



Testimony

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MAJOR MANAGEMENT CHALLENGES AND PROGRAM RISKS

Departments of Defense, State, and Veterans Affairs

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Abstract I am pleased to be here today to discuss major management challenges and program risks confronting selected federal agencies. As requested, my testimony today will focus on (1) the range of governmentwide challenges and opportunities the 107 th Congress and the new administration face to enhance performance and accountability of the federal government, (2) the major management challenges and program risks facing three key agencies--the Departments of Defense (DOD), State, and Veterans Affairs (VA)--who fall under the jurisdiction of this Subcommittee, and (3) whether these departments are meeting performance and accountability goals and measurements that are required under the Government Performance and Results Act of 1993 (GPRA). Appendix I lists the major management challenges for each of the three key agencies.		
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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss major management challenges and program risks confronting selected federal agencies. As requested, my testimony today will focus on (1) the range of governmentwide challenges and opportunities the 107th Congress and the new administration face to enhance performance and accountability of the federal government, (2) the major management challenges and program risks facing three key agencies—the Departments of Defense (DOD), State, and Veterans Affairs (VA)—who fall under the jurisdiction of this Subcommittee, and (3) whether these departments are meeting performance and accountability goals and measurements that are required under the Government Performance and Results Act of 1993 (GPRA). Appendix I lists the major management challenges for each of the three key agencies.

Our testimony is derived, in part, from a special series of reports we recently issued on this subject entitled *Performance and Accountability Series: Major Management Challenges and Program Risks* in January of this year. The series, listed in appendix II, contains separate reports on 21 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U.S. Postal Service. As a companion to this series, we have also issued our *High-Risk Series: An Update*, which discusses those government operations and programs that our work has identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement.

MAJOR MANAGEMENT CHALLENGES:
THE GOVERNMENTWIDE PERSPECTIVE

Mr. Chairman, I want to commend you for holding this hearing at this particular time and discussing these issues because we are engaged in three important transitions. First, we are ending one presidential administration and beginning another. Second, we are at the outset of the 107th Congress. Third, we are at the dawn of a new millennium. As our nation moves into the 21st century, the 107th Congress and the new administration face an array of challenges and opportunities to enhance the performance and assure the accountability of the federal government for the benefit of all Americans. Increased globalization, rapid technological advances, shifting demographics, changing security threats, and various quality of life considerations are prompting fundamental changes in the environment in which the government operates. These trends are placing a premium on increasing strategic planning, using integrated approaches, enhancing results-orientation, improving responsiveness, and ensuring accountability within the federal government.

At the same time, the current projected trend of budget surpluses presents both an opportunity and an obligation for the legislative and executive branches of government to look at a range of fundamental policy and fiscal issues in advance of the forthcoming demographic tidal wave associated with the retirement of the “baby boom” generation.

This includes comprehensively reassessing what government does and how government does business in the 21st century. It also includes focusing on the longer term fiscal implications of current programs and policies and a range of existing and emerging major management challenges and program risks confronting the federal government. For example, entitlement programs currently represent approximately 41 percent of the federal budget, up from 31 percent in 1962. At the same time, defense spending currently represents about 16 percent of the federal budget, down from about 50 percent in 1962. Some of these changes can be explained by the end of the Cold War, but not all of them. One of the less publicized stories is that most of the decline in defense spending over the years has been used to pay for additional health spending (for example, Medicare and Medicaid). Our most fundamental long-range budget challenge is how to control mandatory spending, which now accounts for about two-thirds of all federal spending, up from about one-third in 1962.

We have many initiatives underway to help the Congress and the executive branch meet the challenges to the well-being and financial security of the American people, address security threats facing our nation, and deal with the issues raised by global interdependence.

With regard to improving overall government performance and accountability, the main actions needed to shape an efficient and effective federal government for the 21st century are as follows:

- First, give high priority to fully implementing existing legislative reforms essential to modernizing performance management, financial accountability, and information technology practices.
- Second, address the urgent need to revamp the federal government's entire strategic approach to human capital (people) management before the erosion of government's capacity to perform more dramatically undermines agencies' abilities to efficiently and effectively serve the American people.
- Third, continue to attack government activities at particular risk of fraud, waste, abuse, and mismanagement in order to save billions of dollars, improve services and programs, and strengthen public confidence and trust in government.
- Fourth, confront critical challenges facing individual departments and agencies in carrying out their missions.

- Fifth, pursue organizational approaches that recognize the reality of evolving global, technological, workforce, and other dynamics and needs associated with a transition to a knowledge-based economy.

Beyond addressing this fundamental management foundation, however, lie certain added dimensions to the challenge of governing in the 21st century. Among these are

- promoting a more sustainable longer term budget and economic outlook to help safeguard the ability of future generations to afford the commitments of today and make decisions regarding the role of the federal government in the future given our aging society; and
- taking advantage of the window of opportunity presented by the current improvement in the federal government's financial position not only to reassess fiscal policies, but also to (1) review options for improving the efficiency and effectiveness of individual federal programs, (2) thoroughly reassess what government does and how government does business, and (3) revisit targeting approaches that distribute assistance to beneficiaries by recognizing the differences between wants, needs, and affordability.

It is also important to reach a consensus on needed changes and forge executive/legislative partnerships to promote effective implementation of agreed upon goals—both on the policy front and with regard to certain management reforms that are central to strengthening the performance and accountability of our federal government. For example, progress achieved to date in improving financial and information management and a results-oriented focus has only been attained through the use of a solid legislative framework and concerted, sustained executive and congressional attention. In this regard, congressional oversight is essential to further progress. Now is the opportune time to review, revise, and reinvigorate the oversight process to help address today's challenges and prepare our country for tomorrow.

In many government agencies, the transition to modern performance management, and along with it, to strategic human capital management, will require a cultural transformation that will take time. Changing what agencies do and how they do business is tough work. Many government organizations need to become less hierarchical, process oriented, stove piped, and inwardly focused than they have in the past. They will need to be more partnerial, results oriented, integrated, and externally focused in the future. To change in a meaningful and lasting manner, most people believe that one needs to have a “burning platform.” Stated differently, we must convince people that they and their organizations must change or there are likely to be serious consequences.

For the three agencies we are focusing on today--Defense, State, and VA--we have identified and reported management challenges that have hampered the economy, efficiency, and effectiveness of their support functions in carrying out their missions. To their credit, each of the agencies has implemented a number of changes to improve their operations, but much more needs to be done, especially in connection with the Defense Department. These challenges, many of which have been long-standing in scope, also underscore the critical role that the principles of performance-based management, as embraced in GPRA, can play in successfully providing the products, services, and results that taxpayers expect.

CHALLENGES FACING THE DEPARTMENT OF DEFENSE

While DOD has the most effective warfighting force in the world, the same level of excellence is not evident in many of the business processes that are critical to the achievement of the Department's mission in a reasonably economical, efficient, and effective manner. In addition to the governmentwide challenges in the human capital and computer security areas, we consider all or part of six areas relating to DOD's financial management, information technology, acquisitions, contracts, support infrastructure, and logistics to be high risk.

Performance and Accountability Challenges

- Developing strategic plans that lead to desired mission outcomes
- Hiring, supporting, and retaining military and civilian personnel with the skills to meet mission needs
- Establishing financial management operations that provide reliable information and foster accountability
- Effectively managing information technology investments
- Reforming acquisition processes while meeting military needs
- Improving processes and controls to reduce contract risk
- Creating an efficient and responsive support infrastructure
- Providing logistics support that is economical and responsive

Strategic Planning Shortfalls

Sound strategic planning is needed to guide improvements to DOD's operations. It also sets the fundamental direction of the agency, its purpose, what it hopes to achieve, and how it will do it. Without strategic planning, decisionmakers and stakeholders may not have the information they need to ensure that the Department has strategies that are well thought-out for resolving ongoing problems, achieving its goals and objectives, becoming more results oriented, and ensuring its accountability for the several hundred billion dollars annually allocated to the Department. While the Department has improved its strategic planning process, its strategic plan is not tied to desired mission outcomes. As noted in several of the other key challenges, sound plans linked to the Department's overall strategic goals are critical to achieving needed reforms. Inefficiencies in the planning process have led to difficulties in assessing performance in areas such as combat readiness, support infrastructure reduction, force structure needs, and the matching of resources to program spending plans.

Since the mid-1980s, we have reported that DOD employs overly optimistic planning assumptions in its budget formulation. As a result, DOD all too frequently has too many programs for the available dollars, which often leads to program instability, costly program stretch-outs, and program reductions and terminations. Moreover, optimistic planning makes defense priorities unclear because tough decisions and trade-offs between needs and wants are avoided. Until DOD presents realistic assumptions and plans in its future budgets, the Congress will lack the accurate and realistic information it needs to properly exercise its decision-making and oversight responsibilities. To help overcome inefficiencies in DOD's strategic planning processes and to promote more realistic budgeting, DOD must follow results-oriented management principles in performing the next Quadrennial Defense Review in 2001. To provide a clear picture of DOD's performance, we also recommend that DOD include more qualitative and quantitative goals and measures in its annual performance plan and report to gauge progress toward achieving mission outcomes.

Human Capital Challenges

Given the large number of military and civilian personnel within the Department, human capital management represents a huge challenge that impacts virtually every major activity. DOD is dealing with military personnel issues such as shortages of junior officers for the career force, problems in retaining certain skills (such as intelligence analysts, computer programmers, pilots, and acquisition workforce personnel), and the military services' failure to meet recruiting goals. The Department also faces significant challenges in managing its civilian workforce. For example, the sizable reduction in civilian personnel since the end of the Cold War has led to an imbalance in age, skills, and experience that is jeopardizing certain acquisition and logistics capabilities within DOD.

Moreover, over a third of DOD's current employees are more than 50 years old and approaching retirement. According to a February 2000 Defense Science Board Task Force study on Human Resources Strategy, approximately 58 percent of DOD's civilian workforce will be retirement eligible by 2005. The net effect is a workforce that is not balanced by age or experience and that risks the orderly transfer of institutional knowledge. Although we cannot say what the appropriate balance between younger and older employees should be, the continuing increase in the number of retirement-age employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

The Department has initiatives to address military and civilian human capital issues. However, to guide individual initiatives and link them together, we recommended that DOD assess the relative success and cost-effectiveness of the services' recruiting strategies and put tools in place for measuring success in reducing attrition.

Also, in recent testimony, we noted that DOD should better align its civilian human capital management with its strategic planning and core business practices. For example, during our work on the early phases of the DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base. Others have registered concerns about the fairness of the competitive sourcing process and whether a level playing field exists for competition between the public and private sector. In that regard, I have been legislatively mandated to convene a panel of experts to study the transfer of commercial activities currently performed by government employees to federal contractors, a procedure commonly known as "contracting out" or "outsourcing."

Financial Operations Reforms

While improved in recent years, financial management remains a high-risk area for DOD. For fiscal year 2000, none of the military services or the Department as a whole passed the test of an independent financial audit because of pervasive weaknesses in its financial management systems, operations, and controls, including an inability to compile financial statements that comply with generally accepted accounting principles. Also, despite genuine progress, ineffective asset accountability and lack of internal controls continue to adversely affect visibility over weapon systems and inventories. Further, unreliable cost and budget information negatively affects DOD's ability to effectively measure performance, reduce costs, and maintain adequate fund control. As we recently testified, we are concerned that many of the planned financial management improvement initiatives are designed to result in a one-time, year-end number for financial statement purposes. As such, they will not result in the production of timely, reliable, and useful financial and performance information for ongoing use by management. In addition, the Department's financial management deficiencies, taken

together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements.

To address these deficiencies, in the short term, DOD needs to focus on improving its basic processes and controls to better manage its every day operations. In the long term, a sustained commitment from the highest levels of DOD leadership will be needed to overhaul DOD's financial systems and to ensure that personnel throughout the Department share the common goal of establishing financial management systems and processes that can not only produce financial statements that can withstand the test of an audit, but more importantly routinely generate timely and reliable financial information for day-to-day management purposes.

Information Technology Challenges

Effective management of information technology is also key to implementing many of DOD's planned management reforms. However, significant management weaknesses in this area place the ultimate success of many reform initiatives at risk. Effective systems modernization requires the Department to implement fundamental management controls, such as integrated enterprise architectures, disciplined investment management practices, and mature system development and acquisition processes, that ensure mission performance and accountability. However, this is not occurring on a systematic basis within DOD. The Department recognizes that improvements are needed in information technology management, such as comprehensive and integrated enterprise architectures to guide and direct its modernization efforts and structured and disciplined processes for selecting and controlling business technology options. Equally important, we have also recommended that the Department ensure that corrective actions are taken to address identified computer security vulnerabilities and more accurately and realistically define the responsibilities, mechanisms, and expected outcomes of its efforts to manage and integrate information assurance throughout DOD. These vulnerabilities could seriously jeopardize operations and compromise the confidentiality, integrity, or availability of sensitive information.

Acquisition Reform

Acquiring modern, effective, reliable, and safe weapons for the military forces is central to accomplishing DOD's mission. However, the weapon systems acquisition process continues to be a high-risk area. Notwithstanding ongoing reform initiatives, the process is still too slow and costly. Pervasive problems persist regarding the process to acquire weapons; cost, schedule, and performance estimates; program affordability; and the use of high-risk acquisition strategies such as acquiring weapons based on optimistic assumptions about the maturity and availability of enabling technologies. Our work also shows that leading commercial firms are getting the kinds of outcomes from their development of new products that the Department seeks. Specifically, these firms are developing increasingly sophisticated products in significantly less time and at a lower

cost than their predecessors. Valuable lessons can be learned from the commercial sector and applied to the development of weapon systems. Leading commercial firms expect that their program managers will deliver high quality products on time and within budget. We believe DOD should be required to apply these types of practices in its acquisition management processes except in cases where there is a clear and compelling national security reason not to.

Contract Management Reform

Closely related to the weapon systems acquisition process is the contracting for goods and services. This is also a high-risk area at DOD. Over the last few years, several broad-based changes, including the establishment of key metrics, have been made to acquisition and contracting processes and management to improve Department and contractor relationships and rules. But we and the DOD Inspector General continue to identify risks in contracting, including (1) improving oversight and accountability in the acquisition of services, (2) preventing erroneous and improper payments being made to its contractors, (3) implementing commercial practices for contract pricing, and (4) managing health care contracts. Without effective control over its contract management activities, DOD will continue to risk erroneously paying contractors millions of dollars and perpetuating other financial management and accounting control problems.

Weak systems and controls also leave the Department vulnerable to fraud and improper payment. For example, DOD continues to overpay contractors, although the full extent of overpayments is not known. Under current law, contractors are not required to inform DOD of the overpayment or to return the money prior to DOD issuing a formal demand letter requesting repayment. In effect, the overpayment provides an interest free loan to the contractor. Contractors should be required to notify the government of overpayments when they become aware of them and to return the money promptly upon becoming aware of the overpayments. If they do not return the money promptly, there should be some economic consequence. We have testified that the application of commercial best practices, such as the use of more cost-effective buying strategies for commercial spare parts, can improve acquisition and contracting processes and help reduce contract risk.

Support Infrastructure Inefficiencies

Regarding specific operations challenges, DOD has to address inefficiencies in its support infrastructure. Again, while progress has been made in this area, more needs to be done if the Department expects to reduce infrastructure costs and improve business operations through its reform initiatives. After the Cold War, the defense force structure and military spending were reduced, and the Department realized it must make its operations and support infrastructure smaller, more efficient, and more responsive to warfighter needs and to create savings for other needs like weapons modernization. Although the Department has reduced its forces by about 25 percent and closed many

bases, the percentage of its budget spent on support infrastructure has remained relatively constant. Because of continued inefficiencies in its support infrastructure, this continues as a high-risk area for the Department. The effectiveness of many civilian agencies has also been undermined by outmoded organizational structures that drain resources needed to make improvements to mission delivery capabilities. We recommended that the Department develop and implement a comprehensive, integrated, and long-range plan to sustain and fully implement its reform initiatives and also right-size and recapitalize its facilities infrastructure.

Addressing facilities infrastructure will also require DOD to reach an agreement with the Congress regarding the need for additional base realignment and closure rounds. The Secretary of Defense and other officials have expressed concern that the Department continues to retain more infrastructure than needed, despite four base closure rounds between 1988 and 1995. Defense officials have proposed two additional rounds of base closures and estimates new savings of \$3.4 billion a year once realignment and closure actions were completed and the costs of implementing these actions were offset by savings. Our work has shown that, despite limitations in precision, past base realignment and closure recommendations will result in substantial savings once implementation costs have been offset and net savings begin to accrue. Further, we also found that the majority of communities surrounding bases that were closed from 1988 through 1995 were faring well economically in relation to the national average. For example, as of 1997, 68 percent of the communities had average or lower unemployment compared with 60 percent in 1988. The infrastructure problems in civilian agencies also suggest the possible relevance of a civilian facility closure and realignment process.

Logistics Support Inefficiencies

Providing economical and responsive logistics support is also central to achieving the Department's mission. While the system gets the job done, it is often described as a brute force process that is uneconomical and inefficient. Although DOD has progressed in improving logistics support, especially through the application of best inventory management practices, serious weaknesses persist throughout its logistics activities, and it is unclear to what extent its ongoing reengineering management improvement initiatives will overcome them. A key area of the logistics process that remains high risk is inventory management. The Department continues to spend more than necessary to procure and manage inventory. As of September 30, 1999, DOD records showed that the Department had inventory on order valued at about \$1.6 billion that would not have been ordered based on current requirements. At the same time, DOD has experienced equipment readiness problems because of a lack of key spare parts. For years, insufficient spare parts have been recognized as a major contributor to aircraft performing at lower mission capable rates than expected. Again, sound integrated plans for achieving logistics reforms are central to making improvements.

To enhance DOD's reengineering efforts, we have recommended that DOD develop an overarching plan that integrates the individual service and defense agency logistics reengineering plans to include an investment strategy for funding reengineering initiatives and details for how DOD plans to achieve its final logistics system end state. We also recommended that DOD reassess its schedule for testing, evaluating, and implementing the initiatives; establish a methodology showing the savings or improvements that come from reengineering concepts; and reassess its approach for addressing various combat command concerns, such as the presence of increasing numbers of contractor personnel on the battlefield. Also, to improve inventory management, we recommended that DOD make more use of supply-chain best management practices similar to those used in the private sector to help cut costs and improve customer service.

Observations on DOD's GPRA Performance Plan and Report

DOD has made substantial progress in improving its GPRA reporting. For example, DOD identified and discussed the roles of federal agencies in crosscutting activities, added more information on its efforts to ensure the credibility of its performance information, and included initial goals and performance measures for financial management. However, the extent to which DOD has achieved the key program outcomes is not completely clear in its fiscal year 1999 performance report and fiscal year 2001 performance plan. One of the reasons for the lack of clarity is that most of the key program outcomes DOD is striving to achieve are complex and interrelated and may require a number of years to accomplish. Another, however, is that DOD did not provide a full assessment of its performance. The report does not include any performance goals and measures related to several key outcomes. Also, reported measures often did not address a cost-based efficiency aspect of performance, making it difficult for DOD to fully assess the efficiency as well as effectiveness of its performance. Additionally, DOD's performance report and plan did not include goals or measures to assess progress in overcoming a major management challenge confronting the Department, namely contracting. We recommended that the Secretary of Defense enhance DOD's fiscal year 2002 performance plan and fiscal year 2000 performance report by considering additional qualitative and quantitative information in the areas cited by our analysis.

CHALLENGES FACING THE DEPARTMENT OF STATE

In carrying out its mission, the Department of State faces a number of significant performance and accountability challenges, as our work has shown. In addition to the governmentwide challenges in the human capital and computer security areas, the State Department's challenges cover a wide spectrum of U.S. government operations around the world affecting Americans at home and abroad.

Performance and Accountability Challenges

- Improve the security and maintenance of U.S. facilities overseas
- Help decrease the level of illegal drugs entering the United States
- Address the threats illegal immigration continues to pose to Americans at home
- Address additional challenges to building a high-performing organization

Embassy Security

State's most critical infrastructure need is to enhance the protection of U.S. embassies and other overseas facilities in response to the increased threat due to terrorism. State has taken many steps to upgrade security at its diplomatic missions around the world since the 1998 bombings in Africa. These improvements include deploying hundreds of additional security agents overseas and enhancing physical security through a variety of means. In addition, State has begun replacing some of its most vulnerable embassies and consulates with more secure facilities. State estimates that it will cost \$15 billion over 10 to 15 years for projects in more than 180 locations. Our work has shown that State will face several challenges in administering this extensive security construction program, including right-sizing its overseas posts; improving long-term planning for the program; and working with the Congress in charting the future course, priorities, and funding levels for the program. Right-sizing of overseas posts, which may include use of relatively large regional or "hub" embassies, with smaller embassies in other locations, may have potential for reducing overall security costs and vulnerabilities. We recommended that State develop a long-term, capital construction plan to assist decisionmakers in reaching consensus on the program. Successful implementation of overseas security enhancements and construction activities will improve the safety and security of U.S. employees working abroad.

Drug Control

Illegal drugs, primarily cocaine and heroin, continue to threaten the health and well-being of American citizens. The principal source of cocaine and heroin entering the United States is South America, and specifically Colombia. In 1993, the United States developed a policy designed to reduce the production of illegal drugs in South America and stem their flow through Latin America and the Caribbean. Our work has shown that billions of dollars invested by the United States and foreign countries to carry out this policy have resulted in the arrest of major drug traffickers and the seizure of large

amounts of drugs, but the availability of drugs in the United States has not been materially reduced. To continue to attack this problem, the Congress recently provided more than \$1 billion in counternarcotics assistance to Colombia, which State will largely oversee. In October 2000, we reported that State had experienced difficulty effectively managing past assistance to Colombia and recommended that State develop implementation plans to ensure that the new assistance is well managed and used effectively. We also noted that a sustained long-term commitment will be necessary to notably reduce the level of illegal drugs entering the United States. Ultimately, to successfully implement an international drug control strategy, State will have to coordinate with numerous agencies, including Defense, Justice, and Treasury.

Illegal Immigration

State is responsible for providing expeditious visa processing overseas to qualified applicants. State, in conjunction with the U.S. Immigration and Naturalization Service, must also prevent the entry of those who are a danger to U.S. security or are likely to remain in the United States illegally. Over the years, State has introduced new technologies, equipment, and controls designed to improve visa processing and reduce the incidence of fraud. However, based on our work and that of State's Office of Inspector General, visa processing remains a significant challenge for the Department. The reasons for these problems include staffing shortages, inexperienced staff, insufficient staff training, and difficulties in managing visa antifraud programs. State recognizes that it must remain vigilant in these areas to further reduce the vulnerability of the visa system and has several initiatives underway or completed to counter visa fraud.

Additional Challenges

In addition to the specific performance challenges cited previously, State faces several other agencywide performance and accountability challenges that hamper its ability to become a high-performing organization. These challenges are (1) better utilizing the 1993 Government Performance and Results Act process to help achieve its objectives, (2) enhancing communication and information technology and security, (3) improving financial management, (4) adopting modern human capital practices, and (5) restructuring the U.S. overseas presence to improve the efficiency and effectiveness of operations. State has recognized these challenges and has demonstrated a commitment to addressing them, as follows:

- State has improved its strategic and performance planning to better capture its goals and measures, but its performance reporting needs to better demonstrate progress toward meeting its goals.

- State has implemented many of our information technology and security recommendations; however, new challenges have emerged as State embarks on developing an interagency technology platform with its inherent security risks.
- State has made progress toward its goal of improving financial systems but still needs to bring its systems into full compliance with federal financial systems requirements and resolve internal control weaknesses. Unlike previous financial reports, State was on time in issuing its financial statement report that contained an unqualified opinion on its fiscal year 2000 financial statements. However the auditors reported that State's financial management systems were not in compliance with the Federal Financial Management Improvement Act of 1996, which requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management system requirements. Further, a material weakness and several reportable conditions in its internal controls remain unresolved.
- Consistent with our studies of best practices in high performance organizations, State's in-house studies highlighted the importance of developing a human resource strategy that is in line with its mission. For example, the Overseas Presence Advisory Panel convened by the Secretary of State concluded that State needed to reform its human resource practices because it does not currently have the flexibility, resources, or strategic organization required to support its mission.
- Over the years, we have recommended that State reassess its overseas structure in light of changing political, economic, security, and technological requirements, and, this effort is currently underway.

We believe that addressing these issues will be critical to State's ability to effectively carry out U.S. foreign policy.

Observations on State's GPRA Performance Plan and Report

As required by GPRA, State has clearly articulated its strategic and diplomatic readiness goals of regional security, economic growth, and more. Our review of State's performance plans for fiscal years 1999 through 2001 indicates that State continues to improve its planning but additional improvements are needed to measure and assess performance in a meaningful way. State's fiscal year 2001 performance plan provides much more detail on its intended performance compared to prior years' plans. However, State's approach of listing individual performance goals and measures by bureau does not lend itself to assessing the agency's performance as a whole. Further, the Department has not developed overall priorities for achieving its strategic goals, and, consequently, has no overall basis for allocating resources to priorities.

The Department's fiscal year 1999 performance report, the first one required under GPRA, lists numerous foreign policy accomplishments from the signing of peace agreements to trade agreements, but it does not adequately demonstrate State's level of success or participation in achieving the desired outcomes. Additionally, it was unclear how much the Department contributed to some of the outcomes it discussed or how unmet goals would be achieved in the future. For example, under the regional stability strategic goal, the performance report states that "U.S. access to Persian Gulf oil resources continued uninterrupted" but does not identify how the Department has contributed to that positive outcome. Under expanding foreign markets, State did not indicate how it would meet its unmet targets for completing bilateral investment treaties with target countries.

CHALLENGES FACING THE DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs' mission reflects the nation's historic commitment to care for veterans, their families, and their survivors. VA administers a variety of programs, including one of the world's largest health care systems. The Department estimates that, in fiscal year 2000, it spent about \$42 billion—more than 80 percent of its total budget—to provide health care services to 3.6 million veterans and to pay disability compensation and pensions to over 2.5 million veterans and their families and survivors. In addition to the governmentwide challenges in the human capital and computer security areas, VA faces several performance and accountability challenges.

Performance and Accountability Challenges

- Ensure timely and equitable access to quality VA health care
- Maximize VA's ability to provide health care within available resources
- Process veterans' disability claims promptly and accurately
- Develop sound agencywide management strategies to build a high-performing organization

Health Care Access

Over the past several years, VA has undertaken many initiatives to improve veterans' overall access to VA-provided health care, such as shifting its emphasis from inpatient to outpatient primary care and increasing the number of outpatient clinics it operates. VA has also undertaken efforts to improve the quality of the care it provides, including

introducing patient safety initiatives. However, several areas require continued emphasis if VA is to achieve its goals. For example, VA cannot ensure that veterans receive timely care at VA medical facilities. Nor can it ensure that it has maintained the capacity to provide veterans who have spinal cord injuries, serious mental illnesses, or other special needs the care that they require, as mandated by the Congress. VA must also assess its capacity to provide long-term care for its aging veteran population and respond to emerging health care needs, such as treating veterans for hepatitis C. At the same time, VA is facing a potential shortage of skilled nurses—if nationwide projections for the next several years bear out, which could have a significant effect on VA's quality of care initiatives.

To begin to respond to these concerns, VA must address long-standing weaknesses in the quality and reliability of its workload and cost data. Without good data, VA cannot link its strategic planning to areas that need improvement or emphasis, appropriately budget for and allocate funds and other resources, or measure its performance in providing care for all veterans enrolled in its health care system. We have made recommendations related to improving data on waiting times and services for disabled veterans. More specifically, we recommended that VA determine the extent and causes of waiting times and then develop a spending plan with initiatives that would solve the identified problems, as well as enhance monitoring of potential service delivery problems for veterans.

Health Care Resource Utilization

To expand care to more veterans and respond to emerging health care needs, VA must continue to aggressively pursue opportunities to use its health care resources—including its appropriation of about \$20 billion—more wisely. VA has reduced its per-patient costs—one of its key performance measures—by 16 percent, but it could achieve additional efficiencies by realigning capital assets and human capital based on changing demographics and veterans' health care needs. For example, VA needs to further modify its infrastructure to support its increased reliance on outpatient health care services and expand its use of alternative methods for acquiring support services, such as food and laundry. VA spends as much as one-quarter of its annual health care budget to operate and maintain about 4,700 buildings and 18,000 acres of property. Savings achieved from eliminating or reducing unneeded facilities could be reinvested toward providing more and better care to veterans. However, the ability to close unneeded facilities may not totally be within VA's control and, ultimately, a nonpartisan commission similar to DOD's base closure process may be necessary.

VA also needs to pursue additional opportunities with DOD to determine cost-effective ways to serve both veterans and military personnel, including sharing services and facilities. For example, opportunities exist to jointly procure pharmaceuticals, medical supplies, and equipment that each now procures separately. In addition, VA must ensure

that it collects the money it is entitled to from third-party payers for health care services they have provided to veterans whose conditions are not service-connected.

To start to realize these efficiencies, VA has committed to systematically assessing its future infrastructure and health care services needs within its 22 Veterans Integrated Service Networks as well as continuing to involve key officials in its strategic planning efforts and decision-making processes. We have made several recommendations to VA that would help improve its infrastructure planning, provide more cost-effective support services, and enhance sharing with DOD.

Disability Compensation

VA must also turn around its long-standing difficulties in ensuring timely and accurate decisions on veterans' claims for disability compensation. Veterans with a broad array of conditions, ranging from combat injuries to chronic illnesses (such as diabetes) incurred or aggravated while on active duty, are eligible for compensation. VA has improved its quality assurance system in response to our recommendations, but large and growing backlogs of pending claims and lengthy processing times persist. Moreover, veterans are raising concerns that claims decisions are inconsistent across VA's 57 regional offices. VA is taking steps to improve its information systems, performance measures, training strategies, and processes for reviewing claims accuracy. However, VA also needs better analyses of its processes in order to target error-prone types of cases and identify processing bottlenecks – as well as determine if its performance goals are realistic. In addition, although VA disability payments are intended to compensate for potential losses in earnings capacity, VA's outmoded rating schedule reflects the industrial economy of 1945 rather than today's knowledge-based economy.

VA also needs to be vigilant in its human capital strategies to ensure that it maintains the necessary expertise to process claims as newly hired employees replace many experienced claims processors over the next 5 years. VA's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government.

Management Capacity

Finally, VA has much more work to do to become a high-performing organization and increase veterans' satisfaction with its services. It must revise its budgetary structure and develop long-term, agencywide strategies for ensuring an appropriate information technology infrastructure and sound financial management. If its budgetary structure linked funding to performance goals, rather than program operations, VA and the Congress would be better positioned to determine the Department's funding needs. VA's information technology strategy, which aims to provide veterans and their families coordinated services, must be successfully executed to ensure that VA can produce reliable performance and workload data and safeguard financial, health care, and

benefits payment information. Last, similar to most other major agencies, VA's financial management strategies must ensure that its systems produce reliable cost data and address material internal control weaknesses and Federal Financial Management Improvement Act requirements. In this regard, VA received an unqualified opinion on its consolidated financial statements for fiscal years 2000 and 1999. However, the auditor identified computer security and integrated financial management system and control issues as material internal control weaknesses and reported that VA was not in substantial compliance with federal financial management systems requirements under the Federal Financial Management Improvement Act of 1996.

Observations on VA's GPRA Performance Plan and Report

Overall, VA's fiscal year 1999 performance showed progress in providing quality health care at a reasonable cost. On the other hand, VA has not made significant progress in restructuring its health care infrastructure. The performance goals were objective, measurable, quantifiable, and generally results-oriented. For cases in which goals were not met, the performance report provided means and strategies for achieving future goals. In addition, the report provides means and strategies for achieving future goals that VA considers most important. VA revised its health care performance goals and measures for fiscal years 2000 and 2001 to reflect actual fiscal year 1999 performance as well as VA's latest evaluation of how to best measure its success. VA also made other changes, including dropping and adding performance goals, because some goals were unrealistic, too many goals made it difficult to focus on the more outcome-oriented ones, and some goals were met early.

VA failed by substantial margins to meet its fiscal year 1999 performance goals for timely and accurate processing of veterans' disability compensation and pension benefit claims. The performance reports explained why it failed to meet its goals and provided means and strategies for meeting its future goals. VA also revised its performance goals for fiscal years 2000 and 2001 to make them more realistic. Although its goals are objective, measurable, and quantifiable, VA is still developing results-oriented goals for the compensation and pension programs.

SUMMARY

This is a particularly opportune time to look at the management challenges facing the federal government and especially as we did today, the challenges facing the Departments of Defense, State, and Veterans Affairs. This is a time of transition for the Congress and the administration. As our nation moves into the 21st century, the 107th Congress and the new administration face an array of challenges and opportunities to enhance the performance and ensure the accountability of the federal government for the benefit of all Americans. We should seize the opportunity to address the governmentwide challenges, including addressing such issues as what the government does and how the government should do business in the 21st century. At the same time,

we have an obligation to look beyond the near term to prolonged fiscal challenges including such things as the long-term implications of today's decisions and the impacts of the coming demographic tidal wave.

Specifically, as it relates to DOD, State, and VA, the agencies have taken actions to address the various challenges we have identified. However, as we have noted today, much more needs to be done and this is particularly the case for DOD. For example, DOD is working to improve its weapon systems acquisition process, but it still needs to create a better environment for starting and managing weapon systems development programs. Similarly, State is working to improve security at its diplomatic missions around the world by deploying hundreds of additional security agents overseas and replacing some of its vulnerable embassies and consulates with more secure facilities, but faces several challenges in administering the extensive security construction program. In addition, VA is working to improve veterans' overall access to VA-provided healthcare, but it still must continue to aggressively pursue opportunities to use its health care resources more wisely.

Effectively addressing governmentwide and specific challenges will require sustained attention by the Congress and the administration over a period of years. In our report on *Major Management Challenges and Program Risks: A Governmentwide Perspective*, we lay out various approaches that have provided effective oversight of key management challenges such as the year 2000 challenge and implementation of key legislation on government performance results, financial management, and information technology management. We also suggest other mechanisms that could be used to facilitate oversight.

The stakes are high, and we stand ready to help the Congress and the administration to address these management challenges by providing professional, objective, and constructive assistance. Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you or other members of the Subcommittee may have.

MANAGEMENT CHALLENGES

DOD **STATE** **VA**

Strategic Challenges

Planning	X	X	X
Human Capital	X	X	X
Information Technology	X	X	X
Financial Management	X	X	
Infrastructure	X	X	X
Interagency Coordination	X	X	X

Operational Challenges

Acquisition	X		
Contracts	X		
Logistics	X		
Embassy Security		X	
Drug Control		X	
Illegal Immigration		X	
Health Care	X		X
Disabilities Programs			X

Note: **Bold “X”** indicates all or a portion of this area was deemed to be high risk in GAO’s January 2001 High-Risk Series update (GAO-01-263). The **Human Capital** and **Information Technology** challenges are in bold to indicate that they are governmentwide high-risk areas..

Source: GAO’s Performance and Accountability and High-Risk Series and Government Performance and Results Act reports.

PERFORMANCE AND ACCOUNTABILITY SERIES

Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO-01-241).

Major Management Challenges and Program Risks: Department of Agriculture (GAO-01-242).

Major Management Challenges and Program Risks: Department of Commerce (GAO-01-243).

Major Management Challenges and Program Risks: Department of Defense (GAO-01-244).

Major Management Challenges and Program Risks: Department of Education (GAO-01-245).

Major Management Challenges and Program Risks: Department of Energy (GAO-01-246).

Major Management Challenges and Program Risks: Department of Health and Human Services (GAO-01-247).

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO-01-248).

Major Management Challenges and Program Risks: Department of the Interior (GAO-01-249).

Major Management Challenges and Program Risks: Department of Justice (GAO-01-250).

Major Management Challenges and Program Risks: Department of Labor (GAO-01-251).

Major Management Challenges and Program Risks: Department of State (GAO-01-252).

Major Management Challenges and Program Risks: Department of Transportation (GAO-01-253).

Major Management Challenges and Program Risks: Department of the Treasury (GAO-01-254).

Major Management Challenges and Program Risks: Department of Veterans Affairs (GAO-01-255).

Major Management Challenges and Program Risks: Agency for International Development (GAO-01-256).

Major Management Challenges and Program Risks: Environmental Protection Agency (GAO-01-257).

Major Management Challenges and Program Risks: National Aeronautics and Space Administration (GAO-01-258).

Major Management Challenges and Program Risks: Nuclear Regulatory Commission (GAO-01-259).

Major Management Challenges and Program Risks: Small Business Administration (GAO-01-260).

Major Management Challenges and Program Risks: Social Security Administration (GAO-01-261).

Major Management Challenges and Program Risks: U. S. Postal Service (GAO-01-262).

High-Risk Series: An Update (GAO-01-263).

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