MANAGEMENT AND THE PRESIDENT'S BUDGET

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY
AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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MANAGEMENT AND THE PRESIDENT'S BUDGET

WEDNESDAY, MARCH 26, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND
FINANCIAL MANAGEMENT,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2154, Rayburn House Office Building, Hon. Todd R. Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Blackburn, Towns, and Maloney.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Kara Cralles and Larry Brady, professional staff members; Mark Stephenson, professional staff member; and Jean Gosa, assistant clerk.

Mr. PLATTS. I want to welcome you to the Subcommittee on Government Efficiency and Financial Management's first hearing in the 108th Congress. I am eager to investigate some of the issues that face the operation of the Federal Government and build on some of the ideas that the distinguished former-Chairman Steve Horn examined. At a time of increasing government deficits, greater efficiency and financial accountability in administration of Federal Government operations is an ever-increasing top priority. I look forward to working with my esteemed colleagues on this subcommittee throughout the 108th session.

Today the Subcommittee on Government Efficiency and Financial Management is holding the first of a series of three hearings on "Governing With Accountability." This hearing will focus on the President's Management Agenda and the impact the agenda has had on the improvement and operational efficiency and effectiveness of the executive branch. We will also explore how the President's Management Agenda has impacted the budget numbers included in the President's fiscal year 2004 budget.

Since I was first elected to office as a member of the Pennsylvania State Assembly, one of my main concerns has consistently been to ensure that government entities operate in the most efficient and accountable manner possible. In the State Assembly, I sat on a committee that examined many of these issues at the State level and since being elected to the U.S. House of Representatives, my interest in accountability and efficiency has grown significantly. I am pleased to have the opportunity to explore these issues with my colleagues at the Federal level.

The Federal Government has a responsibility to the taxpayers of this country to be productive and accountable. Unfortunately, many agencies are unable to demonstrate the value that they provide for the tax dollars that are spent on the programs they administer. Unfortunately, waste and inefficiency are found throughout the Federal Government. Only improved management and accountability will begin to address these problems.

President Bush and his administration are to be strongly commended for having made improving the efficiency and effectiveness of Government a top priority. The President's Management Agenda, which was unveiled in August 2001, targets five major areas of Government that need well-focused attention: first, hiring and retaining a skilled, motivated Federal work force; eliminating the Government's pervasive inability to properly manage its money; ensuring that Federal programs achieve effective results from their massive investment of tax dollars; expanding electronic government; and increasing public-private competition for commercial-type Federal functions.

Building on the Government Performance and Results Act, an executive branch management scorecard was developed to evaluate agencies' performance in each of these five areas. The scorecard uses a traffic light approach: green for success, yellow for mixed results, and red for unsatisfactory. The Office of Management and Budget does the scoring. This is the second year that agencies have been graded on each of these five areas. The initial agency scores for fiscal year 2001 were predominantly red. In fiscal year 2002, agencies were not only graded on their current status in implementing these management initiatives, they were also graded on their level of progress. Since last year, in the fiscal year 2002 report, agencies' status scores continue to show red results. However, the agencies are making progress, as evidenced by the large number of agencies with green lights on their progress scorecards.

Today we will have several witnesses who are well versed on the President's Management Agenda and the progress that agencies are making. We are honored to have one of our esteemed colleagues, Congressman Pete Sessions from Texas, who is the chairman of the Results Caucus. Congressman Sessions is joining us today as our first witness and as a participant in the hearing. After Mr. Sessions' statement, we will proceed to our seated panel of witnesses: Ms. Pat Dalton, Director of Strategic Issues at the General Accounting Office; the Honorable Mr. McPherson, who is the Chief Financial Officer at the Department of Agriculture and as a proud Member of the Congress representing the 19th District, also a native of the 19th District of Pennsylvania, so I am especially glad to have a fellow native 19th District resident here; the Honorable Angela Styles, Administrator for Federal Procurement Policy at the Office of Management and Budget; and, finally, Mr. Mark Forman, Associate Director of Information Technology and E-Government at the Office of Management and Budget. I certainly look forward to hearing each of your testimonies here today.

I also look forward to working with our distinguished ranking member, Mr. Ed Towns, whose experience and insight will be very valuable for this committee. I respect his deep involvement in the community he serves and look forward to working closely with him and all members of the committee.

[The prepared statement of Hon. Todd Russell Platts follows:]

ONE HUNDRED EIGHTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

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Opening Statement
Chairman Todd R. Platts
Subcommittee on Government Efficiency and Financial Management
March 26, 2003

I want to welcome you to the Subcommittee on Government Efficiency and Financial Management's first hearing in the 108th Congress. I am eager to investigate some of the issues that face the operation of the federal government and build on some of the ideas that the distinguished former-Chairman Steve Horn examined. At a time of increasing government deficits, greater efficiency and financial accountability in the administration of Federal government operations is an ever-increasing top priority. I look forward to working with my esteemed colleagues on this subcommittee throughout the 108th Congress.

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- Hiring and retaining a skilled, motivated federal workforce;
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Today we will have two panels of witnesses who are well versed on the President's Management Agenda and the progress that agencies are making. For our first panel we are honored to have one of our esteemed colleagues, Congressman Pete Sessions, who is the Chairman of the Results Caucus. On the second panel, we will hear from Ms. Pat Dalton, Director of Strategic Issues at the General Accounting Office; the Honorable Edward McPherson, who is the Chief Financial Officer at the Department of Agriculture; the Honorable Angela Styles, Administrator for Federal Procurement Policy at the Office of Management and Budget; and finally Mr. Mark Forman, Associate Director of Information Technology and E-Government at the Office and Management and Budget. I look forward to hearing your testimony today.

I look forward to working with our distinguished Ranking Member, Mr. Towns whose experience and insight will be very valuable for this subcommittee. I respect his deep involvement in the community he serves and look forward to working closely with him and the rest of the minority side of this subcommittee.

Mr. PLATTS. I now yield to the gentleman from New York, Mr. Towns, for the purpose of making an opening statement.

Mr. TOWNS. Thank you very much, Mr. Chairman. Let me congratulate you on being chosen to lead the subcommittee and thank you for holding this hearing. I am looking forward to working with you, and let me just say to you that in spite of the negative things you heard about me, you should wait and let time answer that question. Mr. Chairman, in spite of all the negative things you heard about me, you should wait around and let time answer that question. But, anyway on a serious note, there is a long history of working together in a productive manner in this committee. I am confident we will continue that tradition in this Congress.

Today's hearing focuses on the President's Management Agenda to improve the performance and accountability in Federal Government. Initiatives such as these have been going on for more than 50 years and have been undertaken by administrations of both political parties. This should come as no surprise because increasing the efficiency of the Federal Government requires a sustained and concerted effort. Additionally, it has not been a partisan issue.

While some of these efforts have been more successful than others, they are all worthwhile. The public deserves a Government that is effective and responsive.

Improving the management of the Federal Government may be more critical now than ever before in the history of this country. The impending retirement of a significant number of workers from the Federal Government requires agencies to plan and forecast their staff skills, needs, and competencies. The rise of global terrorism and the creation of the new Department of Homeland Security require the Government to be focused on performance-based measures.

With that said, I do have some concerns, Mr. Chairman, with the agenda. Although I do believe that we should look to the private sector as a model to make the Government more efficient, we cannot forget that the Federal Government is not a private business. There are some distinctions that should not be eliminated. For example, the Civil Service system has served this Nation well and it should not be systematically dismantled.

Additionally, the President's agenda would grade agencies on their success in contracting out government jobs to the private sector. I oppose this objective. I think it is wrongheaded to measure agencies in their ability to meet such a goal.

I look forward to hearing from today's witnesses on the progress the administration is making on its management agenda as well as their response to some of the concerns that I have raised.

On that note, Mr. Chairman, I yield back, and I am eager to listen to the witnesses.

Mr. PLATTS. Thank you, Mr. Towns.

I would now like to welcome our esteemed colleague from Texas, Mr. Pete Sessions. Mr. Sessions is a former member of the Government Reform Committee and is currently chairman of the House Results Caucus. The Results Caucus is comprised of eight members who are dedicated to making the Government more fiscally responsible and efficient. We are honored to have Mr. Sessions today as both a witness and a participant in the hearing.

We appreciate your joining us, and we welcome you now to proceed with your statement.

STATEMENT OF HON. PETE SESSIONS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SESSIONS. Chairman, thank you so much. It is a great honor for me to be with you at this important event today.

And for those people with longer tooths, and there are a good number of them in the audience today, including Angela Styles and Robert Shay, who have been a part of this process for a long time.

I want to say, Mr. Chairman, that I believe that you will be a part of a legacy that was established by Chairman Horn, who, years ago, when he undertook this task as subcommittee chairman, began the process to deal with not only Government efficiency, but also what I think was inherently good for employees of the Federal Government, and that is to make their jobs better so that they would find more enrichment in what they did, as well as pay. And I think that Chairman Horn had that legacy.

One of the other things, Mr. Chairman, that he brought to the table was the scorecard. The scorecard that we have before us today is the one that is immediately to my left that is the newest one that we are working from. And today, in particular today, what I would like to do is to highlight at least one area, and that is if we look at competitive outsourcing or competitive sourcing, as it is called. As we look at that, you will see that it is entirely red on the left side of the chart. This is as of the end of last year; it is an internal rating; it is how each of the agencies are rated on the kind of performance that they have had.

Without jumping all over people, I would like to say it is probably the toughest area. It is an area that there is not complete agreement on, certainly not within the administration, nor within Government employees who comprise not only the union, but other governmental bodies.

What is important to look at is that we are seeing progress that is being made, and this is one thing that Chairman Horn, through this subcommittee and through other factors, put into play. We want to find where we are moving from one color to the next, obviously from green to yellow, yellow to red. But you will see that on this chart there are a good number of arrows which designate an upward mobility and upward trend. I think today part of the focus of this hearing is going to be about competitive sourcing, and it will be important to hear what those witnesses who we have in front of us will say.

The good part of this is that from the scorecard there has been an 11 percent improvement since September 11, 2001, and that means that the Government has had to become more efficient and look at, inherently, those things that it should be doing, and I am proud of that.

Also, I would like to note today that the private sector has really been a huge part of this success; they have not only worked with the Government and government employees, but they have worked to find ways to solve problems that the Government has had, and I think it has had, in a big sense, a way for the Government to

work together with these outside industries to find success in what they are doing.

Also, Mr. Chairman, I would like to note and also to ask unanimous consent that it would be accepted into the record an article that appeared in the Washington Post, dated March 25, that talks about more than one-third of Federal employees who took part in a governmentwide survey said they were considering leaving their jobs. And I think that should be something that should be part of some discussion and certainly what this subcommittee would look at, but I would ask unanimous consent that be accepted.

Mr. PLATTS. Without objection, it is accepted.

Mr. SESSIONS. Last, the things that I wanted to focus on today that I believe have a lot to do with the success of this administration, a lot of it to do with Angela Styles. Angela Styles, as Administrator for Procurement Policy for the Bush administration, I believe has been a part of a new A–76 process. And there are three things in particular that I would like to highlight which I think that are good, and that is that the new A–76 process will speed up competitions. The current average today is about 3 years within DOD for A–76s to be accepted, and there are new initiatives that will encourage agencies to take no more than 12 months to complete competition. That is important because people don't want to get into a competitive circumstance if they do not know what the end result would be for time.

No. 2, it makes government functions visible to the public. What they are doing is that we are requiring the Government agencies to now make public all the things that they wish to do when they deal with commercial inventories and how they are dealing with the circumstances to have commercial and competitive sourcing.

And, last, it implements the President's Management Agenda. And I believe that this President is well on target to understanding Government efficiency and the things that in this new era Government needs to do to assume its role so that the taxpayers of this country and the people are well served.

With that said, Mr. Chairman, I want to thank you for the opportunity to be here with you today. I do intend to be here for a few minutes and hear the testimony that comes forth. Thank you.

[The prepared statement of Hon. Pete Sessions follows:]

Statement of
Congressman Pete Sessions

Before the
Subcommittee on Government Efficiency and Financial Management

March 26, 2003

Thank you Mr. Chairman for giving me the opportunity to speak before this subcommittee. Last year I spoke before Chairman Horn's subcommittee and expressed my strong interest in the management reforms that President Bush is attempting to achieve, as exemplified by the "Management Scorecard." As chairman of the Results Caucus, I am pleased to congratulate President Bush on his efforts to afford accountability in the Budget.

While we have passed many reforms since the Government Performance and Results Act (GPRA) in 1993, we still have many management problems in our government to overcome. We must address these problems in a holistic way from both the executive and legislative branches. The presidential budget begins the process of tying together budget items to performance and accountability. The Administration is committing itself to achieving immediate, concrete, and measurable goals in the short-run. Since I spoke at Chairman Horn's hearing last year, much progress has been made, as evidenced by the scorecard.

By holding agencies accountable, we can prove that taxpayer money is being spent in a wise manner. We will no longer focus on how much funding has increased over last year's base level, but what that funding has accomplished. Departments and agencies are not solely responsible for problems that they encounter while serving the public. Sometimes Congress enacts laws that restrain agencies from managing in a more effective manner. But Congress also has opportunities to eliminate these restrictions.

Congressman Hal Rogers represents the positive role that Congress has played by demanding accountability for performance in his area of expertise. As chairman of the House Appropriations Transportation Subcommittee, Chairman Rogers cut the bonus pool for FY 2002 at the Federal Aviation Administration by half and bonus money at the National Highway Traffic Safety Administration by one-seventh because the agencies failed to meet their target under GPRA.[1]

Unfortunately Congress alone cannot hold agencies and departments accountable for their performance. The Administration understands this. In response they have created a simple "traffic light" grading system. Often found in well-run businesses, the grading system provides the agencies and departments with target areas from which to improve.

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[1] "A Move to Tie Bonuses to Executives' Performance." Stephen Barr. *The Washington Post* January 27, 2002.

The management scorecard serves as a gauge of results and brings a corporate efficiency to the federal government.

The abundance of red lights in the initial release reveals the poorly managed agencies and departments that this Administration inherited. This system provides a map for management reform and I look forward to the day that green lights outnumber red. President Bush has set the agenda for reforming the Budget and government efficiency. Congress must share the responsibility.

While it is obvious that there are many improvements from the last scorecard, the current scorecard shows a glaring deficiency – all red in the category of competitive scoring. The private sector plays a crucial role in supporting our government's services. The private sector often possesses technology capabilities that our government cannot produce on its own. We must strive to bring the competitive sourcing area to green.

Agencies and departments should not be excused from meeting certain conditions due to the fact that they are a government entity. The federal government should be held to the same strict performance measures as private sector businesses in order to achieve the highest results for its customers – in this case, the American people.

Reform based presidential budget initiatives in the past often faded away due to a lack of oversight from Congress. The myriad of items consuming Congress' agenda should serve as no excuse to forget the accountability measures in future budgets. By setting high standards of demanding accountability from itself, the Administration will need full support from Congress. It is Congress' obligation to mirror President Bush's high standards and offer assistance to the President for reaching accountability.

Now more than ever, we need strong leadership from the Executive level to end years of unaccountable performance from agencies and departments. We know what needs to be done by viewing the red lights. We now have that strong leadership at the Executive level and a Congress in place to hold the Administration accountable for budgetary goals. I ask my colleagues to support President Bush's plan to promote accountability for performance in the budgetary process.

Mr. PLATTS. Thank you, Mr. Sessions, for your statement and again for joining us and giving your years of focus and experience on the issues of Government efficiency and results. We certainly look forward to continuing to work with you and all members of the Results Caucus as we move forward this session.

I would like now to administer the oath to our witnesses and would ask that each witness and anyone who might be advising each of the witnesses during their testimony to stand, raise their right hands, and take the oath together. We will then proceed to the testimony.

[Witnesses sworn.]

Mr. PLATTS. Thank you. You may be seated. And the clerk will note that all witnesses have affirmed the oath.

I would like to now proceed to the testimonies. Ms. Dalton, we will begin with you, followed by Mr. McPherson, Ms. Styles, and Mr. Forman. The subcommittee appreciates the substantive written testimonies that each of the witnesses have submitted and we have had the chance to review, and I would ask that each witness keep their oral testimony to less than 5 minutes.

Before we begin, I would also like to recognize that we are delighted to have Ms. Styles' soon to be 4-year-old daughter Ellie here with us today and, my understanding, getting to witness her mother testifying for the first time.

Ms. STYLES. Thank you very much. She is here today in the back. Or she was. She may have already had to leave.

Mr. PLATTS. Well, hopefully we didn't scare her off. I will have to do better and have my little 4-year-old girl Kelsey with me next time so they can have a joint effort to be more entertained than maybe hearing us speak. But we are delighted to have her with us.

Ms. STYLES. Thank you very much.

Mr. PLATTS. Ms. Dalton, if you would please proceed with your testimony.

STATEMENTS OF PATRICIA A. DALTON, DIRECTOR, STRATE- GIC ISSUES, U.S. GENERAL ACCOUNTING OFFICE; EDWARD R. MCPHERSON, CHIEF FINANCIAL OFFICER, U.S. DEPART- MENT OF AGRICULTURE; ANGELA B. STYLES, ADMINIS- TRATOR FOR FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET; AND MARK A. FORMAN, ASSO- CIATE DIRECTOR, INFORMATION TECHNOLOGY AND E-GOV- ERNMENT, OFFICE OF MANAGEMENT AND BUDGET

Ms. DALTON. Thank you, Mr. Chairman, Mr. Towns, Mr. Ses- sions. It is a pleasure to be here today to discuss the continuing progress in implementing the President's Management Agenda.

There are clear links between the agenda's initiatives in the high-risk areas and major management challenges recently identi- fied by GAO in our Performance and Accountability and High-Risk Series. Many of these issues are complex and longstanding.

Overall, there has been continuing progress in implementing the governmentwide initiatives. This progress, however, has been un- even, and a continuing focus is needed to improve the management and performance of the Federal Government and ensure proper ac- countability. Further, it is important to recognize that fundamental management practices and principles cannot be addressed in an

isolated or piecemeal fashion, but must be addressed in an integrated way.

Today, my statement will focus on the five crosscutting initiatives identified in the President's agenda, and the next steps that our work shows will be key to effectively enhancing the management and performance of the Federal Government.

The first area in the agenda is strategic human capital management. People are an agency's most important asset, and strategic human capital management should be the centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies. Considerable progress has been made in this area since we designated it as a high-risk area in 2001. However, agencies continue to face challenges in leadership; human capital planning; acquiring, developing, and retaining talent; and developing results-oriented cultures. It is important for agency leaders to identify and make use of all appropriate administrative authorities available to them to manage their people both effectively and equitably.

We recently reported on a set of practices that are key to the effective use of flexibilities. They include: plan strategically and make targeted investments; ensure stakeholder input in developing policies and procedures; educate managers and employees on the availability and use of existing flexibilities; streamline and improve administrative processes; build transparency and accountability into the system; and change the organizational culture.

Another step in meeting the Government's human capital challenges is for policymakers to continue to pursue legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need, particularly in critical occupations.

The second area in the President's Management Agenda is budget and performance integration. Performance-based budgeting could help shift the focus of debate from inputs to outcomes and results, enhancing the Government's ability to gauge performance and assess competing claims for scarce resources. More explicitly, infusing performance information into resource allocation decisions is critical for further progress in government performance and management.

Last year, OMB introduced a formal assessment tool into the deliberations: the PART, the Program Assessment Rating Tool. Potentially, PART can complement the Results Act's focus on increasing the supply of credible performance information by promoting the demand for this information in the budget formulation process. Though progress has been made, improvements are still needed in the quality of both performance and cost data. If Members of Congress and the executive branch have better information about the link between resources and results, they can make the tradeoffs and choices cognizant of the many and often competing claims on the Federal budget.

Improving financial performance is a third area in the agenda. This 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 state-

ment audit opinions, and effective financial management systems and internal control. Though significant progress has been made, we have pointed out that the Federal Government is a long way from successfully implementing the statutory reforms that Congress enacted during the 1990's.

Widespread financial management system weaknesses, poor recordkeeping and documentation, weak internal controls, and lack of information have prevented the Government from having all the cost information needed to effectively and efficiently manage its operations. Steps need to be taken to continuously improve internal controls in the underlying financial and management information systems to ensure quality data.

Expanded electronic government is the fourth area in the agenda. It offers many opportunities to better serve the public, make Government more efficient and effective, and reduce cost. Though many of the initiatives are showing tangible results, progress has been uneven. Our review of planning documents from the e-government initiatives have found important aspects, such as collaboration and a focus on identifying customer needs, that need to be better incorporated into the plans. We have made a number of recommendations on improving these efforts to the Director of OMB. Also, adequate security and privacy protection must be built into the initiatives.

The final area of the President's Management Agenda, competitive sourcing, is an area where the administration has committed to simplifying and improving the procedures for evaluating public and private sources. As has been noted here, the OMB has just proposed changes to Circular A–76. The proposed circular is consistent with many of the sourcing principles and recommendations adopted by the Commercial Activities Panel that was chaired by the Comptroller General. The proposal should promote sourcing decisions that reflect the best overall value to the agencies, rather than just the lowest cost. There are several areas, however, where the proposed revisions to the circular were not consistent with the principles or recommendations of the panel. Specifically, these include the absence of a link between sourcing policy and agencies' missions, unnecessarily complicated source selection procedures, and certain unrealistic time-frames and insufficient guidance on calculating savings.

In conclusion, my testimony today has highlighted that serious and disciplined efforts are needed to improve the management and performance of Federal agencies and to ensure accountability.

Mr. Chairman, thank you for the opportunity to participate in today's hearing, and I welcome any questions.

[The prepared statement of Ms. Dalton follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 10:30 a.m. EST
Wednesday, March 26, 2003

MANAGEMENT REFORM

Continuing Progress in Implementing Initiatives in the President's Management Agenda

Statement of Patricia A. Dalton, Director
Strategic Issues

G A O

Accountability * Integrity * Reliability

GAO-03-556T

MANAGEMENT REFORM

Continuing Progress in Implementing Initiatives in the President's Management Agenda

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Highlights

Highlights of GAO-03-556T, a report to Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

Why GAO Did This Study

As part of its work to improve the management and the performance of the federal government, GAO monitors progress and continuing challenges related to the five crosscutting initiatives in the President's Management Agenda (PMA). The President cited GAO's high-risk areas and major management challenges in developing these initiatives. GAO remains committed to working with the Congress and the Administration to help address these complex issues.

What GAO Recommends

We are not making any recommendations in this testimony, but these steps can further progress:
- OMB's support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls. Over time, comprehensive human capital reform is needed.
- Congress and the executive branch need better information about the link between resources and results to prioritize competing claims on the federal budget.
- Quality financial management systems are crucial for agencies to achieve PMA goals.
- E-government initiatives require effective risk-management and comprehensive strategies to guide agencies efforts.
- Continued emphasis on improving public-private competitions is needed.

www.gao.gov/cgi-bin/getrpt?GAO-00-556T.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6806 or daltonp@gao.gov.

What GAO Found

There has been continuing progress in implementing the five crosscutting PMA initiatives to improve the management and performance of the federal government. However, progress has been uneven, and a continuing focus is needed to improve the management and performance of the federal government and ensure accountability.

These five crosscutting PMA initiatives are interrelated and must be addressed in an integrated way.

- **Strategic human capital management:** Considerable progress has been made in this area since we designated it as high risk in 2001. Serious human capital shortfalls, however, continue to erode the ability of many agencies, and threaten the ability of others, to economically, efficiently, and effectively perform their missions.

- **Budget and performance integration:** The administration has set forth an ambitious agenda for performance budgeting but the federal government has a long way to go before it can meet its goals. More explicitly infusing performance information into resource allocation decisions is critical for further progress in government performance and management.

- **Improved financial performance:** This initiative is aimed at ensuring that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. Although a range of improvements is under way, much work remains to be done across government.

- **Expanded electronic government:** E-government offers many opportunities to better serve the public, make government more efficient and effective, and reduce costs. Although substantial progress has been made, the government has not yet fully reached its potential in this area.

- **Competitive sourcing:** The administration has committed to using competitions to determine whether public or private sources should provide commercial services. OMB has proposed changes to the procedures for conducting public-private competitions under its Circular A-76. However, some of the proposed changes are not consistent with sourcing principles or recommendations of the Commercial Activities Panel.

Congressional support has proven to be critical in sustaining interest in management initiatives over time. A focus on the quality of program performance and effective management is critical today, and now is the time to act.

_____ United States General Accounting Office

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss continuing progress in implementing the President's Management Agenda (PMA) initiatives to improve the management and performance of the federal government. PMA points out important challenges for the federal government and is intended to focus agencies' efforts on making needed improvements. It establishes priorities for five crosscutting challenges and nine program initiatives. There are clear links between the PMA initiatives and the high-risk areas and major management challenges covered in our 2003 and 2001 Performance and Accountability and High-Risk Series. Many of these issues are complex and long-standing, and we are committed to working with Congress and the administration to help address them.

The President's 2004 budget recognized that although progress has been made, it has been uneven and there needs to be a continuing focus on improving effectiveness and getting results from federal spending. As discussed in our 2003 Governmentwide Perspective,[1] several major trends, including diffuse security threats and national preparedness, globalization, a shift to knowledge-based economies, and advances in science and technology, are driving the need for federal agencies to transform their cultures and operations. Budgetary flexibility has been shrinking for some time and long-range fiscal and demographic pressures affect the long-term outlook of the federal government. The retirement of the baby boom generation and rising health care costs threaten to overwhelm our nation's finances. Within this context, government leaders must be accountable for making needed changes to resolve high-risk areas, address major management challenges, and position the federal government to take advantage of emerging opportunities and meet future challenges.

Today, as agreed with the subcommittee, my statement will focus on the progress made in the five crosscutting 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 transparency and congressional oversight in continuing to provide the attention needed to improve management and performance across the federal government and ensure accountability. Overall, there has been continuing progress in implementing the governmentwide PMA initiatives.

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[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: January 2003).

This progress, however, has been uneven and a continuing focus is needed to improve the management and performance of the federal government and ensure accountability. This testimony draws upon our wide-ranging ongoing and completed work on federal management and transformation issues and analysis of PMA initiatives and the President's 2004 Budget of the U.S Government. We conducted our work in accordance with generally accepted government auditing standards.

Effective Management Is Required to Create and Sustain High-performing Organizations

The President cited our work on high-risk areas and major management challenges in developing his initiatives, and implementation of PMA has reinforced the need to focus agencies' efforts on achieving key management and performance improvements. Our work shows that agencies have made progress in these areas—although more needs to be done. A focus on the quality of program performance and effective management is critical today, and now is the time to act. Building on lessons learned, major programs and operations need urgent attention and transformation to ensure that the government functions as economically, efficiently, and effectively as possible. Management reform will be vitally important for agencies to transform their cultures to respond to the transition that is taking place in the role of government in the 21st century.

The Executive Branch Management Scorecards have highlighted agencies' progress in achieving management and performance improvements. We have found that the value in the scorecards is not, in fact, in the scoring, but in the degree to which scores lead to a sustained focus and demonstrable improvements. The Office of Management and Budget (OMB) uses a grading system of red, yellow, and green, to indicate agencies' status in achieving the standards of success. It also assesses and reports progress using a similar "stoplight" system. Although we collaborated in some cases with OMB and the lead agencies regarding the broad standards of success, we have not had the opportunity to review the more specific criteria that OMB uses to assess each agency's progress on these initiatives nor have we examined the specific evidence that OMB used to assess the agency's accomplishments.

By calling attention to needed improvements, the focus that PMA and the scorecards bring is certainly a step in the right direction. PMA initiatives are consistent in key aspects with the statutory reforms related to financial management, information technology, and results-oriented management that Congress enacted during the 1990s. In crafting that framework,

Congress sought to provide a basis for improving the federal government's effectiveness, financial condition, and operating performance.

Central to effectively addressing the government's management problems and providing a solid base for successful transformation efforts is the recognition that fundamental management practices and principles cannot be addressed in an isolated or piecemeal fashion separate from the other major management challenges and high risks facing federal agencies. Rather, these efforts are mutually reinforcing and must be addressed in an integrated way to ensure that there is the needed management capacity to drive a broader transformation of the cultures of federal agencies.

The President has identified five crosscutting management initiatives that are interrelated and support each other. A comprehensive planning process that establishes clear goals and objectives linked to decision-making and resource allocation processes will continue to be critical in achieving the desired results and the synergy that can advance and support governmentwide transformation efforts. These five initiatives are:

- strategic human capital management,

- budget and performance integration,

- improved financial performance,

- expanded electronic government, and

- competitive sourcing.

Strategic Human Capital Management

People are an agency's most important organizational asset, and strategic human capital management should be the centerpiece of any serious change management initiative or any effort to transform the cultures of government agencies. Considerable progress has been made in this area since we designated it as high risk in 2001.[2] Legislation has been enacted that, among other things, creates the Chief Human Capital Officer (CHCO) position within federal departments, and a CHCO Council, expanded

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[2]U.S. General Accounting Office, *High-Risk Series: Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003); and *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

voluntary early retirement and buyout authority, authorized the use of category rating in the hiring of applicants instead of the "rule of three," and requires agencies to discuss human capital approaches in Government Performance and Results Act (GPRA) plans and reports.[3]

Serious human capital shortfalls, however, continue to erode the ability of many agencies, and threaten the ability of others, to economically, efficiently, and effectively perform their missions. Plainly, the major problem is not federal employees. Rather, it is the lack of a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure its accountability. An organization's people define its character, affect its capacity to perform, and represent the knowledge base of the organization.

Although progress has been made, it remains clear that today's federal human capital strategies are not appropriately constituted to meet current and emerging challenges or drive the needed transformation across the federal government. Specifically, agencies continue to face challenges in four key areas:

- *Leadership:* Top leadership in agencies must provide the committed and inspired attention needed to address human capital and related organizational transformation issues.

- *Strategic human capital planning:* Agencies' human capital planning efforts need to be more fully and demonstrably integrated with mission and critical program goals.

- *Acquiring, developing, and retaining talent:* Additional efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure that agencies have the needed talent.

- *Results-oriented organizational cultures:* Agencies continue to lack organizational cultures that promote high performance and accountability and that empower and include employees in setting and accomplishing programmatic goals.

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[3] Category rating allows a selecting official to select a candidate from all qualified candidates instead of limiting the selecting official to only the top three ranked candidates as set forth in 5 USC Section 3318(a).

One step in meeting the government's human capital challenges is for agency leaders to identify and make use of all the appropriate administrative authorities available to them to manage their people both effectively and equitably. Much of the authority agency leaders need to manage human capital strategically is already available under current laws and regulations, as recognized by PMA. We recently reported on a set of practices that are key to the effective use of flexibilities.[4] These practices are shown in figure 1.

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

Plan strategically and make targeted investments	• Obtain agency leadership commitment • Determine agency workforce needs using fact-based analysis • Develop strategies that employ appropriate flexibilities to meet workforce needs • Make appropriate funding available
Ensure stakeholder input in developing policies and procedures	• Engage the human capital office • Engage agency managers and supervisors • Involve employees and unions • Use input to establish clear, documented, and transparent policies and procedures
Educate managers and employees on the availability and use of flexibilities	• Train human capital staff • Educate agency managers and supervisors on existence and use of flexibilities • Inform employees of procedures and rights
Streamline and improve administrative processes	• Ascertain the source of existing requirements • Reevaluate administrative approval processes for greater efficiency • Replicate proven successes of others
Build transparency and accountability into the system	• Delegate authority to use flexibilities to appropriate levels within the agency • Hold managers and supervisors directly accountable • Apply policies and procedures consistently
Change the organizational	• Ensure involvement of senior human capital managers in key decision-making processes • Encourage greater acceptance of prudent risk taking and organizational change • Recognize differences in individual job performance and competencies

Source: GAO.

Another step in meeting the government's human capital challenges is for policymakers to continue to pursue incremental legislative reforms to give agencies additional tools and flexibilities to hire, manage, and retain the human capital they need, particularly in critical occupations. The National Aeronautics and Space Administration (NASA), for example, is facing

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[4]U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

shortages in its workforce which could likely worsen as the workforce continues to age and the pipeline of talent shrinks.[5] This dilemma is more pronounced among areas crucial to NASA's ability to perform its mission, such as engineering, science, and information technology. NASA is addressing this challenge through strategic planning, a new workforce planning and analysis system, and requesting additional personnel flexibilities, among other initiatives.

Over time, however, it will be important for all interested parties to work together to identify the kinds of comprehensive legislative reforms in the human capital area that should be enacted. These reforms should place greater emphasis on knowledge, skills, and performance in connection with federal employment, promotion, and compensation decisions. This summer the Comptroller General will be convening a forum to discuss the key actions needed for significant human capital reform.

Federal agencies need to continue to incorporate a crucial ingredient found in successful organizations: organizational cultures that promote high performance and accountability. Effective performance systems align organizational goals with daily operations and thereby create a "line of sight" between an individual's efforts and results that the organization is trying to achieve. In doing so, performance management systems can be a strategic tool to drive internal change and achieve external results by creating a shared perspective and demonstrating how unit, team, and individual performance can contribute to overall organizational goals. Agencies can also foster a results-oriented culture by the way that they treat and manage their people, building commitment and accountability through involving and empowering employees. Effective changes can only be made and sustained through the cooperation of leaders, union representatives, and employees throughout an organization. We have work under way, at the request of Congress, to assess the extent to which employees are involved in the formation of the human resource system at the Department of Homeland Security.

We collaborated with the Office of Personnel Management (OPM) and OMB in developing language for the standards for success that OPM released. As OPM, OMB, and the agencies learn to evaluate themselves against the

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[5]U.S. General Accounting Office, *Major Management Challenges and Program Risks: National Aeronautics and Space Administration*, GAO-03-114 (Washington, D.C.: Jan. 2003).

standards for success in implementing strategic human capital management approaches, OPM and OMB will need to ensure that the standards are consistently and appropriately applied while they assess agencies' progress in managing their human capital. Importantly, OMB's support will be needed as agencies identify targeted investment opportunities to address human capital shortfalls. In the final analysis, modern, effective, and credible human capital strategies will be essential in order to maximize the performance and ensure the accountability of the government for the benefit of the American people.

Budget and Performance Integration

PMA recognized that improvements in the management of human capital, financial performance, and expanding electronic government, and competitive sourcing matter little if they are not linked to program performance and resource allocation decisions. The administration has set forth an ambitious agenda for performance budgeting, calling for agencies to develop cost accounting systems and proposing to better align the federal budget structure with their performance goals. Such efforts to begin implementing a consistent and transparent framework for performance budgeting and financial information are key steps needed to provide a greater focus on performance and improve congressional decision making as envisioned in GPRA, but the federal government has a long way to go before it can meet these goals.

Performance-based budgeting can help shift the focus of debate from inputs to outcomes and results, enhancing the government's ability to gauge performance and assess competing claims for scarce resources.[6] Building on the statutory framework that Congress enacted over the last decade, performance budgeting requires results-oriented performance information generated by federal agencies in response to GPRA, and cost accounting data generated in response to provisions of the Chief Financial Officers (CFO) Act. Sustained leadership attention, however, is needed to build on this foundation.

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

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[6] U.S. General Accounting Office, *Performance Budgeting: Opportunities and Challenges*, GAO-02-1106T (Washington, D.C.: Sept. 19, 2002).

leadership commitment throughout government needed to be successful. Moreover, the budget process is one of the major processes in the federal government in which programs and activities come up for regular review and reexamination. Thus there is a compelling need to ensure that trade-offs are informed by reliable information on results and costs.

Performance budgeting 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 decision-making. 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.

While budget reviews have always involved discussions of program performance, such discussions have not always been conducted in a common language or with transparency. Last year, OMB introduced a formal assessment tool into the deliberations. PART—the Program Assessment Rating Tool—is the central element in the performance budgeting piece of the PMA. Potentially, PART can complement GPRA's focus on increasing the supply of credible performance information by promoting the demand for this information in the budget formulation process. PART's greatest contribution may turn out to be its usefulness in focusing discussions between OMB and the agencies about progress towards planned performance; about what progress has been made toward achieving specific program goals and objectives; and about what tools and strategies may be used to bring about improvements. As with performance budgeting in general, no assessment tool can magically resolve debates or answer questions. Rather, it is likely to be a useful screen to help identify programs for further evaluation.

Credible performance information can facilitate a fundamental reassessment of what the government does and how it does business by focusing on the outcomes achieved with budgetary resources. Therefore, the goals and measures that agencies establish must address program results. Our work has shown that agencies had at least some goals and measures that address program results, but improvement is needed to ensure that agencies measure performance toward a comprehensive set of

goals that focus on results.[7] In addition, it is important for performance measures to provide complete information. For example, in measuring customer satisfaction, the Small Business Administration uses results of its survey of successful disaster loan applicants, but unsuccessful applicants are not surveyed, which is likely to produce positively skewed responses.[8]

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.

Furthermore, 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, limited confidence in the credibility of performance data has been one of the major weaknesses in GPRA implementation. Based on our review of agencies fiscal year 2000 and 2001 performance reports, agencies are not consistently assessing the completeness and reliability of their performance data as required by the Reports Consolidation Act of 2000.[9]

[7]U.S. General Accounting Office, *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).

[8]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Small Business Administration*, GAO-03-116 (Washington, D.C.: January 2003).

[9]U.S. General Accounting Office, *Results-Oriented Management: Agency Crosscutting Actions and Plans in Drug Control, Family Poverty, Financial Institution Regulation, and Public Health Systems*, GAO-03-320 (Washington, D.C.: Dec. 20, 2002); *Results-Oriented Management: Agency Crosscutting Actions and Plans in Border Control, Flood Mitigation and Insurance, Wetlands, and Wildland Fire Management*, GAO-03-321 (Washington, D.C.: Dec. 20, 2002); and GAO-02-372.

In attempting to link resources to results, it also will be important to measure the full costs of the resources associated with performance goals using consistent definitions of costs between and among programs. In looking ahead, the integration of reliable cost accounting data into budget debates needs to become a key part of the performance budgeting agenda. Also, the current budget does not always help policymakers consider the long-term costs associated with some activities that commit the government to future spending. This may limit the attention given to the future sustainability and flexibility of the government's fiscal position and the cost effectiveness of existing programs.

Although clearly much more remains to be done, together GPRA and the CFO Act 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.

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 financial management systems and internal control. Our work also demonstrates the importance of improvement efforts that are under way. In the area of financial performance, however, we have pointed out that the federal government is a long way from successfully implementing the statutory reforms that Congress enacted during the 1990s.

Reliable cost data are 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. This result is a key to successfully achieving the goals that Congress established in the CFO Act 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.

PMA stated that a clean financial audit is a basic prescription for any well-managed organization, and recognized that "most federal agencies that obtain clean audits only do so after making extraordinary, labor-intensive assaults on financial records." Receiving a clean opinion on annual financial statements is an important milestone, which 21 of the 24 agencies designated under the CFO Act achieved for fiscal year 2002.

Even more critical, however, is the capability and quality of the supporting financial management systems in ensuring that agencies can meet the scorecard measures for timely, accurate, and useful financial, program cost, and other important management information needed for decision making and monitoring government performance every day. The scorecard also measures whether agencies have any material internal control weaknesses or material noncompliance with laws and regulations, and whether agencies meet Federal Financial Management Improvement Act (FFMIA)[10] requirements. As stated in PMA, without sound internal controls and accurate and timely financial information, it will not be possible to

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[10]FFMIA requires auditors to report whether agencies' financial management systems comply with federal financial management systems requirements, applicable federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government's Standard General Ledger at the transaction level.

accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Much work remains to be done across government to improve financial performance, as shown by the December 2002 scorecards. Of the 22 CFO Act agencies that OMB scored,[11] 15 were in the red category for financial performance.[12] 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, the results of our analyses under FFMIA, and the various financial management operations we have designated as high risk. Four agencies improved their scores from the initial baseline evaluation for financial performance as of September 30, 2001;[13] however, two agencies' scores declined, reflecting increased challenges.[14] Overhauling financial management represents a challenge that goes far beyond financial accounting to the very fiber of a department's business operations and management culture, particularly at agencies with longstanding problems, such as DOD.[15] Further, establishing sound financial management will be a critical success factor for the implementation of the Department of Homeland Security.[16]

In the area of financial performance we have continued to point out that the federal government is a long way from successfully implementing needed financial management reforms. Widespread financial management

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[11]The Federal Emergency Management Agency, which was consolidated into the Department of Homeland Security, and the Nuclear Regulatory Commission were not scored. The Department of Homeland Security also received a red in financial performance.

[12]These include the Departments of Agriculture, Commerce, Defense, Education, Health and Human Services, Housing and Urban Development, the Interior, Justice, State, Transportation, the Treasury, and Veterans Affairs; the Agency for International Development; and the National Aeronautics and Space Administration.

[13]The Departments of Energy and Labor, and the Environmental Protection Agency and Office of Personnel Management.

[14]The National Aeronautics and Space Administration and the Small Business Administration declined.

[15]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003); and GAO-03-119.

[16]U.S. General Accounting Office, *Homeland Security: Management Challenges Facing Federal Leadership*, GAO-03-260 (Washington, D.C.: Dec. 20, 2002).

system weaknesses, poor recordkeeping and documentation, weak internal controls, and the lack of information have prevented the government from having the cost information needed 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.

One of the challenges that many agencies face is the difficulty of ensuring that underlying financial management processes, procedures, and information systems are in place for effective program management. Agencies need to take steps to 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; measure, control, and manage costs; manage for results; and make timely and fully informed decisions about allocating limited resources. In October 2002, we reported that 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.[17] 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.

This PMA initiative also focuses special attention on addressing erroneous payments, credit card abuse in the federal government, and asset management. These areas, on which we have reported problems and challenges, have undermined government financial performance.[18] Our work has shown, for example, that the Centers for Medicare & Medicaid Services (CMS) 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

[17]U.S. General Accounting Office, *Financial Management: FFMIA Implementation Necessary to Achieve Accountability*, GAO-03-31 (Washington, D.C.: Oct. 1, 2002).

[18]U.S. General Accounting Office, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, GAO-02-749 (Washington, D.C.: Aug. 9, 2002); *Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse*, GAO-02-676T (Washington, D.C.: May 1, 2002); and *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: January 2003).

work remains to be done, given the magnitude of its challenges to safeguard 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.[19]

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.

In August 2001, the Principals of the Joint Financial Management Improvement Program (JFMIP) began a series of periodic meetings and have agreed on key financial management reform issues such as better defining measures for financial management success.[20] The Executive Branch Management Scorecard embraces these new measures. The JFMIP Principals also agreed that agency financial statement reporting should be significantly accelerated to improve the timeliness of the government's financial statements and to discourage costly efforts designed to obtain unqualified opinions on financial statements without addressing underlying systems challenges. For fiscal year 2004, audited agency financial statements are to be issued no later than November 15, with the U.S. government's audited consolidated financial statements becoming due by December 15. Two agencies, the Department of the Treasury and the Social Security Administration, met the accelerated date for fiscal year 2002. Although many actions have been taken, the continued leadership and personal commitment of the Principals is necessary to continue the momentum for improving the government's financial management and performance.

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[19]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Health and Human Services*, GAO-03-101 (Washington, D.C.: January 2003); and GAO-03-119.

[20]The JFMIP principals are the Secretary of the Treasury, the Director of OMB, the Director of OPM, and the Comptroller General of the United States.

Expanded Electronic Government

Electronic government (e-government) offers many opportunities to better serve the public, make government more efficient and effective, and reduce costs. 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 has not yet fully reached 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. In 1998, Congress enacted the Government Paperwork Elimination Act, which requires federal agencies to provide the public, when practicable, the option of submitting, maintaining, and disclosing required information electronically. More recently the E-Government Act of 2002 includes provisions to promote the use of the Internet and other information technologies to provide government services electronically; strengthen agency information security; and define how to manage the federal government's growing information technology human capital needs. In addition, this act established an Office of Electronic Government within OMB to provide strong central leadership and full-time commitment to promoting and implementing e-government.

To implement this PMA initiative, OMB has selected 25 e-government efforts that focus on a wide variety of services, aiming to simplify and unify agency work processes and information flows, provide one-stop services to citizens, and enable information to be collected on line once and reused, rather than being collected many times. For example, Recreation One-Stop is a Web portal for a single point of access to information about parks and other recreation areas. There are other e-government efforts that do not necessarily rely on the Internet, such as the e-payroll initiative to consolidate federal payroll systems. The results from these e-government initiatives, according to OMB, could produce several billions of dollars in savings from improved operational efficiency. To obtain such savings—and significantly improve service to citizens—it will be critically important that these efforts are well managed as the government undertakes the challenging task of turning good ideas into real-world results.

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[21]U.S. General Accounting Office, *Electronic Government: Proposal Addresses Critical Challenges*, GAO-02-1083T (Washington, D.C.: Sept. 18, 2002).

While many of the e-government initiatives are showing tangible results, progress has been uneven. Our review of the planning documents for the e-government initiatives highlight the critical importance of management and oversight to their success.[22] Important aspects—such as collaboration among agencies and other governmental entities and a focus on identifying and addressing customers' needs—had not been incorporated into early program plans for many of the projects, and major uncertainties in funding and milestones were not uncommon. In particular, fewer than half addressed collaboration and customer focus, despite the importance of these topics to e-government strategy and goals. Similarly, the accuracy of estimated costs in the funding plans was questionable and some of the estimates changed significantly between May and September 2002. Accurate cost, schedule, and performance information is essential to ensure that projects are on schedule and achieve their goals.

In order to help ensure the success of the President's objective of expanding e-government to improve the potential value of government to citizens, we have recommended that the Director of OMB ensure that the managing partners for all e-government initiatives (1) focus on customers by soliciting input from the public and conducting user needs assessments, (2) work with partner agencies to develop and document effective collaboration strategies, and (3) provide OMB with adequate information to monitor the cost, schedule, and performance.[23]

Increasingly, the challenges that the government faces are multidimensional problems that cut across numerous programs, agencies, and governmental tools. For example, a critical aspect of implementing effective e-government solutions and developing and deploying major systems development projects is ensuring that robust information security is built into these endeavors early and is periodically revisited.

Since we designated computer security in the federal government as high risk in 1997, there is evidence that pervasive weaknesses continue. For example, although the Internal Revenue Service (IRS) had corrected or

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[22]U.S. General Accounting Office, *Electronic Government: Success of the Office of Management and Budget's 25 Initiatives Depends on Effective Management and Oversight*, GAO-03-495T (Washington, D.C.: Mar. 13, 2003).

[23]U.S. General Accounting Office, *Electronic Government: Selection and Implementation of the Office of Management and Budget's 24 Initiatives*, GAO-03-229 (Washington, D.C.: Nov. 22, 2002).

mitigated many of the computer security weaknesses identified in our previous reports, much more needs to be done to resolve the significant control weaknesses that continue within IRS' computing environment and to be able to promptly address new security threats and risks as they emerge.[24] Related risks have escalated, in part because of the rapid increase in computer interconnectivity and increasing dependence on computers to support critical operations and infrastructures, such as power distribution, water supply, national defense, and emergency services. This year, we expanded this high-risk area to include protecting information systems that support our nation's critical infrastructures. Among the actions essential to sustaining federal information security improvements are the agencies' development of effective risk management programs and the development of a comprehensive strategy to guide agencies' efforts.

The growth in electronic information—as well as the new security threats facing our nation—highlight privacy issues. On-line privacy has emerged as one of the key—and most contentious—issues surrounding the continued evolution of the Internet. The government cannot realize the full potential of the Internet until people are confident that the government will protect their privacy when they visit its web sites. We have made recommendations to strengthen governmentwide privacy guidance and oversight of agency practices that OMB has not yet implemented. For example, we recommended that the Director of OMB determine whether current oversight strategies are adequate to ensure agencies' adherence to web site privacy policies and whether the policies will need further revision as web practices continue to evolve.[25]

Competitive Sourcing

As part of the PMA initiative to achieve efficient and effective competition between public and private sources, the administration has committed to simplifying and improving the procedures for evaluating public and private sources. Among the factors that agencies must consider as they determine how best to meet their missions is whether the public or private sector

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[24]U.S. General Accounting Office, *High-Risk Series: Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures*, GAO-03-121 (Washington, D.C.: January 2003); and *Financial Audit: IRS' Fiscal Year 2001 and 2000 Financial Statements*, GAO-02-414 (Washington, D.C.: Feb. 27, 2002).

[25]U.S. General Accounting Office, *Internet Privacy: Agencies' Efforts to Implement OMB's Privacy Policy*, GAO/GGD-00-191 (Washington, D.C.: Sept. 5, 2000).

would be the most appropriate provider of the services the government needs. Aspects of the current process for making such decisions have 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, the Comptroller General convened a panel of experts to study the current process used by the government to make sourcing decisions. 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 principles adopted unanimously by the panel.[26]

As part of the administration's efforts to advance this PMA initiative and implement the recommendations of the Commercial Activities Panel, OMB published proposed changes to Circular A-76 for public comment. This circular sets forth federal policy for determining whether federal employees or private contractors will perform commercial activities associated with conducting the government's business. In January, the Comptroller General commented on OMB's proposed revision, and noted that in many ways it was consistent with the sourcing principals and recommendations adopted by the Commercial Activities Panel.[27] In particular, the proposal 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. The proposal should promote sourcing decisions that reflect the best overall value to the agencies, rather than just the lowest cost. Importantly, the proposed revision also should result in greater accountability for performance, regardless of the service provider selected.

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

[27]U.S. General Accounting Office, *Proposed Revisions to OMB Circular A-76,* GAO-03-391R (Washington, D.C.: Jan. 16, 2003).

There are several areas, however, where the proposed revisions to the circular were not consistent with the principles or recommendations of the panel. Specifically, these include the absence of a link between sourcing policy and agency missions, unnecessarily complicated source selection procedures, certain unrealistic time frames, and insufficient guidance on calculating savings. Federal sourcing policy should support agency missions, goals, and objectives. In other words, sourcing policy is not just about choosing among potential service providers. Rather, an agency's sourcing policy should be viewed as part of an overall strategy for how best to accomplish the mission of the agency, including how it conducts human capital planning. The circular requires that agencies report the savings that accrue from A-76 competitions but does not provide any guidance on how savings are to be calculated. Our work examining the use of Circular A-76 in the Department of Defense has shown a lack of consistency among and even within the military services in how they calculate savings. Additional OMB guidance, additional training, technical resources, or other support for agency officials would be helpful for agency officials in preparing for and participating in public-public competitions.

The critical issue for all affected parties is how the government's sourcing policies are implemented. In this regard, one of the panel's sourcing principles was that the government should avoid arbitrary numerical or full-time equivalent goals.[28] This principle is based on the concept that the success of government programs should be measured by the results achieved in terms of providing value to the taxpayer, not the size of the in-house or contractor workforce. Although the proposed revised circular contains no numerical targets or goals for competitive sourcing, this has been a controversial area in the past. In our view, the administration needs to avoid arbitrary targets or quotas, or any goal that is not based on considered research and analysis.

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[28]Full time equivalent is a measure of staff hours equal to those of a full-time employee working 40 hours per week over the course of a year.

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. To be successful, management improvement initiatives must become a part of agencies' programs and day-to-day actions.

Congressional support has proven to be critical in sustaining interest in management initiatives over time. Congress has served as an institutional champion for many of the management reform initiatives over the years, such as the CFO Act and GPRA. Congress has also provided a consistent focus for oversight and has reinforced important policies. Making pertinent and reliable information available will be necessary for Congress to adequately assess agencies' progress toward PMA initiatives and to ensure accountability for results.

To facilitate congressional oversight and support executive branch performance and decision making, the administration could develop and use a governmentwide performance plan. This plan, required under the GPRA, could become a valuable tool to help Congress and the executive branch address critical federal performance and management issues by building on the knowledge about the range of programs and tools, including baseline and trend information, that are directed toward achieving similar results. The first governmentwide performance plan was issued in February 1998, and it reflected the challenges of preparing a plan for an entity as large and diverse as the federal government. We noted that, among other things, attention was needed to emphasize an integrated, governmentwide perspective throughout the plan.[29]

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

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[29]U.S. General Accounting Office, *The Results Act: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999*, GAO/AIMD/GGD-98-159 (Washington, D.C.: Sept. 8, 1998).

contribute to national goals and position the government to successfully meet 21st century demands.

Mr. Chairman, we are pleased to be able to participate in this hearing today and look forward to participating in future oversight hearings you have planned on specific PMA initiatives. We have issued a large body of reports, guides, and tools on issues directly relevant to PMA, and we 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 and meet current and emerging needs. Decisive action and sustained attention will be necessary to 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.

Mr. PLATTS. Thank you, Ms. Dalton, for your testimony.

And before we proceed with Mr. McPherson, I would just like to recognize that our subcommittee vice chairwoman, the honorable lady from Tennessee, Ms. Blackburn, has joined us. Thanks for being with us.

Mr. McPherson, the floor is yours.

Mr. MCPHERSON. Mr. Chairman, members of the subcommittee, thank you for the opportunity to represent this administration in discussing results of the Financial Management Initiative of President Bush's Management Agenda.

I am particularly honored to appear before Chairman Platts' Subcommittee on Government Efficiency and Financial Management, as I was raised in your district, in Gettysburg, PA, where we still have our family home built there by my great-grandfather 130 years ago.

My remarks today focus on two elements. First, let us look briefly at selected results thus far of the President's Financial Management Initiative across the Federal Government. Second, I will describe the valuable results we have achieved at the Department of Agriculture as a way of providing the subcommittee with a practical sense of what is possible in financial management for the benefit of the American taxpayer.

As the members of this subcommittee know, the President has made improving financial performance a key initiative of his management agenda. To give just a few examples of our progress governmentwide, 21 of the Government's 24 Chief Financial Officer Act agencies received clean opinions on their audited financial statements. The Department of Education, FEMA, and NASA reclaimed the clean audits they had recently lost. The Department of the Treasury and the Social Security Administration produced audited financial statements by November 15, implementing 2 years early the administration's goal to have audited financial statements 45 days after the end of the fiscal year. The Departments of Energy and Labor have improved their status scores and the Department of Energy successfully addressed major management challenges identified in its most recent performance and accountability report. Labor has addressed problems with its financial management systems and is aggressively working to reduce erroneous Unemployment Insurance payments.

We are by no means out of the woods, Mr. Chairman. The Department of Defense is still unable to produce audited financial statements, and the Small Business Administration's status deteriorated because its auditor found inconsistencies between the budget and accounting for asset sales.

Now let us focus on the valuable results at the Department of Agriculture simply as a way of providing the subcommittee with a practical sense of what is possible in financial management to the benefit of the American taxpayer.

As context, at the Department of Agriculture, I am responsible for the financial leadership of an enterprise that, were it a private company, would be one of the largest companies in the United States. With $72 billion in annual spending, 112,705 full-time equivalent staff years, and $123 billion in assets, the Department of Agriculture is exceeded generally in size only by four companies:

General Motors, Ford, Exxon, and Wal-Mart. So we are about the same size, roughly, and in diversity of lines of business as General Electric.

In addition, through our National Finance Center in New Orleans, LA, we operate an item processing and recordkeeping service in executing payroll for one-third of all Federal employees and providing administrative services for more than 120 government entities, including the Thrift Savings Plan that has 3 million participants with $100 billion in investment assets. Last year alone, the National Finance Center processed $26 billion in payroll disbursements and $12 billion of retirement plan contributions.

Here is a description of what is possible to achieve in financial management. The Department of Agriculture, and all of its agencies, including the Forest Service, for the first time received unqualified or "clean" opinions on annual financial audits from the Office of the Inspector General in fiscal year 2002. In all previous audits, the Office of the Inspector General was unable to express any opinion on USDA's consolidated financial statements because the value of assets, liabilities, budgetary resources, net costs and related items could not be determined. In short, Agriculture, one of the largest enterprises in America, had never before produced timely financial statements free of significant errors or misstatements in its entire 140-year history.

With slightly more than a year's worth of work, the Department of Agriculture and all its agencies for the first time received a clean opinion in fiscal year 2002. This valuable breakthrough was achieved using existing taxpayer funding by skilled career government executives and dedicated associates already in place. Specific results that led to our achieving sufficient internal control and data integrity to merit a clean audit opinion include the following items: massive revamping of business, financial management and accounting processes, and completing the installation of a standard general accounting system requiring 17 major conversions; determining the program cost or present value cash-flows of $100 billion in loans; reconciling accurately and timely over $100 billion in annual cash receipts and disbursements in 393 Treasury accounts; transforming the Forest Service financial management activities effectively; correcting accounting deficiencies on $10 billion of real and personal property; implementing a unified corporate controller organization that integrates accountability for financial management processes and systems throughout USDA; and reducing the number of material deficiencies by more than 40 percent, a noteworthy achievement that reflects an environment of improving internal control.

Meanwhile, our associates in New Orleans, LA, at the National Finance Center, which is a strategic Federal asset within USDA with over 4 million customers, also achieved valuable results in financial management. Specifically, the Office of Personnel Management and the Office of Management and Budget selected the National Finance Center to serve as one of the Government's payroll providers under the President's e-Payroll initiative to consolidate Federal payroll functions. The National Finance Center became one of four government Inaugural Agencies receiving certification to deliver trusted, secure electronic transactions through a public key

infrastructure encryption system. Public key infrastructure is an important global competitive advantage in the conduct of electronic commerce. The National Finance Center integrated members of the uniformed services into the Thrift Savings Plan System in fiscal year 2002. To date, over 300,000 members of the uniformed services have enrolled in the Thrift Savings Plan. The National Finance Center developed the Centralized Enrollment Clearing House System to match and reconcile over 32 million insurance carrier and enrollee records annually for 4 million participants in the Office of Personnel Management's Federal Employees Health Benefits plan.

We have also taken effective financial management actions to improve our lending for farmers, housing and rural development in terms of transaction approval, portfolio management, and debt collection. At the end of fiscal year 2002, USDA had approximately $100 billion in loans and $29 billion in credit guarantees, or a total of $129 billion of credit risk, about 32 percent of the entire debt owed to the Federal Government.

USDA's problem credit at the end of last year totaled $14.5 billion, consisting of $8.3 billion of non-performing assets, $4.9 billion of defaulted guarantees that have been restructured, and $1.3 billion of gross charge-offs in fiscal year 2002.

About $10.5 billion of this $14.5 billion relates to international sovereign risk credit in the Commodity Credit Corporation, leaving $4 billion in domestic credit that is combined from Farm Service Agency and Rural Development.

Importantly, during 2002, USDA collected $945 million of delinquent debt, $682 million through agencies using our internal tools, and $263 million through the Department of Treasury's Administrative Offset Program and other Debt Collection Improvement Act techniques. In fiscal year 2002 USDA referred to the Treasury Offset Program 98 percent of the $1.4 billion of eligible delinquent receivables and 96 percent of the $364 million of loans eligible for cross-servicing compared to only 14 percent in the prior year.

Our lending agencies are focused on managing these loan portfolios effectively, including reviewing transaction approval processes, loan systems, collateral management, and evaluating the piloting of loan sales.

In summary, I have seen during the past 18 months that bureaucracies produce results with leaders who instill laser-like clarity of ownership, or individual accountability. Ultimately, people are the only source of a sustainable competitive advantage, and I believe in people. In most every instance that I have cited today, one person with courage led valuable change by substituting new successes in place of rhetoric or business as usual. I assure you, Mr. Chairman and members of the subcommittee, that the people who produced these results are honored to serve the American taxpayer and will continue to do so as part of President Bush's Management Agenda.

[The prepared statement of Mr. McPherson follows:]

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STATEMENT OF

EDWARD R. MCPHERSON

CHIEF FINANCIAL OFFICER

U.S. DEPARTMENT OF AGRICULTURE

BEFORE THE SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND

FINANCIAL MANAGEMENT

OF THE

HOUSE COMMITTEE ON GOVERNMENT REFORM

TESTIMONY ON

FINANCIAL MANAGEMENT INITIATIVE OF

PRESIDENT BUSH'S MANAGEMENT AGENDA

MARCH 26, 2003

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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity

to represent this administration discussing results of the Financial Management Initiative

of President Bush's Management Agenda.

I am particularly honored to appear before Chairman Platts' Subcommittee on

Government Efficiency and Financial Management as I was raised in your district in

Gettysburg, Pennsylvania, where we still have our family home built there by my great-

grandfather 130 years ago.

My remarks today focus on two elements. First, let's look briefly at selected

results thus far of the President's Financial Management Initiative across the Federal

government.

Second, I will describe the valuable results we have achieved at the Department of

Agriculture as a way of providing the Subcommittee with a practical sense of what is

possible in financial management for the benefit of the American taxpayer.

I.   Selected Financial Management Results Across the Federal Government

As the members of this Subcommittee know, the President has made improving

financial performance a key initiative of his management agenda. He has set common

sense standards for all agencies to meet and assesses their progress against those

standards each quarter. Although the President's initiative has only been in place for a

year and a half, there has been demonstrable progress across government, not just at the

Department of Agriculture. To give just a few examples of our progress government-

wide:

- Twenty-one of the government's 24 CFO Act agencies received clean opinions on their audited financial statements.

- The Department of Education, FEMA, and NASA reclaimed the clean audit they had recently lost.

- The Department of the Treasury and the Social Security Administration produced audited financial statements by November 15th, implementing two years early the Administration's goal to have audited financial statements 45 days after the end of the fiscal year.

- The Departments of Energy and Labor have improved their status scores and the Department of Energy successfully addressed major management challenges identified in its most recent Performance and Accountability report. Labor addressed problems with its financial management systems and is aggressively working to reduce erroneous Unemployment Insurance payments.

We are by no means out of the woods, Mr. Chairman. The Department of Defense is still unable to produce audited financial statements, and the Small Business Administration's status deteriorated because its auditor found inconsistencies between the budget and accounting for asset sales.

The Improved Financial Performance Initiative is making a difference. Accelerating the deadline for producing audited financial statements from February 28th to November 15th is forcing agencies to reengineer the way they collect and manage financial information. The president's initiative also forces agencies to demonstrate that they are using financial information to manage their programs more efficiency *and*

effectively. The president's initiative, with the help of this Committee, is also shining light on the extent of erroneous payments made by the government and driving agencies to reduce them. As a member of the President's financial management team, I can assure you that this initiative is bringing renewed focus on improving the government financial management and it shows real promise.

II.   Valuable Financial Management Results at the Department of Agriculture

Now let's focus on valuable results at the Department of Agriculture as a way of providing the Subcommittee with a practical sense of what is possible in financial management for the benefit of the American taxpayer.

As context, at the Department of Agriculture, I am responsible for the financial leadership of an enterprise which, were it in the private sector, would be one of the largest companies in the United States. With $72 billion in annual spending, 112,705 full time equivalent staff years, and $123 billion in assets, the Department of Agriculture is exceeded generally in size in the private sector by only four companies – General Motors, Ford, Exxon and Wal-Mart – so we are roughly equivalent in size and diversity of lines of business to General Electric or Citigroup.

In addition, through our National Finance Center in New Orleans, Louisiana, we operate item processing and record-keeping services in executing payroll for one-third of all Federal employees and providing administrative services for more than 120

government entities, including the Thrift Savings Plan (TSP) that has three million participants with $100 billion in investment assets. Last year alone, the National Finance Center processed $26 billion in payroll disbursements and $12 billion of retirement plan contributions.

Here is a description of what it is possible to achieve in financial management:

1.   The U.S. Department of Agriculture, and all of its agencies, including the Forest Service, for the first time received unqualified or "clean" opinions on annual financial audits from the Office of the Inspector General in fiscal year 2002. An unqualified audit opinion indicates that the information reported in the financial statements is free of significant errors or misstatements. In all previous audits, the Office of Inspector General was unable to express any opinion on USDA's consolidated financial statements because the value of assets, liabilities, budgetary resources, net costs and related items could not be determined--an outcome termed a disclaimer, one of the four categories of opinions expressed on financial audits that include unqualified or "clean", qualified, disclaimer, or adverse. In short, Agriculture, one of the largest enterprises in America, had never before produced timely financial statements free of significant errors or misstatements in its entire 140-year history.

With slightly more than a year's worth of work, the Department of Agriculture and all its agencies for the first time received a clean audit opinion from the Office of the Inspector General for Fiscal Year 2002. This valuable breakthrough was achieved using existing taxpayer funding by skilled career government executives and dedicated associates

already in place. Results that led to our achieving sufficient internal control and data integrity to merit a clean audit opinion include:

- Massive revamping of business, financial management and accounting processes, and completing the installation of a standard general accounting system requiring 17 major conversions;

- Determining the program cost or present value cash flows of $100 billion in loans;

- Reconciling accurately and timely over $100 billion in annual cash receipts and disbursements in 393 United States Treasury accounts;

- Transforming the Forest Service financial management activities effectively;

- Correcting accounting deficiencies on $10 billion of real and personal property;

- Implementing a unified corporate controller organization that integrates accountability for financial management processes and systems throughout USDA; and

- Reducing the number of material deficiencies by more than 40 percent – a noteworthy achievement that reflects an improving environment of internal control. We began the year with 32 material deficiencies and closed it with 19 – still far too many. Our fiscal year 2003 goal is to reduce the remaining deficiencies by half. We plan to eliminate the rest in fiscal year 2004.

2. Meanwhile, our associates in New Orleans, Louisiana, at the National Finance Center (NFC), a strategic Federal asset within USDA with a total of over four million customers, also achieved valuable results in financial management.

- The Office of Personnel Management and the Office of Management and Budget selected the NFC to serve as one of the Government's payroll providers under the President's e-Payroll initiative to consolidate federal payroll functions.

- The National Finance Center became one of four government Inaugural Agencies receiving certification to deliver trusted, secured electronic transactions through a public key infrastructure (PKI) encryption system. PKI is an important global competitive advantage in the conduct of electronic commerce.

- The National Finance Center integrated members of the uniformed services into the Thrift Savings Plan System in Fiscal Year 2002. To date, over 300,000 members of the uniformed services have enrolled in the Thrift Savings Plan.

- The National Finance Center developed the Centralized Enrollment Clearing House System to match and reconcile over 32 million insurance carrier and enrollee records annually for 4 million participants in the Office of Personnel Management's Federal Employees Health Benefits plan.

3. We have also taken effective financial management actions to improve our lending for farmers, housing and rural development in terms of transaction approval, portfolio management, and debt collection. At the end of Fiscal Year 2002, USDA had approximately $100 billion in loans and $29 billion in credit guarantees, or a total of $129 billion of credit risk, about 32% of the entire debt owed to the Federal Government.

USDA'S problem credit at the end of last year totaled $14.5 billion, consisting of $8.3 billion of non-performing assets (loans and guarantees), $4.9 billion of defaulted guarantees that have been restructured, and $1.3 billion of gross charge-offs in FY 2002.

About $10.5 billion of this $14.5 billion relates to international sovereign risk credit in the Commodity Credit Corporation and $4.0 billion in domestic credit that is combined from Farm Service Agency ($2.7 billion) and Rural Development ($1.3 billion).

During 2002, USDA collected $944.7 million of delinquent debt, $681.8 million through agencies using our internal tools and $262.9 million through the Department of Treasury Administrative Offset Program and other Debt Collection Improvement Act (DCIA) techniques. In fiscal year 2002 USDA referred to the Treasury Offset Program 98 percent of the $1.4 billion of eligible delinquent receivables and 96 percent of $364 million of loans eligible for cross-servicing compared to only 14 percent in FY 2001.

Our lending agencies are focused on managing our loan portfolios effectively, including reviewing transaction approval processes, loan systems, collateral management and evaluating the piloting of loan sales.

In summary, I have seen during the past 18 months that bureaucracies produce results with leaders who instill laser-like clarity of ownership, or individual accountability. Ultimately, people are the only source of a sustainable competitive advantage – and I believe in people. In most every instance I have cited today, one person with courage led valuable change by substituting new successes in place of rhetoric or business as usual. I assure you, Mr. Chairman and members of the Subcommittee, that the people who produced these results are honored to serve the American taxpayer and will continue to do so as part of President Bush's Management Agenda.

Table 22–1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Agriculture				
USDA's CPIC process is used in concert with their Modernization Blueprint, EA, and their E-Gov Strategy throughout the budget process. The CPIC and EA are working toward full integration.	USDA's EA is continuing to focus on the business, data, application, and technology layers of the EA. USDA is also working to integrate the EA efforts throughout the department.	For the 2004 budget, USDA prepared 50 business cases. 48 made the business case. USDA will review its IT investments to ensure that projects and systems that meet the criteria for major projects provide business cases.	USDA continues to participate in many E-Gov initiatives including Safecom, Gov-Benefits, Geospatial, e-Loans, e-Grants, e-Payroll, e-Training, e-Travel, Integrated Acquisition, and e-Authentication. Starting in 2003, USDA will participate in the e-Grants pilot by using the new standard for grant applications and synopsis data. The USDA E-loans initiative must be aligned and coordinated with the government wide e-Loans initiative managed by the Department of Education. As a federal payroll provider, USDA is responsible for financing and migration strategies to ensure e-Payroll goals are met. USDA's progress in complying with GPEA has 58 percent (272) of its 469 total transactions projected to meet the deadline.	The Department should create an integrated EA effort that consolidates the myriad of EA efforts underway in the Department. All organizations within USDA should partner with the Department's Office of the CIO to eliminate the redundant EA efforts and to continually pursue opportunities for consolidating office automation.

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Table 22–1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Commerce		
All components (CIO, CFO, Procurement Executive) participate in the CPIC process. DOC has made progress toward integrating its CPIC and EA processes.	DOC's EA work is identifying key business modernization issues and has made progress on developing the 4 layers (Business, Data, Application, Technology). The EA is used to make budget decisions about IT investments.	Commerce provided business cases for all major systems and 60 percent of its total IT investments.	DOC's International Trade Administration is the managing partner of the International Trade Process Streamlining initiative (ITPS), and NOAA and Census are actively involved in the Geospatial One-Stop initiative. DOC is also participating in the integrated project team of Project SAFECOM and is involved in Rec-One Stop, e-Grants, e-Training, e-Travel, Integrated Acquisition and e-Authentication. DOC has made progress in meeting its GPEA requirements; only 11 significant transactions (transactions with over 5000 respondents) will be delayed beyond the end of 2003.	In 2003, Commerce should continue their efforts to align the agency EA with the Federal Enterprise Architecture. The department will continue and increase involvement in the development and deployment of the President's E-Government initiatives. By mid-February, the Department will update the Agency's IT Strategic Plan, tie to specific measurable results and identify 2–3 major modernization initiatives for the department that are also strongly linked to measurable outcomes/results. Commerce will submit a revised Enterprise Architecture that reflects these major modernization initiatives.

Table 22-1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Department of Defense		
DoD operates a lengthy budget review process, the Planning, Programming and Budgeting System (PPBS), which serves as the capital planning and investment control process for DoD. The PPBS system often fails, however, to link budget and performance for Information Technology systems and to integrate Information Technology efforts with the mission of the department.	DoD's Enterprise Architecture, the Global Infrastructure Grid (GIG), is a good start for developing an Enterprise Architecture. The newest version, Version 2.0, to be released in January 2003 for departmental coordination, is expected to expand the scope of the current version of the Enterprise Architecture. The DoD Chief Information Officer will work to ensure the Financial Management Architecture (FMA) effort is consistent with the department's Enterprise Architecture, the Global Infrastructure Grid.	DoD submitted complete business cases for 184 major projects, as defined by DoD, totaling about $14 billion. This shows a substantial improvement by the department to increase the visibility into the Information Technology portfolio. In addition, the quality of the business cases improved greatly.	DoD is involved in many of the E-Gov initiatives including, Online Rulemaking Management, Disaster Assistance and Crisis Response, Project Safecom, e-Grants, Geospatial One-Stop, Integrated Acquisition, e-Authentication, and e-Records. DoD is commended for the work it has done with the E-Clearance and E-Authentication E-Gov projects. DoD is also working with other federal agencies in the e-Payroll initiative. DoD is improving the coordination and alignment of the medical care delivery systems in DoD and the Department of Veterans Affairs (VA). DoD continues to make progress implementing the requirements of GPEA. DoD projects that 69 percent (94) of 137 total transactions will meet the deadline to comply with GPEA.	DoD will release the newest version (version 2.0) of the department's Enterprise Architecture, known as the Global Information Grid (GIG) in January 2003 for Departmental coordination. DoD will release the Financial Management "To-Be" Architecture in April 2003. DoD will continue to determine the most appropriate alignment of the department's Enterprise Architecture and the Financial Management Architecture with the Federal Business Reference Model.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Education				
All components (CIO, CFO, PEC) participate in its CPIC process. The Department has developed an integrated CPIC process which will allow for analysis of IT investments for compliance with the EA.	Education's EA work has made progress on developing the 4 layers (business, data, application, and technology), but does not yet fully address security. ED has developed a draft Security Reference Model which addresses this shortfall. ED should continue its work to align FSA's EA with the Department's EA and the Federal Enterprise Architecture.	Many of ED's projects failed to make successful business cases because of security weaknesses and will be placed on the "At-Risk" list for monitoring. ED will report to OMB on a quarterly basis the progress made toward certifying and accrediting each system described in an "At-Risk" business case.	ED's E-Gov efforts are resulting in tangible efficiencies and improvements. ED has improved its business cases and investment review process and is significantly ahead of other agencies on GPEA requirements. The Department is involved in a number of the E-Gov initiatives including Gov-Benefits, e-Loans, e-Grants, e-Travel, e-Training, Integrated Acquisition and e-Authentication. The Department should begin implementation of the e-Loans initiative. ED has made progress in meeting GPEA requirements: 74 percent (126) of its transactions (representing 88 percent of the total respondent burden) are projected to have an electronic option. ED is developing a plan for the incorporation of the remaining relevant transactions.	In terms of EA, ED must develop a comprehensive strategy that clarifies: - the factors that will guide EA development prior to One-ED completion; - how IT decisions will be coordinated with both an "interim" EA and ongoing information provided by One-ED; and - how agency-wide IT decisions will be coordinated with FSA IT decisions prior to the completion of an integrated EA. ED should continue the implementation of system risk assessments and associated corrective action plans, and certify and accredit all major systems.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Energy				
The Department has a strong CPIC process that is integrated with both the EA efforts and the budget process.	DOE has made significant progress on its EA efforts and should continue working on aligning its EA with the Federal Enterprise Architecture (FEA) effort.	The Department has made significant progress on providing business cases compliant with A–11 and A–130. However, many of DOE's projects failed to make successful business cases and will be placed on the "At-Risk" list for monitoring. DOE must report to OMB on a quarterly basis on the progress made toward strengthening business cases for "At-Risk" projects and the management of the projects.	The Department should continue working on the E-Gov initiatives. It is currently a partner in including Gov-Benefits, E-Records, E-Grants, E-Training, E-Travel, Integrated Acquisition, and E-Authentication. DOE's progress in complying with GPEA indicates three of the projected 19 transactions will meet the deadline of 10/03.	The Department should create an integrated EA effort that accommodates the myriad of EA efforts underway in the Department. All organizations within DOE are directed to partner with the Department's Office of the CIO to eliminate the redundant EA efforts and to continue to pursue opportunities for consolidating office automation and infrastructure buys by utilizing enterprise licenses and Departmental purchases. DOE is also reviewing all financial management systems and efforts to ensure alignment with the Department's plans for I-MANAGE.
Health and Human Services				
HHS shows evidence of commitment to strengthening its central CPIC process. Progress must continue and produce results including a true integration of IT capital planning with the general budget decision-making process.	The departmental EA efforts are in the early stages, not addressing equally all parts of the Department, and manifested in several separate Enterprise Architecture efforts.	HHS' IT projects are generally tracking well on cost, schedule, and performance. However, more than 50 percent of the HHS major system business cases (Ex 300s) require improvement because they inadequately address security. HHS did not submit Ex. 300s for some large projects.	HHS has continued to lead well on E-Grants and Consolidated Health Informatics (CHI). On the cross-agency E-Gov agenda front, HHS has moved forward on many detailed implementation issues encountered in E-Grants, filed the Ex. 300 for Consolidated Health informatics, and increased commitment of resources. HHS's progress report on complying with GPEA shows 63 percent (212) of its 337 total transactions projected to meet the deadline. Additional progress is dependent upon establishing a Public Key Infrastructure for electronic signatures, working with the E-Authentication initiative.	Improve coordination of HHS's internal IT activities with E-Grants, Geospatial One-stop and E-Gov initiatives related to simplifying administrative systems. OMB notes that work on the Enterprise Architecture should progress quickly to an integrated and comprehensive departmental process for EA, to identify and reduce redundancies, and map the Departmental EA to the Federal Enterprise Architecture efforts of OMB.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Housing and Urban Development		
HUD has a strong CPIC process that is integrated with both the EA efforts and the budget process.	HUD has made significant progress on their EA efforts and should continue working on aligning their EA with the Federal Enterprise Architecture (FEA) effort.	HUD submitted business cases on 100 percent of major systems for the 2004 Budget and were operating within 90 percent of submitted cost, schedule, and performance targets.	HUD has continued to be a partner in many of the 24 E-Gov initiatives, including: Gov-Benefits, Online Rule, E-Grants, E-Loans, E-Training, E-Travel, Integrated Acquisition, and E-Authentication. HUD delivered the New FHA module on time. Given HUD's number of transactions, it is recommended that HUD move to aggressively implement the requirements of GPEA.	HUD will develop an Action Plan for meeting milestones in major systems. HUD must continue to make progress in delivering new working systems, including the FHA Ledger Project and other important delivery milestones to be laid out by HUD.
		Interior		
Interior's CPIC process and governance document was piloted in 2002, revised, and reissued to bureaus for implementation.	Interior is reviewing its many separate and uncoordinated EA efforts and creating an integrated and comprehensive departmental process for EA. OMB was briefed on the strategy and the agency is moving forward on these efforts.	Significant strides have been made to identify all IT investments and to use OMB's Exhibit 53 and 300s to display and track IT investments. The initial budget submission included business cases for 35 projects with 20 of them remaining on the "At-Risk" list. Interior has recently submitted additional business cases and strengthened business cases initially submitted. Interior will continue strengthening the business cases on the "At-Risk" list and the projects they represent. Interior will review its IT portfolio and ensure that all projects meeting the major project definition provide business cases. Interior and OMB will work together to improve the linkage between budget data and IT investment data from Exhibit 53.	Recreation One-Stop is making good progress and will expand to include enhanced links to reservation and other services. Geospatial One-stop is being coordinated with Federal agencies, states, and local governments. Interior hired a permanent Executive Director and established an intergovernmental Board of Directors for the project. Interior is making progress in complying with GPEA. OMB identified 271 eligible GPEA transactions for Interior to review. Of these, Interior identified an initial 80 eligible for conversion—50 percent will be completed by the deadline and Interior will make every effort to complete the others by the deadline. For the remaining possible eligible transactions, Interior is reviewing the transactions to determine the feasibility of making those transactions electronic in tandem with its information technology modernization.	The Department is creating an integrated and comprehensive departmental process for EA to identify and reduce redundancies of EA efforts across the department and working with OMB to develop a department-wide EA process. Interior continues its efforts to map the departmental EA to the Federal Enterprise Architecture efforts of OMB. OMB endorses the process used by Bureau of Land Management. The EA should be fully developed to a detail level that ensures the efficient management of Department IT resources, not merely a high-level overview. The Department will implement an inter-bureau IT consolidation. Interior's CPIC process will be implemented at the bureau level in 2003. The remaining 50 percent (40) of initial eligible GPEA transactions will have plans in place to be completed post 10/2003.

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Table 22-1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Justice		
All components (CIO, CFO, PEC) participate in the CPIC process.	DOJ has made progress toward integrating their CPIC and EA. Justice's work on its EA shows progress in developing the 4 layers (business, data, application, and technology), but does not yet fully address security. Justice does use the EA to make decisions about IT investments. The Department appears to have many separate and uncoordinated Enterprise Architecture efforts.	DOJ prepared 2004 business cases for their major investments; however, many will be placed onto the "At-Risk" List due to deficiencies that must be addressed.	The Department issued its Strategic Plan in July of 2002. The Department was active in a number of E-Gov initiatives including E-Authentication and E-Grants. It was also involved in other E-Gov initiatives including Disaster, Safecom, e-Travel, e-Training, and Integrated Acquisition. It should continue to stay an active participant in these initiatives. As part of the e-Authentication Initiative, DOJ is requested to coordinate its E-Commerce Controlled Substances Ordering System effort with the e-authentication project and report its progress in Spring Review. DOJ's progress in complying with GPEA has 63 percent (68) of its 108 total transactions projected to meet the deadline.	The Department will create an integrated and comprehensive departmental process for EA, including identifying and reducing redundancies in these separate approaches. Justice will work with OMB to develop a department wide EA process and continue its efforts to map the Departmental EA to the Federal Enterprise Architecture efforts of OMB. The Department should conduct an analysis to map its major system 300s to business, stakeholders, and selected other layers of the IT architecture.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Labor		
DOL's CPIC process is used to implement the Modernization Blueprint and EA throughout the budget process. The CPIC and EA are fully integrated.	DOL's EA is a Modernization Blueprint for improving agency mission performance and is consistent with the FEA BRM. It addresses the four layers (business, data, application, technology) and security. It is used to make budget decisions about IT. DOL should continue to work to ensure that its EA efforts are consistent with the Federal Enterprise Architecture.	Only 15 of DOL's 55 business cases were evaluated as "At-Risk". Most of these were for lack of security reviews that were already in progress but not complete. All of these business cases are scheduled for revision within the first quarter of CY 2003.	DOL was the first department with a central IT fund to promote cost-effective investments to serve its mission. The percentage of investments in this fund, while still small, increased from 13 percent in 2002 to 17 percent in 2003. DOL is the managing partner of GovBenefits, which was launched publicly April 29, 2002. DOL is a partner agency and active participant in 12 other E-Gov initiatives. DOL's progress in complying with GPEA has 73 percent of their transactions projected to meet the deadline. In 2003, it should work toward ensuring the streamlining of all of its electronic transactions that had until recently been paper-based. In this way, DOL will move toward being an exemplar for converting paper to E-Government transactions	GovBenefits should work with State governments to define virtual social services application forms. Labor should complete implementation of its common e-mail system, which is scheduled for 5/03. DOL should establish an integrated, publicly accessible website for Service Contract Act wage determination data. DOL should complete its IT improvements to its Davis-Bacon system.

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Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
State				
State is currently reviewing its CPIC process and has negotiated an improvement plan with OMB to address CPIC, EA, and E-Gov issues.	State's initial EA is heavily focused on the technical aspects of the enterprise and does not provide a Modernization Blueprint for the agency. OMB received an EA Project Plan from State with milestones that clearly defines how the agency will move forward on their EA work.	Since September 30, 2001, State has markedly improved its business cases. None of the business cases submitted with the 2004 budget failed. 15 of 24 are on the "At-Risk" list, a big improvement over last year. State should continue strengthening those business cases on the "At-Risk" list and the projects they represent. State should also review its IT portfolio to ensure that all projects meeting the definition of "major" provide successful business cases.	State is a participating partner in several E-Gov initiatives; however, it seems that State is continuing to develop systems in isolation that would benefit from collaboration with other agencies, in particular USAID. State Department is beginning to partner with the E-Government e-Training project management team. State's progress in complying with GPEA has 48 percent (45) of its 94 total transactions projected to meet the deadline.	State and USAID agreed to develop a joint Enterprise Architecture and identify opportunities for collaboration and consolidation of IT systems, beginning with financial management. State is launching a major new system. SMART, designed to replace many key functions (cables, messaging, document management). This project could be the lynchpin of State's operations. We expect that State's management team will diligently and carefully plan, design, and evaluate this new system. One key aspect that must be considered is how SMART meshes with the E-Gov initiatives and how it will function as a shared multi-agency tool. State's new E-diplomacy office should work in concert with State's Information Resource Management Office to assess how IT systems meet the Administration's goals to unify, simplify, and reduce redundancy in IT systems government-wide.

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Table 22–1.EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Transportation				
DOT has made progress in the area of its CPIC process, including finalization of its overall IT CPIC policy and convening of the Departmental Investment Review Board, which resulted in the consolidation of multiple redundant systems. This consolidation effort is underway and will be reflected in the 2005 submission. The department should continue strengthening the process and ensure that the CPIC is fully integrated with the budget and EA.	DOT's EA is still in the early stages of development. DOT needs to maintain its focus on a business driven EA that addresses all of the necessary security issues and an EA that is aligned with the Federal Enterprise Architecture effort.	The department has made tremendous progress in terms of providing business cases as part of the budget, though much work remains to be done in this area. The initial budget submission included business cases for 85 projects. 44 of these projects remain on the "At-Risk" list and Transportation should continue to strengthen the business cases and the projects they represent.	DOT is an active partner and continue to be in many of the E-Gov initiatives including Rec-One Stop, Disaster, Safecom, Online Rulemaking, Geospatial, e-Grants, e-Training, e-Travel, Integrated Acquisition. DOT's progress in complying with GPEA has 90 percent (338) of its 375 total transactions projected to meet the deadline.	The Department will provide OMB an update on its progress at least quarterly and further integrate its EA into the budget process for future years. DOT should work with the Online Rulemaking Management Initiative managing partner (EPA) to develop and adopt a common rulemaking solution. As part of E-Authentication, it should coordinate with the Common Access Architecture—Public Key Infrastructure (PKI) for Digital Signature project with the E-authentication team to determine if this system is redundant with e-authentication.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Treasury		
While Treasury's CPIC process has existed within the Department it does not appear to be integrated with the budget process. The bureaus within the Department have independent CPIC processes that fail to be integrated into one Department wide process.	Treasury's EA has a very strong technology layer with little business and data information. Treasury should continue work on their EA and provide information in the four layers (business, data, application, and technology) with a clear view of how Treasury will use the EA to modernize the agency.	The Department cannot demonstrate that its IT investments are achieving at least 70 percent of planned costs, schedule, and performance goals. The majority of its business cases for 2004 did not successfully make the business case and therefore will be placed on the "At-Risk" list.	Treasury is leading two E-Gov initiatives, Free Filing and Expanded Electronic Tax Products for Business and is actively supporting expansion of Pay.gov. It should deploy the Internet application for EINs as part of the One-Stop Business Compliance project. Treasury should carefully review the IT portfolios of its bureaus to ensure that the bureaus are investing in projects in a manner fully consistent with the government-wide E-Government initiatives and continue participating in such projects as Free Filing, Online Rule, Expanding Electronic Products for Business, e-Training, e-Travel, Integrated Acquisition, and e-Authentication. Treasury's progress in complying with GPEA has 36 percent (256) of its 700 total transactions projected to meet the deadline. 86 percent of these transactions are from IRS, who should continue to make progress towards GPEA compliance and the goal established by the IRS Restructuring and Reform Act of 1998 (RRA98) of 80 percent of all tax and information returns being filed electronically by 2007.	Develop a project plan that describes how Treasury will achieve an integrated CPIC process across the Department during 2003 before publication of the President's Budget. Create an integrated and comprehensive departmental process for Enterprise Architecture (EA). To do this, it would help to identify and reduce redundancies in the current separate bureau by bureau approaches. These architecture efforts should include efforts to map the Departmental EA to the Federal Enterprise Architecture. All bureau-specific EA efforts should be put on hold until a Department-wide EA plan, consistent with the Federal Enterprise Architecture efforts, is developed.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Veterams Affairs				
VA has implemented a CPIC process governed by its Senior Management Committee (SMC). VA has made progress toward integrating their CPIC and EA.	VA should continue its efforts to modernize IT using the EA effort and report quarterly progress on milestones to OMB. VA should continue looking for opportunities to unify, simplify, and consolidate around the needs of the veterans.	The 2004 budget submission demonstrates significant improvement in VA's business cases. While a number of the business cases were on the "At-Risk" list, the department has continued to strengthen these business cases and the projects they represent. There are opportunities for VA and DoD to expand collaboration on projects. VA should increase its coordination and alignment with VA's and DoD's medical care delivery systems. This effort will allow both Departments to better serve their beneficiaries, many of whom are dually eligible, while using Federal funds more efficiently and effectively. These efforts should be in addition to efforts currently underway.	VA has expanded its participation in E-Gov initiatives, including becoming a significant partner in at least one project in each of the four E-Gov portfolios. VA will continue participation in E-Gov initiatives, especially e-Payroll, e-Grants, e-Loans, e-Travel, e-Training, e-Authentication and Gov-Benefits. VA's progress in complying with GPEA has 88 percent (156) of its 177 total transactions projected to meet the deadline.	VA will continue to implement the centralization of IT authority under the CIO. VA will continue populating the One-VA Enterprise Architecture. It should complete the crosswalk of the VA EA with the Federal EA and Business Reference Model (BRM). VA and DoD collaboration milestones: VA and DoD should provide OMB with a joint draft site selection proposal three weeks prior to submission to Congress, quarterly reports detailing progress on development of the pilot projects (starting April 1, 2003), and a joint implementation plan before proceeding with operations at the pilot sites (by July 15, 2004).

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Table 22-1.　EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Environmental Protection Agency		
EPA's CPIC process has all the components (CIO, PEC, CFO) participating in the process. EPA has made progress toward integrating CPIC and EA. However, additional work remains to integrate the CPIC and budget processes.	EPA has provided a baseline "As Is" architecture and is rapidly creating a Modernization Blueprint and identifying key business modernization issues as part of their target architecture. It has made progress on developing the 4 layers of the Enterprise Architecture (business, data, application, and technology), but does not fully address security. EPA should continue its work to align agency EA efforts to the Federal Enterprise Architecture.	EPA submitted revised 2004 business cases as required. After final review, 100 percent of business cases received passing scores.	As the managing partner for the Online Rulemaking initiative, EPA has established a highly capable program management office for this project and is poised to deliver the rule-making website ahead of schedule. Overall, EPA is currently participating in 14 of the 24 E-Government initiatives. EPA's progress in complying with GPEA has 26 percent (131) of its 505 total transactions projected to meet the deadline.	EPA is already working to better integrate their budget planning and CPIC processes. The agency submitted its Target Architecture in December and is continuing to develop a robust Enterprise Architecture that will serve as the Agency's Modernization Blueprint. EPA should also continue its involvement in all appropriate E-Government initiatives including e-Travel, Disaster Management, Geospatial, Integrated Acquisition, e-Records, and e-Authentication. To support this, the agency should continue its centralized mechanisms for ensuring its active participation in the initiatives.

Table 22-1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
General Services Administration				
GSA has all of the appropriate organizational components (CIO, PEC, CFO) participating in its CPIC process. GSA has made progress toward integrating its CPIC and Enterprise Architecture (EA). GSA issued a 5 year IT Strategic Plan in December, 2002.	GSA has developed a satisfactory "As-Is" financial management architecture and recently submitted the "To-Be" architecture for its financial management functions. While GSA has made progress towards developing a modernized financial management architecture approach because these financial management functions constitute most but not all of the enterprise, the EA is still technology-driven, and not business driven.	GSA has made progress on providing business cases compliant with A-11 and A-130. However, many of GSA's projects failed to make successful business cases because of security weaknesses and will be placed on the "At-Risk" list for monitoring. GSA must report to OMB on a quarterly basis on the progress made toward strengthening business cases for "At-Risk" projects and the management of the projects.	GSA continues to provide good support for the five E-Gov initiatives for which GSA is managing partner and OMB E-Gov activities generally. It should continue its participation in the E-Gov initiatives as managing partner of Federal Asset Sales, e-Travel, Integrated Acquisition, USA Services, and e-authentication. It should also continue its participation in e-Payroll and e-Records. By March 14th 2003, GSA should provide OMB a schedule for adding the Federal Acquisition Institute and the Applied Learning Center training activities to the e-Training website. GSA's recent GPEA report to OMB has all of GSA's remaining 48 transactions, which are not yet GPEA compliant projected to meet the October 2003 deadline.	GSA should demonstrate it is making IT decisions across the enterprise, with full service involvement (e.g. the work begun on Enterprise wide Infrastructure, web page content management, and Customer Relationship Management). GSA must continue to fully leverage its partner resources for the five E-Gov initiatives it manages; and actively participate in the internal efficiency initiatives where GSA currently has redundant or complementary systems (e-Training and Recruitment One Stop).
Agency for International Development				
USAID has made progress in updating its CPIC process since last year primarily through its Business Transformation Executive Committee (BTEC). It is in the process of defining requirements for its newly established Capital Investment Working Group. USAID will update its CPIC process to reflect the group's participation in the agency's CPIC process.	USAID EA has a very strong technology layer with some business and data information. USAID has been in the process of updating their EA. They should continue these activities and provide information in the four layers (business, data, application, and technology) with a clear view of how AID will use the EA to modernize the agency and collaborate with State.	Since September 30, 2001, USAID has markedly improved its business cases. None of the business cases submitted with the 2004 budget failed, however all six of the business cases that were submitted were placed on the "At-Risk" List. USAID should continue strengthening those business cases on the "At-Risk" list and the projects they represent. USAID should also review its IT portfolio to ensure that all projects meeting the definition of "major" provide successful business cases.	USAID and State will develop a joint Enterprise Architecture and identify opportunities for collaboration and consolidation of IT systems, beginning with financial management. In addition, USAID has begun more active participation in government-wide initiatives, including e-Grants. USAID's GPEA plan shows that 92 percent of its transactions are projected to meet the deadline.	State and USAID will develop a joint Enterprise Architecture and a plan for increased IT collaboration. USAID will also investigate potential collaboration with other agencies on their grants and acquisition systems. Finally, USAID will bring their business cases in compliance with A-11 requirements and be a full and active participant in relevant government-wide initiatives, including e-Grants and Integrated Acquisition.

Table 22-1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
National Aeronautics and Space Administration				
NASA's has all the appropriate stakeholders participating in the CPIC process (e.g., the CIO, Procurement Executive (PEC), and CFO).	NASA has aligned its Enterprise Architecture with the Federal Business Reference Model and discussed it with the OMB Chief Technology Officer.	NASA has made great strides in refining its plans and processes for monitoring and reporting on its IT investments. However, only two of NASA's 14 IT business cases were judged to be adequate and not "At-Risk". NASA and OMB will continue to review its IT portfolio to improve the information that NASA collects and to determine which IT investments require business cases.	NASA is aggressively increasing its integration of E-Government activities internally, and continues to participate in four interagency E-Gov initiatives. Additionally, NASA is providing informal support to five other interagency initiatives. NASA has a key role in cross-agency certification of Public Key Encryption. NASA should continue being an active participant in the following E-Gov initiatives: e-Travel, Geospatial, e-Training, Integrated Acquisition, and e-Authentication. NASA will take necessary steps to make its OneNASA Portal operational by February 2003. The NASA CIO and Comptroller have issued new guidance letters on the collection of information to address IT investments and their alignment with IT security. As NASA already provides online access to a majority of its transactions, the agency is making progress towards compliance with GPEA. However, NASA should concentrate its efforts on the information collections related to IFMP.	NASA should create an integrated CPIC process that incorporates the various centers and enterprises into one unified CPIC process. NASA has made some progress toward integrating its CPIC and Enterprise Architecture (EA). NASA needs to create an integrated EA effort that accommodates the various EA efforts underway in the agency. All centers and enterprises within NASA are directed to partner with NASA's Office of the CIO on these EA efforts, eliminate any redundant EA efforts, and continually pursue opportunities for consolidating office automation and infrastructure buys.

Table 22–1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
National Science Foundation
NSF's CPIC process is used to implement the agency's Enterprise Architecture (EA) throughout its budget process. The CPIC and EA are fully integrated.	NSF's EA is consistent with the Federal Enterprise Architecture Business Reference Model.	NSF submitted 5 business cases. While some of them were initially placed on the "At-Risk" list, NSF has continued to strengthen these business cases and the projects they represent.	NSF receives over 99 percent of its annual proposals electronically through its FASTLANE system. NSF continued as an active partner in e-Grants, it has paid its full share of e-Grants Phase I costs. It should continue its involvement in the E-Gov initiatives and seek additional opportunities to participate in the E-Gov initiatives. NSF's progress in complying with GPEA is excellent. Of NSF's nearly 25 transactions, it has only one transaction that lacks a date for GPEA compliance.	NSF should continue work to ensure that the agency's EA efforts map to and support the Federal Enterprise Architecture. Based on its upcoming Business Analysis, NSF will develop its next generation Enterprise Architecture that supports and maps to the Federal Enterprise Architecture. It will include the development of a phased implementation plan for the identified new technologies. NSF should ensure that its five-year IT strategic plan is consistent with government-wide E-Gov efforts.
Office of Personnel Management
OPM uses its CPIC process to implement the Modernization Blueprint and EA through the budget process.	OPM's EA is a Modernization Blueprint for improving agency mission performance. The next update will align OPM's business lines to the Federal Enterprise Architecture and the governmentwide and agency E-Gov initiatives.	Business cases for major projects substantially comply with the requirements of OMB Circular No. A–11 and A–130. Major projects with approved cost, schedule & performance goals are on time, within budget and meeting performance objectives.	OPM leads five of the 24 governmentwide E-Gov initiatives—Recruitment One-Stop, e-Training, e-Clearance, Enterprise HR Integration, and e-Payroll—that support the federal employee lifecycle and help to transform federal human capital management. At least 81 percent of OPM's information transactions will meet the GPEA deadline for electronic options.	Continue to achieve planned security remediation activities for 42 program systems and report progress quarterly.

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Table 22-1.   EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
Small Business Administration				
SBA's CPIC process has all the necessary components (CIO, PEC, CFO) participating in the decision making process. SBA has made progress toward integrating its CPIC and EA. SBA needs to improve IT program performance oversight.	Through SBA's EA work, the agency is currently identifying key business modernization issues, and has made progress on developing the 4 critical IT layers (business, data, application, technology). Nonetheless, the EA does not yet fully address security. SBA should continue aligning its EA efforts with the Federal Enterprise Architecture.	Submitted revised 2004 business cases as required. After final review, 100 percent of business cases received passing scores.	Established BusinessLaw.gov to provide small businesses easy access to information on how to find, understand, and comply with government regulations. Citizen one-stop service delivery integrated through Firstgov.gov. SBA plans to enhance management and support of customers and partners through implementation of relationship models, including the elimination of program "stove-pipes" and better integration of all programs and delivery systems through one-stop shops and/or supply chain management techniques. SBA should continue its participation in e-Loans, One Stop Biz, e-Training, Integrated Acquisition, and e-Travel. SBA projects that 81 percent (47) of its 58 total transactions will meet the GPEA deadline.	SBA is steadily improving its IT processes and business cases have shown improvements. SBA must formally implement its EA process and ensure that CFO, procurement, and other officials partake in the investment decision and review process.
Social Security Administration				
SSA's CPIC process is integrated with business modernization plans and the budget process. The CPIC and EA are fully integrated.	SSA's EA work is currently identifying key business modernization issues, has made progress on developing the 4 layers (business, data, application, technology), but does not yet fully address security.	SSA provided business cases for all major projects but does not show that 90% of projects meet cost, schedule, and performance goals.	SSA remains a paper-driven agency but is building capacity to reduce reliance on paper-based processes and provide integrated service delivery in the future. SSA is the managing partner for e-Vital, which is on schedule, and participates in e-Authentication, e-Training and other cross-agency initiatives. SSA formulated performance indicators for customer Internet usage and established baseline data. SSA projects that 16 percent (32) of SSA's 201 total transactions will meet the GPEA deadline.	SSA should continue working to align its EA efforts with the Federal Enterprise Architecture and actively pursue opportunities to collaborate with other agencies to design and deliver systems around the needs of the citizens.

Table 22–1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
National Archives and Record Administration				
NARA's CPIC process has all of the components (CIO, PEC, CFO) participating. NARA has made progress toward integrating their CPIC and EA.	NARA's EA work is currently identifying key business modernization issues, has made progress on developing the 4 layers (business, data, application, technology), but does not fully address security.	NARA has made significant progress on providing business cases compliant with A–11 and A–130. However, most of NARA's projects failed to make successful business cases and will be placed on the "At-Risk" list for monitoring. NARA is working to improve the business case for their "Electronic Records Archives."	NARA serves as the Managing Partner for the E-Records E-Gov initiative. It should continue to be an active participant in the e-Travel and Integrated Acquisition projects. NARA's progress in complying with GPEA has 6 percent (3) of its 50 total transactions projected to meet the deadline.	NARA should continue working to align its EA efforts with the Federal Enterprise Architecture. It should develop a strategy for using its EA as the Modernization Blueprint for the agency.
Nuclear Regulatory Commission				
NRC uses its CPIC process to implement its Modernization Blueprint and EA throughout its budget process.	NRC's EA work is currently identifying key business modernization issues, has made progress on developing the four layers (business, data, application, technology), but does not fully address security.	NRC submitted business cases for its major IT investments and exceeded the performance goal of at least 60 percent of its IT budget request accompanied by business cases. However, many of the business cases did not successfully make the business case and therefore will be placed on the "At-Risk" list.	NRC should continue participating in the e-Travel and Integrated Acquisition E-Gov initiatives. NRC should also work with the Online Rulemaking Management Initiative (OLRM) managing partner (EPA) to develop and adopt a common rulemaking solution.	NRC should continue work to align its EA with the Federal Enterprise Architecture and continue working to ensure that its EA will serve as the agency's Modernization Blueprint. NRC should continue working to ensure full alignment and integration of all NRC enterprise-wide IT policies and processes, to include best practices systems development, CPIC, EA, systems security certification and accreditation, and routine E-Gov reviews of existing and proposed IT investments.

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Table 22-1. EFFECTIVENESS OF AGENCY'S IT MANAGEMENT AND E-GOV PROCESSES—Continued

Capital Planning and Investment Control (CPIC) Effectiveness	Enterprise Architecture (EA) Effectiveness	Business Cases for IT Projects	E-Gov Progress	Process Improvement Milestones for Calendar Year 2003
		Corps of Engineers		
The Corps uses the CPIC process to implement its EA throughout the budget process.	The Corps conducted significant work to integrate its EA activities with the work of the Federal Enterprise Architecture. The Corps needs to develop a more robust EA that should serve as its Modernization Blueprint.	All of the business case the Corps submitted will be placed on the "At-Risk" List. Only 11 percent of the Corps 2004 IT budget request was accompanied with business cases and therefore it did not meet the performance goal of major projects accounting for at least 60 percent of the IT investment portfolio for 2004 reporting. (A–11, Section 53)	As part of Recreation One Stop, the Corps should have a plan for accommodating the Department of Interior in the National Recreation Reservation Service. The Corps should continue working on the other E-Gov initiatives they are currently involved with including Geospatial and Integrated Acquisition. Corps' progress in complying with GPEA has all of its 17 transactions projected to meet the deadline.	The Corps will develop an action plan with milestones for developing an Enterprise Architecture that will serve as the agency's Modernization Blueprint. The Corps will develop additional business cases for 2005 to increase the visibility of its IT Portfolio.

Table 22–2. Government to Citizen—By Projects

Lead Agency & Project Website	Description	Performance Metrics	Progress to Date	Key Migration Milestones
GOVBENEFITS.GOV				
DOL www.govbenefits.gov	Provides a single point of access for citizens to locate and determine potential eligibility for government benefits and services.	• Hits to site per month (Target: 350,000) • # of referrals to partner benefit sites (Target: 10% increase) • Average time to find benefits and determine eligibility (Target: 20 minutes or less)	• Initial services locator launched on 04/29/02 as a screening tool to identify services citizens may qualify for (Now at 200 programs)	• 03/31/03—Establish first iteration of virtual benefits data standards with states • 04/30/03—Online screening tool for 225 benefit programs from current 200 • Q1 2004—Make progress in migrating SSA and VA forms toward a single site, which may be maintained by one of these agencies.
RECREATION ONE-STOP				
DOI www.recreation.gov www.volunteer.gov/gov	Provides citizens with a single-point of access to a web-based resource, offering information and access to government recreational sites in a user friendly format.	• # of partners sharing data via Recreation.gov (Target: 35 partners added) • # of facilities listed in Recreation.gov (Target: 25% increase) • # of online reservations • Customer satisfaction	• First county/state data added to Recreation.gov as part of intergovernmental "Government Without Boundaries" initiative, May 2002 • Recreation.gov relaunched with enhanced map interface and state data in September 2002 • Joined OASIS and initiated RecML data standard process December 2002 • Data provided in a consistent format for 2,471 recreation sites managed by 10 Federal organizations, 4 states, and 1 county, January 2002	• 4/30/03—Add new map capability • 09/30/03—Complete Recreation data standard (RecML) • 10/31/03—Online cross-government reservation system relaunches; Park Service reservation system de-activated
IRS FREE FILING				
TREAS www.irs.gov	Creates a single-point of access to free online preparation and electronic tax filing services provided by Industry Partners to reduce burden and costs to taxpayers.	• % coverage of tax filing public (Target: minimum of 60%) • # of citizens filing electronically (Target: 15% increase)	• Signed agreement with Industry Partners to offer free tax services for the 2003 tax season	• 01/16/03—Deploy industry partnership for free online tax filing solution for 2003 tax season

Mr. PLATTS. Thank you, Mr. McPherson, for your testimony.

And before we proceed, I was challenged and restrained in cutting a fellow native 19th District resident off on the time limit, but if we can try to stay to our 5 minutes, and then we can have more time to get into questions, that would be great.

You may proceed.

Ms. STYLES. Chairman Platts, Congressman Towns, Congressman Sessions, and members of the subcommittee, I am pleased to have this opportunity to discuss competitive sourcing and our proposed changes to OMB Circular A–76.

As most of you know, competitive sourcing is a governmentwide initiative to encourage competition for the performance of government activities that are commercial in nature. Using OMB Circular A–76, departments and agencies have been asked to "determine whether commercial activities should be performed under contract with commercial sources or in-house using Government facilities and personnel." Competitive sourcing is a means to an end, with the means being public-private competition and the end being better management of our Government, better service for our citizens, and lower costs for our taxpayers.

I cannot emphasize enough that competitive sourcing is not about outsourcing; nor is it about downsizing the work force. Rather, competitive sourcing is about creating incentives and opportunities for efficiency and innovation through competition. No one in this administration cares who wins a public-private competition. But we care very much that government service is provided by those best able to do so in terms of cost and quality, be that the private sector or the Government itself.

After nearly 2 years of hard work with the agencies, I am pleased to see a large number of our Federal managers accepting this difficult challenge. They are, for the first time, building an infrastructure for and institutionalizing public-private competition. For example, the Department of Veterans Affairs is opening up 52,000 positions to competition over the next 5 years, initiating studies of 25,000 of them in 2003 alone. At the Federal Aviation Administration, 2,700 Federal flight services personnel are participating in a public-private competition across the country. Similarly, the Department of Energy has started public-private competition for a variety of functions, such as computer personnel, graphic designers, and financial services personnel, at locations nationwide.

Despite our progress, overall use of competitive sourcing remains weak. This is not surprising when considering that the current processes governing sourcing decisions are time-consuming and unnecessarily complicated. We are committed to improving how agencies determine whether commercial activities will be performed by the public or private sector.

Last November, we proposed major changes to this process, OMB Circular A–76, including changes to help agencies more easily distinguish between commercial and inherently governmental activities; making processes simpler and easier to understand, using the well-tested practices in the Federal Acquisition Regulation; more fully accommodating a program's need for best value and innovation, while still requiring cost to remain a factor in all competitions and the deciding factor in many competitions. We also are commit-

ted to ensuring that sourcing decisions are made in real time by imposing deadlines that would reduce the cycle time from the current delay-plagued 3 years that Congressman Sessions mentioned, to an average of 1 year, 12 months.

We have been working aggressively to consider the more than 700 comments that were submitted on the proposed rule. In analyzing the public comments, we are keeping a keen eye for areas where the processes and results may fall short of expectations.

We are aiming to complete our review of the public comments shortly so that agencies may take advantage of a transformed process.

In conclusion, we are asking Federal agencies to reconsider how they accomplish their missions. We are also asking them to test assumptions about the best provider through the competitive process. Competitive sourcing is laying the groundwork for improved mission performance with quality service at the lowest possible cost.

Like any other effort that seeks to fundamentally transform the way we do business, this initiative has its challenges. But if we are steadfast in our commitment to competition, which lies at the heart of competitive sourcing, we will no doubt deliver the quality service that our taxpayers deserve.

That concludes my prepared remarks.

[The prepared statement of Ms. Styles follows:]

JOINT STATEMENT OF ANGELA B. STYLES

ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

AND

MARK FORMAN

ASSOCIATE DIRECTOR FOR INFORMATION TECHNOLOGY

AND E- GOVERNMENT

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY

AND FINANCIAL MANAGEMENT

COMMITTEE ON GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 26, 2003

This joint testimony addresses primarily the status of the Competitive Sourcing

and Expanding Electronic Government initiatives of the President's Management

Agenda. We want to provide you some background on the President's Management

Agenda and our progress implementing it. The President's Management Agenda

includes three other government-wide initiatives in addition to Competitive Sourcing and

Expanding Electronic Government: Strategic Management of Human Capital, Improved

Financial Performance, and Budget and Performance Integration. These initiatives

represent areas where, as President Bush has said, "the opportunity to improve performance is the greatest."

The overall objective of the President's Management Agenda is to improve the management and performance of the Federal Government. We grade agency status and progress on the Executive Branch Management Scorecard. Each quarter agencies receive assessments of their status in achieving the "standards of success," specific good government goals articulated for each of the initiatives on the President's Management Agenda. Agencies also are graded on their progress in achieving the standards, given that in many cases, real improvement will take time.

The good news is that signs of improvement outnumber distress signals:

- 11 departments or agencies show 17 changes for the better;
- 2 agencies slipped in the management of their finances. One of those, NASA, has reclaimed the clean opinion on its financial statements it lost the previous year, but too late to be reflected on this scorecard, which was prepared as of the end of December.

The Scorecard is working. Clearly, it still shows a lot of agencies in the "red" for status. And that reflects the nature of the problems we are trying to solve – chronic longstanding management challenges that defy quick fixes. However, there is significant improvement since our initial evaluation. As of September 2001, 85% of status scores were red. Today, more than a quarter of the scores are out of red, demonstrating an improvement of 11%.

On the progress side, where we assess the steps agencies are taking to get to green on status, we are seeing a commitment to address these areas of mismanagement. Last year, 15 percent of the scores were out of the red category. This year, 26 percent are out of the red. We've almost doubled the percentage of scores out of the red and we expect to improve even more.

Energy improved its status scores in three of the five initiatives. NASA is a government-wide leader in the Human Capital and Budget and Performance Integration initiatives. These and other agencies are taking this exercise far more seriously than some of the critics expected when we announced this good management tool a little over a year ago. We would now like to discuss in more detail the Competitive Sourcing and Expanding Electronic Government Initiatives.

Competitive Sourcing

As most of you know, competitive sourcing is a government-wide initiative to encourage competition for the performance of government activities that are commercial in nature. Using OMB Circular A-76, departments and agencies have been asked to "determine whether commercial activities should be performed under contract with commercial sources or in-house using Government facilities and personnel." Competitive sourcing is a means to an end, with the means being public-private competition and the end being better management of our government, better service for our citizens, and lower costs for our taxpayers.

We cannot emphasize enough that competitive sourcing is not about outsourcing; nor is it about downsizing the workforce. Rather, competitive sourcing is about creating

incentives and opportunities for efficiency and innovation through competition. No one in this Administration cares who wins a public-private competition. But we very much care that government service is provided by those best able to do so in terms of cost and quality, be that the private sector or the government itself.

After nearly two years of hard work with the agencies, we are pleased to see a large number of our federal managers accepting the difficult challenge of building an infrastructure to identify commercial activities, planning for their performance, and, for the first time, institutionalizing public-private competition to address those needs. While creation of an infrastructure is just one step, it is a critical step. Many of the processes relied upon until now are rooted in long-outdated management ideals that have permitted vast numbers of our commercial activities to remain insulated from competition. As our mindset transforms from one that resists competition to one that embraces the value competition generates, agencies should find themselves well-positioned to achieve a mix of government and contract support that is optimal for mission success.

Progress is proceeding according to plans at many of the agencies we are tracking in the Budget (i.e., the "scorecard agencies"). We are starting to see real management advances in a few instances. DoD has the largest and most experienced infrastructure in the federal government for conducting competitive sourcing, which is governed by OMB Circular A-76. The Center for Naval Analysis and other evaluators have reviewed the results of DoD's competitions and found that: (1) the net long-term savings are significant and permanent; and (2) few federal employees are worse off after competition.

DoD is committed to reviewing half of the 452,000 positions in commercially available activities. The Department is well on the way to competing a total of 67,800

positions during FY 2002 and 2003. DoD estimates the announcement of new A-76

competitions for approximately 10,000 positions in FY 2003 and at least 10,000 in FY

2004. A major DoD review of A-76 and other competitions by each Military Service and

Defense Agency is scheduled this year so that the President's FY 2005 Budget can

present how DoD will achieve its goals for this initiative. Based upon DoD's experience

with public-private competition under OMB Circular A-76, and the Department's well-

established infrastructure, these goals are practical, achievable, and in the long-run will

save the taxpayers billions of dollars.

Action is occurring at other agencies as well. For example, the Department of

Veterans Affairs is opening up the activities of 52,000 employees (primarily ancillary

support functions) to competition over the next five years -- initiating studies of 25,000 of

them in 2003 alone. At the Federal Aviation Administration, 2,700 federal flight services

personnel are participating in a public-private competition. These federal personnel

currently provide weather reports to private pilots, a function that is currently outsourced

by every major airline. Similarly, the Department of Energy has started public-private

competition for a variety of functions (such as computer personnel, graphic designers,

and financial services personnel) at locations nationwide.

Despite progress, overall use of competitive sourcing remains weak. This is not

surprising when considering that the current processes governing sourcing decisions are

time consuming and unnecessarily complicated. Therefore, OMB is committed to

significantly improving how agencies determine whether commercial activities will be

performed by public or private sources.

Last November, OMB proposed major revisions to OMB Circular A-76. The proposed changes would provide for processes that are more manageable, more competitive, more even-handed, and more results-driven. These objectives would be accomplished by:

- helping agencies more easily distinguish between commercial and inherently governmental activities by offering a more concise definition of "inherently governmental" and rescinding the more complex description currently relied on;

- making processes simpler and easier to understand, including appropriate use of certain well-tested practices in the Federal Acquisition Regulation (FAR);

- more fully accommodating a program's need for best value and innovation, while still requiring cost to remain a factor in all competitions and the deciding factor in many competitions;

- incorporating appropriate mechanisms of transparency, fairness, and integrity (e.g., by separating the team that is formed to write the solicitation from the one established to develop the agency tender) so that competitions occur on a level playing field that results in performance by the best source;

- ensuring that sourcing decisions are made in real time by imposing deadlines that would reduce the cycle time from the current delay-plagued three years (on average) to one year; and

- improving post competition oversight so that selected sources, whether from the public or private sectors, make good on their promises to the taxpayer.

With regard to the first element, in particular, which involves distinguishing the universe of activities that may be eligible for competition from those that would not, we would emphasize that we are focused *strictly* on commercial functions, whether they be specialized functions or more routine functions such as hanging dry wall or mowing the lawn. We are puzzled to hear statements that the Administration is planning to contract functions intimately related to the public interest, such as determinations on the content and application of regulations. These types of functions must be performed by public employees and we will continue to depend on our able workforce to execute these important responsibilities on behalf of our citizenry. This notwithstanding, we will still require agencies to identify their inherently governmental functions to ensure activities are properly characterized. By doing so, commercial functions that should be considered for competition will not remain insulated from the savings that a fair competition can yield. At the same time, we will not force agencies to pursue competitive sourcing for competition's sake. We appreciate that each agency has a unique mission and workforce mix and will continue to work with agencies in tailoring competition plans accordingly.

We have been working aggressively to consider the more than 700 comments that were submitted on the proposed rule. These comments are posted on the Internet at http://www.omb.gov and a discussion of their general disposition will be provided in the preamble to the final circular.

In analyzing the public comments, we have been keeping an especially watchful eye out for areas where processes may cause results that fall short of expectations -- e.g., instances where the process unnecessarily constrains management's ability to fully consider and compare options. In this regard, a number of commenters pointed out that

administrative convenience may drive agencies to pursue direct conversions even where in-house providers may be the better alternative. We are examining the viability and fairness of a process that would allow for a highly simplified and streamlined consideration of public and private sector sources.

We are aiming to complete our review of public comments shortly so that agencies may soon take advantage of our transformed processes. While final decisions have not yet been made, you should anticipate that the major elements we described a moment ago will be incorporated, in appropriate fashion, in the final revisions to the circular.

Of course, our commitment doesn't end with publication of the circular. This is just a beginning. We will continue to work with agencies in crafting appropriate competition plans. Equally important, we will track results through our scorecard so that successes are promoted and shortfalls corrected.

Expanding Electronic Government

The Expanding Electronic Government Initiative is providing enhanced services directly to citizens over the internet and improving the management of the government's $59 billion investment in information technology. This investment continues to make the federal government the largest buyer of information technology (IT) in the world, and agencies are deriving better value from IT. Indeed, more effective use of IT will improve the government's overall performance. This is occurring within agencies by reengineering their operations to support their mission bore effectively and improve their own infrastructure and across agencies by simplifying and unifying activities around the needs of citizens.

The Executive Branch Scorecard includes criteria for Expanding Electronic Government. Agencies are assessed based on their progress addressing chronic problems with their management of IT, as well as their willingness to engage in cross-agency, citizen-centered approaches to service delivery.

Some improvements have been attained through better IT management within agencies, which is discussed in detail in Table 22-1 of the Analytical Perspectives volume in the President's 2004 Budget. Additionally, specific initiatives in the federal IT portfolio have started to deliver real successes in citizen services and government operations. For example:

- **FirstGov:** www.firstgov.gov is the gateway to the federal government. The site was redesigned to provide government services within "three clicks". This was accompanied by the creation of the Office of Citizen Services at the General Services Administration, which integrated FirstGov with the operations of the Federal Consumer Information Center to serve as a single point of contact to the Government on-line and by telephone. The new strategy has increased the number of site visitors by 50 percent, and the site was named "One of the Top 50 Most Incredibly Useful Web Sites" by Yahoo.

- **GovBenefits:** The Government now provides one-stop access to information and services of almost 200 government programs representing more than $1 trillion in annual benefits at www.govbenefits.gov. GovBenefits.gov receives over 500,000 visitors per month and appears on *USA Today's* list of "Hot Sites."

- **Free Filing:** The Internal Revenue Service has created a single-point of access to free online preparation and electronic tax filing services, provided by industry partners, to

reduce burden and costs to taxpayers. As of January 2003, this service is available to a substantial majority of taxpayers at www.firstgov.gov and www.irs.gov.

- **GoLearn:** This on-line training initiative at www.golearn.gov is the number one most visited e-training site in the world, with more than 36 million hits for information on many thousands of e-training courses, e-books, and career development resources. GoLearn.gov has already allowed over 30,000 federal employees to receive training at a cost of pennies per course that would not have been possible prior to the launch of GoLearn. Traditional training approaches only serve a fraction of this number of people, often at as much as $2,500-$5,000 per class.

- **Departments of Defense and Veterans Affairs Sharing of Information Technology**: The Department of Veterans Affairs has incorporated the Department of Defense's eligibility and enrollment system -- providing veterans with seamless services as they leave the military and apply for benefits at the Department of Veterans Afairs. The Departments also are working jointly on computerized patient medical records that will allow instant exchange of patient information between the two health care systems by the end of 2005. These joint efforts escalate the pace of coordination, reducing costs while increasing efficiency and healthcare quality for those who have served our nation.

- **Performance Based Data Management Initiative (PBDMI)**: At the Department of Education, IT is being used to transform how state student academic performance information is collected and managed. Currently states and school districts are bogged down in complicated and redundant reporting that is not effectively shared among Department of Education programs or education partners. This initiative will result in

a streamlined data collection process that reduces burden on State governments and eliminates redundancy across the department.

- **I-MANAGE**: The cornerstone of the Department of Energy's efforts to improve management effectiveness, I-MANAGE will integrate disparate human resources, financial management, procurement, facilities management, budget formulation, financial and cost accounting systems. I-MANAGE replaces a less effective financial management system that was behind schedule. When implemented, I-MANAGE will provide real-time information enabling managers to monitor program performance.

The Government has also improved productivity and results from IT investments because of success in the way agencies identify, select and manage their IT investments. Some agencies -- including Office of Personnel Management and the Departments of Energy and Labor -- have made significant strides in identifying modernization "blueprints", or Enterprise Architectures, to target IT investments that enable programs and business lines to achieve high priority effectiveness and efficiency goals.

Improved business cases and other information on agency IT investments allows the Administration to more accurately identify opportunities for agencies to achieve results. Specifically, the 2004 Budget includes roughly 1400 major projects at $35 billion. IT investments were funded only when agencies demonstrated that the project would provide significant value to its mission, had a reasonable likelihood for success in meeting goals and objectives, incorporated sufficient IT security, helped achieve the President's Management Agenda, and did not duplicate other investments.

Despite the major gains that the Government has made over the last year, we still have much work to do. OMB continues to monitor the performance of IT investments by

agencies. For example, of the $59 billion in the 2004 Budget for IT investments, 771
projects representing $20.9 billion are currently on an "At-Risk List." This list includes
mission-critical projects that do not successfully demonstrate sufficient potential for
success through the business case, or do not adequately address IT security (currently 694
at risk projects accounting for $18.9 billion). Agencies continually work to improve
these projects and address the weaknesses that placed them on the "At Risk List." OMB
will allow investments on the list to move forward only after agencies present successful
business cases.

Specific barriers to serving the citizen better through E-Government include:
first, a shortfall in qualified project managers and IT architects needed to successfully
manage the federal IT investments; and second, IT security continues to be an issue.
Many agencies find themselves faced with the same security weaknesses year after year
and are not adequately prioritizing security improvements in their IT investment
portfolio. As a result, agencies seek funding to develop new systems while significant IT
security weaknesses continue, especially in their legacy systems.

Conclusion

With both the Competitive Sourcing and Expanding Electronic Government
initiatives, we are asking federal agencies to reconsider how they accomplish their
missions. With Competitive Sourcing, we are asking them to test assumptions about the
best provider through the competitive process. Competitive sourcing is laying the
groundwork for improved mission performance through quality service at the lowest
possible cost. With Expanding Electronic Government, we are asking them to find the
most efficient way to provide services in the manner of the American citizens' choosing.

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Like any other effort that seeks to fundamentally transform the way we do business, these initiative have their challenges. But if we are steadfast in our commitment to improving the management of the federal government, we will no doubt deliver the quality service across government the taxpayers deserve.

Mr. PLATTS. Thank you, Ms. Styles.

Mr. Forman.

Mr. FORMAN. Chairman Platts, Mr. Sessions, and members of the committee, thank you for holding this important hearing today.

The vision for the President's Expanding Electronic Government Initiative is an order of magnitude improvement in the efficiency and effectiveness of Government operations. The initiative is already providing enhanced services directly to the citizens over the Internet and improving the management of the Government's almost $59 billion investment in information technology. This investment continues to make the Federal Government the largest buyer of IT in the world, and agencies are deriving better value from that spending. You know, it is said that IT, information technology, spending does not automatically provide good management, but there is no question in today's environment of e-business, you cannot have good management without technology. Indeed, more effective use of information technology will improve the Government's overall performance. This is occurring within agencies by re-engineering their operations to support their missions more effectively and improve their own infrastructure, and it is also occurring across agencies by simplifying and unifying activities of the Government around the needs of citizen.

Mr. Chairman, I would like to talk a little bit about the elements of the scorecard. We have very simple criteria, and they are documented in the President's performance chapter of the budget. And I want to make that very clear because they are well embedded in the law of e-government strategy that we produced a year ago.

First of all, we grade agencies on their status and their progress with respect to two requirements of the Clinger-Cohen Act. First, do they have a decent enterprise architect and, second, are they using business cases and a capital planning and investment control process. The explicit criteria in the score is whether or not they have 100 percent of their major IT investments with a solid business case. And I will talk a little bit more about what we look for in a solid business case. That is directly out of the Clinger-Cohen Act. If you are less than 50 percent, you get a "red"; if you are between 50 and 100 percent, you get a "yellow." It is quite that simple.

The second area is IT program management that we grade on. Are the agencies running greater than 10 percent cost schedule or performance overruns. Again, this is well embedded in the law directly out of the Federal Acquisition Streamlining Act [FASA], Title V. So if agency IT projects have cost overruns greater than 30 percent, the agency gets a "red"; if they have cost overruns, schedule overruns, or performance shortfalls less than 10 percent, they get a "green"; and if it is in between, they are "yellow."

Last, one of the key elements that we grade agencies on is how well they are doing in securities. It is required in the business case. This was established under Clinger-Cohen; the Computer Security Act of 1987; the Government Information Security Reform Act of 1998; and most recently the Federal Information Security Management Act that passed out of this committee and was enacted into law, signed by the President last December.

Under the process that we have set forth, each agency has a listing of their gaps that is validated by inspectors general audits, and there is a plan of action and milestones established for each department. We track progress quarterly, and the status, obviously. We will be submitting more substantial detail on that in our report to Congress from the Director of OMB in the next couple weeks or so.

The other element of the scorecard is whether or not the agencies are participating in cross-agency solutions. We know we have lots of redundancies in the way agencies buy their information technology, but the truth is the Federal Government cannot be agency-centered and citizen-centered when we move onto the Web; and the President recognized this. He focuses on teamwork and the messages and guidance that has been sent out to the agency. But at the heart of the President's Management Agenda is this notion that we have to become citizen-centered, not agency-centered.

So the scorecard for e-government requires that agencies be involved jointly in three out of the four citizen-centered groupings: government to citizen; government to business; government to government, this important work with State and local governments who deliver directly so many of the services; and then, finally, how we take care of our own employees, the internal efficiency and effectiveness.

To get to "green," agencies have to be participating in three of those areas in developing the solutions, as opposed to doing their own siloed approach. If they are involved in one or less, they are "red"; two, obviously they are "yellow." It is quite that simple. It is not subjective, it is a very objective-based scoring to get to that score.

But as a result, we are seeing substantial progress. Nineteen of these 24 cross-agency initiatives have had key deployments, and that continues. But perhaps most importantly, we deployed quite a few initiatives in January this year, and I have recently received the data. We are No. 4 of all the use of the Web, the Federal Government, in relation between our transactions with the business community. Almost 50 percent of all businesses are on line interacting with us. With citizens we are No. 6.

So the scorecard and the focus on joint work is working, as well as the progress as displayed on the chart that Mr. Sessions referred to showing progress by the agencies.

Thank you.

Mr. PLATTS. Thank you, Mr. Forman.

And to all of our witnesses, we appreciate your testimony. With this hearing and future hearings, I certainly encourage all members of the subcommittee to participate with questions, and we will follow the 5-minute rule for questioning the panel with each member who wishes to ask questions, having the opportunity to question the panel for 5 minutes. And certainly after each member has had that opportunity, if we have additional rounds of questions to accommodate members, we will be glad to continue.

So I believe I will begin my initial 5 minute period, Ms. Dalton, with you. In your testimony you provided, both here in person and in your written testimony, you have talked about GAO working closely with OMB and the lead agencies in kind of reviewing the standards of success. But it is my understanding that while you

have seen some of the general criteria for standards of success, you have not had the opportunity to review some of the more specific criteria with OMB. Is there an ongoing dialog between you and OMB about having access to that? And if so, where do we stand?

Ms. DALTON. Well, I think the issue really is transparency in the whole process, because that provides credibility to what we are looking at. We clearly have seen the standards in that they are published in the budget. What we haven't seen is some of the evidence in terms of what OMB is making their decisions on. But there is information that has been published, and I think the point that needs to be emphasized in this whole area is what the information is showing, you know, is it demonstrating concerted efforts by the agencies to address these management challenges; is there leadership by OMB and the central agencies in making progress; and then is there support through oversight in terms of looking how the progress is being obtained. If you have transparency in information on how the decisions are being made, you have a basis for looking at that. As I said, OMB has identified some baseline information, they have published criteria, and they clearly are assessing progress. Those are very important points.

From the General Accounting Office's standpoint, we are assessing progress by comparing agency information with models that we have out, guidelines that we have published, as well as with the information that is in the public domain. We have developed best practices in terms of many of these areas that can be found in our published documents. As I said, transparency is going to be critical so that Congress can provide the desired oversight.

Mr. PLATTS. I certainly share that belief, as we are trying to make Government more efficient, that all Members of Congress and the public at large, the more we know, the more helpful everybody could be to that effort.

Ms. DALTON. Right.

Mr. PLATTS. Ms. Styles and Mr. Forman, is there additional detail or more specifics that OMB could share that would allow GAO to have maybe a more in-depth understanding of the review process?

Ms. STYLES. Well, we have extensive information that was published in the budget and is backed up on our Web site, particularly for the PART, the Program Assessment Rating Tool. We have extensive background information that is available. We have had an ongoing dialog with GAO; they actually helped prepare the criteria in two of these areas. We do not have a current request. I mean, we certainly are very happy to work with GAO, but this is, quite frankly, the first that we have heard of this, in the testimony. We have 24 ongoing requests for information from GAO in-house right now, seven of which we received in the past 10 days.

So I would submit that we are working extensively with them in many areas. We are more than happy to continue working with them in this area; we just need to know the specifics of the information they are looking for, because we believe we have a significant amount of transparency and information that is available on this on our Web site right now.

Mr. PLATTS. Well, hopefully if there are more specifics that you believe you aren't having, you haven't been given access to, that re-

quest could be made; and it sounds like we will have a very receptive ear at OMB.

Ms. STYLES. Absolutely.

Mr. PLATTS. Thank you.

I am going to now yield to Mr. Towns to allow him to begin his questioning.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin with you, Ms. Styles. Today's Washington Post has an article about a survey of Federal workers, which Mr. Sessions, I think, alluded to. It indicates that a little over one-third of the Federal workers are considering leaving the Federal work force. To me, that is an indication that, first of all, the moral is low. I think one of the reasons for that low moral may well be the outsourcing initiative that you are running out of OMB, telling a large portion of the Federal work force that the jobs are in danger of being eliminated, and the private sector is being brought in.

I am just wondering is this a good way to approach the problem? We are worried about too many retirements. I think you are encouraging them. What are your thoughts on this?

Ms. STYLES. Well, I don't accept the proposition that competitive sourcing is demoralizing to our work force. I have seen many good, and some bad, examples of competitive sourcing. When it is run right and when it is managed well, it infuses our work force with pride; they become innovative, they become competitive, they become more efficient, and they beat the private sector. One of the best examples, the President just gave an award to Offutt Air Force Base, where they organized, they put together a competitive bid, and they won the competitive sourcing. It couldn't be a better example of our work force winning and being proud of what they are doing.

Certainly there are examples that haven't gone as well. What we are focusing on is managing better, making sure that our work force can compete, that they are trained, that they have the resources, and that they can put forward a competitive bid, because in the end we are all going to win if we have a work force that can compete and can put together a bid that is on par with the private sector.

Mr. TOWNS. Let me ask you, Ms. Styles, direct conversion of functions from Federal employees to the private sector is one way in which agencies can meet their competitive sourcing quotas. In a recent Senate hearing you made the statement that agencies over the last 2 years have made decisions directly convert that have not been in the interest of the taxpayers. Would you please explain what you mean when you say that?

Ms. STYLES. I am not sure that is an exact quote from the hearing. I stated that I am concerned, as well as other people at OMB, that agencies could be motivated to make a direct conversion under the current circular that would be based on something other than lowest cost or best value for the agency. When a function is less than 10 people, the current circular allows departments or agencies to directly convert that work to private sector performance on a decision that it is a fair and reasonable cost.

We would like, and we are considering for the final circular, to put in place some additional criteria.

Mr. TOWNS. Like what?

Ms. STYLES. Pardon?

Mr. TOWNS. Could you give us some indication of what you plan to put in, I mean, some idea? You don't have to be specific, but generally what you plan to put in.

Ms. STYLES. Sure. We are trying right now, although no final decisions have been made, to formulate criteria that would ensure that agencies are making a cost-effective determination; that they take a look at what the capacity of the Federal work force is; that they do up-front planning, management assessment and evaluation; and that they look and see what are potential private sector costs and compare that to the public sector costs before they make a determination to send any work out the door. I think what we are looking at instead of a direct conversion process is one that has a streamlined competition process in almost every instance, but one that would give significant flexibility to the agencies to do that as they would deem appropriate, and to give them the flexibility to manage their agencies as they would deem appropriate when we are dealing with smaller functions.

Mr. PLATTS. If the ranking member would yield, we will come back to you.

Mr. TOWNS. I would be delighted to, yes.

Mr. PLATTS. I would like to recognize Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman. I have two quick questions, if I could, one for the gentlewoman from GAO, Ms. Dalton.

Can you please characterize the work that you are doing currently with SBA? It was mentioned that they did not get a clean audit.

Ms. DALTON. Yes, they haven't had a clean audit. There are some issues there. I don't have all the specifics on the SBA situation; we can provide that for you.

Mr. SESSIONS. Good. If you could please provide some sort of written feedback from your perspective to the chairman of this committee and to this member, and to the gentleman Mr. Towns, I would appreciate it, and myself.

Ms. DALTON. Yes.

Mr. SESSIONS. Second question I had, chairman, really deals with Mrs. Styles.

And, by the way, congratulations on your daughter, who seems to successfully be in the room. That is pretty good. I don't know whether she is still here or not, but she was. I don't think my 4-year-old could have done that at all.

Ms. STYLES. And she didn't disrupt the hearing. That was good.

Mr. SESSIONS. Well, he would have insisted on coming up and sitting with me.

The question I have is related to this streamlining and this A–76 process. I am interested in your feedback from a Pentagon perspective. The Pentagon is what I would call the behemoth of the processes that go on, and I am interested in the feedback from a professional aspect that you see in that relationship.

Ms. STYLES. I have an excellent relationship with the Department of Defense in examining these issues. They have been an unparalleled resource in really looking at what works and what doesn't work. They have sat down with me for literally weeks at

a time to assess the draft circular that we sent out and to help us in building a final circular that will work not only for the Department of Defense, but for the civilian agencies as well. I think they are very happy with where we are with the circular right now. I think they believe that they can improve their processes using this new circular, and extensively, dramatically, I think, improve their processes under this new circular.

Mr. SESSIONS. So it sounds like that the interaction has been successful, that they are agreeing with and have provided information and feedback to you and are excited about using this process.

Ms. STYLES. Absolutely. They have brought in people from all over the country that have dealt with the A–76 process, and Defense has been doing this for a long time, but they brought in people from all over the country to help me, specifically, in rewriting the circular and understanding the management problems that they have had in specific and varied instances.

Mr. SESSIONS. The last question I have, chairman, deals with homeland security, and I would direct that to anyone on the panel who chooses to respond. I will first go to Ms. Styles for the initial response.

Homeland security has become perhaps the most important element of our Government. What do you see as the challenges that this subcommittee needs to look at in terms of a movement between employees, material, those things that inherently might shift and move to where we don't lose assets, resources, people; anything that might be contained on this chart. If you would characterize that. And if you need to tell us you don't know, that would be fine, but I am interested in anyone on the panel address that either here or in a followup with a letter, specifically related to changes, transfers within agencies as they move to homeland security and those things, and the impact that you see from the performance measures that might be on this board.

Ms. STYLES. I have a brief comment on it, although I think we can answer it more extensively for the record. I think when we deal with competitive sourcing, people sometimes presume that the homeland securities aren't taken into consideration when we have private contractors doing activities. And I would like to point out that we have private contractors, whether that is Lockheed Martin or Boeing, making some of our most advanced military technology with the highest level of security clearances in secured facilities. So we have, at least since World War II, trusted our contractors with very sensitive information related to homeland security, and I think that we have to realize that we are going to continue to trust our contractors with that type of information.

Mr. SESSIONS. Chairman, I would ask that if any of the other witnesses do have any information that they would like to provide in writing, I would be interested in that. I think it is a precursor to this subcommittee understanding the challenges that are ahead in a massive reorganization for the Government, and I appreciate the gentleman's time and I thank each of the witnesses.

Mr. PLATTS. The Chair thanks the gentleman and certainly will share with Mr. Sessions and all members of the committee any followup information that can be provided, whether it be on the SBA

question or homeland security. We preaccept your following up with us in that manner.

Also on the issue of the Small Business Administration, we do plan a hearing in May focusing specifically on SBA and the challenges they seem to be having.

Ms. DALTON. Mr. Platts, I would like to just add, on the homeland security questions, that the General Accounting Office has identified the implementation and transformation of the department as a high-risk area; it is one of our newest high-risk areas, and we have listed a number of things that need to be done in order to effectively implement the department, including developing a long-term implementation plan that will cover the full transformation period, effective human capital strategies, and a number of other items; and we do have a report out on that issue.

Mr. SESSIONS. Chairman, I would like to thank the gentlewoman. I would be very interested in this subcommittee staying involved in that also. I know the administration pays attention to what you have to say, but this Congress needs to know those issues too, and I thank you.

Mr. PLATTS. Thank you again, Mr. Sessions, for your participation and, again, your work with the Results Caucus.

We have a vote in about 13 minutes, so I am going to try to push through so we can hopefully get a few more questions in, and know that you all have busy schedules and try to squeeze as many in before we run over for the vote, and then for any additional comments that you want to share as followup in writing, but not to keep you waiting there while we go over to vote.

Mr. McPherson, if I could turn to you and your efforts, certainly, a very commendable 18 months at USDA and the turnaround we have seen there. If you could touch on a two-part question. One is, as you referenced, you are dealing with the people you have there. And as I always sound proud to be a public servant, I don't look at government service as a bad thing, I look at it as a good. You spoke very favorably about the department employees and how you have been able to motivate them, and if you could share some of the secrets of your success in motivating USDA employees to take on this financial challenge.

And then also some of the specific tools. You referenced both the Debt Collection Improvement Act, but also some internal changes or tools you have used. If you could expand on what those internal tools are and how we can hope to see them replicated elsewhere.

Mr. McPHERSON. Thank you very much. I would say that I listened, first, carefully to what was important to the program managers, that is, the Under Secretaries and the agency heads first to understand the view of the challenge on this financial management issue from their perspective. Second, I would say we developed a very clear and consistent message, that is, we do focus on results and we encourage people to act and behave as owners and take full responsibility for these tasks. We operate at a constructively aggressive pace to get to the essence of a solution and improve, and we really do value the leadership and talent.

So how we have taken that message, it begins with Secretary Veneman and my associates in the subcabinet level, people like J.B. Penn, Mark Ray, Eric Bost. I have become very close with the

agency heads, particularly when we are working with areas like Forest Service and Dale Bosworth. We have a number of structured mechanisms to include monthly communications with the chief financial officers of these agencies, but we are just a meritocracy, an apolitical meritocracy in the financial management, and so we are very focused on results, and I think that is satisfying to people.

As to the techniques on the debt collection, the context here is those are very valuable results because the numbers are so large, and I think it was a case of using what was available to us in our own internal tools. We have made some system enhancements in the Farm Service Agency and Rural Development dealing with the ability to get on top of the credits, track collateral. But it really is just basic good banking, effective banking, where the people know the customers, credit, collateral, cash-flow, and are exercising the stewardship with the cash to get effective public policy outcomes. Their mission is a little different, obviously, than a commercial lender, but it is a lot of just basic techniques to do a good job.

Mr. PLATTS. Well, your numbers certainly speak well of the efforts. And if there are specific things and a way we could further enhance the Debt Collection Act that would allow you to continue that success and expand it, and if there are specific tools that you reference that are internal that you would be able to share with us, and we certainly would be glad to share with others that we will be meeting with, like SBA, who aren't having maybe the same financial success as USDA is now showing, we would welcome them.

Mr. Towns.

Mr. TOWNS. Just a quick question to Mrs. Dalton.

In your written statement you indicated that the current budget does not always help us to consider the long-term costs associated with some activities that commit the Government to future spending. First of all, what do you mean by that, and what are some of these activities and what should we do to actually get more complete information to be able to make a decision?

Ms. DALTON. What I was referring to, Mr. Towns, is that many of the activities of the Government have a long gestation period, and the budget deals with, by its nature, 1-year increments, and at times where there is a long-term investment decision, you are only seeing that 1-year piece. It is important to see the full life-cycle of what the investment entails. A more ready example would be probably weapons systems acquisition, where it is going to take 5 to 10 years to develop a good system. Well, when you look at government activities and government programs, oftentimes it takes a long period to see results; it takes regular investments over that period, and it is important to see that.

And through the oversight process I think Congress can be better informed by looking at the performance goals for a particular activity; looking at them through—not just for the current year—but looking out 2, 3, 4, and 5 years. When you look at an agency's strategic plan, it is looking at those long-term goals. And there needs to be associated costs, what are the resources that are going to be committed to those goals, and seeing that progression also is important so that the Congress can make a more informed decision

as to what we are buying and what services the American people are going to be receiving.

Mr. TOWNS. Thank you very much.

Let me just ask a general question, other than Ms. Styles; we have heard her on this issue.

Outsourcing, of course, and morale. Is there a correlation? Anyone want to make a comment on that very briefly? Outsourcing and morale.

Mr. MCPHERSON. Let me offer a thought for your consideration, Congressman. The purpose, to me, of competitive sourcing is to create better enterprises and better jobs for people, and competitive sourcing is really a how to do that as a choice. So over time I would hope that what was learned in industry in the last decade, in terms of alliances, partnerships, teaming, joint ventures, the ability to attract the best available talent on demand to perform a mission are all attractive ways to make better enterprises, more of an open architecture, if you will.

In our own instance, I mentioned the competitive sourcing competition on the payroll. We competed 288 jobs in Louisiana as part of a very rigorous and purposeful competition to be a payroll provider. To date, that is the largest competitive sourcing transaction at the Department of Agriculture. And in this instance Government won, we won. More to come as that process continues. But it just shows the effectiveness, I think, of people, career people and cultures of can-do, that can do results.

So those are some overarching thoughts that I have observed in the time that I have served in the Federal Government.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns.

I am going to squeeze in. I am always running for these votes, trying to be in all these places as once.

But a followup, Mr. McPherson, on some of the things you highlighted that allow you to achieve success. Is there anything in particular that is your greatest obstacle to changing the mind-set, changing the financial accountability of our Federal Government agencies?

Mr. MCPHERSON. This is my first time of serving at the Federal level. I experienced no significant barriers. One that we have had to break through was an amount of deferred work, work that had been accumulated over a number of years, whether it dealt with inadequate computer systems, I mentioned 17 conversions, or feeder systems that handle various items across the department, or various reconciliations in terms of cash and checking accounts, as I call them, or property records that just had not been performed over time. So there was a lot of catch-up, and I would say that was probably the biggest barrier.

Mr. PLATTS. OK. Thank you.

One final question, and I apologize that it is here at the end, for Ms. Styles and Mr. Forman on the issue of the scorecard and the fact that OMB is assessing all the agencies and yet shows red across the board on the five governmentwide initiatives. What is the greatest obstacle to OMB in setting that example for everyone else of having green all the way across? I do take note that you are either green or yellow in the progress, and I am glad to see that,

but what is the challenge that OMB itself is having in getting to yellow and eventually green on those five governmentwide criteria?

Ms. STYLES. I would start off by saying I think we chose tough initiatives. I think we chose very problematic areas not just at other agencies, but at OMB as well; and it is good for OMB to be scored on these. In competitive sourcing, it makes us realize the difficult questions and problems that agencies confront when they have to look at competitive sourcing and the difficult choices that have to be made, and I assume that it is the same for the other initiatives as well. I am sure Mark Forman can address electronic government or e-government at OMB.

But we also, just so people know that our scores are very honest, we don't just score ourselves, we send them to other agencies to validate the scores, which they love to do since we have been scoring them.

Mr. FORMAN. I think the change that we are seeing within OMB, largely under the vision of Mitch Daniels, our Director, is focused on how we are managing and hold the agency up to that same standard that we are holding all the other departments and agencies. It is a change. The world has changed since last time anyone looked at management, so we, like the other agencies, are going through similar cultural issues. I don't know if you could say there is any one that stands out, but very similar, for example, to the ones that Secretary McPherson raised at Agriculture.

Mr. PLATTS. Well, we do look forward to all agencies, including OMB, to get to that yellow and green, as I am sure you as well do, and that you are scoring the other agencies. And certainly this effort is very commendable because unless we start to scrutinize ourselves, we won't improve, whether it be us personally or as agencies and representatives of our taxpayers.

I apologize that we are now out of time and we cannot continue with more questions, but I greatly welcome further comments that you want to share, and I thank you for your testimony here today and the in-depth written testimony, as well.

Working together, the executive branch and Congress, certainly we know we can make great strides for more financial accountability and Government efficiency for our taxpayers, who we all want to serve well.

But I do thank you for your efforts and being here with us today.

I will quickly thank the staff, both majority and minority staff members, who have helped put this hearing together. And we will hold the record open for 2 weeks from this day for those who want to forward submissions for possible inclusion after the fact.

And just once again thank you.

This meeting is adjourned.

[Whereupon, at 11:43 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Additional information submitted for the hearing record follows:]

Question: What steps have agencies taken to include more commercial competition for goods and services?

Answer: Important steps have been taken to enable commercial sources to compete for many of the commercial activities that agencies have performed themselves without considering performance by commercial sources. First, under the auspices of the President's Management Agenda (PMA), agencies have established plans to address competitions for performance of these activities, taking into account unique mission requirements and workforce mixes. These plans are helping to institutionalize management commitment to the use of public-private competition in agency sourcing practices.

Second, the Office of Management and Budget (OMB) has made significant revisions to OMB Circular No. A-76, which lays out the policies and procedures for conducting public-private competitions. The revisions, which are designed to ensure competition plans are effectively implemented, incorporate various well-established commercial buying concepts, such as "best value" purchasing. As a general matter, the revisions aim to generate private sector interest in public-private competitions by taking greater advantage of the Federal Acquisition Regulation (FAR). The FAR governs private-private competitions and is familiar to commercial contractors who perform government contracts. When private sector contractors are awarded contracts to provide commercial goods and services, FAR Part 12 requires agencies to include clauses in the contracts that are consistent with customary commercial practice to the maximum extent practicable. These policies are helping agencies to more effectively position themselves to take better advantage of the commercial marketplace.

Question: Homeland Security has become perhaps the most important element of our Government. What do you see as the challenges that this subcommittee needs to look at in terms of a movement between employees, material, those things that inherently might shift and move to where we don't lose assets, resources, people; anything that might be contained on this chart (Executive Branch Management Scorecard). If you would characterize that. And if you need to tell us you don't know, that would be fine, but I am interested in anyone on the panel address that either here or in a follow-up with a letter, specifically related to changes, transfers within agencies as they move to homeland security and those things, and the impact that you see from the performance measures that might be on this board (Executive Branch Scorecard).

Answer: The Homeland Security Act consolidated 22 entities with important line homeland security responsibilities. As the Department of Homeland Security (DHS) moves forward, it will be important to proceed in a way that increases accountability, maximizes synergy among operating agencies, and shifts resources to the most effective programs and away from overhead. In all of the PMA areas, flexibility will be key to doing so. The Department must be allowed to align its resources -- whether they be personnel, information systems, capital assets, or other

elements -- in a manner that is best suited to protecting our homeland. The Department must build on its existing capabilities, but not be bound by them.

To fulfill its security responsibilities, DHS will bring to bear the best mix of in-house, contract and reimbursable support resources available. A significant number of contractors are involved in the support of the DHS mission, at the management, administrative and mission levels. TSA, for example, has contracted for human resources, information technology, and most of its administrative support. DHS also supports a number of reimbursable agreements with other federal agencies to provide critical support, such as payroll, property management and other support services. The Department is also sensitive to the size of its mission and the need to make large and small business opportunities available.

The question of who should do work begins with the inventories of commercial and inherently governmental activities that are required by the FAIR Act. The Department is now fully engaged in developing its first FAIR Act inventory, which is an important part of the President's Management Agenda. When completed, the inventory will serve to focus DHS' internal resources on core mission requirements. Over the next few months, OMB will be working with DHS senior management to identify PMA goals and plans to bring work that has never been competed into the competition process and assure that the taxpayer receives the full value of the resources provided.

Follow – up Questions for March 26, 2003 Hearing

Representative Marsha Blackburn

- What was the USDA's primary motivation to receive a clean audit?
- How long has it been since a clean audit was received?
- What progress has been made in implementing USDA's human capital strategic plan?
- What is progress for determining program cost?
- Do you consider both hard and soft costs in the total?
- What steps have been taken to meet the 15% competitive sourcing goal?
- What steps have been taken to reduce erroneous payments in the Food Stamp and Child Nutrition Programs?
- When will USDA have an Enterprise Architecture for expanding E-Government?
- What is the cost for the implementation of an Enterprise Architecture?
- What steps have been taken by USDA to implement an expanded budget and performance integration plan that links performance with budgetary decisions?
- What is the valuation process for your assets?

Follow-up Questions for March 26, 2003 Hearing

Ms. Blackburn: What was the USDA's primary motivation to receive a clean audit?

Response: The United States Department of Agriculture's (USDA) primary
motivation to receive a clean audit was to achieve improved internal control, data
integrity and management information to serve its customers and to operate the enterprise
and its agencies effectively and efficiently on behalf of the American taxpayer.

Ms. Blackburn: How long has it been since a clean audit was received?

Response: USDA on a consolidated basis and all its agencies received a clean audit
for the first time ever for fiscal year 2002.

Ms. Blackburn: What progress has been made in implementing USDA's human
capital strategic plan?

Response: The Department has made much progress in implementing the action
strategies identified in USDA's Human Capital Plan. As a result, OMB recommended
continuing the green score in "progress." Among the accomplishments are the
development of a human capital communication kit and the implementation of an
accountability system that requires agencies to submit quarterly reports on the successful
completion of human capital actions. All action strategies in the USDA Accountability
Plan that were due have been completed.

Ms. Blackburn: What is the progress for determining program cost?

Response: Each Agency identifies all program costs during budget development
as part of the President's Management Agenda for Budget Performance Integration.
USDA and its Agencies are working to associate goals and objectives with budget and
performance. (Please, also see our response to your question regarding what steps have
been taken by USDA to implement an expanded budget and performance integration plan
that links performance with budgetary decisions)

Ms. Blackburn: Do you consider both hard and soft costs in the total?

Response: In developing program budgets each Agency is required to identify all
costs associated with a program.

Ms. Blackburn: What steps have been taken to meet the 15% competitive sourcing goal?

Response: USDA submitted its plan for A76 competitions to OMB in May 2002 and is working to achieve OMB's goal of competing 15% of our FY2000 inventory of commercial positions by September 2003. USDA is focusing on building the infrastructure and the knowledge base and influencing USDA's culture to make competitive sourcing a routine business decision within the larger context of human capital management.

Ms. Blackburn: What steps have been taken to reduce erroneous payments in the Food Stamp and Child Nutrition Programs?

Response: The USDA is aggressively addressing erroneous payments in the Food Stamp and Child Nutrition Programs.

Food Stamps – Payment accuracy in the Food Stamp Program is a top priority of the Under Secretary for Food and Nutrition and Consumer Service. FNCS implemented a priority project plan in fiscal year (FY) 2001 to reduce eligibility errors and assure program integrity. The intended outcome was to achieve, for FY 2001, a payment accuracy rate of at least 90.8 percent. The Agency exceeded its payment accuracy goal, achieving an accuracy rate of 91.34 percent in FY 2001. Preliminary State reported data for FY 2002 suggest there has been further improvement.

The Food and Nutrition Service (FNS) strives to employ effective and efficient strategies and activities to improve payment accuracy and assure program integrity. For the past several years, the agency has received $1.9 million in funding per year to undertake activities designed to increase payment accuracy nationwide. FNS also allocates nearly $400,000 annually to support State travel to conferences, workshops, and other meetings between States, to facilitate the sharing of best practices of effective and efficient program management techniques.

FY 2003 activities include:

- The creation of a national team of experts to monitor and evaluate payment accuracy progress, analyze error rate data, and exchange information on payment accuracy best practices and program improvement strategies.

- The establishment of tiers for States (based on error rate performance) to support effective and consistent deployment of limited FNS resources for intervention and technical assistance.

- The continued exchange of best practices information through the State Exchange Program, the Internet (we have established a site focused on Quality Control and Payment Accuracy) and the publication of a Best Practice Guide.

Child Nutrition -Efforts are also underway to improve the accuracy of eligibility determinations for free and reduced priced meals in the school meals programs. While we do not have data that allow us to estimate the exact level of error in the program, we have clear indications from a number of different sources that there are problems with the school meals certification process, and that they have worsened over time.

Improper certifications create the risk that nutrition assistance benefits intended for poor children go to those who are not eligible. Furthermore, data on children certified for free and reduced-price meals is used to distribute billions in Federal, State, and local education aid, so errors in this data can undermine targeting of essential services to those most in need. The Under Secretary for FNCS has taken a range of actions to address this problem. Among them are:

- Proposing a regulatory change to improve State and local reporting on certification accuracy.

- Pilot testing alternatives to the current eligibility determination process as well as performing an in-depth evaluation of the process. (A descriptive report on first year pilot operations was released in September 2002.)

- Developing recommendations (in consultation with the Congress, the school food service community, and program advocates) for policy changes to pursue during Child Nutrition reauthorization that improve accuracy but do not deter eligible children from participating in the program. These include:

- Requiring direct certification for free meals through the Food Stamp Program, a process that reduces burden for families and schools and is significantly more accurate than paper applications.

- Enhancing verification of paper applications by expanding the verification sample, and including both a random sample and one focused on error-prone applications in each school.

- Minimizing barriers for eligible children who wish to remain in the program by requiring a robust, consistent effort in every State to follow up with those who do not respond to verification requests; and

- Initiating a series of comprehensive demonstration projects to test alternative mechanisms for certifying applicants for the program, and verifying application information.

These recommendations include both strong steps that we can take immediately to address the issue and a plan to continue research and demonstration efforts to build on these early steps with further improvements over time.

Ms. Blackburn: When will USDA have an Enterprise Architecture for expanding E-Government?

Response: USDA has developed a high level vision for an Enterprise Architecture that will fully incorporate Departmental and Federal E-Government initiatives. Key components of the "To-Be" vision are based on USDA's enterprise-wide electronic government initiatives that are designed to provide common infrastructure and services needed to deliver agency information and services through electronic alternatives. An enterprise architect has been hired to lead the Department-level and agency staff with developing a current "As-Is" USDA architecture with a target date for completion by end of the calendar year. The first effort will be the development of a USDA Business Architecture, including alignment of elements to the Federal Enterprise Architecture (FEA) Business Reference Model Version 2.0 (released by OMB in March 2003). Enterprise Architecture program activities will focus on information currently available in the Department and mission areas.

While a complete "To-Be" architecture including the E-Government components and other strategies for achieving the corporate vision will be completed in early Fiscal Year (FY) 2004, initiatives such as eAuthentication, eGrants, eLearning, and a USDA Universal Telecommunications Network are already underway.

Ms. Blackburn: What is the cost for the implementation of an Enterprise Architecture?

Response: FY 2003 funding for development of a USDA Enterprise Architecture framework is estimated at $2,615,000 (at the departmental level only). This estimate includes funding for 4 current and 2 new positions (GS 2210-14), the purchase and implementation of an architecture tool at the department level, and contractual support to assist staff in developing guidance and training for developers of the various levels of the architecture including business, data, applications, and technology.

The President's FY 2004 budget request includes $12 million for the architecture, plus amounts identified for agency efforts already underway.   The $12 million will cover development and initial implementation of the "To-Be" architecture, including identification of standards, particularly data and technical standards. USDA will continue to provide support for corporate wide purchasing agreements and other initiatives to leverage corporate resources.

A consolidated business plan for the USDA Enterprise Architecture including departmental and agency portions will be submitted to OMB this summer. This plan will include an estimate of the complete costs needed for the Enterprise Architecture.

Ms. Blackburn: What steps have been taken by USDA to implement an expanded budget and performance integration plan that links performance with budgetary decisions?

Response: A number of steps have been initiated at USDA to realize a budget process that is fully integrated with performance measurement. To serve as the umbrella for this integration, the Secretary and her policy officials completed a revised Strategic Plan in December 2002 for FY 2002 through FY 2007. This plan sets forth the Department's strategic goals and targets to be achieved by FY 2007. The Secretary and the Subcabinet have discussed and approved a revised USDA budget process for fiscal year 2005, which will better integrate this strategic direction with the budget and operational processes. The Deputy Secretary has met individually with Subcabinet officials to discuss expectations. Policy officials are actively engaged in efforts to improve integration in their mission areas.
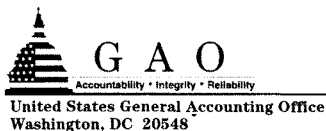
The Secretary and Deputy Secretary have created a new Budget and Performance Integration Board (BPI) consisting of the Deputy Secretary, the Chief Financial Officer, the Chief Information Officer, and the Budget Officer to provide high level policy leadership.

Based on guidance from the BPI Board, the revised USDA FY 2005 budget process will be substantially changed from previous years. A key element of the FY 2005 budget process will be the early and substantial involvement of Subcabinet officials and agency heads in identifying priority strategic/objectives and quantifiable performance measures in line with the Department's Strategic Plan that can be used to establish budget priorities and assess progress. The new process includes steps to identify agency-level strategic goals, objectives and quantifiable performance information to be used for budget decisions as well as provide performance information on a regular basis. It will provide data so that decision makers can assess the relative cost-effectiveness and performance of programs. Full agency costs associated with each program will be identified. We are also looking at options for instituting a Department wide budget and performance management system to track accomplishments on a regular basis.

Ms. Blackburn: What is the valuation process for your assets?

Response: USDA's assets are valued in accordance with generally accepted accounting principles for the Federal Government. For example, property, plant, and equipment are stated at cost less accumulated depreciation, and depreciation is determined using the straight-line method over the estimated useful lives of the assets.

G A O
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United States General Accounting Office
Washington, DC 20548

April 18, 2003

Hon. Todd Russell Platts
Chairman
Subcommittee on Government Efficiency and
        Financial Management
Committee on Government Reform
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Platts:

Enclosed are responses to follow-up questions for your Subcommittee's March 26, 2003, oversight hearing on "Management and the President's Budget." I was pleased to have been able to participate in this hearing. As I discussed in my statement, 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 and meet current and emerging needs.

I look forward to continue to working with you and your Subcommittee on these and other issues in the future. If you have any further questions or would like to discuss any of the issues in more detail, please call me at (202) 512-6806.

Sincerely yours,

Patricia A. Dalton
Director, Strategic Issues

Enclosures

<u>Responses to Follow-up Questions for March 26, 2003 Hearing</u>

Representative Marsha Blackburn's Question: In implementing performance-based budgeting, do you also utilize zero-based budgeting?

Performance-based budgeting builds on GPRA requirements and lessons learned from past efforts, including zero-based budgeting (ZBB) implemented under the Carter Administration. In concept, ZBB sought a clear and precise link between budgetary resources and program results. However, one of the primary reasons it failed as a performance budgeting approach was that "decision units"—the level of analysis used—could not be directly linked to oversight and budget structures. As a consequence, resources could not be related to results information. OMB and agencies are making considerable effort to align planning, performance, and cost information with budget decision-making structures in an effort to avoid these shortcomings.

As discussed before this subcommittee in our testimony on April 1, reclaiming fiscal flexibility requires reexamination of existing programs, policies, and activities not just new initiatives. One of the contributions of ZBB was that it recognized the importance of looking at all of the resources available to a program or activity. However, in essential ways ZBB fell short of its promise to zero-base budgets. The widespread use of arbitrarily chosen percentages to identify alternative funding levels, rather than analysis based on program knowledge and performance information, precluded genuine zero-basing, as did consolidation and selection of initial decision units at high levels in the organization. Although no program should assume that its base level of funding is a given, we need to recognize and avoid the paperwork burden an annual process would create—as it did under ZBB.

Representative Pete Sessions's Questions:

Can you please characterize the work that you are doing currently with SBA? It was mentioned that they did not get a clean audit.

In January this year, we reported[1] that SBA had sold almost 110,000 loans with an unpaid principal balance of about $4.4 billion in five loan sales from August 1999 through January 2002.[2] Our review of the budgeting and accounting for these loan sales found errors that could significantly affect the reported results in SBA's budget and financial statements. We found that SBA (1) incorrectly calculated losses on loan sales reported in

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[1] U.S. General Accounting Office, *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*, (GAO-03-87) Washington, D.C.: Jan. 3, 2003.
[2] SBA has held three additional loan sales that were not included in our review. In August 2002, SBA held its sixth sale, which included about 30,000 loans with an unpaid principal balance of $657 million. The seventh sale took place in December 2002 and consisted of about 29,000 loans with an unpaid principal balance of $682 million. The eighth sale consisted of about 25,000 loans with an unpaid principal balance of about $721 million and took place in April 2003. In all eight sales SBA has sold about 192,000 loans with an unpaid principal balance of $6.5 billion.

the footnote. to its financial statements, (2) did not appropriately consider
the effect of loan sales on its estimates of the cost of the remaining
portfolio, which could significantly impact its budget and financial
statement reporting, and (3) had significant unexplained declines in its
subsidy allowance[3] for the disaster loan program. Despite these errors and
uncertainties, SBA's auditor gave unqualified audit opinions on SBA's
fiscal year 2000 and 2001 financial statements. We discussed these issues
with SBA's auditors, who have since reassessed the unusual balance in the
subsidy allowance account and withdrawn their unqualified audit opinions
on the fiscal year 2000 and 2001 financial statements and issued a
disclaimer of opinion[4]. SBA also received a disclaimer on its fiscal year
2002 financial statements.

In response to our findings, SBA contracted with an independent consulting firm to
complete a more detailed analysis of its credit program accounting and cost estimation
procedures to determine the cause of the unusual balance in the subsidy allowance
account. Until SBA makes the necessary corrections to its procedures to estimate the
cost of its credit programs, including the effect of its loan sales, the reliability of the
current and future subsidy rates will remain unknown.

On Tuesday, April 29, 2003 this subcommittee—the House Committee on Government
Reform's Subcommittee on Government Efficiency and Financial Management—will
conduct an oversight hearing on the status of financial management at SBA at which
GAO will be testifying. Our testimony will provide a summary of our findings from our
January report.

**Homeland Security has become perhaps the most important element
of our Government. What do you see as the challenges that this
subcommittee needs to look at in terms of a movement between
employees, material, those things that inherently might shift and move
to where we don't lose assets, resources, people; anything that might
be contained on this chart on the Executive Branch Management
Scorecard. If you would characterize that, and if you need to tell us
you don't know, that would be fine, but I am interested in anyone on
the panel address that either here or in a follow-up with a letter,
specifically related to changes, transfers within agencies as they move
to homeland security and those things, and the impact that you see
from the performance measures that might be on this board on the
Executive Management Scorecard.**

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[3] The subsidy allowance account represents the subsidized portion of direct loans and defaulted guaranteed
loans assumed by the federal government. It is subtracted from the loans receivable balance on the balance
sheet to arrive at the net loan amount expected to be repaid.
[4] A disclaimer of opinion is issued when the auditor is unable to obtain satisfaction that the financial
statements are fairly stated and therefore does not express an opinion.

As discussed in our 200.. Performance and Accountability Series, the new Department of Homeland Security (DHS) faces enormous challenges to protect the nation from terrorism.[5] DHS must effectively combine 22 agencies with an estimated 170,000 employees specializing in various disciplines, including law enforcement, border security, biological research, computer security, and disaster mitigation. Further, DHS will oversee a number of non homeland security activities.

GAO has designated the implementation and transformation of DHS as a high risk for three reasons. First, the size and complexity of the effort make the challenge especially daunting, requiring sustained attention and time to achieve the departments' mission in an effective and efficient manner. Second, components being merged into DHS already face a wide array of existing challenges that must be addressed. Finally, DHS's failure to effectively carry out its mission exposes the nation to potentially very serious consequences.

Building an effective department will require sustained leadership from top management to ensure the transformation of disparate agencies, programs, and missions into an integrated organization. DHS must effectively integrate disparate agencies and activities into a cohesive organization to achieve the synergy for providing better homeland security against terrorism. DHS also must create and maintain a structure that can leverage partners and stakeholders to effectively implement the national homeland security strategy. DHS should adopt public and private sector best practices, and build necessary management capacity and oversight mechanisms to implement and transform the new department. For example, as discussed in more detail in our 2003 report, attention is needed to develop and achieve appropriate homeland security performance expectations and measures and in ensuring that there is linkage between DHS, other agency plans, and the national strategy. Ensuring these capabilities and linkages will be vital in establishing a comprehensive homeland security planning and accountability framework that will not only guide the nation's homeland security efforts but also help assess how well they are really working.

In addressing significant operational and management challenges, DHS' leadership will need to focus on critical success factors that are also featured in the Executive Branch Management Scorecards. These critical success factors include strategic human capital management, information technology management, acquisition management, and financial management to create a results-oriented and accountable department for the long-term. For example, we currently have work under way to assess the extent to which employees are involved in the formation of the human resource system at the Department.

Finally, DHS must confront a wide array of existing major management challenges and program risks in its incoming agencies. Many of the major components merging into the

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[5] *Major Management Challenges and Program Risks: Department of Homeland Security*, GAO-03-102 (Washington, D.C: January 2003).

new department, including the Immigration and Naturalization Service (INS), the Transportation Security Administration (TSA), Customs Service, Federal Emergency Management Agency (FEMA), and the Coast Guard, face at least one major problem such as information technology management challenges, strategic human capital risks, or financial management vulnerabilities and they also confront an array of program operations challenges and risks. For example, despite the importance and prevalence of information technology systems in accomplishing organizational core missions, INS has not yet fully implemented effective controls for managing its information technology resources, which will provide an added level of difficulty in addressing other management problems. TSA has experienced difficulty in hiring and training its screening workforce and continues to face issues with its compensation and performance management systems. And FEMA faces challenges in resolving financial management weaknesses.

In the final analysis, the success of DHS' implementation and transformation will depend largely on its ability to attract and retain the right people; set the appropriate priorities for the department; and build effective partnerships with the appropriate public, private, and not-for-profit sector entities.

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