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SENATOR FRED THOMPSON

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ON

MAJOR MANAGEMENT CHALLENGES FACING FEDERAL DEPARTMENTS AND AGENCIES

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PREFACE

Waste, fraud, and abuse in the Federal Government have become a cliche. The tremendous growth in the amount of money the Federal Government wastes each year is too predictable. Stories in the press have numbed the American public to the fact that billions of dollars are squandered as the result of mismanagement or malfeasance.

Last year, I released a report by the General Accounting Office chronicling a disturbing trend in many Federal programs—improper payments. The report tallied improper payments in Federal programs at $19 billion for fiscal year 1998 alone. This year, such overpayments were estimated at almost $21 billion. And because only 14 programs actually estimate the amount of improper payments they make, the number is likely higher—much, much higher. But because there was scarcely a mention of the report in the press, commentator Paul C. Light, The Brookings Institution, mused in *Government Executive* magazine, “Perhaps Americans simply believe the war on waste cannot be won.”

Other problems plaguing government operations are equally systemic. In 1990, the GAO began to compile a “high-risk list” of Federal programs and activities that were most vulnerable to waste, fraud, and abuse. This high-risk list started with 14 problem areas and has been expanded with every update issued by the GAO, listing problems like poor financial management, weak information security, and shoddy oversight of government contractors. The current list, released in 1999, includes 26 Federal agency problem areas. Although new areas are added regularly, few qualify for removal. In fact, only one high-risk area has been removed since 1995. Ten of the 14 original high-risk areas in 1990 remain on the list, despite the pressure to solve the problems.

A similar pattern is found in the reports of agency Inspectors General. In each of the past 3 years, the IGs of major Federal agencies reported to Congress the most serious performance problems their agencies faced. The problems identified by the IGs—like poor management of personnel, disastrous handling of major information technology projects, and ineffective controls over grant programs—remain much the same year after year.

The effect of this waste and mismanagement year after year is not inconsequential. Opinion polls consistently show low levels of public trust and confidence in the Federal Government. These low expectations of Federal performance are the result of the constant barrage of information showing that Washington is wasting a significant proportion of the tax dollars Americans pay each year. In 1998, a survey conducted by the Washington-based Pew Research Center found that 64 percent of Americans view the government—with a burgeoning budget of over $2 trillion—as “inefficient and wasteful.”

The key component lacking in Federal Government management is accountability. The Federal Government is so large and its policies are so cumbersome that no one is held accountable for the ineptitude with which its resources are managed. Until someone is held accountable for the mess the current government is in and until Congress stops throwing good money after bad, the problems will go on.

To its credit, Congress in 1993 enacted a law that attempts to make Federal agencies more accountable to the American people about how their resources are managed. The Government Performance and Results Act—the Results Act—tells agencies to define their mission, set goals, and report on the extent to which they are achieving them. I saw this as a chance to make agencies set goals to solve their major management problems and report on their progress to the Governmental Affairs Committee, which has responsibility for the efficiency of government operations.

In August 1999, I wrote to each major agency head and listed in detail the major management problems that have plagued their department or agency and asked them what they were doing about them. In my letter, I wrote that "it is essential that agency heads and other managers commit themselves to tangible steps that will eventually lead to solutions and that they accept accountability for following through on these commitments." The letter continued, "Without specific and measurable performance goals, it is difficult if not impossible to assess progress in addressing major management problems and to hold agencies accountable." After receiving agency responses, Committee staff met with representatives from each agency, their respective IGs, and GAO. This report recounts the experience of the Committee in gauging the progress of agencies in solving their major management problems.

It is clear to me from this process that there are pockets of progress throughout the Federal Government. Generally, where such progress is occurring it is the result of dedicated civil servants and political appointees working diligently to instill performance based management in their agency. That is what it will take to solve many of these problems.

Unfortunately, in many agencies there is insufficient attention to the problems that are stifling effectiveness and draining precious resources. In those cases, agency leaders either don't realize the severity of the problems or don't think such "management minutiae" deserves their attention.

This report recounts the process by which we interviewed agency officials and provides some conclusions about the current state of management in the Federal Government. Sound management policies are critical to the future success of this government in the new economy. We have a long way to go.

FRED THOMPSON,
Chairman

MAJOR MANAGEMENT CHALLENGES FACING FEDERAL DEPARTMENTS AND AGENCIES

I. EXECUTIVE SUMMARY

Since enactment of the Government Performance and Results Act—also known as "GPRA" or "the Results Act"—several independent assessments have shown that government-wide implementation of GPRA has been uneven. One area where there have been too few results is addressing major management challenges that seem to persist year after year at many agencies. Senator Fred Thompson, Chairman of the Senate Governmental Affairs Committee, has urged Federal agencies to apply GPRA's results-oriented principles—goal setting, performance measurement, and reporting—to address these major management problems. Without the consistent development and use of such goals and measures, it is difficult for Congressional decisionmakers to assess agencies' progress in addressing these problems.

Chairman's Letters to 24 Agency Heads

On August 17, 1999, Chairman Thompson wrote individual letters to the heads of the 24 largest Federal agencies to request information on what actions they were taking to address their long-standing management challenges and to determine the extent to which agencies were using GPRA as a means to address these management problems. In these letters to the agencies, Chairman Thompson detailed each agency's most serious management problems as identified by the General Accounting Office (GAO) and by each agency's Inspector General (IG). Each letter contained an analysis by Committee staff of how well each of the 24 agencies' annual Results Act Performance Plans for fiscal year 2000 addressed the agency's major management challenges and how well the agency was responding to unresolved GAO and IG audit recommendations designed to remedy these major problems. In his letters to the agencies, Chairman Thompson requested that representatives of each agency meet with Committee staff to discuss the agency's response to the Chairman's letter and to follow up on the agency's progress in using performance planning and reporting to address major management challenges and high-risk programs.

Follow-up Meetings by Committee Staff

From November 1999 through June 2000, Committee staff met with management officials from each of the 24 agencies. The Committee staff's meetings with agency officials and the reviews of agency documents revealed that agencies have not consistently developed performance goals and associated measures that directly address their respective management challenges and high-risk programs. The Committee staff found that 11 of the 24 agencies reported few, if any, specific and readily identifiable goals and measures that directly address their major management problems. Eight of the 24 agencies reported a moderate level of such goals and measures for these management challenges. Only five of the 24 agencies reported more extensive goals and measures that directly address these challenges.

Recommendations

The Committee staff's review of agencies' efforts unfortunately shows that the attention to management problems has been insufficient to meet the challenges they pose. Poor management of Federal agencies and programs still causes tremendous waste of Federal dollars and, in many cases, prevents the government from achieving its missions. To address continued concerns about agencies' efforts to address their major management challenges, the Committee staff has identified some recommendations for improvement. These recommended actions include the following:

- OMB should clarify and strongly enforce its Results Act guidance that requires agencies to develop and report on performance goals and measures that directly address major management challenges and high-risk programs. Although there has been some progress in this area, there are clearly too few goals and measures to address the many major challenges that exist today. In cases where agencies have valid reasons for not developing such goals and measures, the agency should describe how it is monitoring the progress in resolving these management challenges and how it is being held accountable to address these challenges.
- Agencies should ensure that they include in their Performance Reports specific and credible information on how they plan to meet unmet goals in the future. The review of agencies' Performance Reports clearly showed that some agencies were less than thorough in reporting this information.
- OMB should develop and publish goals and measures for the Priority Management Objectives and report on the Federal Government's progress toward meeting these goals. Each year, OMB designates this list of significant management problems but currently monitors progress without the benefit of specific and publicly available measures.
- Agencies should incorporate performance measures for major management challenges into the performance agreements of agency leaders and program managers. The success of the Results Act and performance-based management in Federal agencies depends in large part on the extent to which agency officials and employees

understand the goals set forth by the agency and are held accountable for achieving them.

- The IGs and GAO should take more direct and frequent action to follow up on what the agencies have done to respond to IG and GAO recommendations, particularly on key recommendations addressing critical management problems. The IGs should also provide more information on open recommendations in their semiannual reports, especially as such recommendations relate to the IG top 10 management challenges. Although many agencies are doing a respectable job in responding to GAO and IG recommendations, some agencies will require more active follow-up by the IGs and GAO on outstanding recommendations.

By implementing these recommendations, the Federal Government can redouble its efforts to bring about a culture that values a results-oriented approach to managing Federal agencies and programs. Although establishing specific and measurable goals for these major management challenges can be a complex undertaking, the development and reporting of such goals is one of the most effective methods for ensuring accountability for achieving results.

II. INTRODUCTION AND BACKGROUND

During the 1990's, Congress enacted a broad statutory framework to improve the management and accountability of Federal agencies. At its centerpiece is the Government Performance and Results Act of 1993 (Public Law 103–62)—also known as "GPRA" or "the Results Act." GPRA is intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set goals for program performance and to measure results. GPRA requires that Federal agencies establish long-term strategic goals, develop annual performance goals, measure their performance against those goals, and report publicly on how well they are doing. Agencies are to meet these requirements through the preparation of multiyear strategic plans, Annual Performance Plans, and Annual Performance Reports.

Since GPRA's enactment, several independent assessments have shown that government-wide implementation of GPRA has been uneven. One area where there have been too few results is addressing major management challenges that seem to persist year after year at many agencies. Committee Chairman Thompson has urged Federal agencies to apply results-oriented principles—goal setting, performance measurement, and reporting—to address these major management problems. Without the consistent development and use of such goals and measures, it is difficult for Congressional decisionmakers to assess agencies' progress in addressing these problems.

The Federal Government's response to the Year 2000 (Y2K) computer problem is illustrative of how a significant management challenge can be successfully addressed. With heightened public and media interest and a firm deadline of January 1, 2000, Congressional and Executive Branch decisionmakers were committed to dedicating sufficient resources to address the problem. Federal managers provided strong project leadership and sustained attention. Congressional oversight throughout the remedial phases of the Y2K effort also continued to ensure focus and attention on the issue. Lessons learned from the Y2K computer problem can clearly assist Federal managers in resolving many of these other management challenges and high-risk programs that continue to plague agencies year after year.

On August 17, 1999, Chairman Thompson wrote individual letters to the heads of the 24 largest Federal agencies to request information on what actions they were taking to address their long-standing management challenges and to determine the extent to which agencies were using GPRA as a means to address these management problems. In these letters to the agencies, Chairman Thompson detailed each agency's most serious management problems as identified by the General Accounting Office (GAO) and by each agency's Inspector General (IG). Each letter contained an analysis by Committee staff of how well each of the 24 agencies' annual Results Act Performance Plans for fiscal year 2000 addresses the agency's major management challenges and how well the agency is responding to unresolved GAO and IG audit recommendations designed to remedy these major problems. In his letters to the agencies, Chairman Thompson requested that representatives of each agency meet with Committee staff to discuss the agency's response to the Chairman's letter and to follow up on the agency's progress in using performance planning and reporting to address major management challenges and high-risk programs.

From November 1999 through June 2000, Committee staff met with management officials from each of the 24 agencies. This report was prepared primarily on the basis of these meetings along with the Committee's examination of agencies' Performance Plans and Performance Reports as well as analyses by GAO, the IGs, and the Congressional Research Service (CRS). Most, if not all, of the management challenges described in this report have been the subject of recurring reports by GAO, the IGs, and others.

III. DESIGNATION OF MAJOR MANAGEMENT CHALLENGES AND HIGH-RISK PROGRAMS

The IGs, GAO, and the Office of Management and Budget (OMB) each periodically designate a list of Federal programs and activities that represent significant challenges or are deemed to be at high risk for fraud, waste, abuse, and mismanagement. Some of the management challenges on these lists are common government-wide issues such as financial management and information security. Other areas on the lists are distinctly agency- and program-focused. As one would expect, there is general consensus duplication in these lists of major management challenges in the Federal Government.

To assess agencies' progress in using performance planning and reporting to address mission-critical problems, the Committee staff relied on the IG- and GAO-designated management challenges and high-risk programs for each agency. The appendix of this report contains a summary for each of the 24 Federal departments and independent agencies on their efforts in using performance planning and reporting to address their major management challenges.

The following is a discussion about the designation of management challenges on the part of the IGs, GAO, and OMB.

IG Designations of Agencies' Major Management Challenges

In December 1998, Chairman Thompson requested the IGs for the 24 largest agencies to provide information on the most serious management challenges facing their respective agencies. Each IG responded to the Chairman with a list of these management challenges, with many IGs designating 10 challenges and referring to their designations as the "top 10" list. These management challenges served are the bases for the Chairman's August 17, 1999, letters to the heads of the 24 agencies requesting additional information about how the agencies were addressing their management challenges and high-risk programs. In September 1999, Chairman Thompson asked the same IGs to provide updated information on the fiscal year 2000 major management challenges at their agencies. These updated IG-identified management challenges are included in the summary presented in the appendix of this report.

In April 2000, the President's Council on Integrity and Efficiency (PCIE), which is comprised of all Presidentially appointed Inspectors General, released the results of an analysis of the various management challenges identified by the IGs of the 24 agencies. As part of its analysis, the PCIE identified seven challenges that have applicability across the Federal Government. In order of most frequently identified by the IGs, these management challenges are as follows:

- Financial Management and Financial Statements
- Information and Technology Resources
- Security and Data Integrity
- GPRA Compliance, Implementation and Accountability
- Procurement and Grant Management
- Personal Security and Safety
- Human Capital and Staffing

The PCIE undertook this analysis to assist the IG community in looking for opportunities to improve communications in pursuing solutions to these complex, government-wide issues.

GAO's Designation of High-Risk Federal Programs and Activities

In 1990, GAO began an initiative to place special emphasis on "high-risk" Federal programs and activities that it considered to be particularly vulnerable to fraud, waste, abuse, and mismanagement. The GAO's original high-risk list consisted of 14 areas. Over time, as some high-risk government operations were corrected and other risks emerged, GAO removed some risks from the list and added new ones to maintain focus on areas that needed sustained management attention. Since 1995, however, GAO has removed only one problem from its high-risk list. Today, GAO's high-risk list has grown to 26 problem areas, and 10 of the 14 original high-risk problems from 1990 remain on the list.

GAO's most recent high-risk list, [1] which was issued in January 1999, is presented in table 1. Also included is the respective year in which GAO designated the problem as high risk. GAO is expected to update this list of high-risk areas at the start of the new Congress in early 2001.

Table 1: GAO-Designated High-Risk Programs and Activities in the Federal Government

High-risk program or activity	Year designated
Providing Basic Financial Accountability	
• DOD Financial Management	1995
• Forest Service Financial Management	1999
• FAA Financial Management	1999
• IRS Financial Management	1995
• IRS Receivables	1990
Ensuring Major Technology Investments Improve Services	
• Air Traffic Control Modernization	1995
• Tax Systems Modernization	1995
• National Weather Service Modernization	1995
• DOD Systems Development and Modernization Efforts	1995
Resolving Serious Information Security Weaknesses	1997
Addressing Urgent Year 2000 Computing Challenge	1997
Managing Large Procurement Operations More Efficiently	
• DOD Inventory Management	1990
• DOD Weapon Systems Acquisition	1990
• DOD Contract Management	1992
• Department of Energy Contract Management	1990
• Superfund Contract Management	1990
• NASA Contract Management	1990
Reducing Inordinate Program Management Risks	
• Medicare	1990
• Supplemental Security Income	1997
• IRS Tax Filing Fraud	1995
• DOD Infrastructure Management	1997
• HUD Programs	1994
• Student Financial Aid Programs	1990
• Farm Loan Programs	1990
• Asset Forfeiture Programs	1990
• The 2000 Census	1997

Source: GAO.

OMB's Designation of the Federal Government's Major Management Problems

In 1989, OMB initiated its own high-risk program, which was featured in detailed reports in the President's annual budget. In 1996, however, OMB dropped this high-risk program. In its place, beginning with the fiscal year 1999 budget cycle, OMB designated the government's most significant management problems as Priority Management Objectives (PMO's). According to the President's fiscal year 1999 budget, the establishment of PMO's would allow the Administration to "provide management leadership to ensure the faithful execution of the enacted budget, programs, regulations, and policies," and to "work within and across agencies to identify solutions to mission critical problems."

[1] General Accounting Office, *High-Risk Series: An Update* (GAO/HR–99–1, January 1999), pp. 170–171.

OMB issued its first set of PMO's as part of its initial fiscal year 1999 Government-wide Performance Plan submitted under GPRA. For fiscal year 1999, OMB identified 22 key management objectives and developed performance measures or commitments for each of the 11 government-wide and 11 agency- or program-specific PMO's. OMB developed additional sets of PMO's as part of the Government-wide Performance Plan for both fiscal years 2000 and 2001. The lists for years 2000 and 2001 each included a total of 24 PMO's, with 12 having a government-wide focus and the other 12 being agency- or program-focused. For each year, some new management objectives are typically added and other areas are dropped. Table 2 lists the OMB-designated PMO's to be targeted in fiscal year 2001.[2]

Table 2: OMB's Priority Management Objectives (PMO's) for Fiscal Year 2001
Strengthening Government-wide Management
• Use performance information to improve program management and budget decisionmaking.
• Improve financial management information.
• Use capital planning and investment control to better management information technology.
• Provide for computer security and protect critical information infrastructure.
• Strengthen statistical programs.
• Implement acquisition reforms.
• Implement electronic government initiatives.
• Better manage Federal financial portfolios.
• Align Federal human resources to support agency goals.
• Verify that the right person is getting the right benefit.
• Streamline and simplify Federal grants management.
• Capitalize on Federal energy efficiency.
Improving Program Implementation
• Modernize student aid delivery.
• Improve DOE program and contract management.
• Strengthen HCFA's management capacity.
• Implement HUD reform.
• Reform management of Indian trust funds.
• Implement FAA management reforms.
• Implement IRS reforms.
• Streamline SSA's disability claims process.
• Revolutionize DOD business affairs.
• Manage risks in building the International Space Station.
• Improve security and management of overseas presence.
• Reengineer the naturalization process and reduce the citizenship application backlog.

Source: OMB.

Unlike the PMO's for fiscal year 1999, OMB did not designate specific and readily identifiable performance goals and measures for fiscal years 2000 and 2001. In an April 12, 2000, letter to the OMB Director, Chairman Thompson encouraged OMB to develop and report specific commitments for the PMO's. In his response, the OMB Director stated that the establishment and dissemination of specific goals and measures for the PMO's was not necessary, and that OMB officials "work through the problems internally to achieve the objectives in whatever way is most effective." Nevertheless, establishing and reporting specific commitments for the PMO's will ensure a more coordinated and sustained effort in these

[2] Absent from OMB's fiscal year 2001 list of PMO's are "Better management of real property" and "Improve management of the Census." In each case, agencies did not directly solve the issues that made the areas management challenges. Rather, they drafted proposals (General Services Administration) or tested procedures (Bureau of the Census), actions that do not represent adequate measures to solve major management challenges.

significant challenges and will instill within OMB and the agencies a greater level of accountability for achieving results.

Agencies' Agreement With IG- and GAO-Designated Management Challenges

In their written responses and the meetings with Committee staff, agency officials generally agreed with the management challenges and high-risk programs that GAO and the respective IGs had identified for each agency. Agency officials stated that IG and GAO attention on these management problems has challenged agency managers to draw toward a common focus in resolving these issues. But some agency officials also pointed out that many of these management challenges are long-standing because they are often complex and difficult to resolve.

Committee staff noted some exceptions to this general agreement concerning the designation of management challenges. In these cases, agencies generally claimed that although specific designated areas were indeed challenges for the agency, these challenges were not deemed to be "mission-critical." For example, the General Services Administration (GSA) said that for its designated list of management challenges, many of the areas did "not merit being categorized as a major problem." In its written response, the National Aeronautics and Space Administration (NASA) disagreed with the "mission critical" designation of two areas identified by GAO and the IG as management problems (i.e., aerospace test facility cooperation with the Department of Defense and the development and use of launch vehicles).

A few agency officials at these meetings expressed some frustration that when a particular management problem is resolved, the agency's IG typically designates another new "top 10" challenge to replace it. Thus, it can appear that the agency is not making progress when some issues are actually being resolved. Agency officials also pointed out that since GAO updates its "high-risk" list every 2 years, these problems could have been resolved and still remain on GAO's list, thus giving the appearance that it is still a problem. Officials noted, for example, that the Federal Government made significant progress on the Y2K computer problem, but this challenge is still on GAO's high-risk list because GAO will not likely update the list again until 2001.

In limited cases, the IG may agree that an issue placed on its management challenges list is not deemed to be "mission critical." For example, the National Science Foundation's (NSF) fiscal year 1999 Performance Report and fiscal year 2001 Performance Plan discussed two of the 10 major management challenges identified by NSF's IG but did not address the other eight challenges. Of these remaining eight challenges, the NSF IG said that it no longer considers four of them to be significant enough to require inclusion in NSF's Performance Report or Performance Plan. The IG, however, continued to stress the need for NSF to be alert to emerging situations that could result in them becoming a problem.

Notwithstanding agencies' claims that certain GAO- and IG-designated problems are not mission-critical, unless the IG or GAO specifically conclude that a management challenge is not deemed to be mission-critical, the major management challenges identified by the independent auditors should receive heightened management attention and should have specific and measurable performance goals where possible and practicable. Moreover, although an IG may add other management challenges to its "top 10" list as an agency resolves previous challenges, these changes in the listing of management challenges demonstrate that an agency is indeed making progress on important activities and programs.

IV. AGENCY EFFORTS TO DEVELOP PERFORMANCE GOALS AND MEASURES FOR MANAGEMENT CHALLENGES

The Results Act requires that agencies establish (1) performance goals to define the level of performance to be achieved and (2) performance measures to be used in assessing the progress in meeting these goals. Federal agencies in the past have often used inferior measures to assess the progress they were making in operating various programs and activities. For example, agencies often measured performance by such indicators as the amount of money directed toward a program, the number of personnel deployed, or the number of proposals developed. Under GPRA, agency leaders and managers should, where possible and practicable, use outcome-oriented goals and measures that demonstrate how well a program or activity is doing in achieving its intended results.

In its guidance to Federal agencies for the preparation and submission of Annual Performance Plans, OMB states that agencies should develop and incorporate performance goals to address management problems, particularly for those problems whose resolution is mission-critical or which could potentially impede achievement of program goals.[1] Independent observers have also commented on the importance of establishing such goals. For example, in a report identifying and describing practices that might improve the usefulness of agencies' Annual Performance Plans, GAO noted that the value of Performance Plans could be increased if agencies more fully included performance goals to address mission-critical management problems that may exist.[2] GAO also reported that Performance Plans containing specific strategies to resolve mission-critical management problems more clearly provide Congressional and other decisionmakers with an understanding of how the agency plans to improve its management.[3] Clearly, weaknesses in internal management processes and systems undermine the achievement of program results, and discussing the most critical management problems ensures that those problems that would have the greatest impact on results receive the most attention.

The Committee staff's meetings with agency officials and the reviews of agency documents revealed that agencies have not consistently developed performance goals and associated measures that directly address their respective management challenges and high-risk programs. To show the progress of the 24 agencies, Committee staff categorized the extent to which the agencies developed and reported such goals and measures in their fiscal year 2001 Performance Plans. Agencies that reported direct goals for less than 30

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[1] OMB Circular No. A–11, Part 2, subsection 220.0(e).

[2] General Accounting Office, *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers,* (GGD/AIMD–99–69, February 1999) p. 14.

[3] Id., p. 26.

percent of their major management challenges were classified as reporting "few, if any" such goals; agencies that reported direct goals for between 30 and 69 percent of their challenges were classified as reporting a "moderate" level of such goals; and agencies that reported direct goals for 70 percent or more of their challenges were classified as reporting "more extensive" goals. As shown in table 3, the Committee staff found that 11 of the 24 agencies reported few, if any, specific and readily identifiable goals and measures that directly address their major management problems. Eight of the 24 agencies reported a moderate level of such goals and measures for these management challenges. Only five of the 24 agencies reported more extensive goals and measures that directly address these challenges.

Table 3: Performance Goals that Directly Address the Management Challenges for the 24 Departments and Agencies

Department or independent agency	Extent of goals that directly address major management challenges	Percentage of goals that directly address major management challenges
Department of Health and Human Services	8 of 8	100
Federal Emergency Management Agency	10 of 12	83
Department of Defense	7 of 9	78
Office of Personnel Management	7 of 9	78
Department of Transportation	7 of 10	70
Department of Justice	9 of 15	60
National Aeronautics and Space Administration	6 of 10	60
Department of Energy	8 of 14	57
Social Security Administration	5 of 9	56
U.S. Department of Agriculture	7 of 13	54
Department of State	3 of 6	50
Department of Housing and Urban Development	5 of 11	45
Department of the Interior	4 of 11	36
Environmental Protection Agency	3 of 11	27
Department of Education	3 of 11	25
Department of Labor	3 of 12	25
Department of Commerce	2 of 9	22
National Science Foundation	2 of 10	20
Department of Veterans Affairs	2 of 11	18
Department of the Treasury	3 of 21	14
General Services Administration	0 of 6	0
U.S. Agency for International Development	0 of 7	0
Small Business Administration	0 of 8	0
Nuclear Regulatory Commission	0 of 13	0

Source: Committee staff analysis, based on review of agencies' fiscal year 2001 Performance Plans and GAO reports.

Some of the 24 departments and agencies have made concerted efforts to use Results Act performance goals to help resolve their major management problems. Most notably, the fiscal year 2001 Performance Plan for the Department of Health and Human Services (HHS) includes goals that directly address all of the Department's major management challenges as identified by GAO and the HHS IG. HHS has coupled disclosure of major Medicare overpayments in its annual financial statements with specific error-reduction goals in its Performance Plan; this approach has achieved impressive results. Although projected overpayments rose in fiscal year 1999, the estimated Medicare error rate is still dramatically lower now than it was several years ago. As shown in table 3, the Federal Emergency Management Agency (FEMA), the Department of Defense (DOD), the Office of Personnel Management (OPM), and the Department of Transportation (DOT), also established performance goals that directly addressed many of their core management challenges.

Although some agencies did a commendable job of including goals to address their management challenges, many agencies unfortunately did not. Four agencies—GSA, the U.S. Agency for International Development (USAID), the Small Business Administration (SBA), and the Nuclear Regulatory Commission (NRC)—did not develop goals for any of their major management problems as identified by GAO and the IGs. Other agencies included goals for their management challenges only to a moderate extent. The Departments of Agriculture and State, for example, only included goals for about 50 percent of their challenges.

While not all major management challenges lend themselves to specific performance goals, some agencies failed to establish such goals in many areas where they are sorely needed. For example, the Treasury Department has performance goals for only one of the five GAO-designated "high-risk" problems at the Department. Even these goals are "inadequate," according to GAO. GAO also raised concerns about the efforts of the Department of Education's Office of Student Financial Assistance (OSFA), which was recently established as a "performance-based organization." GAO reported that OSFA failed to establish any performance goals to address the problems necessary to remove fraud and error in student aid programs from the high-risk list.[4] A number of other agencies likewise have failed to establish any performance goals to address well-documented and serious problems, such as contractor overpayments at DOD and fraud and error in the Federal Employee Health Benefits Program at OPM.

The Environmental Protection Agency (EPA) and SBA are examples of agencies that described the general actions they planned to take to address their management problems even though they did not establish and report specific performance goals and measures for these challenges. For example, although EPA's fiscal year 2001 Performance Plan identified specific goals and measures for only three of its 11 major management challenges, EPA did describe planned strategies to resolve the remaining eight challenges. Similarly, SBA's fiscal year 2001 Performance Plan reported specific goals and measures for none of its eight management challenges. Like EPA's Performance Plan, however, SBA's Performance Plan did include a description of strategies for addressing these management challenges.

For those agencies that did not fully develop and report performance goals and measures for their major management problems, agency officials offered varied reasons for not doing so. Some agency officials continued to report difficulties in developing goals and measures for their management challenges. They stated that in dealing with the major management challenges—just as with other

[4] General Accounting Office, *Education's FY 1999 Performance Report and FY 2001 Performance Plan,* (GAO/HEHS–00–128R, June 30, 2000) pp. 1–2.

agency efforts—the link between Federal programs and desired outcomes is sometimes difficult to establish. The agencies said that in some cases they are still challenged by the sometimes limited or indirect influence that the Federal Government has in determining whether a desired result is achieved, which complicates the effort to measure the discrete Federal contribution to a specific result. GAO's work has shown that measuring the Federal contribution is particularly challenging for regulatory programs, scientific research programs, and programs that deliver services to taxpayers through third parties, such as State and local governments.[5]

Although establishing specific and measurable goals can be a complex undertaking, the development and reporting of such goals is one of the most effective methods for ensuring accountability for achieving results. Even in cases where agencies experience difficulties in developing more results-oriented performance goals for some of their management problems, OMB's guidance to agencies states that performance goals for management problems can readily be expressed as milestone events for specific remedial steps.[6] Unless an agency that is not fully developing and reporting performance goals for these management problems can offer an alternative approach for both instilling accountability for results and demonstrating steady progress to resolve these problems, Congressional committees overseeing these efforts will have little information on which to assess an agency's progress.

V. AGENCY ACTIONS AND PLANS TO ADDRESS UNMET GOALS

In the Annual Performance Report required under the Results Act, each agency must report the actual level of performance for each performance goal and compare these results to the target level of performance outlined in the agency's Annual Performance Plan. For every performance goal whose target level was not achieved, the agency should describe and explain (1) why the goal was not met, (2) the plans and schedules to meet the unmet goal in the future, and (3) if a performance goal is found to be impractical or infeasible, the reason that the particular goal is not practical or feasible and recommendations for a course of action for the goal. OMB's guidance on preparing Annual Performance Reports states that agencies must provide this explanation "even if the difference between the goal target level and actual performance is slight."

The Committee staff's review of the fiscal year 1999 Performance Reports of the 24 agencies showed that agencies were not always straightforward in their methods of designating whether they had indeed met the level of targeted performance. For example, the Commerce Department defined a goal as "met" if performance came within 10 percent of the target level and defined a goal as "substantially met" if performance exceeded two-thirds of the target level. NSF limited descriptions of its performance to "successful" or "marginally effective," ignoring "unsuccessful" or "unmet" as options.

[5] General Accounting Office, *Government Performance and Results Act: 1997 Implementation Will Be Uneven,* (GAO/GGD–97–109, June 1997) pp. 12–13.
[6] OMB Circular No. A–11, Part 2, subsection 220.0(e).

A review of the Performance Reports also showed that agencies had mixed results in describing and explaining the reasons and future plans for unmet goals, including those related to major management challenges. The Performance Reports for DOT and USAID are good examples of agencies that seemed to make a concerted effort to address unmet goals. For each of their unmet goals—including management problems and high-risk programs—both DOT and USAID described and explained why the program was unable to achieve the goal and what actions they planned to take to meet the goal in the future. These two agencies demonstrated that a clear and thorough characterization of unmet goals is important to convince Congressional decisionmakers and the public that agency management can adequately and appropriately respond to performance shortfalls.

Other agencies, however, were less than thorough in their Performance Reports in addressing unmet goals. The Justice Department, for example, repeatedly dismissed performance shortfalls in its Performance Report by using boilerplate statements that the deviation from targeted performance was "slight and did not affect overall program performance." FEMA also neglected to provide the reader of its Performance Report with much information about plans to address its unmet goals. The Commerce Department's report described specific reasons for some unmet goals but provided little information about other unmet goals. For its goal related to the average processing time for export control license applications, the Commerce Department's Performance Report provided details about why the average processing time had increased to 40 days in 1999. However, for its goals related to patent and trademark services, Commerce often simply stated that "[m]eeting the target remains a challenge."

VI. AGENCY EFFORTS TO RESPOND TO GAO AND IG RECOMMENDATIONS RELATED TO MANAGEMENT CHALLENGES

Corrective action taken by agency management on findings and recommendations from GAO and IG audit reports is essential to improving the effectiveness and efficiency of Federal Government operations and resolving many long-standing management problems. In its guidance to Federal agencies,[1] OMB states that management officials are responsible for receiving and analyzing GAO and IG audit reports, providing timely responses to the audit organization, and taking corrective action on the recommendations as appropriate. OMB notes that audit followup is an integral part of good management and that each agency should establish systems to assure the prompt and proper resolution and implementation of audit recommendations.

In his August 1999 letters to Federal agencies, Chairman Thompson stressed the need for agencies to resolve and implement audit recommendations related to each agency's major management problems. He noted that according to information provided to the Committee by the respective IGs and GAO, many agencies continued to have a number of open audit recommendations that ad-

[1] OMB Circular A–50.

dressed these major management problems. In these letters, the Chairman also asked the agencies whether they disagreed with these GAO and IG recommendations and requested that the agencies comment on the specific actions that they were taking to implement those recommendations with which they generally agreed.

On the basis of agency responses to the Chairman's letters and Committee staff meetings with agency officials, most agencies appear to have made some progress in taking timely and appropriate action to deal with the IG and GAO recommendations on management problems and in regularly tracking these open recommendations. The Interior Department, the Social Security Administration (SSA), and the Internal Revenue Service (IRS) are examples of agencies that have made concerted efforts to implement and clear open audit recommendations. Some agencies have established specific performance goals related to implementing audit recommendations. For example, the Interior Department has set a goal for fiscal year 2001 to complete implementation of 75 percent of IG and GAO audit recommendations within 1 year of referral, and complete 80 percent of corrective action plans for material weaknesses by their original target date.[2]

Some agencies, however, have been less attentive to resolving open recommendations with auditors. For example, the Department of Energy (DOE) demonstrated favorable progress in clearing open recommendations from the DOE IG but was less vigilant in clearing open GAO recommendations. DOE and GAO officials found that DOE had often taken remedial action but had not readily communicated the Department's efforts to GAO to allow for the timely removal of the issue from GAO's inventory of open recommendations. In another case, EPA's IG informed Committee staff that, although EPA is generally receptive to the findings of the IG's audit reports, the agency does not generally implement these recommendations in a prompt and timely manner.

VII. CONCLUSIONS AND RECOMMENDATIONS

On the basis of meetings with agency officials and reviews of agency documents, the staff of the Senate Governmental Affairs Committee found that the 24 largest Federal agencies have not consistently developed performance goals and associated measures that directly address the agencies' major management challenges and high-risk programs. The Committee staff's analysis showed that 11 of the 24 reviewed agencies reported few, if any, specific and readily identifiable goals and measures that directly address their major management problems. Eight of the 24 agencies reported a moderate level of such goals and measures for these management challenges. Only five of the 24 agencies reported more extensive goals and measures that directly address these challenges.

Although the move toward performance-based government is positive, the attention to long-standing management problems unfortunately has been insufficient to meet the challenges they pose. Poor management of Federal agencies and programs still causes tremendous waste of Federal dollars and, in many cases, prevents the government from achieving its missions. The Federal Govern-

[2] Department of Interior Fiscal Year 2001 Annual Performance Plan, p. 101.

ment must concentrate its efforts to bring about a culture that values a results-oriented approach to managing Federal agencies and programs—one that emphasizes accountability and rewards results. Recommendations that will help in these efforts include the following:

- OMB should clarify and strongly enforce its Results Act guidance requiring agencies to develop and report on performance goals and measures that directly address major management challenges and high-risk programs. Although there has been some progress in this area, there are clearly too few goals and measures to address the many major challenges that exist today. In cases where agencies have valid reasons for not developing such goals and measures, the agency should describe how it is monitoring the progress in resolving these management challenges and how it is being held accountable to address these challenges.
- Agencies should ensure that they include in their Performance Reports specific and credible information on how they plan to meet unmet goals in the future. The review of agencies' Performance Reports clearly showed that some agencies were less than thorough in reporting this information.
- OMB should develop and publish goals and measures for the Priority Management Objectives and report on the Federal Government's progress toward meeting these goals. OMB currently monitors progress on the PMO's without the benefit of specific and publicly available measures.
- Agencies should incorporate performance measures for major management challenges into the performance agreements of agency leaders and program managers. The success of the Results Act and performance-based management in Federal agencies depends in large part on the extent to which agency officials and employees understand the goals set forth by the agency and are held accountable for achieving them.
- The IGs and GAO should take more direct and frequent action to follow up on what the agencies have done to respond to IG and GAO recommendations, particularly on key recommendations addressing critical management problems. The IGs should also provide more information on open recommendations in their semiannual reports, especially as such recommendations relate to the IG top 10 management challenges. Although many agencies are doing a respectable job in responding to GAO and IG recommendations, some agencies will require more active follow-up by the IGs and GAO on outstanding recommendations.

VIII. APPENDIX: SUMMARY OF MAJOR MANAGEMENT CHALLENGES AND HIGH-RISK PROGRAMS FOR 24 FEDERAL DEPARTMENTS AND AGENCIES:

DEPARTMENT OF AGRICULTURE

Chairman Thompson's August 1999 letter to the U.S. Department of Agriculture (USDA) listed the following 16 major management challenges at USDA that GAO and the agency's IG had identified:

- USDA's obsolete and inefficient field structure,
- Fundamental changes needed to improve food safety,
- Inefficiency and waste throughout the Forest Service's operations,
- Carrying a high level of delinquent farm loan debt and writing off large amounts of unpaid loans,
- Food Stamp program overpayments,
- Lack of financial accountability over billions of dollars in assets,
- Poor management of telecommunications investments,
- Weaknesses in managing information technology investments,
- Y2K computer conversion,
- Crop insurance program administration,
- Conservation Reserve Program administration,
- Abuses in the Child and Adult Care Food Program,
- Pollution cleanup and abatement management practices,
- Research funding accountability,
- Civil rights complaints, and
- Fraud and abuse in the Rural Rental Housing Program.

The Chairman's letter noted that improving Forest Service financial management and improving farm loan program administration and management were two challenges of particular concern at USDA. The Chairman also noted GAO's finding that USDA's fiscal year 2000 Performance Plan contained specific performance goals to address only five of the 16 problem areas.

By a letter dated December 14, 1999, USDA Secretary Glickman responded to the Chairman's letter. The Secretary's response agreed with the GAO and IG designations of major management challenges at USDA. However, he expressed the view that not every challenge warranted a specific performance goal. Rather, he stated, resolution of many management challenges was embedded in broader program performance goals.

In December 1999, the IG submitted to the Committee an updated list of the most serious management problems at USDA. The updated list consisted of the following 12 items:

- Federal Crop Insurance,
- Farm Credit programs,
- Food Stamp program,
- Child and Adult Care Food program,
- Food safety,
- Forest Service management and program delivery,
- Research funding accountability,
- Competitive grants program compliance,
- Rural Rental Housing program,
- Civil rights complaints,
- Financial management, and
- Information resources management.

On March 24, 2000, the Committee staff met with USDA officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the agency's response. USDA officials expressed agreement with the GAO and IG designations of major management challenges and provided a briefing on their actions to address each of the challenges. The officials emphasized the difficulty of obtaining the resources necessary to resolve some management challenges. For example, they estimated that about $50 million dollars would be needed to fix USDA's financial management systems. Ironically, they noted that about $50 million in USDA appropriated funds expires each year without being obligated.

GAO found that USDA's Performance Plan for fiscal year 2001 contained goals that directly addressed seven of the current management problems at USDA.

DEPARTMENT OF COMMERCE

Chairman Thompson's August 1999 letter to the Department of Commerce (DOC) referenced the following 10 management challenges for the Department as identified by the DOC IG:

- Increase the accuracy and control the cost of the 2000 decennial census.
- Obtain a clean opinion on the Department's consolidated financial statements.
- Address Y2K computer problem.
- Successfully implement the Advanced Weather Interactive Processing System (AWIPS).
- Successfully implement a Department-wide financial management system.

- Reassess the mission and financial viability of the National Technical Information Service (NTIS).
- Expand private sector participation in the National Oceanic and Atmospheric Administration's (NOAA) Marine and Aeronautical data gathering.
- Manage the Patent and Trademark Office's (PTO) space requirements and lease costs.
- Maximize competition in the Department's financial assistance programs.
- Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.

The Chairman's letter references two specific DOC activities that are included on GAO's list of high risk Federal programs and are also included on the IG's list of management challenges: The National Weather Service Modernization Program (which includes AWIPS) and the 2000 Census. The IG identified essentially the same top challenges in its updated assessment of the Department's major management challenges for fiscal year 2000.

In its response to the Chairman's request for information, DOC's letter provided an overview of the Department's efforts to address management challenges, but it did not provide details of the Department's actions to implement recommendations made by GAO and the IG. In the response, the Commerce Secretary stated that he had been directly involved in two problem areas identified on GAO's high-risk list—the Decennial Census and the modernization of the National Weather Service—and that he was satisfied with the progress that the Department had made in both cases. The response also stated that the Department was exploring possible ways to include IG inspections and evaluations in the existing tracking and reporting process for IG audits. According to the response, the Secretary stated that DOC currently tracks IG audits every six months and was taking a look at tracking GAO evaluations in the Department in a similar manner.

On April 27, 2000, Committee staff met with representatives from DOC, the DOC IG, and GAO at the DOC's headquarters building. During this meeting, Committee staff noted that, although DOC's Performance Report often provided a description of strategies for addressing some of the Department's management challenges, the Performance Report often did not provide information on specific goals and measures that could be used to assess progress on these management challenges. DOC officials told Committee staff that the Department had not adopted specific and measurable goals to address all the major management problems because officials believed that Performance Plans should primarily concentrate on program outcomes and not specific management efforts. Nonetheless, DOC officials said that the Department would likely establish a management strategic goal in future GPRA planning efforts to complement DOC's program goals. According to DOC officials, such a new management strategic goal would link to annual performance goals and measures that specifically address the major management challenges and high-risk programs for the Department. Also at this meeting, officials from the Department's IG informed the Committee staff that DOC is generally making progress on addressing the management challenges that confront the Department.

Overall, DOC has made only minor improvements over the previous year in its development and use of specific goals and measures for its major management problems. Although DOC has developed such goals and measures to a moderate extent, greater management attention is needed to address all of the significant challenges and problems that were identified by the IG and GAO. DOC should move forward with its plans to establish a new management strategic goal to ensure that all the Department's major management challenges are incorporated into future GPRA planning efforts.

DEPARTMENT OF DEFENSE

In his August 1999 letter to the Department of Defense (DOD), Chairman Thompson asked for an update on the agency's progress toward solving the following 10 management challenges identified by both GAO and the DOD IG:

- The Year 2000 computer problem,
- Information security,
- Financial management,
- Weapons systems acquisition,
- Contract management,
- Defense infrastructure,
- Inventory management,
- Military personnel,
- Military readiness, and
- Turbulence from change.

The DOD's IG submitted to the Committee a new list of the top 10 management challenges facing the Department after Chairman Thompson's letter. In addition to the Year 2000 issue, contract management and military personnel were removed from the list. Added were management, health care, and "other security concerns management."

The DOD's response to Chairman Thompson's letter included individual letters from the many departmental components that were the subject of outstanding recommendations for which insufficient action had been taken. These included responses from the Defense Information Systems Agency, the Defense Logistics Agency, the Defense Finance and Accounting Service, and the Coordinator for Drug Enforcement Policy and Support. The number of the responses made it difficult to gauge the status of many of the outstanding recommendations.

Many of the management challenges that beset DOD are difficult and longstanding. DOD is responsible for roughly $1.3 trillion in assets; operates 638 major installations and thousands of small sites around the world; and currently has about 700,000 civilian employees and 2.4 million military personnel in the active forces or the Ready and Standby Reserves. The DOD IG's overall assessment of the Department's responsiveness to management problems is that the DOD has seldom before, if ever, been so committed to across the board management improvement. However, even after several years of concerted effort, much more needs to be done to cut costs and improve effectiveness.

DOD continues to be unable to prepare auditable financial statements. For fiscal year 1998, as in previous years, only the Military Retirement Trust Fund received a favorable audit opinion. The DOD financial statements for fiscal year 1998 were less timely than ever and a record $1.7 trillion of unsupported adjustments were made in preparing the statements. The lack of adequate systems continues to be the major impediment to achieving favorable audit opinions and producing reliable financial reporting.

Information Technology problems at DOD include: Too many systems, block obsolescence, insufficient interoperability, security vulnerabilities, inconsistent budgeting and reporting, noncompliance with policies on data standardization, documentation and configuration management, user dissatisfaction, frequent system acquisition schedule slippage and cost overruns, and disconnects between evolving business practices and their supporting system projects. The Defense Appropriations Act for Fiscal Year 2000 levied stringent new requirements on the Department to ensure a complete break with overly decentralized and often inefficient past practices for reviewing, approving, monitoring and funding information system acquisition projects. In addition to improving management of system acquisition, the Department needs to modernize and cut support costs for communications and other information technology infrastructure.

Of nine major management challenges, DOD includes in its fiscal year 2001 Performance Plan only seven specific and measurable performance goals. According to GAO, "Defense's Performance Report and Plan contain no goals, measures, or assessment on whether it is achieving a reduction in erroneous payments to contractors," a key measure for DOD's success in contract management.

DEPARTMENT OF EDUCATION

Chairman Thompson's August 1999 letter to the Secretary of Education listed the following 12 major management challenges that had been identified by GAO and the agency's IG:

- Inadequate effort to ensure access to postsecondary institutions while protecting Federal financial interests,
- Lack of a sound, integrated information technology strategy,
- Lack of adequate financial data for management of student financial aid programs,
- Y2K computer conversion,
- Balancing oversight of programs and program flexibility,
- Implementation of an effective performance-based organization to operate student financial aid programs,

- Lack of information technology staff with the technical expertise to negotiate and oversee systems contracts,
- Start-up and data integrity problems with the agency's "EDCAPS" financial management system,
- "Gatekeeping" and institutional monitoring in the student financial aid programs,
- Implementing legislation authorizing a data match with the Internal Revenue Service to improve student financial aid eligibility determinations,
- Controls over "paperless" systems for student financial aid fund delivery, and
- Performance reporting under the Results Act.

The Chairman's letter expressed concern that, based on the GAO's analysis, Education's Performance Plan for fiscal year 2000 had no specific goals to address seven of these 12 problem areas. The Chairman also noted that many of the problems related to different aspects of student financial aid, a GAO "high risk" area, and had persisted for years.

In its September 23, 1999 response, Education disputed the GAO analysis and stated that its Performance Plan addressed all 12 management challenges. The agency also noted that the default rate for student loans had declined for 6 consecutive years and was now at a record low 9.6 percent.

In December 1999, the Education IG provided to the Committee an updated list of what they considered to be the Agency's most serious management challenges. The updated list included most of the items mentioned above, but consolidated them into the following nine areas:

- Financial management,
- Year 2000 computer readiness,
- Information systems security,
- Implementation of the Student Financial Assistance Modernization Blueprint and Performance Plan,
- Controls over "paperless" systems for student financial aid fund delivery,
- Implementation of the Clinger-Cohen Act to improve information technology management,
- Performance reporting under the Results Act,
- Balancing compliance monitoring and technical assistance for Elementary and Secondary Education Programs, and
- Implementing legislation authorizing a data match with the Internal Revenue Service to improve student financial aid eligibility determinations.

On April 4, 2000, Committee staff met with Education officials, along with representatives from GAO and the IG's office, to follow up on the Chairman's letter and the agency's response. Education officials stated their agreement with the nine management challenges identified in the IG's December 1999 submission. They discussed actions the agency was taking to address each of these problems. Of particular note, Education has undertaken impressive efforts to enhance the performance data it uses for Results Act purposes. Given the nature of its programs, the agency must rely on State and local governments as well as other outside sources to supply much of the data needed to assess performance under its outcome goals and measures. It is working with these entities to improve the timeliness and consistency of data. Education also has adopted a performance measure to require agency managers to attest that the data used for their program's performance measurement are reliable, valid and timely, or have plans for improvement.

Education has not done a good job of establishing specific and measurable performance goals to address its management problems. As noted above, its fiscal year 2000 Performance Plan set such goals for only three of its management challenges. According to GAO and the IG, its fiscal year 2001 Performance Plan likewise has goals for only three of the problems.[1] These goals address financial management, information technology management, and performance data improvement. Not surprisingly, the lack of performance goals is reflected in the Education's Performance Report for fiscal year 1999. The Report demonstrates no progress toward resolving any of Education's problems beyond these three.

As GAO notes, the absence of performance goals is particularly disturbing in the case of the Office of Student Financial Assistance. This Office, which was recently established as a "performance-based organization" within the Education Department, has not established performance goals or objectives to address the problems necessary to remove fraud and error in student aid programs from the high-risk list. The Office also seems to be dragging its feet in addressing one of the IG's key designated problems—implementing the data match with the Internal Revenue Service. In 1998, Congress enacted a law specifically designed to improve student aid eligibility determinations by enabling Education to verify income information with IRS.[2] This law remains unimplemented nearly 2 years after its enactment, while Education, the Treasury Department, and the Office of Management and Budget engage in seemingly intractable discussions over what to do. Evidently, they believe the language of the law may be inadequate to accomplish its obvious purpose. Nevertheless, they seem unable to come to closure on the legal issues—either by resolving these issues or submitting proposed amendments to the Congress.

DEPARTMENT OF ENERGY

Chairman Thompson's August 1999 letter to the Department of Energy (DOE) listed the following 14 major management challenges at DOE that GAO and the agency's IG had identified:

- Y2K computer conversion,
- Information security,

[1] One of the problems from last year, resolving the Y2K conversion, was resolved and is no longer applicable.
[2] Section 484(q) of the Higher Education Act, as amended, 20 U.S.C. § 1091(q).

- Contract management,
- Difficulty completing large projects,
- Slow transition to external regulations,
- DOE's ineffective organizational structure,
- DOE's staff lack technical and management skills,
- Environmental compliance and waste management problems at DOE facilities,
- Nuclear and occupational safety and health deficiencies,
- Delays in disposal of radioactive waste,
- Extensive inventories of nuclear and nonnuclear materials that may no longer be necessary,
- Poor condition of DOE's infrastructure,
- Deficiencies in control over government personal property, and
- Access to sensitive materials, areas, and information, and physical security.

Among other things, the Chairman's letter noted that contract management at DOE had been on GAO's high-risk list since the inception of the list in 1990. This is a particularly serious problem since DOE relies on contractors to perform about 90 percent of its work. The Chairman's letter also noted GAO's finding that DOE's fiscal year 2000 Performance Plan contained specific performance goals to address nine of the 14 problem areas identified by GAO and the IG.

By a letter dated November 11, 1999, DOE responded to the Chairman's letter. DOE did not indicate disagreement with the Chairman's list of major management problems. DOE stated many of the "open" GAO and IG audit recommendations dealing with the major management problems actually are resolved. It said DOE would work with GAO and the IG to sort out the status of these recommendations. DOE's letter further stated that its fiscal year 2001 Performance Plan would include goals for the two management problems related to security. DOE maintained that the others don't require fiscal year 2001 goals since they were expected to be addressed in fiscal year 2000.

In December 1999, the IG submitted to the Committee an updated list of the most serious management problems at DOE. The only change from the previous year's list was the deletion of Y2K readiness. The IG designated three of the management challenges—security, project management, and contract management—as special emphasis areas for the coming year. According to the IG, DOE's recent performance in these areas had been of particular concern.

On February 25, 2000, the Committee staff met with DOE officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the agency's response. A number of DOE's management problems were discussed. DOE officials maintained that some of the problems had been resolved. For others, they maintained that they had process improvements in place and therefore did not need a performance goal. They disagreed with the

Committee staff's suggestion that it would be difficult to determine whether the process improvements were working unless they were tracked against performance goals.

With reference to contract management, the Committee staff noted that DOE had provisions in its contracts to enforce contractor accountability and asked what DOE was doing to enforce these provisions. The DOE officials said they did not have information on the extent to which DOE was enforcing these contract provisions. Both GAO and the IG regarded contract management as a continuing problem and questioned whether DOE had done enough to enhance contractor accountability.

GAO found that DOE's Performance Plan for fiscal year 2001 contained goals that directly addressed eight of the current management problems. However, GAO concluded that insufficient progress had been made to consider any of them resolved. GAO also questioned the adequacy of some DOE's goals to address its management problems. For example, GAO said DOE's goals relating to timely completion of large projects focus on procedures rather than outcomes.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Chairman Thompson's August 1999 letter to the Secretary of Health and Human Services (HHS) listed the following 14 major management challenges that had been identified by GAO and the agency's IG:

- Y2K computer readiness,
- Information security,
- Medicare payment errors, in general,
- Improper Medicare payments for mental health services,
- Inadequate controls over Medicare managed care,
- Inadequate controls over Medicare home health benefits,
- Implementation of payment reforms for nursing facilities from Balanced Budget Act,
- Implementation of other Balanced Budget Act provisions,
- Child support enforcement,
- Additional Medicare reforms needed,
- Scope and complexity of programs, including the need for coordination, oversight and performance measures,
- Lack of reliable and comprehensive performance data and data systems,
- Lack of reliable and timely financial statements, and
- Other program integrity issues.[3]

[3] In a December 1999 letter to Chairman Thompson, the HHS IG updated its list of the most serious management challenges facing the agency. Most of the challenges were the same or similar to those in Chairman Thompson's August 1999 letter, although two challenges were added. The new challenges were Medicare contractor oversight and Medicare payments for rehabilitation services.

In her October 14, 1999 response to Chairman Thompson's letter, HHS Secretary Shalala stated that HHS was making good progress on major management challenges. In particular, she cited progress on financial statements and reducing Medicare error. She agreed that Results Act performance goals should be established to address major management challenges, and she noted that HHS had established such goals for most of the challenges.

Secretary Shalala further stated that HHS is "in general agreement with almost every GAO or IG recommendation and major management challenge" that Chairman Thompson's August letter listed as a concern. She said that GAO and IG recommendations have been significantly integrated into HHS component agency performance plans and many are covered directly by performance goals.

Committee staff met with HHS officials on April 25, 2000, to follow up on the Chairman's August letter and the Secretary's response. Representatives from GAO and the agency's IG also participated. The HHS officials agreed that the major management challenges identified by the Chairman, GAO, and the IG are "on target." They stressed that more resources are needed to resolve many of these problems. There needs to be a consensus in the Executive Branch and Congress on the importance of addressing these problems, and funding must be provided. They cited the resolution of the Y2K problem as an example of how this combination worked well. They suggested that some form of separate or "fenced off" funding that would be available only to resolve major management problems might help. The IG endorsed this concept, noting dedicated funding for management improvements should be regarded as an "investment."

With regard to specific management challenges, the HHS officials noted that the agency got a "clean" audit opinion on its financial statements for the first time, as did some HHS components such as the Health Care Financing Administration (HCFA). However, they recognized that clean audit opinions are not in themselves solutions to financial management problems. It is important to get financial systems in place that produce useful information for real time management. The agency is taking implementation of the Clinger-Cohen Act very seriously and is developing a 3-year plan for computer security.

There was also lengthy discussion of the agency's progress in resolving the many management problems associated with Medicare and other health care programs. For example, HHS is obtaining outside audits on Medicare contractors. There is a need to enact Medicare contractor reforms. HHS has been estimating Medicare error for the past few years since milestones and measures are key to reducing error rates. HCFA officials noted that the availability of adequate nursing home care is "an impending crisis." Four of the 10 major nursing home chains are in bankruptcy, and another one is in trouble. There is much fraud in nursing home care.

The IG representatives stated that HHS is making good progress in combating Medicare error, but much remains to be done. Many Medicare payment areas have error rates exceeding 50 percent. Both the IG and GAO representatives expressed satisfaction with the receptivity of HHS to their work and recommendations concerning major management problems.

HHS faces daunting management challenges, the majority of which relate to the activities of HCFA. Most notably, the Medicare fee-for-service program has error rates exceeding $10 billion annually. The estimated error rate for fiscal year 1999 was $13.5 billion, or about 8 percent of total program expenditures. However, it is clear that HHS is serious about resolving these challenges and is taking concrete steps in that direction. HHS was one of the first agencies to provide an estimate for major overpayments (Medicare) in its annual financial statements. It coupled this disclosure with specific performance goals to reduce the Medicare error rate in recent years. The agency has been very successful with this approach since the estimated Medicare fee-for-service error rate is dramatically lower than it was several years ago. Nevertheless, much more needs to be done.[4]

The HHS Performance Report for fiscal year 1999 demonstrated progress toward resolving several of its major management problems. Furthermore, HHS deserves special credit for establishing goals in its fiscal year 2001 Performance Plan that directly address all of the major management challenges that have been identified by GAO and the agency's IG. Also, the fiscal year 2001 Plan (pages 53–55) provides specific responses to each of the management challenges identified by Chairman Thompson.

One major improvement HHS could make is to develop error estimates and error-reduction goals for Medicaid. HHS would have to work with the States to accomplish this. However, the need is as great as it was for Medicare and, one would hope, similar results could be obtained. Indeed, it is likely Medicaid erroneous payments also amount to tens of billions of dollars annually.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Chairman Thompson's August 1999 letter to the Secretary of the Department of Housing and Urban Development (HUD) listed the following 11 major management challenges at HUD that GAO and the agency's IG had identified:

- Year 2000 computer challenge,
- Information security,
- Internal control weaknesses,
- Information and financial management systems,
- Organizational problems,
- Insufficient mix of staff with proper skills,
- Bringing on-line the Real Estate Assessment Center,
- Restructuring project mortgages to bring them to market levels,
- Defining relationship between Community Builders and Public Trust Officers,

[4] For example, the estimated error rate actually rose in fiscal year 1999 from the previous year. Also, GAO has reported that improvements are needed in the way HHS estimates Medicare error. See *Medicare Improper Payments: Challenges for Measuring Potential Fraud and Abuse Remain Despite Planned Enhancements,* (GAO/T–AIMD/OSI–00–251, July 12, 2000).

- Section 8 program problems, and
- Management of real estate owned properties.

The Chairman's letter noted that HUD had been a GAO-designated "high-risk" area since 1994 because of four serious, long-standing department-wide problems: Internal control weaknesses; unreliable information and financial management systems; organizational deficiencies; and an insufficient mix of staff with the proper skills. The Chairman's letter acknowledged that HUD had established a "2020 Management Reform Plan" to resolve its major management problems, but expressed concern about the reportedly slow place in implementing the 2020 reforms. He noted, in this regard, the IG's assessment that the 2020 Reform Plan was "still a work in progress" while "disclosures of fraud, waste, and abuse continue unabated." The Chairman also referenced GAO's finding that HUD's fiscal year 2000 Performance Plan contained specific performance goals to address only three of the 11 problem areas identified by GAO and the IG.

By a letter dated October 18, 1999, HUD Secretary Cuomo responded to the Chairman's letter. Secretary Cuomo stated that the key elements of the 2020 Reform Plan were now in place. He further stated that only mission-critical management problems should be covered by GPRA performance goals, and that HUD had established many such goals in its fiscal year 2000 Performance Plan under a section entitled "Restore Public Trust in HUD." Management challenges were also discussed in other parts of the Performance Plan.

In December 1999, the IG submitted to the Committee an updated list of the most serious management problems at HUD. The IG's updated list consisted of the following nine items:

- HUD 2020 Management Reform Plan development and execution,
- Staff resources,
- Single family property disposition program,
- Single family loss mitigation activities,
- Troubled Agency Recovery Centers not operating as intended,
- Real estate assessment system,
- Financial management systems,
- Procurement systems, and
- Section 8 program administration.

On May 23, 2000, the Committee staff met with HUD officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the agency's response. HUD officials stated that they use the eight material weaknesses from the agency's financial statement audits as the proxy for its major management challenges. According to HUD, these eight material weaknesses relate to the Department's general control environment and provide the basis for GAO's high-risk designation. However, neither GAO nor IG representatives were satisfied that these eight areas captured HUD's core management problems. GAO recommended that HUD conduct a full-blown, department-wide, program-by-program internal control risk assessment to fully identify the management challenges. The IG described HUD's management challenges as "staggering." She emphasized information technology system problems, lack of adequate staff with proper skills, and contractor oversight. She said HUD needed to prioritize and concentrate on the most serious problems, rather than trying to deal with everything at once.

The Committee staff noted that HUD's fiscal year 2001 Performance Plan discusses the eight material weaknesses, but doesn't include specific and measurable performance goals to address them. HUD emphasized that greater specificity was provided by internal accountability measures. For example, HUD ties progress on these problems to performance standards for senior managers. However, the Committee staff emphasized that while internal accountability measures are good, they don't substitute for specific performance goals that will be tracked in Annual Performance Reports. In particular, such goals would provide greater transparency, accountability and impact externally. The Committee staff and GAO recommended that HUD develop goals to resolve material weaknesses to complement the agency's goal to get a clean opinion on its financial statement. The HUD officials expressed a willingness to consider more specific performance goals for the next GPRA cycle.

GAO found that HUD's Performance Plan for fiscal year 2001 contained goals that directly addressed five of the 11 management problems listed in Chairman Thompson's August 1999 letter.

DEPARTMENT OF THE INTERIOR

In his August 1999 letter to the Interior Department, Chairman Thompson asked for an update on the agency's progress toward solving the following 10 management challenges identified by both GAO and the Interior's IG:

- Streamlining agencies,
- Resource management,
- Better guidance and oversight,
- Management of Tribal and Indian programs,
- Bureau of Land Management ALMRS Project,
- Financial management,
- Land clean-up,
- Revenue collection,
- Land exchanges, and
- Year 2000 computer problem.

Soon after Chairman Thompson wrote to Interior, the Interior IG submitted a new list of Interior's top 10 management challenges. The only item that was eliminated from the list was the Year 2000 computer problem. New to the list was the management of the automated records system.

In its response, Interior agreed that performance goals and measures are appropriate ways to address major management challenges. John Berry, Assistant Secretary for Policy, Management, and Budget, described in his letter to Chairman Thompson the process Interior has in place to track progress in the Department's attempts to cure management problems. Mr. Berry wrote, "Interior has a system in place to track all these issues at the departmental level, even though most of the actions to resolve these issues are carried out by Interior's bureaus and offices."

On May 17, 2000, Committee staff met with Mr. Berry, other Interior officials, the IG, and representatives from GAO to discuss Interior's progress in addressing management challenges. One of the major concerns expressed by both Department officials and the IG was the decentralization of Interior and the difficulty that poses for management. The discussion at the meeting centered on the Department's attempts to overcome the problems associated with such decentralization.

Financial mismanagement, like in many other Federal agencies, has been a problem at Interior. For instance, the Bureau of Indian Affairs and insular area governments have been unable to adequately account for revenues and expenditures associated with their operations. Interior has shown improvement in this area. Despite disclosing a number of material weaknesses, the IG gave Interior's financial statements an unqualified opinion. However, in the meeting with Interior officials, the IG warned that he would be more closely scrutinizing the financial systems in place at Interior to ensure that the financial statements were produced in a more timely fashion.

Problems with Interior's management of Tribal and Indian programs are well documented. According to GAO, "the $3 billion Indian Trust Fund has long been characterized by inadequate accounting and information systems, untrained and inexperienced staff, and a host of other problems." In its response, Interior stated, "The Department has developed a High Level Implementation Plan that provides a general roadmap to the 13 related projects which collectively comprise the Department's Trust Management Improvement Program." In addition, it listed several areas where it was making progress in addressing longstanding problems with the management of the trust funds.

GAO analyzed the extent to which Interior's fiscal year 2001 Performance Plan set specific and measurable goals to address its management challenges. According to GAO, the Performance Plan includes only four specific and measurable performance goals to address Interior's management challenges.

DEPARTMENT OF JUSTICE

Chairman Thompson's August 1999 letter to the Attorney General listed the following 16 major management challenges at the Department of Justice (DOJ) that had been identified by GAO and the agency's IG:

- Y2K computer readiness,
- Information security,
- Management of forfeited assets,
- Immigration and Naturalization Service (INS) organizational structure,

- INS internal communications and coordination problems,
- INS financial management,
- The effectiveness of INS' southwest border strategy,
- INS process for removing criminal aliens,
- INS procedures for granting citizenship,
- Justice-wide financial management problems,
- Internal control weaknesses within the Drug Enforcement Administration (DEA),
- Prison overcrowding,
- Detention space and infrastructure for criminals and illegal migrants,
- INS' ineffective program to remove illegal aliens,
- INS' automation system vulnerability to waste and abuse, and
- Failed information systems planning and implementation.

The letter pointed out that DOJ's Performance Plan for fiscal year 2000 had performance goals directly addressing eight of the 16 problems. The letter also noted a particular concern over management of forfeited assets by the Department of Justice and the Treasury Department. The two departments maintain separate forfeited asset funds that have inventories totaling about $1.8 billion. GAO designated forfeited asset management at both Departments as a "high-risk" area in its original 1990 high-risk list. According to GAO, there is no acceptable reason for the long delays in completing the actions necessary to remove this high-risk designation. Furthermore, Justice and Treasury have refused to implement a GAO recommendation dating back to 1991 to consolidate the management and disposition of properties. Indeed, Justice and Treasury maintain separate contractors to handle seized assets at some of the same locations.

By a letter dated October 13, 1999, DOJ responded to the Chairman's letter. Among other things, the response discussed actions DOJ was taking on the designated management challenges. In December 1999, the DOJ IG submitted to the Committee an updated list of the most serious management problems at DOJ. Because of to the DOJ's efforts in testing and renovating mission critical computer systems, the IG removed Y2K from the list. In addition, INS automation system problems has been merged into information systems planning and implementation due to the similarity of the two issues. Finally, the IG added two new management challenges: Grants management and human capital.

On December 17, 1999, the Committee staff met with DOJ officials, as well as GAO and IG representatives, to follow up on the Chairman's letter and DOJ's response. The Committee staff asked DOJ to do a study to see if the consolidation of the management of the assets would be cost-effective. According to GAO, such a study should look at: (1) the cost of storing the assets in each location, (2) the administration costs of one contract instead of two, and

(3) which company would give more back to the government after the selling of the assets. The DOJ officials agreed to look into the possibility of doing such a study.

The meeting also covered a discussion of DOJ's other management challenges, including financial management and the many problems at INS. The DOJ officials expressed their commitment to continuing the Department's efforts to fully address existing management challenges.

GAO's latest review concluded that 15 of the 16 items listed in the Chairman's August letter remain management challenges at DOJ. The only item that is no longer a problem is the Y2K conversion. GAO found that DOJ's Performance Plan for fiscal year 2001 contains goals that directly address nine of the 15 problems. Management challenges that are not addressed include internal control weaknesses at DEA and concerns about the effectiveness of INS' organizational structure and internal communications. Also, DOJ has no goals to address the high-risk area of forfeited assets management. DOJ has not responded to the Committee's request for a study on consolidating management of DOJ and Treasury forfeited asset funds.

DEPARTMENT OF LABOR

Chairman Thompson's August 1999 letter to the Department of Labor (DOL) referenced the following 10 management challenges for the Department as identified by DOL's IG:

- Effectiveness of Welfare-to-Work initiative,
- Accounting for Employment and Training Administration (ETA) grant and contract funds,
- Quality of program results data,
- Y2K computer problem,
- Security of pension assets,
- Protection of worker benefit funds,
- Collection and disbursement of back wages and related penalties,
- Compliance with new financial management requirements,
- Stewardship over DOL information technology resources, and
- Accounting for equity in real property.

DOL's IG dropped the Y2K computer problem from last year's list of management challenges and added a new challenge for fiscal year 2000—Implementation of the Workforce Investment Act. In addition, GAO identified three additional management challenges for the Department. Specifically, GAO found that DOL (1) lacked accurate and reliable information to assess program performance; (2) had not effectively leveraged its limited resources by using alternative enforcement strategies; and (3) had limited capacity to effectively coordinate the activities of the many units at the Federal, State, and local levels that share responsibility for implementing worker protection programs.

In response to the Chairman's August 1999 letter, DOL sent a December 22, 1999, letter to the Committee acknowledging receipt of the Chairman's request for information. The acknowledgment letter stated that the Department was reviewing the Department's major management issues in detail and would respond to the Chairman's request in greater detail at a later date. The Chairman did not receive DOL's written response until April 14, 2000. In this response, DOL provided details explaining how each of the management challenges had been addressed in the Department's performance planning process and, where not specifically addressed in the plans, the actions that the Department was taking to resolve these management challenges and problems. The response also included comments on DOL's actions to address GAO and IG audit recommendations in 1999.

Although the Committee had yet to receive a written response from the Department, Committee staff met with representatives from DOL, DOL's IG, and GAO, at DOL headquarters on April 7, 2000. DOL had recently issued its fiscal year 1999 Performance Report and its fiscal year 2001 Performance Plan. During the meeting, Committee staff discussed both of these documents as they related to management challenges confronting the Department. Committee staff pointed out that DOL's Performance Report did not directly nor comprehensively address the Department's progress in resolving major management challenges and included only a limited and general discussion of strategies to be implemented in improving mission performance as it related to these management challenges. In its 2001 Performance Plan, DOL discussed some of the program improvement opportunities identified by GAO and the IG but again did not comprehensively address these management challenges. DOL said that it did not believe that the GPRA planning and reporting process was appropriate for addressing some of its management challenges. Labor said it believes that some of the challenges identified by the IG are of an administrative nature and are already addressed within existing audit resolution processes.

Overall, a review of DOL's efforts to use performance measurement to address its management problems shows that the Department did not comprehensively develop and use specific and measurable goals for its major management challenges. The Department also made only minor improvements in its development and use of such goals and measures when compared to the previous year. The Department needs to place additional emphasis on developing more outcome-based indicators and using performance planning and reporting as a basis to address its long-standing major management problems.

DEPARTMENT OF STATE

In his August 1999 letter to the State Department, Chairman Thompson asked for an update on the State Department's progress toward solving the following eight management challenges identified by both GAO and the State Department's IG:

- Worldwide security,
- Meeting Year 2000 computer challenges,
- Information security,

- Management of information resources,
- Visa Processing System,
- Financial management,
- Reorganization of foreign affairs agencies, and
- Human capital management.

Since the date of Chairman Thompson's August letter, the State Department's IG updated the list of the State Department's top 10 management challenges. Gone from the list were the Visa Processing System and Reorganization of Foreign Affairs Agencies. Added to the list were Safeguarding U.S. Borders, Maintaining Effective Export Controls, Improving Real Property Management and Maintenance, and Strategic Planning.

The State Department responded to Chairman Thompson's letter with a brief discussion of its progress in addressing management challenges. The letter simply listed a number of management challenges and stated that progress was being made in those areas without specifying what that progress was.

Committee staff met with officials from the State Department on January 14, 2000. Present from the Department were officials representing the Office of Management and Planning, the Chief Financial Officer, the Bureau of Consular Affairs, the Bureau of Administration, the Bureau of Diplomatic Security, the Office of Foreign Buildings Operations, the Bureau of Information Resource Management, the Bureau of Political-Military Affairs, and the Office of Resources, Plans, and Policy.

One of the key areas of concern for the State Department is in the area of security. Notable progress has been made in a number of areas, including reestablishing operations in more secure facilities at some locations, delivering technical security equipment, and hiring and training staff. Although there is a capital investment program in place, as well as a major building program, the majority of missions remain vulnerable to threats.

Like in the area of security, progress has been made to address weaknesses in financial management at the State Department. According to the IG, however, much work remains to be done. Financial statements need to be issued more timely. Internal controls must be strengthened. The Department's financial and accounting system should comply with relevant laws and regulations.

One area where there is disagreement between the IG and the State Department is in the area of real property management and maintenance. The Department holds 12,000 properties with a value of approximately $4 billion. The current condition of many of these properties has been described as "shocking." The Department believes that its current plans to address the backlog of maintenance projects have cured this as a "material weakness" under the Federal Financial Managers' Integrity Act. The IG adamantly disagrees and believes that this problem requires continued and heightened scrutiny.

GAO analyzed the extent to which the State Department adopted in its fiscal year 2001 Performance Plan specific and measurable goals to address the Department's management challenges. According-ing to that analysis, the Department adopted goals for only three of its six major management challenges.

DEPARTMENT OF TRANSPORTATION

Chairman Thompson's August 1999 letter to the Department of Transportation (DOT) referenced the following 12 management challenges for the Department as identified by DOT's IG:

- Aviation safety,
- Surface transportation safety,
- Air traffic control modernization,
- Federal Aviation Administration (FAA) financing and reauthorization,
- Surface, marine and airport infrastructure,
- Transportation and computer security,
- Y2K computer problem,
- Financial accounting and Chief Financial Officers Act,
- Amtrak financial viability and modernization,
- Coast Guard Deepwater capability replacement project,
- Ship disposal program, and
- GPRA implementation.

GAO, which also identified many of the above issues as significant challenges for DOT, noted an additional challenge for DOT relating to the lack of aviation competition contributing to high fares and poor service for some communities. In its fiscal year 2000 update to its list of management challenges for the Department, DOT's IG deleted the "Y2K computer problem" challenge because of significant progress on the issue. The IG also separated the "transportation and computer security" challenge into two items on the updated list because the IG believed that both of these security issues are significant and warrant a high level of attention.

In response to Chairman Thompson's August 1999 request for information, DOT provided the Committee with a listing of specific actions that the Department was taking to resolve the management challenges along with an estimate of how long it would likely take to complete the planned actions. The DOT response also provided a summary of the various GAO and IG recommendations and the status of the Department's efforts to resolve and close these recommendations.

On March 21, 2000, Committee staff met with representatives of DOT, DOT IG, and GAO. The participants discussed each of the Department's management challenges and obtained a current status of the Department's efforts. The DOT official leading the Department's GPRA planning and reporting efforts told the Committee staff that the Department was working on incorporating specific milestones for its management challenges into its updated Strategic Plan. She stated that this additional information will give the reader of DOT's Strategic Plan more of a detailed perspective on targeted performance rather than only relying on the short-term focus of targets and milestones in the DOT's Annual Performance Plan.

On April 3, 2000, DOT Secretary Slater publicly announced the results of the Department's efforts as reported in its fiscal year 1999 Performance Report. A review of the Performance Report shows that it addressed many of the management challenges identified by GAO and DOT's IG. To highlight its responses to these major management problems, the DOT Performance Report included a table identifying these management challenges and the pages in the report on which each is discussed. Where the DOT management challenge relates to an outcome, the associated goal page is referenced. For most of the management challenges, the Performance Report included performance measures that directly related to the challenge or related to a portion of the challenge. However, GAO pointed out that, regarding the challenge related to the poor financial condition of Amtrak, the DOT report did not address Amtrak's continuing net losses and its ability to reach operational self-sufficiency by the year 2002.

Overall, DOT has made considerable progress in the developing goals and measures for its major management problems and in using performance measurement to improve performance and accountability. The Committee staff believe that DOT's successful GPRA efforts should serve as a model for other departments and agencies.

DEPARTMENT OF THE TREASURY

Chairman Thompson's August 1999 letter to the Department of the Treasury referenced the following management challenges for the Department:

- Information technology (IT) investment management,
- Integration and reliability of financial management systems,
- Preparation of department-wide financial statements,
- Preparation of reliable consolidated financial statements for the government,
- Financial management and compliance with the Federal Financial Management Improvement Act (FFMIA),
- Accountability, internal controls and reporting for asset forfeiture program,
- Computer security controls,
- Implementation of Treasury's responsibilities under the Debt Collection Improvement Act of 1996 (DCIA),
- Implementation of electronic funds transfer accounts as required by DCIA,
- Restructuring IRS' organization and business practices,
- IRS' systems modernization efforts,
- Internal controls over taxpayer receipts and sensitive taxpayer data,
- Internal controls over unpaid tax assessments,

- Collection of Federal tax receivables and other unpaid assessments,
- IRS' inability to rely on general ledger to support financial statements,
- IRS' efforts to reduce filing fraud,
- Security controls over information systems that place taxpayer data at risk,
- Y2K computer problem,
- Access and security controls in Customs' automated systems, and
- Customs' development of the Automated Commercial Environment (ACE) system.

With the recent establishment of the Treasury Inspector General for Tax Administration (TIGTA) to conduct audits of IRS' operations and activities, both the Treasury IG and TIGTA each developed a list of management challenges for their respective jurisdictional audit responsibilities within the Department. For the fiscal year 2000 update to its list of management challenges, the Treasury IG removed two areas from the challenges list: Implementation of Treasury's debt collection initiatives and electronic funds/benefits transfers. TIGTA removed one challenge from its list of management challenges: IRS efforts to select and control returns for examination.

In response to Chairman Thompson's August 1999 request for further information, Secretary Summers' letter stated that Department officials believe they "have made considerable progress in addressing many of the problems and challenges that have been identified." The letter stated that the Department had sent instructions to its bureaus to address the high-risk areas and management challenges in their fiscal year 2001 Performance Plans. The Secretary also stated that the Department had recently met with representatives from GAO to discuss ways to measure progress in these areas. The response included a detailed enclosure that explained the Treasury's corrective actions to clear the audit recommendations made by the IGs and GAO.

Committee staff met with representatives of Treasury, Treasury IG, and GAO in the Committee's hearing room on February 15, 2000. Agency officials discussed many of the management challenges confronting the Department and provided a status of the progress they were making in resolving them. Treasury's officials said they recognized that, in some cases, the associated performance measures in their Performance Plan did not clearly link to the objectives as described in the Performance Plan. However, they said that this linkage would be fully addressed as the Department worked overtime to improve its performance measures.

In March 2000, Treasury released its fiscal year 1999 Performance Report, which broadly discussed the Department's major management challenges. In its recent review of Treasury's fiscal year 2001 Performance Plan, GAO noted that the Department included a new report section that discusses, in varying depth, the Department's major management challenges. Specifically, GAO found that of the total 21 management challenges, Treasury (1) established goals and measures that were directly applicable to three of its challenges, (2) established goals and measures that were indirectly applicable to five of its challenges, (3) did not establish goals and measures but provided strategies to address 10 of its challenges, and (4) did not establish goals and measures for three of its challenges.

Overall, Treasury has made moderate progress in developing and implementing performance goals and measures for its major management problems. Treasury appears to have made some improvements in its latest Performance Plan but more needs to be done to ensure that the Department adequately addresses all its management challenges in its GPRA planning and reporting processes. For instance, according to GAO, Treasury included in its fiscal year 2001 Performance Plan specific and measurable goals for only three of 21 major management challenges. Treasury still has performance goals for only one of the five GAO-designated "high-risk" problems at the Department.

DEPARTMENT OF VETERANS AFFAIRS

Chairman Thompson's August 1999 letter to the Department of Veterans Affairs (VA) listed the following 11 major management challenges at the VA that GAO and the Agency's IG had identified:

- Inability of VA's health care infrastructure to meet its current or future needs,
- Lack of adequate information to ensure that veterans have access to needed health care,
- Lack of outcome measures and data to assess the impact of managed care initiatives,
- Difficulties in managing non-health benefits programs,
- Need for more effective information systems management,
- Health care quality management,
- Debt prevention and collection,
- Timeliness and quality of medical examinations for compensation and pension (C&P) claims,
- Ineffective management of the Federal Employees Compensation Act (FECA) program,
- Need to more effectively identify inappropriate benefit payments, and
- Lack of credible performance data to support GPRA.

The Chairman's letter noted that resolving serious information security weaknesses was an area of particular concern at the VA. The Chairman's letter also noted that VA's fiscal year 2000 Performance Plan contained specific performance goals to address only two of the problem areas identified by GAO and the IG.

By a letter dated October 15, 1999, VA Secretary West responded to the Chairman's letter. The Secretary's response emphasized the Agency's commitment to resolving major management problems identified by GAO and the IG. He stated that the Agency's fiscal year 2001 Performance Plan would include a description of the specific steps the Agency was taking to address such problems.

In December 1999, the IG submitted to the Committee an updated list of the most serious management problems at the VA. The IG listed the following nine items:

- Health care quality management and patient safety;
- Resource allocation;
- Claims processing, appeals processing, and timeliness and quality of C&P medical examinations;
- Inappropriate benefit payments;
- GPRA data validity;
- Security of information systems and data;
- Financial management;
- Debt management; and
- FECA costs.

The IG dropped Y2K computer readiness from the list of major management challenges. He further observed that while the VA has made concerted efforts to achieve its goals and objectives, the IG's work has questioned whether some areas of operation have been fully successful in accomplishing intended results. These programs and functions include: The ability to manage, bill and collect debts; the function of accurately and appropriately paying veterans benefits in a timely manner; the attainment of a Department-wide cost accounting system; and the management of an economically sound system of inventory and supply management.

On February 23, 2000, the Committee staff met with the VA officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the Agency's response. The VA officials described the actions they were taking to address their major management challenges and how they were resolving GAO and IG recommendations pertaining to these challenges. They generally agreed with the areas identified by GAO and the IG. However, they disagreed with the IG's designation of debt collection as a top 10 management challenge.

GAO found that the VA's Performance Plan for fiscal year 2001 contained goals that directly addressed two of the 11 management problems. According to GAO, the VA made some progress in improving veterans' access to health care services. However, it did not make significant progress in addressing such problems as restructuring its health care infrastructure or improving the timeliness and accuracy of compensation and benefit claims.

AGENCY FOR INTERNATIONAL DEVELOPMENT

In his August 1999 letter to the U.S. Agency for International Development (USAID), Chairman Thompson asked for an update on the Agency's progress toward solving the following management challenges identified by both GAO and the USAID IG:

- Financial management,
- Management of information resources,

- Year 2000 computer readiness,
- Information security, and
- Performance reporting.

Since the date of the August letter, the USAID IG provided to the Committee a more comprehensive list of the top 10 management challenges confronting USAID. In addition to the five areas listed above, the USAID IG included the Direct Loan Program, New Management System Reporting and Resource Management, Human Resources Capabilities, and the fact that USAID's Management Mandate is too broad. Both GAO and the IG, however, recognize that USAID has made substantial progress toward addressing many of its major management challenges.

In his response to Chairman Thompson's letter, USAID Administrator J. Brady Anderson stated his commitment to "ensuring that USAID delivers the best possible results to our citizens." USAID recognized its continuing weaknesses in several important management areas, and described what actions it was taking to address each one.

On March 17, 2000, the Committee staff met with officials from USAID, its IG, and GAO. USAID presented its "Reform Roadmap" and briefed Committee staff on changes to its results reporting. Both Agency officials and those from the IG staff stated that there was a good working relationship between the IG and the Agency, which made it easier to set priorities for addressing major management challenges.

USAID recognizes the challenges it faces with respect to financial management. After receiving a disclaimer of opinion for its fiscal year 1999 financial statements, USAID now has a remediation plan in place that provides for system replacements or modernizations to be completed by 2002. Although the IG is concerned about the adequacy of the remediation plan or how data from the old system will be integrated into the new system, the IG acknowledges the difficulty of this challenge and the seriousness with which USAID is undertaking to solve it.

With respect to the management of information resources and information security, there is evidence that USAID is seeking to control the information technology investment process and make sure it fits within an architectural framework. In addition, USAID expects to achieve full computer security by fiscal year 2003. The risk to loss from waste, fraud, and abuse will continue until these plans are implemented.

Because USAID is engaged in a quest to provide assistance and encourage the development of democracy throughout the developing world, its progress toward achieving goals can be difficult to measure. Administrator Anderson gave Chairman Thompson his assurances that "management goals will be more specifically articulated in USAID's fiscal year 2001 Performance Plan." Unfortunately, the plan does not include any specific and measurable annual goals to address the management challenges that beset USAID.

ENVIRONMENTAL PROTECTION AGENCY

Chairman Thompson's August 1999 letter to the Environmental Protection Agency (EPA) referenced the following management challenges for EPA as identified by EPA's IG and GAO:

- Environmental information,
- Regulatory reinvention,
- EPA and State relations,
- Superfund program management,
- Greater accountability,
- Oversight of enforcement activities,
- Use of inefficient contract types,
- Oversight of assistance agreements,
- Agency's relationship with contractors,
- Enhancing employee competencies, and
- Quality assurance plans.

In its fiscal year 2000 update to its list of management challenges, EPA's IG deleted three items based on EPA's progress: The Agency's relationship with contractors, use of inefficient contract types, and quality assurance plans. The IG added four new items: Quality of laboratory data, agency process for preparing financial statements, Superfund 5-year reviews, and the Great Lakes Program.

In its response to the Chairman's request for information, EPA said that it agreed with the IG and GAO designations of management problems and was using a variety of tools to focus resources and senior managers' time on their resolution. EPA also said that the IG's areas of concern directly related to prior IG audits for which the Agency already had specific plans in place to resolve problems.

Committee staff met with officials from EPA, the EPA IG and GAO on April 6, 2000. EPA officials informed Committee staff that they had struggled to develop goals and measures for the management challenges. The officials said that this difficulty was due in part to the fact that such measures would increase the proportion of output measures to outcome measures that EPA would be required to report on. GAO's review of EPA's fiscal year 2001 Performance Plan said that EPA identified specific goals and measures to address three of its 11 challenges. GAO said that while EPA did not provide specific goals and measures for the remaining eight management challenges, it did provide strategies to address these challenges.

Overall, EPA has made modest progress in developing and implementing performance goals and measures for its major management challenges. Without a comprehensive and honest discussion of management challenges in both its Performance Plan and Performance Report, EPA cannot readily communicate to stakeholders that it is making progress to resolve these significant—and, in some cases, long-standing—management problems.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Chairman Thompson's August 1999 letter to the Federal Emergency Management Agency (FEMA) referenced the following 10 management challenges for FEMA as identified by FEMA's IG:

- GPRA implementation,
- Financial management,
- Information technology management,
- Grants management,
- Disaster response and recovery program,
- State and local preparedness program,
- Flood insurance program,
- Mitigation program,
- National security support program, and
- Fire administration program.

The Chairman's letter also noted two additional challenges for the Agency as identified by GAO: FEMA needed to (1) resolve the Year 2000 computer problem, and (2) establish that information security issues have been addressed within the Agency. In its fiscal year 2001 update of the management challenges, FEMA's IG deleted two items from the previous year's list—disaster declaration criteria and flood mapping modernization.

In its response to the Chairman's request for information, FEMA provided information on its efforts to address the management challenges that confront the Agency. FEMA indicated that the IG audit recommendations associated with all but one of FEMA's management challenges had been satisfactorily resolved.

Committee staff met with representatives of FEMA, the FEMA IG, and GAO at FEMA's headquarters building on April 14, 2000. During this meeting, Agency officials discussed FEMA's actions to resolve its various management problems. Committee staff pointed out that FEMA's recently issued Performance Report for fiscal year 1999 did not comprehensively report on the Agency's major management challenges as designated by GAO and the FEMA IG. The Performance Report only contained broad references to FEMA's activities that related to these management challenges. As with the other programs and activities covered in FEMA's Performance Report, the information was so poor that assessment of results was difficult.

In its analysis, GAO reported that FEMA's fiscal year 2001 Performance Plan is significantly more comprehensive in showing that the Agency is attempting to address its major management challenges. The Performance Plan shows that FEMA established performance goals and measures directly applicable to 10 of the Agency's 12 management challenges.

Overall, FEMA has made progress in developing goals and measures for its major management problems as shown in its 2001 Performance Plan. FEMA should, however, ensure that it more comprehensively reports on its progress in resolving these problems in its Annual Performance Report. This reporting will more greatly assist Congressional and other stakeholders in assessing FEMA's efforts to improve performance and accountability in dealing with these management challenges.

GENERAL SERVICES ADMINISTRATION

In his August 1999 letter to the General Services Administration (GSA), Chairman Thompson asked for an update on the Agency's progress toward solving the following management challenges identified by both GAO and the GSA IG:

- Management of supply depots,
- Physical security,
- General fraud, waste, and mismanagement,
- Multiple award schedules,
- Computer security,
- Developing new computer systems,
- Organization and management structure,
- Corporate knowledge and expertise, and
- Year 2000 computer problem.

The challenges facing GSA are severe. With the 2,000 buildings under its jurisdiction, GAO has reported that GSA is not in a good position to know how adequate its building security is. Years of neglect put the cost of bringing those buildings up to acceptable quality, health and safety standards at more than $4 billion. With respect to computer security, according to the GSA IG, GSA's information security features "may not be adequate to ensure the security of the system and data in this emerging and volatile environment."

In its response, GSA stated that it agreed with the designation of supply depots and physical security as major management problems. However, GSA stated that it disagreed with seven of those designations, specifically general fraud, waste, and mismanagement; multiple award schedules; computer security; developing new computer systems; organization and management structure; corporate knowledge and expertise; and the year 2000 computer problem.

Committee staff met with officials from GSA, the GSA IG, and GAO on March 15, 2000 in the Committee's hearing room. The discussion revolved around the Agency's response to the August 1999 letter from Chairman Thompson, with a special emphasis on the degree to which the Agency disagreed with GAO and IG designations of major management challenges.

Where GSA did agree with GAO and IG designations of major management challenges—supply depots and physical security—it gave Committee staff a status report on progress toward solving these problems. For instance, with respect to physical security, Agency staff briefed the Committee staff on its efforts to implement a risk assessment of the 2,000 buildings under GSA's jurisdiction. This includes penetrations by Navy SEALS and Delta teams which will result in recommendations for improvement of existing security practices and procedures.

With respect to issues where GSA disagreed with GAO and IG designations of major management problems, GSA's discussion was not always satisfactory. For instance, GSA claims that it has a "program in place to address computer security" and states that in the area of developing new computer systems, "a major impetus to . . . progress has been the creation of the GSA Chief Information Officer." While it appears that GSA has taken some action in these areas, the Committee is without an adequate explanation of what GSA attempts to achieve through these actions.

Unfortunately, according to GAO, GSA did not act on Chairman Thompson's recommendation to adopt performance goals and measures to address its major management challenges. In a recent evaluation of GSA's fiscal year 1999 Performance Report and fiscal year 2001 Performance Plan, GAO wrote, "With regard to the management challenges, neither the 1999 Performance Report nor the 2001 Performance Plan has goals that effectively respond to them." According to GAO's analysis, GSA did not adopt any goals to resolve its major management challenges. It is unclear why GSA continues to insist that setting performance goals to address major management challenges would not be helpful to gauge progress in resolving them.

As Chairman Thompson wrote in his letter to GSA, without specific and measurable goals for many of these major management challenges, it will be difficult to assess progress in addressing many of these areas. The Committee will continue to urge agencies to set such goals in their Annual Performance Plans.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

In his August 1999 letter to the National Aeronautics and Space Administration (NASA), Chairman Thompson asked for an update on the Agency's progress toward solving the following management challenges identified by both GAO and the NASA IG:

- Safety and mission assurance,
- Procurement/contract management,
- International Space Station,
- Year 2000 computer problem,
- Information technology security,
- Integrated Financial Management Project,
- Launch vehicles,
- International agreements,
- Earth Observing System Data and Information Systems,
- Environmental issues, and
- Aerospace test facility cooperation with DOD.

Like many other agencies, the management challenges facing NASA are formidable. NASA has an annual budget of $14 billion, most of which is spent on contracting its many complex endeavors in space and research. Many of the challenges confronting NASA have existed for some time.

According to the most recent assessment of the top 10 management issues at NASA by its IG, Information Technology Security and the Year 2000 problem are no longer on the list. The Year 2000 issues is resolved by the passage of time. However, Information Security is incorporated into the issue of Information Technology generally.

NASA's response to Chairman Thompson's letter provided a comprehensive breakdown of the major management challenges, a description of the extent to which NASA was addressing the problem, as well as a discussion of areas where NASA disagreed with the IG's or GAO's assessment of a problem as a "major challenge." In many instances, NASA agreed that it should monitor progress toward solving major management challenges with specific and measurable goals. However, there is some disagreement about how to institute goals and measures to address some of these areas. In its letter to Chairman Thompson, NASA states, "In some instances, GAO and IG concerns are either too general to lend themselves to a single summary measurement or so specific that they are subsumed under other targets."

GAO and the IG assessed the extent to which agencies addressed major management challenges in their fiscal year 1999 Performance Report. Results for many of the targets related to management challenges were mixed. For others, however, according to GAO, NASA's Performance Report does not "provide enough specific information on some of these management challenges to fully assess NASA's actions." For example, according to GAO, NASA does not "frontally address issues such as cost control, risk mitigation activities, and contingency planning" with respect to the International Space Station. Similarly, NASA does not address in its Performance Report GAO's recommendations to cooperate more closely with the Department of Defense in aerospace testing facilities. NASA wrote in its letter to Chairman Thompson that it did not consider the issue to be "mission critical."

Committee staff met with NASA officials on June 9, 2000 at NASA headquarters. It is clear that NASA takes seriously its effort to instill performance management principles throughout the organization. The meeting covered most of the issues considered by GAO and the IG to be major challenges for NASA.

One of the seemingly intractable challenges for NASA seems to be financial management. Although NASA has received a "clean opinion" on its financial statements and is one of only three agencies in compliance with the Federal Financial Management Improvement Act, it does not have an integrated financial management system. After two failed attempts to implement such a system, NASA is starting over from scratch. As early as January 1999, GAO wrote, "Until the financial management system is operational, performance assessments relying on cost data may be incomplete." System implementation is critical to the furtherance of sound management at NASA.

Like many agencies, NASA has substantial problems maintaining information security. According to the IG, "Because NASA relies so heavily on computers and networks, the Agency is vulnerable to attacks that could seriously disrupt vital programs and activities." Unfortunately, the IG believes the system NASA has in place is "fragmented" and "without clear lines of authority, inadequate policies and guidelines, and ineffective enforcement of existing policies and guidelines." NASA should heed the recommendations of the IG and GAO to address their concerns. Unfortunately, according to GAO, NASA's Performance Report "provides no specifics to judge the success of the effort to improve IT security." That weakness remains in the fiscal year 2001 Performance Plan.

According to GAO's analysis of NASA's fiscal year 2001 Performance Plan, NASA included goals for only six of its major management challenges. As Chairman Thompson wrote in his letter to NASA, without specific and measurable goals for many of these major management challenges, it will be difficult to assess progress in addressing many of these areas. The Committee will continue to urge agencies to set such goals in their Annual Performance Plans.

NATIONAL SCIENCE FOUNDATION

In his August 1999 letter to the National Science Foundation (NSF), Chairman Thompson asked for an update on the Agency's progress toward solving the following management challenges identified by both GAO and the NSF IG:

- NSF's review system is and needs to remain a model of best practice for the evaluation of research proposals.
- NSF needs to capitalize on its strengths when responding to increased expectations.
- NSF should use the Results Act as a tool to manage NSF and ensure that the process is not unduly burdensome.
- NSF received a "qualified" opinion on its fiscal year 1997 financial statements because it was unable to offer adequate information for some areas.
- NSF needs to effectively convert to its new electronic system to process proposal and award information.
- Managing the Antarctic program is an ongoing challenge.
- NSF must focus on sustaining its academic integrity and standards.
- Spending funds effectively and efficiently is a concern.
- NSF needs to find an effective system for cost sharing.
- The management of salaries and administrative resources is weak.

The only item added to the IG's list of top 10 management challenges was NSF's management of its Merit Review System. All other issues remained on the list.

NSF's letter to Chairman Thompson specifically addresses each of the challenges listed by the IG. In addition, NSF's letter recounts the IG's assessment that NSF is "well managed." Indeed, NSF does not appear to suffer significant management deficiencies. Like any organization, however, NSF must focuses on continuous improvement which presents ongoing challenges.

Because of the remote location and hostile environment, managing the Antarctic program is an ongoing challenge. Over the last several years, NSF implemented arrangements with a new provider of flight operations to and from Antarctica. NSF will soon be entering into a new contract for logistics support associated with the U.S. Antarctic Program. Past practices should be carefully evaluated and the transition carefully implemented to maximize economy and efficiency in all aspects of procuring, transporting and maintaining material, personnel, and facilities for the program.

Another challenge for NSF is its effort to convert to electronic processing of proposal and award information, including obtaining peer review through an electronic process and ensuring that applicants and awardees can effectively obtain access to and use information they need. The hurdles associated with this effort include transitioning to this new electronic environment while responding to concerns from those customers who are not comfortable with electronic media; developing a cost-effective and efficient mechanism to process proposals with differing color, font and symbols; and developing a legally-effective and practicable mechanism to obtain electronic signatures and enforce the commitments expressed by them.

Committee staff met with officials from NSF, its IG, and GAO on November 30, 1999. Most present at the meeting agreed that it appeared that NSF had its challenges under control. In many cases, the NSF IG stated that NSF was taking effective steps to respond to its challenges and, in many cases, did not need to include them in the Performance Report or future Performance Plans.

GAO analyzed NSF's fiscal year 2001 Performance Report to discern the extent to which it addressed NSF's management challenges. According to GAO, NSF discussed two of the 10 major management challenges: Managing an effective merit review system and implementing a new electronic proposal and award information system. It did not address directly or indirectly the other eight challenges.

NUCLEAR REGULATORY COMMISSION

In his August 1999 letter to the Nuclear Regulatory Commission (NRC) Chairman Thompson asked for an update on the Agency's progress toward solving the following management challenges identified by both GAO and the NRC IG:

- Lacks assurance that nuclear plants are safe,
- Slow to require corrective action,
- Culture and organizations structure impede effective actions,
- Risk-informed, performance-based approach to regulatory oversight,
- Developing information management systems,
- Responding to the impact of industry deregulation and license transfers,
- Administrating and overseeing agency procurement under government contracting rules,

- Ability to effectively communicate with the public and industry,
- Maintaining unqualified financial statement,
- Ensuring that NRC's processes are responsive to industry needs,
- Ensuring that NRC's enforcement program has an appropriate safety focus and reflects improved licensee performance,
- Refocusing NRC's research program to reflect a mature industry, and
- Responding to external influences for changing NRC's operations.

NRC's IG updated its list of top 10 management challenges after the date of Chairman Thompson's letter. Not on the new list were the IG statements that NRC lacks assurance that nuclear plants are safe, is slow to require corrective action, and has a culture and organization structure that impede effective actions. New to the list was NRC's ability to administer and oversee agency procurement under government contracting rules.

In its response, NRC stated that it has activities underway to address the management challenges. However, NRC did not elaborate or adequately describe these activities. Committee staff met with officials from NRC, its IG, and GAO on March 16, 2000 to discuss its response to Chairman Thompson's letter and the status of its efforts to address major management challenges.

Clearly, the greatest challenge facing the NRC is to allocate its resources in a way that targets those facilities with the greatest risk. According to NRC, it now has in place an oversight program that focuses on inspection, assessing results, and enforcement. The purpose of this program, the Reactor Oversight Program, is to make the procedures and inspectors more risk informed so that the focus is put on systems that are more at risk.

NRC did not agree to address many of the major management challenges by setting a performance goal to solve it. Indeed, NRC did not agree that some of the areas were "major." Rather, NRC simply agreed that some of the areas represent activities "that can be improved." For those areas, NRC did not agree to craft a performance indicator to gauge its success in addressing many of these major management challenges.

In its analysis of NRC's fiscal year 2001 Performance Plan, GAO found that, indeed, NRC did not include goals to address any of its 13 major management challenges. As Chairman Thompson wrote in his letter to NRC, without specific and measurable goals for many of these major management challenges, it will be difficult to assess progress in addressing many of these areas. The Committee will continue to urge agencies to set such goals in their Annual Performance Plans.

OFFICE OF PERSONNEL MANAGEMENT

Chairman Thompson's August 1999 letter to the Office of Personnel Management (OPM) referenced the following 12 management challenges for OPM as identified by OPM's IG and GAO:

- Implementation of GPRA,
- Retirement systems modernization,
- Financial management policies and practices,
- Controls over the accuracy of annuity payments,
- Debt collection and accounts receivable processing,
- Internal controls related to the accuracy and completeness of payroll withholdings and information provided by other agencies,
- Financial management oversight over the Federal Employees Health Benefits Program (FEHBP),
- Reconciliation of OPM's Fund Balance with the Treasury Department,
- Accounts payable,
- Controls over investments,
- Year 2000 computer readiness, and
- Information security.

When the OPM IG updated its list of management challenges for fiscal year 2000, the IG dropped two issues from its list: Controls over the accuracy of annuity payments and internal controls related to the accuracy and completeness of payroll withholdings. OPM considers the Y2K readiness issue to have been resolved, thus leaving nine major management challenges to be addressed.

In its response to the Chairman's request for information, OPM enclosed a detailed summary of the actions that OPM had underway to address each of the open audit recommendations for major management areas identified by OPM's IG. The letter said that OPM generally concurred with the OPM IG's audit recommendations that were included with the Chairman's letter. The response also noted that Congressional stakeholders would find that OPM's fiscal year 2001 Performance Plan would reflect improvements in OPM's performance planning that address the issues that GAO reported in its recent analysis of OPM's fiscal year 2000 Performance Plan.

Committee staff met with representatives from OPM, the OPM IG and GAO at OPM's headquarters building on March 22, 2000. OPM officials said that they generally agreed with the management challenges that the OPM IG had identified for the agency. At the meeting, OPM officials provided the Committee staff with information about the progress on each of these management challenges.

OPM's 1999 Performance Report did not include a comprehensive discussion of the Agency's efforts to address its major management challenges. Of the nine management challenges designated for OPM, OPM's fiscal year 1999 Performance Report addressed seven, with varying degrees of information provided on strategies and measures. Two challenges were not addressed in the Performance Report: (1) the need to improve oversight of FEHBP and (2) controls over investments. One management challenge that was covered extensively involved the Agency's efforts to improve its financial management, including a discussion on the financial audits undertaken by the OPM IG.

Overall, OPM has developed goals and measures for its major management challenges to a generally moderate extent. OPM has made progress over last year's efforts to address management challenges in its performance planning and reporting, particularly as demonstrated in its fiscal year 2001 Performance Plan. For example, in its review of OPM's 2001 Performance Plan, GAO noted that OPM showed enhanced attention to the challenge of detecting and preventing fraud and error in FEHBP.

SMALL BUSINESS ADMINISTRATION

Chairman Thompson's August 1999 letter to the Small Business Administration (SBA) referenced the following management challenges for SBA as identified by SBA's IG:

- Lenders are not held accountable for errors in loan processing and servicing,
- Borrowers are not held accountable for misuse of funds,
- Recoveries in servicing and liquidation are not maximized,
- Fraud deterrence and detection require continued emphasis,
- Contract dollars are concentrated among relatively few companies in SBA's 8(a) minority business development program whose owners remain in the program after amassing substantial wealth,
- SBA does not enforce its own rules precluding excessive subcontracting,
- SBA's monitoring of companies in its 8(a) minority business development program is mismanaged,
- SBA needs to develop and implement a program-based cost accounting system,
- Information system controls need improvement, and
- The Paperwork Reduction Act and the Privacy Act need to be rationalized with the Government Performance and Results Act to permit effective measurement of performance outcomes.

In response to the Chairman's letter, SBA agreed with seven of the management challenges identified by the IG and partially agreed with the remaining three challenges. The three challenges that SBA said had been reduced to minor challenges are those relating to lender accountability for errors, recoveries in serving and liquidation, and fraud deterrence and detection.

Committee staff met with officials from SBA, the SBA IG and GAO on March 27, 2000. During this meeting, SBA officials discussed the Agency's actions to address each of its major management challenges. Committee staff asked SBA officials why the vast majority of reported performance measures were activity-based or output-oriented rather than results oriented. SBA officials said that they recognized that they needed to develop and report more outcome-oriented goals in future performance planning and reporting.

In its fiscal year 1999 Performance Report, SBA discussed the major management problems identified by the Agency's IG. For each management problem, the Performance Report included a summary of the IG's recommended actions along with the Agency's plans and actions to address the IG's concerns. The Performance Report did not, however, include specific and measurable goals for these management challenges. In its review of SBA's fiscal year 2001 Performance Plan, GAO also noted that the Performance Plan did not contain performance goals and measures that directly relate to the management challenges confronting SBA. For two of the management challenges—concentration of 8(a) contract dollars among relatively few companies and fraud deterrence and detection—the Performance Plan contains performance goals that indirectly relate to the challenges. As with its Performance Report, however, SBA's Performance Plan does discuss the strategies that the Agency planned to use to address its management challenges.

SBA has made moderate progress over the previous year by identifying and reporting some goals and measures for its management challenges and by reporting more comprehensive information on the strategies that it plans to use in resolving its management challenges. Overall, however, SBA has not comprehensively developed specific goals and measures for the management challenges that confront the agency. SBA needs to devote enhanced attention to establishing specific and measurable goals that address its management challenges and also needs to make these goals more explicit in its performance planning and reporting.

SOCIAL SECURITY ADMINISTRATION

Chairman Thompson's August 1999 letter to the Social Security Administration (SSA) listed the following 12 major management challenges at SSA that GAO and the Agency's IG had identified:

- Year 2000 computer conversion,
- Information security,
- Supplemental Security Income (SSI) fraud and error,
- Ensuring the long-term solvency of the Social Security System,
- Redesign of the disability claims process and focusing on return to work,
- Implementing new information technology,
- Systems security and controls,
- Program complexity,
- Challenges to meeting GPRA commitments,

- Employee performance and productivity,
- Discrepancies in annual wage reporting, and
- Service to the public.

The Chairman's letter noted that one problem of particular concern at SSA was overpayments of SSI benefits, a GAO-designated "high-risk" area since 1997. In fiscal year 1998, current and former SSI recipients owed SSA more than $3.3 billion in overpaid benefits, including $1.2 billion in newly detected overpayments for that year alone. One GAO report identified $5 million in erroneous SSI payments to prisoners. The Chairman's letter also noted GAO's finding that SSA's fiscal year 2000 Performance Plan contained specific performance goals to address five of the 12 problem areas identified by GAO and the IG.

By a letter dated November 4, 1999, the SSA Commissioner responded to the Chairman's letter. The Commissioner's response expressed agreement with the list of major management problems in the Chairman's letter and indicated that SSA would establish specific and measurable performance commitments to address each one.

In December 1999, the IG submitted to the Committee an updated list of the most serious management problems at SSA. Because of recently enacted legislation that designated the Social Security number (SSN) as a universal identifier, the IG added two new challenges: SSN Misuse and Identity Theft. The IG dropped the Year 2000 computer issue and employee performance and productivity as major management problems. Although management still needed to focus on these challenges, the IG considered them a lower priority than the two problems that were added.

On April 12, 2000, the Committee staff met with SSA officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the Commissioner's response. The meeting covered each of SSA's major management problems. Among other things, the participants noted that one challenge in the systems security area is the dispersed nature of SSA information systems. State offices and numerous SSA field offices directly use SSA systems. On another issue, the IG noted that SSA faces three challenges in implementing GPRA: Weaknesses in data sources, inadequate performance indicators, and resource constraints.

In terms of improving payment accuracy, both SSA and IG officials stated that the administrative protocols under the Computer Matching Act pose a barrier to more effective data sharing. SSA needs to get data from States and financial institutions, particularly in electronic form. It has the legal authority to do this, but needs to develop procedures. A State may have given to another Federal agency the same information that SSA would like to obtain; however, SSA cannot get this data without working with the State on a unique agreement. A large part of the problem with Disability Insurance overpayments is that, by law, SSA must continue payments while appeals are pending. Also, resource constraints are a major barrier to reducing improper payments. For example, SSA can recover at least six times the costs of continuing disability reviews. However, these are not budget savings that accrue to the agency, so they do not offset the costs of the reviews.

GAO found that SSA's Performance Plan for fiscal year 2001 contains goals that directly address five of the nine management problems known to it at the time it submitted the Performance Plan in December 1999. According to GAO, however, there is room for improvement both in measuring and achieving progress to resolve each of these problems. SSA has some performance goals related to improving the accuracy of some of its major payment programs. However, it did not establish specific targets for reducing error rates for SSI or the other programs.