

GAO

Testimony

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**CONGRESSIONAL
OVERSIGHT**

**Challenges for the
21st Century**

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Comptroller General of the United States



G A O

Accountability * Integrity * Reliability

Mr. Chairman, Senator Kerry, and Members of the Committee:

I appreciate the opportunity to testify before this Committee today to discuss the importance of Congressional oversight and our role in assisting you with this task. Let me commend you, Mr. Chairman, for taking on the important, but not always glamorous, task of serious oversight. Major review—both of existing laws and programs—and their implementation—and of agency management is hard work, but it can yield important outcomes. Reviewing existing programs to determine whether they can work better and to determine how an agency can perform its mission more economically, efficiently, and effectively is critical to maximizing the government’s performance and assuring its accountability to the Congress and the American people. So that you can spend much of today’s session hearing our findings about SBA, I will not go into great detail on some of the general points that I want to make regarding oversight. I have elaborated on all of these in previous statements.¹

As I have noted before, we stand at an important crossroads. The cold war has ended, and we won. In addition, after nearly 30 years of budget deficits, the combination of hard choices and remarkable economic growth has led to a budget surplus. We appear—at least for the foreseeable future—to have slain the deficit dragon. At the beginning of the year, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) showed both unified and on-budget surpluses over the next 10 years, and mid-year updates have only increased these surplus estimates. While this is good news, it does not mean that making hard choices is a thing of the past. Even if the budget surplus continues, it does not signal the end of fiscal challenges. Rather, these surpluses provide an opportunity to look beyond the 1-, 3-, or 5-year budget horizon of recent deficit debates and to focus on the longer term challenges as we move into the 21st century.

¹*Managing in the New Millennium: Shaping a More Efficient and Effective Government for the 21st Century* (GAO/T-OCG-00-9, Mar. 29, 2000). *Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus* (GAO/T-AIMD-00-73, Feb. 1, 2000).

I have testified before on the importance of preparing for the demographic tidal wave facing both the United States and much of the industrialized world.² Social Security and Medicare are only the most obvious fiscal time bombs we face. Bills will also come due for a variety of other commitments and contingencies.

Facing long-term fiscal challenges is not our only obligation. Freed of the constraints of the cold war and chronic deficits, we move into the 21st Century with a golden opportunity—and a fiduciary obligation—to review the legacy of existing activities and programs with an eye toward weeding out or reforming those programs to free up resources that can address emerging needs. We now have an opportunity and obligation to take a comprehensive look at what government should do and how government should do business. Future fiscal challenges call for prudent stewardship of our national government to ensure delivery of the services that Americans need versus what they want, and considering what we can collectively afford. This affordability issue is critical and complex given our current budget surpluses and the approaching demographic tidal wave. We may be able to afford certain actions or activities today, but we may not be able to tomorrow. In addition, consideration should be given to providing enough fiscal flexibility so future generations can make some of their own choices regarding government roles and resources.

The advent of budget surpluses does not lessen the need for more efficient and effective government and will continue to require difficult choices. Government performance and accountability need to be enhanced in order to get the most out of available resources and forge effective approaches to both the newly emerging and long-standing problems facing the nation. Legislation enacted in the 1990s has provided a statutory framework to help resolve long-standing management problems that undermined the federal government's effectiveness and efficiency and to provide greater accountability for results. The reforms that have been adopted have profound implications for what the

² *Medicare and Budget Surpluses: GAO's Perspective on the President's Proposal and the Need for Reform* (GAO/T-AIMD/HEHE-99-113, Mar. 18, 1999) and *Social Security Reform: What the President's Proposal Does and Does Not Do* (GAO/T-AIMD/HEHS-99-76, Feb. 9, 1999).

government does, how it is organized, and how it performs. Nevertheless, these statutory reforms which focused on performance, financial, and information technology management did not encompass all areas of government management. Human capital issues are the missing link in the management and accountability framework. To meet the challenges of the 21st Century, the federal government will need to implement modern management practices for more efficient and effective delivery of government services; possess the effective management approaches and tools needed to develop and maintain high-performing organizations; and implement the human capital practices needed to support a focus on performance-based management.

We need to re-look at how GAO and the Congress do business in connection with oversight. We should forge a bicameral and non-partisan oversight agenda that will meet the needs of the Congress, capitalize on GAO's extensive skills and knowledge, and protect the public's interests. This approach will build on the management reforms of the 1990s that facilitate better management of the workloads of the Congress, GAO and federal agencies. It will also enable three tracks of oversight:

- ◆ Looking at programs and efforts that involve multiple agencies and cross committee jurisdictions;
- ◆ Examining, across government, various functions that are critical to high-performing organizations (e.g. strategic planning, Information Technology (IT), financial management, and human capital matters); and
- ◆ Overseeing the management and effectiveness of individual agencies.

A strategic oversight plan could facilitate balancing these different oversight tracks. Individual committees are well suited to address performance and other issues affecting individual agencies or programs as you are doing today. It may be more difficult under the current Congressional structure, however, to tackle federal mission areas that cut across agencies and committees. As part of our support to Congress, our approach will

be one of constructive engagement in which we will work closely, in a nonpartisan and non-ideological manner with the House and Senate Committees on Appropriations, Authorization, Budget, and Oversight (as well as select committees) to get broad coverage on programs and issues.

Oversight of Crosscutting Programs and Efforts That Involve Multiple Agencies

I have noted previously that many mission areas—from low-income housing assistance to food safety to counterterrorism to economic development—are addressed by a wide range of mandatory and discretionary spending programs, tax expenditures, and regulatory approaches. Virtually all of the results that the government strives to achieve require the concerted and coordinated efforts of two or more agencies. Yet our work has repeatedly shown that mission fragmentation and overlap in the federal government are widespread. In addition, many federal programs were designed years ago to meet the needs and demands as determined at that time. It is important to periodically reexamine whether current programs and activities remain relevant, appropriate and effective. Unfocused and uncoordinated programs waste taxpayer dollars, confuse and frustrate program customers, and limit the effectiveness of federal efforts.³

In the Senate, the Governmental Affairs Committee has been a leader in looking across government in functional reviews. In addition, the Senate Budget Committee has been a leader in advocating crosscutting performance oversight and a re-examination of existing missions that cut across agency and committee jurisdictions. In seeking to assist these efforts we have offered a number of suggestions or ideas for congressional consideration including the creation of a “congressional performance resolution” linked to the budget resolution and a thematic approach to oversight.

³ For a discussion of programs with mission fragmentation and overlap, barriers to interagency coordination, and potential approaches for improving the effectiveness and efficiency of crosscutting programs see our report, *Managing For Results: Barriers to Interagency Coordination* (GAO/GGD-00-106, March 29, 2000).

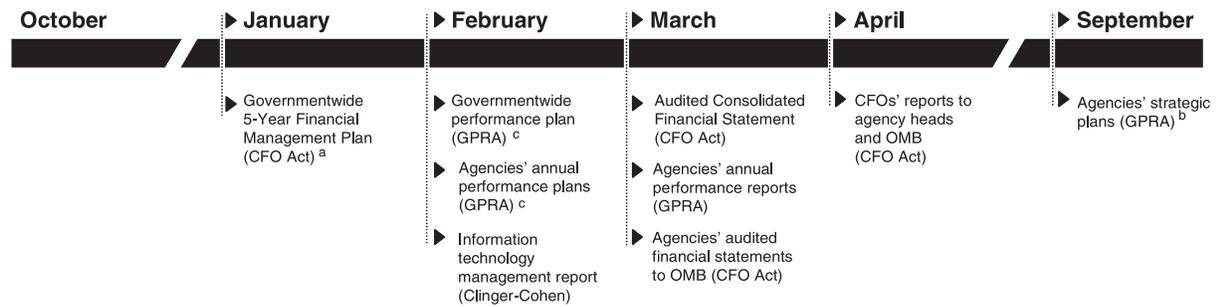
We can assist the Congress in its crosscutting efforts by taking a longer, broader, more strategic and integrated approach to issues facing the Congress and the nation. To this end, I am realigning GAO to be consistent with our strategic plan⁴ and the nature of the work involved to better assist the Congress. The amount of value we add clearly will relate to how we deal with the increasing complexity of our work. For example, the subject of nuclear weapons is not just a Department of Energy issue. National security, public safety, environmental and contracting issues are all associated with our nuclear weapons complex.

Oversight of Crosscutting Functions Necessary to Develop and Maintain High-Performing Organizations

In the 1990s Congress and the federal government put in place a statutory and management framework that provides the foundation for strengthening government performance and accountability. GPRA required agencies to develop strategic and annual performance plans and annual performance reports that tell taxpayers what they are getting for their money. The CFO Act and related legislation created a structure for more businesslike management and reporting of the government's finances. The Clinger-Cohen Act and the Paperwork Reduction Act required agencies to take an orderly, planned approach to their information technology needs. Figure 1 is a time line of GPRA requirements and other laws that make up the statutory framework to improve the performance, management, and accountability of the federal government, including the CFO Act and the Clinger-Cohen Act.

⁴ *GAO's Strategic Plan, 2000-2005*, Spring 2000.

Figure 1: Time Line for Major Reports



^aAlthough required to be submitted by January 31, the governmentwide 5-year financial management plans are generally issued in June or July.

^bGPRA requires agencies' strategic plans to cover a period of at least 5 years forward from the fiscal year in which submitted. They are to be updated at least every 3 years and are submitted to OMB and Congress.

Source: GAO review of statutes.

Congress has helped focus attention on the need for effective implementation of this framework through hearings and other communication with agencies, including consultations to ensure that in strategic planning, agencies' missions are focused, goals are specific and results-oriented, and strategies and funding expectations are appropriate and reasonable. Continued Congressional interest and oversight is important if this framework is to meet its potential to support and promote more results-oriented government and assist the decisionmaking processes in both the Executive Branch and Congress. We will continue to assist this transition through assessing agencies' progress and identifying opportunities to strengthen government accountability and performance.

We have seen some progress in agency efforts to manage more economically and efficiently. However, more needs to be done to achieve real and sustained improvements to address the nation's challenges. Implementing the management reforms will help contain costs, provide services that meet the public's needs, and enhance accountability.

The job in the 21st century is to continue to improve and to translate the intended reforms into a day-to-day management reality across government. Becoming high-

performing organizations requires a cultural transformation in government agencies. Hierarchical management approaches will need to yield to partneurial ones. Process-oriented ways of doing business will need to yield to results-oriented ones. Siloed organizations—burdened with overlapping functions, inefficiencies, and turf battles—will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Finally, internally focused agencies will need to focus externally in order to meet the needs and expectations of their ultimate clients—the American people.

Our work has consistently shown that many agencies face long-standing and substantial challenges to further progress. The major challenges that agencies face in becoming high-performing organizations include:

- ◆ Adopting an effective results orientation,
- ◆ Strengthening financial management and related controls to better support decisionmaking and demonstrate accountability,
- ◆ Improving the use of information technology to modernize services and achieve results, and
- ◆ Developing and implementing modern human capital practices.

The effective implementation of the statutory framework to improve the performance, management and accountability of the federal government, although important, is not an end in itself. Rather, the implementation of the framework is the means to an end—improved federal performance through enhanced executive branch and congressional decisionmaking and oversight. Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise, where management improvement initiatives are not integrated into day-to-day activities of the organization. Performance improvements within an agency will not occur just because, for example, the agency has

published a strategic plan or the results of an audit of its financial statements. Performance improvements occur only when congressional and executive branch decisionmakers use information resulting from these reforms to help inform decisions and improve the performance and accountability of the federal government.

Adopting an Effective Results Orientation

GPRA has the potential to help Congress and the executive branch ensure that the federal government provides the results that the American people expect and deserve. It also has the potential, if properly implemented, to help improve the public's respect for and confidence in their government. Substantial efforts have been undertaken and progress clearly made. However, much of GPRA's potential remains unrealized.

GPRA implementation is at a critical stage for agencies and Congress. In the almost 3 years since the requirements of GPRA were implemented across the executive branch, Congress has been provided with a wealth of new and valuable information on the plans, goals, and strategies of federal agencies. The Senate Committee on Government Affairs has acted to open an important dialogue with agencies and to foster increased agency attention to these areas. August 17, 1999 letters to agencies summarized the key management issues identified by GAO and the Inspectors General and asked each agency to indicate how it will address its high-risk areas and major management challenges. Committee staff held bipartisan meetings with the agencies to further discuss these issues and needed actions.

The issuance of the first performance reports in March 2000 represents a new and potentially more substantive stage in the implementation of GPRA. The performance reports offer the first opportunity to systematically assess the agencies' actual performance on a governmentwide basis and to consider the specific steps that can be taken to improve performance and reduce costs. These annual reports on program performance can also help congressional committees monitor and select programs for more detailed reviews. The first performance reports, and thus the completion of the

first full planning and reporting cycle of GPRA implementation, also suggest that it is an appropriate point to examine how GPRA can be more fully integrated into executive branch and congressional decisionmaking. In our summary assessments of the fiscal year 1999 and fiscal year 2000 annual performance plans, we highlighted a consistent set of areas that we believe have the greatest potential for improving the usefulness of GPRA to congressional and executive branch decisionmakers.⁵

For example, much more progress is needed in linking GPRA performance goals to agency budget presentations, so that the performance consequences of budget decisions can be clearly understood. Similarly, technology and human capital planning and decisionmaking are too often not integrated into considerations of programmatic results. In our assessment of the fiscal year 2000 annual plans, we found that most plans did not sufficiently address how the agencies will use their human capital to achieve results. In order for GPRA to be truly effective, agencies must link their performance measurement and reward systems to the goals and measures included in their strategic and performance plans.

We have seen that integrating GPRA into agency operations does not come quickly or easily. It requires dedicated and persistent leadership not only within agencies but also by OMB and the Congress. Agencies are responsive to efforts their Congressional overseers see as important. We have made recommendations in each of the last 2 years intended to help congressional and executive branch decisionmakers ensure that GPRA is effectively implemented and used.

Concerted and continuing congressional oversight is key to addressing the federal government's persistent performance, management, and accountability problems. One

⁵ *Managing for Results: An Agenda To Improve the Usefulness of Agencies' Annual Performance Plans* (GAO/GGD/AIMD-98-228, Sept. 8, 1998); and *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

of the lessons drawn from the history of deficit reduction efforts during the 1990s is that the use of organizing themes can facilitate oversight and the re-examination of federal agencies and programs. With this in mind I have recently used four broad themes to discuss the significant performance problems in federal programs and agencies that our work has identified. Let me touch on each of these briefly:

Attack activities at risk of fraud, waste, abuse, and mismanagement. Over the years, our work has shown that federal functions and programs critical to personal and national security, ranging from Medicare to weapons acquisition, have been hampered by daunting financial and program management problems, exposing the federal government to waste and abuse.

Improve the economy and efficiency of federal operations. Effective congressional oversight can improve federal performance by examining whether agencies have the best, most cost-effective mix of strategies in place to meet their goals.

Comprehensively reassess what the federal government does and how it does it. Many federal programs—their goals, organizations, processes, and infrastructures—were designed years ago to meet the needs and demands as determined at that time and within the technological capabilities of that earlier era. It is important to periodically re-examine these programs and activities to see whether they remain relevant and appropriate. This re-examination must include the effectiveness of the tools—such as spending, loans, tax incentives and/or regulations.

Redefine the Beneficiaries of Federal Government Programs. Congress originally defines the intended beneficiaries for any federal program or service based on certain perceptions of eligibility and/or need. Periodic oversight can be an effective means to ensure that limited resources remain properly targeted in light of changing conditions, current program operations, and overall congressional priorities.

Strengthening Financial Management for Decisionmaking and Accountability

Without timely and accurate information on the full costs of programs, the government cannot adequately ensure accountability, measure and control costs, manage for results, nor make timely and fully informed decisions about allocating limited resources. However, such information has historically not been routinely available across government.

The CFO Act and related financial management improvement legislation laid the foundation for the federal government to provide taxpayers, the nation's leaders, and agency program managers with reliable financial information through audited financial statements. In addition to requiring annual audited financial statements, the CFO Act sets expectations for agencies to build effective financial management organizations and systems and to routinely produce sound cost and operating performance information throughout the year. The combination of reforms ushered in by GPRA and the CFO Act will, if successfully implemented, generate the necessary foundation to effectively run performance-based organizations. Some progress has been made by individual agencies in preparing annual financial statements. Of the 24 CFO Act agencies, 6 received an unqualified or "clean" opinion on their financial statements for fiscal year 1996, 11 for fiscal year 1997, 12 for fiscal year 1998, and 15 received an unqualified opinion for fiscal year 1999.

Clean audit opinions, however, are not the end game; modern financial systems and sound internal controls are essential. While clean audit opinions are essential to providing an annual public scorecard, they do not guarantee that agencies have the financial systems needed to dependably produce reliable financial information. Modern systems and sound controls are essential to reach the end goal of useful, relevant, reliable day-to-day financial information to support ongoing management and accountability. Although clean audit opinions can be produced by "heroic efforts", such efforts are not the solution.

Improving the Use of Information Technology to Achieve Results

Information technology (IT), if leveraged properly, can be an effective tool for high quality, cost effective government services. Information technology is at the heart of improving accountability and performance. The government is heavily dependent on computer systems and networks to implement vital public services supporting national defense, revenue collections, and social benefits. To the extent that billions in planned annual obligations for information technology can be spent more wisely, federal programs will operate more efficiently and effectively. However, the global expansion of information technology has resulted in significant new information security and privacy threats to our information networks and technology infrastructure. We have discussed these issues in a number of reports.⁶

Many agency efforts to improve IT management are still in the beginning stages, and it is clear that more needs to be done. At the same time, agencies are now beginning to address new IT investment needs that were deferred because of their recent, and appropriate, focus on the Year 2000 conversion problem. As a result, we anticipate that agencies will begin major modernization programs and large-scale IT projects in the very near future, making the need for fundamental improvements in the way agencies manage IT investments even more urgent.

Develop and Implement Modern Human Capital Practices

The government's human capital management is the missing link in the statutory and management framework that Congress and the executive branch have established to provide for a more businesslike and results-oriented federal government. Yet, federal employees are the ones who will make the principles of performance management work for government. Federal employees should not be viewed as costs to be cut, but as assets to be valued. Only when the right employees are on board and provided the training, technology, structure, incentives and accountability to work effectively is organizational success possible. Modern strategic human capital management

recognizes that employees are a critical asset for success and that an organization's human capital policies and practices must be designed, implemented, and assessed by how well they support the organization's mission and goals.

Human capital reforms will be necessary to fully benefit from the performance-based management and accountability framework that Congress has created. I am optimistic that as the government's understanding of the importance of people to effective government grows, a new consensus on human capital will emerge and any needed and appropriate legislative reforms will be accomplished. However, I am also strongly convinced that we should not wait for the day when these reforms will arrive. Instead, we can and should take steps to align our human capital management policies and practices with modern performance management principles, within the constraints imposed by current law.

The Oversight Agenda, Agency-Based Oversight and SBA

As I mentioned earlier, the change in our fiscal and security positions offers a window to take a longer and broader look into the future. In addition, as the management agenda enacted over the last decade begins to bear fruit, this is an opportune time for the Congress to think about how to craft a strategic approach to oversight that best leverages this new information. Such an approach would permit both individual committees and the Congress as a whole to set priorities for oversight—and could ensure systematic coverage of a broad range of agencies and issues over some reasonable time period. It would also help us help you. Good oversight support—whether as part of a comprehensive look at a single agency—like SBA—or a crosscutting look across agencies at mission or function—is resource-intensive and necessarily competes with other important congressional requests for our limited resources. A multi-year plan permits us to program our work in a way that provides the greatest assistance. I believe it would also help Congressional committees and the Executive Agencies balance and plan the workload such oversight imposes on them.

⁶ *High Risk Series: Information Management and Technology* (GAO/HR-97-9, Feb. 1997), *High Risk Series: An Update* (GAO/HR-99-1, Jan. 1999), *Information Security Risk Assessment: Practices of Leading Organizations* (GAO/AIMD-00-33).

Mr. Chairman, let me reprise some important points. Serious oversight is hard for many reasons. For one thing, it's often not fun. But taking a good hard look at whether a program or activity still makes sense in the modern world; looking at how well a program or a tool works to achieve its goals; asking questions about organization, processes and tools is not easy, fun or glamorous. And all too often the press stories on this work get it wrong. Serious oversight means pulling together information from different sources and asking difficult questions. Acting on the results of that oversight means making difficult decisions. We at GAO support you and your colleagues in the belief that difficult as it is, this kind of constructive examination of what government does, and how, is absolutely critical for this coming century. I am well aware that there will always be disagreements about the role of government and about the best approach to meeting a problem. However, the debate should be carried on using the best information available. Our role is to help provide you with that kind of information. We do that in keeping with professional standards and our core values of accountability, integrity and reliability. We also believe that the most successful oversight is done on a bipartisan and bicameral basis—without ignoring policy disagreements. The goal is to end up with a government that does the important things well.

As you know, we also seek to provide Congress with a broad perspective on a number of performance issues through our High Risk and Performance and Accountability Series. Consistent with our beliefs about the importance of consistency and transparency, in the coming weeks we will be releasing for comment a document discussing the criteria and process for determining performance and accountability challenges and high-risks.

As you turn to SBA from this broader discussion of oversight in general let me note that by assisting the small business sector, SBA fits into a broader structure of government assistance to economic growth. While SBA's role in economic development must be viewed in this broader context, it is also important to look at the agency's programs and operations. I commend this committee for taking the initiative to look at a single agency by examining its underlying functions that affect programs and how they operate and affect the agency's ability to meet its mission. We believe that changes at SBA make this

an appropriate time for increased attention on SBA. These changes include (1) the ongoing transition of part of SBA's workforce from loan making and servicing to overseeing the efforts of lenders and other private sector partners; and (2) the agency's outreach to new markets, such as smaller businesses located in low- and moderate-income and rural areas.

Our workload at SBA has increased; we have already issued 22 products on SBA this year. In addition to the work we will testify on today, we have 7 assignments ongoing for this committee. These assignments covering such SBA programs as 7(a) loans, Small Business Lending Companies, and Women's Business Centers; as well as such functional areas as financial management, and budgeting. We also have work underway for other congressional requesters, including our review of the impact of government procurement reform on small business for multiple requesters and our review of information system controls at SBA for the House Committee on Government Reform and the Senate Committee on Governmental Affairs. Your goal of a coordinated oversight plan would enable better workload planning for Congress, the agencies, and GAO.

Pursuant to your request, Mr. Chairman, we are doing additional work at SBA and will be conveying the results of that work to you over the coming months. In early 2001, as part of our Performance and Accountability Series, we will provide an overall report on SBA.

The panel that follows me will provide good examples of both crosscutting and programmatic work. Stan Czerwinski, who has overall responsibility for our SBA program work, will discuss the findings from two reports you requested on SBA's 8(a) program that are being released today. Joel Willemsen, who has looked across government at information technology issues, will discuss our report to you on IT at SBA that is also being released today. Finally, Mike Brostek, who has been on the cutting edge of GAO's human capital work, will discuss the results of our work on SBA's human capital management.

Mr. Chairman, I can not overstate my support for you and your colleagues on both sides of the aisle and in both houses for reinvigorating the challenging task of serious oversight. This concludes my prepared statement. I would be pleased to answer any questions you or the other members of the Committee may have at this time.

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