS	66%	942	1,031	89	9.4%
21 Compliance -- Enforcement	FEC	66%	52	55	3	5.8%
22 Multifamily Housing Direct Loans and Rental Assistance	USDA	65%	620	884	264	42.6%
23 TRIO Student Support Services	ED	65%	275	275	0	0.0%
24 Earth Science Applications	NASA	64%	76	76	0	0.0%
25 Comanche Helicopter Program	DOD	64%	0	0	0	0.0%
26 Enforcement	SEC	64%	361	356	-5	-1.4%
27 Full Disclosure Program (Corporate Review)	SEC	63%	128	129	1	0.8%
28 Public Defender Service for the District of Columbia	Public Defender	63%	30	30	0	0.0%
29 Plant Materials Program	USDA	63%	15	11	-4	-26.7%
30 Federal Regulatory and Abandoned Mine Land Program	DOI	63%	58	58	0	0.0%
31 National School Lunch	USDA	63%	6,967	7,254	287	4.1%
32 Fair Housing Initiatives Program	HUD	62%	20	16	-4	-20.0%
33 Superfund Removal	EPA	62%	229	246	17	7.4%
34 Forestry Research Grants	USDA	62%	22	11	-11	-50.0%
35 Forest Service: Invasive Species Program	USDA	61%	167	173	6	3.6%
36 Office of Foreign Assets Control (OFAC)	Treasury	61%	22	24	2	9.1%
37 Nat'l Institute on Disability and Rehab. Research (NIDRR)	ED	61%	108	108	0	0.0%
38 Wildlife Habitat Incentives Program	USDA	60%	47	60	13	27.7%
39 Multiple Award Schedules	GSA	60%	479	506	27	5.6%
40 Conservation Technical Assistance	USDA	59%	706	622	-84	-11.9%
41 African Development Fund	Treasury	59%	105	136	31	29.5%
42 Particulate Matter Research	EPA	59%	64	66	2	3.1%
43 Community Facilities Program	USDA	58%	527	527	0	0.0%

PART SCORES AND PROGRAM FUNDING LEVELS
RESULTS NOT DEMONSTRATED PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
44 Tropical Forest Conservation Act	Treasury	58%	20	0	-20	-100.0%
45 National IT Solutions	GSA	57%	1,847	1,937	90	4.9%
46 Nuclear Energy Research Initiative	DOE	57%	0	0	0	0.0%
47 Rural Business Enterprise Grant Program	USDA	56%	40	40	0	0.0%
48 Montgomery GI Bill (MGIB) (Education Benefits)	VA	56%	1,991	2,580	589	29.6%
49 Federal Law Enforcement Training Center	DHS	56%	196	224	28	14.3%
50 Drug Interdiction	DHS	56%	985	1,114	129	13.1%
51 Emergency Watershed Protection Program	USDA	56%	250	0	-250	-100.0%
52 Migratory Bird Program	DOI	55%	129	141	12	9.3%
53 Hazard Mitigation Grant	DHS	55%	161	161	0	0.0%
54 Dairy MILC Program	USDA	55%	500	50	-450	-90.0%
55 Screener Workforce	DHS	55%	2,522	2,669	147	5.8%
56 GSA's Regional IT Solutions Program	GSA	54%	5,217	5,311	94	1.8%
57 Communications Infrastructure	DOD	54%	4,244	4,021	-223	-5.3%
58 Rural Water Supply Projects	DOI	54%	89	55	-34	-38.2%
59 VA Research and Development	VA	53%	784	786	2	0.3%
60 Land Acquisition	USDA	52%	156	41	-115	-73.7%
61 Inland Waterways Navigation	Corps	52%	844	898	54	6.4%
62 Threat and Vulnerability, Testing and Assessment (TVTA)	DHS	52%	66	50	-16	-24.2%
63 Rural Distance Learning and Telemedicine Loan and Grant Program	USDA	52%	74	25	-49	-66.2%
64 Health Care Fraud and Abuse Control (HCFAC)	HHS	51%	160	160	0	0.0%
65 DOI Wildland Fire Management	DOI	51%	733	757	24	3.3%
66 Bank Enterprise Award	Treasury	51%	10	0	-10	-100.0%
67 Partnership for Advancing Technology in Housing (PATH)	HUD	50%	7	0	-7	-100.0%
68 Electronic Records Services	NARA	50%	50	49	-1	-2.0%
69 IRS Tax Collection	Treasury	50%	1,826	2,015	189	10.4%
70 Rural Business-Cooperative Service Value-Added Producer Grants	USDA	50%	16	16	0	0.0%
71 Child Welfare - Community-Based Child Abuse Prevention (CBCAP)	HHS	49%	43	43	0	0.0%
72 National Wildlife Refuge Operations and Maintenance	DOI	49%	402	415	13	3.2%
73 National Nuclear Infrastructure	DOE	49%	113	98	-15	-13.3%
74 State Energy Programs	DOE	49%	44	41	-3	-6.8%
75 Global Environment Facility	Treasury	48%	107	108	1	0.9%
76 USDA Wildland Fire Management	USDA	48%	2,014	1,493	-521	-25.9%
77 Graduate Assistance in Areas of National Need	ED	48%	30	30	0	0.0%
78 Indian School Construction	DOI	48%	263	174	-89	-33.8%
79 Child Welfare- CAPTA State Grant	HHS	48%	27	27	0	0.0%
80 Dairy Price Support Program	USDA	47%	280	130	-150	-53.6%
81 International Education Domestic	ED	47%	92	92	0	0.0%
82 Coastal Storm Damage Reduction	Corps	47%	82	69	-13	-15.9%
83 CDC State and Local Preparedness Grants	HHS	47%	927	797	-130	-14.0%
84 Passenger Screening Technology	DHS	46%	103	147	44	42.7%
85 Head Start	HHS	46%	6,843	6,888	45	0.7%
86 Coastal Zone Management Act Programs	Commerce	46%	128	96	-32	-25.0%

PART SCORES AND PROGRAM FUNDING LEVELS
RESULTS NOT DEMONSTRATED PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
87 State Homeland Security Grants	DHS	45%	1,500	1,020	-480	-32.0%
88 CDC: Epidemic Services	HHS	45%	92	92	0	0.0%
89 Pacific Coastal Salmon Recovery Fund	Commerce	45%	89	90	1	1.1%
90 Office of Governmentwide Policy	GSA	45%	133	125	-8	-6.0%
91 Child Care Access Means Parents in School	ED	45%	16	16	0	0.0%
92 Hospital Preparedness Grants	HHS	44%	491	483	-8	-1.6%
93 Minority Business Development Agency	Commerce	44%	30	31	1	3.3%
94 Environmental Education	EPA	44%	9	0	-9	-100.0%
95 Leasing Space	GSA	44%	4,164	4,198	34	0.8%
96 Inspection Technology	DHS	44%	205	232	27	13.2%
97 Domestic HIV/AIDS Prevention	HHS	43%	662	658	-4	-0.6%
98 Youth Anti-Drug Media Campaign	ONDCP	43%	119	120	1	0.8%
99 GSA New Construction (BA51) Program	GSA	43%	956	845	-111	-11.6%
100 Federal Work-Study	ED	43%	990	990	0	0.0%
101 Baggage Screening Technology	DHS	43%	645	594	-51	-7.9%
102 Ready to Learn Television	ED	43%	23	23	0	0.0%
103 Improving Teacher Quality State Grants	ED	43%	2,917	2,917	0	0.0%
104 Project Planning and Construction	DOI	43%	143	143	0	0.0%
105 Family Violence Prevention and Services Program	HHS	42%	129	129	0	0.0%
106 Business Information Centers	SBA	42%	0	0	0	0.0%
107 Non-regulatory Wetlands Activities	Corps	42%	423	507	84	19.9%
108 Community Oriented Policing Services	DOJ	42%	499	22	-477	-95.6%
109 Federal Air Marshal Service	DHS	42%	663	689	26	3.9%
110 Runaway and Homeless Youth	HHS	42%	89	89	0	0.0%
111 Emergency Medical Services for Children	HHS	42%	20	0	-20	-100.0%
112 Southern Nevada Public Land Management Act	DOI	42%	401	521	120	29.9%
113 TRIO Talent Search	ED	42%	145	0	-145	-100.0%
114 Space Shuttle	NASA	41%	4,669	4,531	-138	-3.0%
115 High Intensity Drug Trafficking Areas (HIDTA)	ONDCP	41%	227	100	-127	-55.9%
116 IDEA Grants to States	ED	41%	10,590	11,098	508	4.8%
117 Elimination of Weapons-Grade Plutonium Production Program	DOE	41%	50	132	82	164.0%
118 Resource Conservation and Development	USDA	41%	51	27	-24	-47.1%
119 IDEA Part D - Research and Innovation	ED	40%	83	73	-10	-12.0%
120 Container Security Initiative	DHS	40%	126	139	13	10.3%
121 Residential Substance Abuse Treatment	DOJ	40%	25	44	19	76.0%
122 Ecological Research	EPA	40%	94	84	-10	-10.6%
123 Supplemental Educational Opportunity Grants	ED	39%	779	779	0	0.0%
124 Independent Living Program	HHS	39%	140	140	0	0.0%
125 Teaching American History	ED	39%	119	119	0	0.0%
126 Metropolitan Medical Response System	DHS	39%	30	0	-30	-100.0%
127 Adolescent Family Life Program (AFL)	HHS	39%	31	31	0	0.0%
128 Low Income Home Energy Assistance Program	HHS	38%	2,182	2,000	-182	-8.3%
129 Personal Property Management Program (FBP)	GSA	38%	29	31	2	6.9%

PART SCORES AND PROGRAM FUNDING LEVELS
RESULTS NOT DEMONSTRATED PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
130 Training and Advisory Services	ED	38%	7	7	0	0.0%
131 CTAC Technology Transfer Program	ONDCP	37%	24	20	-4	-16.7%
132 College Assistance Migrant Program (CAMP)	ED	37%	16	16	0	0.0%
133 Office on Women's Health	HHS	37%	29	30	1	3.4%
134 CTAC Counterdrug Research & Development	ONDCP	36%	18	10	-8	-44.4%
135 Traumatic Brain Injury	HHS	36%	9	0	-9	-100.0%
136 Adult Education State Grants	ED	36%	570	200	-370	-64.9%
137 Teacher Quality Enhancement	ED	35%	68	0	-68	-100.0%
138 Community Services Block Grant	HHS	35%	637	0	-637	-100.0%
139 Housing	VA	35%	11,440	10,678	-762	-6.7%
140 High School Equivalency Program (HEP)	ED	35%	19	19	0	0.0%
141 IDEA Part D - Parent Information Centers	ED	35%	26	26	0	0.0%
142 IDEA Part D - Technical Assistance and Dissemination (TA&D)	ED	35%	52	49	-3	-5.8%
143 Assistance to Firefighters Grant Program	DHS	34%	715	500	-215	-30.1%
144 AmeriCorps	CNCS	34%	288	277	-11	-3.8%
145 Indian Roads - Operation and Maintenance	DOI	34%	27	27	0	0.0%
146 Real Property Disposal (PR)	GSA	34%	47	45	-2	-4.3%
147 Independent Living (IL) Programs	ED	33%	131	131	0	0.0%
148 Coast Guard Polar Icebreaking Program	DHS	33%	47	0	-47	-100.0%
149 Pesticide Field Programs	EPA	33%	40	38	-2	-5.0%
150 Delta Regional Authority	Delta	32%	6	6	0	0.0%
151 IDEA Grants for Infants and Families	ED	32%	441	441	0	0.0%
152 IDEA Part D - Personnel Preparation	ED	32%	91	91	0	0.0%
153 Pollution Prevention and New Technologies	EPA	31%	34	26	-8	-23.5%
154 Leveraging Educational Assistance Partnership	ED	31%	66	0	-66	-100.0%
155 Comprehensive Regional Assistance Centers	ED	31%	0	0	0	0.0%
156 Native American Housing Block Grants	HUD	30%	622	522	-100	-16.1%
157 Indian Law Enforcement	DOI	29%	180	192	12	6.7%
158 Davis-Bacon Wage Determination Program	DOL	29%	10	10	0	0.0%
159 Assistive Technology (AT) Alternative Financing Program	ED	28%	4	15	11	275.0%
160 Tech-Prep Education State Grants	ED	28%	106	0	-106	-100.0%
161 National Writing Project	ED	27%	20	0	-20	-100.0%
162 Commerce Small Business Innovation Research (SBIR) Program	Commerce	27%	7	5	-2	-28.6%
163 Tribally Controlled Postsecondary Vocational and Technical Institutions	ED	26%	7	7	0	0.0%
164 Schools and Libraries - Universal Service Fund	FCC	26%	2,250	2,250	0	0.0%
165 Land & Water Conservation Fund (LWCF) State Grants	DOI	25%	90	0	-90	-100.0%
166 Commodity Supplemental Food Program (CSFP)	USDA	25%	110	107	-3	-2.7%
167 Parental Information and Resource Centers	ED	24%	42	0	-42	-100.0%
168 DoD Small Business Innovation Research/Technology Transfer	DOD	23%	1,133	1,500	367	32.4%
169 Byrd Honors Scholarships	ED	23%	41	0	-41	-100.0%
170 B.J. Stupak Olympic scholarships	ED	23%	1	0	-1	-100.0%
171 Occupational and Employment Information	ED	23%	9	0	-9	-100.0%
172 Impact Aid Payments for Federal Property	ED	22%	62	62	0	0.0%

PART SCORES AND PROGRAM FUNDING LEVELS
RESULTS NOT DEMONSTRATED PROGRAMS
(dollars in millions)

Program Name	Agency	Weighted Average[1]	2005 Enacted	2006 Budget	Change from 2005	
173 Housing for the Elderly	HUD	22%	741	741	0	0.0%
174 Housing for Persons with Disabilities	HUD	22%	238	120	-118	-49.6%
175 IDEA Preschool Grants	ED	19%	385	385	0	0.0%
176 Disability Compensation	VA	15%	29,845	30,644	799	2.7%
177 State Criminal Alien Assistance Program	DOJ	15%	301	0	-301	-100.0%
178 LWCF Land Acquisition	DOI	14%	103	114	11	10.7%
179 Tribal Courts	DOI	11%	18	18	0	0.0%
Total funding for Results Not Demonstrated programs[2]			142,262	139,905	-2,357	-1.7%

[1] *Weighted averages were not published in the Budget.*
[2] *Funding levels represent program level and include BA, Obligations, user fees, loan levels, etc. as appropriate.*

AGENCY	PROGRAM TITLE	RESULT 2002	RESULT 2003	RESULT 2004
Broadcasting Board of Governors	Broadcasting to Near East Asia and South Asia	Results Not Demonstrated	Moderately Effective	Moderately Effective
Corps of Engineers-Civil Works	Corps Hydropower	Results Not Demonstrated		Adequate
Department of Agriculture	Food Aid Programs	Results Not Demonstrated		Moderately Effective
Department of Agriculture	Rural Electric Utility Loans and Guarantees	Results Not Demonstrated		Adequate
Department of Agriculture	Forest Service: Forest Legacy Program		Results Not Demonstrated	Moderately Effective
Department of Agriculture	Snow Survey Water Supply Forecasting		Results Not Demonstrated	Moderately Effective
Department of Agriculture	Rural Telecommunications Loan Programs		Results Not Demonstrated	Adequate
Department of Agriculture	Animal Welfare	Results Not Demonstrated	Adequate	
Department of Agriculture	Direct Crop Payments	Results Not Demonstrated	Adequate	
Department of Agriculture	National Forest Improvement and Maintenance	Results Not Demonstrated	Adequate	
Department of Commerce	Minority Business Development Agency	Results Not Demonstrated	Results Not Demonstrated	
Department of Defense--Military	Missile Defense	Moderately Effective	Results Not Demonstrated	Moderately Effective
Department of Education	National Center for Education Statistics	Results Not Demonstrated	Effective	
Department of Education	National Assessment	Results Not Demonstrated	Effective	
Department of Energy	Fusion Energy Sciences	Results Not Demonstrated	Moderately Effective	
Department of Energy	Advanced Scientific Computing Research	Results Not Demonstrated	Moderately Effective	
Department of Energy	Basic Energy Sciences	Results Not Demonstrated	Effective	
Department of Energy	Biological and Environmental Research	Results Not Demonstrated	Effective	
Department of Energy	Clean Coal Research Initiative	Results Not Demonstrated	Adequate	
Department of Energy	High Energy Physics	Results Not Demonstrated	Moderately Effective	
Department of Energy	Nuclear Physics	Results Not Demonstrated	Effective	
Department of Energy	Oil Technology	Ineffective	Ineffective	
Department of Health and Human Services	Domestic HIV/AIDS Prevention	Results Not Demonstrated	Results Not Demonstrated	
Department of Health and Human Services	Chronic Disease - Breast and Cervical Cancer	Results Not Demonstrated	Adequate	
Department of Health and Human Services	Chronic Disease - Diabetes	Results Not Demonstrated	Adequate	
Department of Health and Human Services	Administration on Aging	Results Not Demonstrated	Moderately Effective	
Department of Health and Human Services	Foster Care	Results Not Demonstrated	Adequate	
Department of Justice	Weed and Seed	Results Not Demonstrated		Adequate
Department of Justice	Cybercrime	Results Not Demonstrated	Adequate	
Department of Justice	Drug Enforcement Administration	Results Not Demonstrated	Adequate	
Department of Justice	White Collar Crime	Results Not Demonstrated	Adequate	

Department of Labor	Office of Federal Contract Compliance Programs (OFCCP)	Results Not Demonstrated	Results Not Demonstrated	Adequate
Department of Labor	Employee Benefits Security Administration (EBSA)	Results Not Demonstrated	Results Not Demonstrated	Moderately Effective
Department of Labor	Community Service Employment for Older Americans	Results Not Demonstrated	Ineffective	
Department of Labor	Dislocated Worker Assistance	Results Not Demonstrated	Adequate	
Department of Labor	Trade Adjustment Assistance	Results Not Demonstrated	Ineffective	
Department of Labor	Youth Activities	Results Not Demonstrated	Ineffective	
Department of State	Educational and Cultural Exchange Programs in Near East Asia and South Asia	Results Not Demonstrated	Effective	Effective
Department of State	PKO - OSCE Programs	Results Not Demonstrated	Moderately Effective	
Department of State	Security Assistance to Sub-Saharan Africa	Results Not Demonstrated	Moderately Effective	
Department of State	Security Assistance for the Western Hemisphere		Moderately Effective	
Department of the Interior	Indian School Construction	Results Not Demonstrated		Results Not Demonstrated
Department of the Interior	National Fish Hatchery System	Results Not Demonstrated		Moderately Effective
Department of the Interior	National Mapping	Results Not Demonstrated		Effective
Department of the Interior	National Park Service Facility Management	Results Not Demonstrated	Adequate	
Department of the Interior	Reclamation Hydropower	Moderately Effective	Effective	
Department of the Treasury	Treasury Technical Assistance	Results Not Demonstrated	Adequate	
Department of Veterans Affairs	Medical Care	Results Not Demonstrated	Adequate	
Environmental Protection Agency	Drinking Water State Revolving Fund	Results Not Demonstrated	Results Not Demonstrated	Adequate
Environmental Protection Agency	Civil Enforcement	Results Not Demonstrated	Results Not Demonstrated	Adequate
Environmental Protection Agency	Nonpoint Source Grants	Results Not Demonstrated	Results Not Demonstrated	Adequate
Environmental Protection Agency	Air Toxics	Results Not Demonstrated		Adequate
Environmental Protection Agency	Leaking Underground Storage Tanks	Results Not Demonstrated	Results Not Demonstrated	Adequate
Environmental Protection Agency	Pesticide Reregistration	Results Not Demonstrated		Adequate
Environmental Protection Agency	Clean Water State Revolving Fund		Results Not Demonstrated	Adequate
Environmental Protection Agency	Criminal Enforcement		Results Not Demonstrated	Adequate
Environmental Protection Agency	Environmental Education		Results Not Demonstrated	Results Not Demonstrated
Environmental Protection Agency	Tribal General Assistance	Results Not Demonstrated	Adequate	
Environmental Protection Agency	Existing Chemicals	Results Not Demonstrated	Adequate	
Environmental Protection Agency	Pesticide Registration	Results Not Demonstrated	Adequate	
General Services Administration	Asset Management of Federally-Owned Real Property	Results Not Demonstrated		Effective
General Services Administration	Supply Depots and Special Order	Results Not Demonstrated		Adequate
General Services Administration	Vehicle Acquisition	Results Not Demonstrated		Adequate

General Services Administration	Vehicle Leasing	Results Not Demonstrated		Moderately Effective
International Assistance Programs	Overseas Private Investment Corporation - Finance	Results Not Demonstrated	Adequate	
National Aeronautics and Space Administration	Space Station	Results Not Demonstrated	Results Not Demonstrated	Moderately Effective
Office of Personnel Management	Federal Employees Retirement Program	Results Not Demonstrated		Adequate
Office of Personnel Management	Federal Employees Group Life Insurance (FEGLI)	Results Not Demonstrated		Adequate
Small Business Administration	SCORE	Results Not Demonstrated	Moderately Effective	Moderately Effective
Small Business Administration	Small Business Development Centers	Results Not Demonstrated	Moderately Effective	Moderately Effective
Small Business Administration	Section 504 Certified Development Company Guaranteed Loan Program	Results Not Demonstrated	Adequate	
United States Agency for International Development	Child Survival and Health (CSH - LAC)		Results Not Demonstrated	Moderately Effective
United States Agency for International Development	Development Assistance (LAC)		Results Not Demonstrated	Moderately Effective