February 2011

# HIGH-RISK SERIES

# An Update

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# HIGH-RISK SERIES

## An Update

## Why GAO Did This Study

The federal government is the world's largest and most complex entity, with about $3.5 trillion in outlays in fiscal year 2010 funding a broad array of programs and operations. GAO maintains a program to focus attention on government operations that it identifies as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges. Since 1990, GAO has designated over 50 areas as high risk and subsequently removed over one-third of the areas due to progress made.

This biennial update describes the status of high-risk areas listed in 2009 and identifies any new high-risk area needing attention by Congress and the executive branch. Solutions to high-risk problems offer the potential to save billions of dollars, improve service to the public, and strengthen the performance and accountability of the U.S. government.

## What Remains to Be Done

This report contains GAO's views on progress made and what remains to be done to bring about lasting solutions for each high-risk area. Perseverance by the executive branch in implementing GAO's recommended solutions and continued oversight and action by Congress are essential to achieving progress. GAO is dedicated to continue working with Congress and the executive branch to help ensure additional progress is made.

View GAO-11-278 or key components. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

## What GAO Found

In January 2009, GAO detailed 30 high-risk areas and, in July 2009, added a 31st—Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability. GAO has determined that sufficient progress has been made to remove the high-risk designation from two areas: the DOD Personnel Security Clearance Program and the 2010 Census.

- High-level attention by DOD, OMB, and the Office of the Director of National Intelligence, along with consistent congressional oversight, has led to significant improvements in processing security clearances. For example, DOD processed 90 percent of all initial clearances in an average of 49 days in fiscal year 2010 and thus met the 60-day statutory timeliness objective. Furthermore, DOD has reduced the average time it takes to process 90 percent of initial security clearances for industry personnel from 129 days in 2008 to 63 days in 2010. DOD has also developed and is implementing quality assessment tools and has issued adjudicative standards for addressing incomplete investigations.
- The Census Bureau (Bureau), with active congressional oversight, took steps to address problems GAO pointed out since designating the 2010 Census a high-risk area in March 2008. Those steps included efforts to control costs, better manage operations, strengthen its risk management activities, and enhance the testing of automated systems. The Bureau generally completed its data collection activities consistent with its plans and released the data used to apportion Congress on December 21, 2010, several days ahead of the legally required end-of-year deadline.

This year, GAO is designating one new high-risk area—Interior's Management of Federal Oil and Gas Resources. Interior does not have reasonable assurance that it is collecting its share of billions of dollars of revenue from oil and gas produced on federal lands and it continues to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters. Further, Interior recently began restructuring its oil and gas program, which is inherently challenging, and there are many open questions about whether Interior has the capacity to undertake this reorganization while carrying out its range of responsibilities, especially in a constrained resource environment.

In the past 2 years, progress has been made, to varying degrees, in most areas that remain on GAO's High-Risk List. Congressional oversight and legislative action, high-level administration attention, and efforts of the responsible agencies have been central to progress. For example, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) of 2010 to enhance reporting and recovering of improper payments in federal programs. In addition, in November 2009, the President issued Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs. Congress also passed the Weapon Systems Acquisition Reform Act of 2009, which requires DOD to provide more realistic cost estimates and terminate programs with high cost growth.

_____ **United States Government Accountability Office**

# GAO's 2011 High-Risk List

**Strengthening the Foundation for Efficiency and Effectiveness**

- Management of Federal Oil and Gas Resources **(New)**
- Modernizing the Outdated U.S. Financial Regulatory System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Funding the Nation's Surface Transportation System
- Strategic Human Capital Management
- Managing Federal Real Property

**Transforming DOD Program Management**

- DOD Approach to Business Transformation
- DOD Business Systems Modernization
- DOD Support Infrastructure Management
- DOD Financial Management
- DOD Supply Chain Management
- DOD Weapon Systems Acquisition

**Ensuring Public Safety and Security**

- Implementing and Transforming the Department of Homeland Security
- Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
- Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Revamping Federal Oversight of Food Safety
- Protecting Public Health through Enhanced Oversight of Medical Products
- Transforming EPA's Process for Assessing and Controlling Toxic Chemicals

**Managing Federal Contracting More Effectively**

- DOD Contract Management
- DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
- NASA Acquisition Management
- Management of Interagency Contracting

**Assessing the Efficiency and Effectiveness of Tax Law Administration**

- Enforcement of Tax Laws
- IRS Business Systems Modernization

**Modernizing and Safeguarding Insurance and Benefit Programs**

- Improving and Modernizing Federal Disability Programs
- Pension Benefit Guaranty Corporation Insurance Programs
- Medicare Program
- Medicaid Program
- National Flood Insurance Program

Source: GAO.

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Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security
    and Governmental Affairs
United States Senate

The Honorable Darrell E. Issa
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

GAO regularly reports on government operations that it identifies as high risk. This effort, supported by the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform, has brought much-needed focus to problems impeding effective government and costing billions of dollars each year. To help improve these high-risk operations, GAO has made hundreds of recommendations and the administration and agencies have addressed, or are addressing, many of them and Congress continues to take actions that are important to helping resolve high-risk issues.

This year, GAO is removing the high-risk designation from two areas—the DOD Personnel Security Clearance Program and the 2010 Census—and designating one new high-risk area—Interior's Management of Federal Oil and Gas Resources. These changes bring GAO's 2011 High-Risk List to a total of 30 areas.

In the past two decades, attention to high-risk areas has brought results. Over one-third of the areas previously designated as high risk have been removed from the list because sufficient progress was made to address problems. Further, progress had been made in nearly all of the areas that remain on GAO's list as a result of congressional oversight and action, high-level administration attention, efforts of the responsible agencies, and support from GAO through our many recommendations and consistent follow-up on the implementation of recommended actions. In three areas—Strategic Human Capital Management, Managing Federal Real

Property, and DOD Support Infrastructure Management—progress has been sufficient for GAO to narrow the scope of the high-risk issue. However, additional progress is both possible and needed in all 30 high-risk areas to save billions of dollars more and further improve the performance of federal programs and operations.

The high-risk effort is a top priority for GAO. Going forward, GAO will provide even greater emphasis on identifying high-risk issues across government and providing insights and sustained attention to help address them, working collaboratively with Congress, agency leaders, and the Office of Management and Budget (OMB). OMB's Deputy Director for Management has held regular meetings with top agency officials to discuss plans for addressing high-risk areas. GAO has been pleased to participate in these meetings.

This high-risk update and GAO's High Risk and Other Major Government Challenges Web site, www.gao.gov/highrisk/, can help inform the oversight agenda for the 112th Congress and guide efforts of the administration and agencies to improve government performance and reduce waste and risks. We are providing this update to the President and Vice President, the congressional leadership, other Members of Congress, the Office of Management and Budget, and the heads of major departments and agencies.

Gene L. Dodaro
Comptroller General
of the United States

# High-Risk Designation Removed

When legislative, administration, and agency actions, including those in response to our recommendations, result in significant progress toward resolving a high-risk problem, we remove the high-risk designation. The five criteria for determining if the high-risk designation can be removed are (1) a demonstrated strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures. These criteria are discussed in greater detail in appendix I of this report.

For our 2011 high-risk update, we determined that two areas warranted removal from the High-Risk List: the Department of Defense (DOD) Personnel Security Clearance Program and the 2010 Census. As we have with areas previously removed from the High-Risk List, we will continue to monitor these areas, as appropriate, to ensure that the improvements we have noted are sustained. If significant problems again arise, we will consider reapplying the high-risk designation.

## Department of Defense Personnel Security Clearance Program

We are removing DOD's personnel security clearance program from the High-Risk List because of the agency's progress in timeliness and the development of tools and metrics to assess quality, as well as its commitment to sustaining progress. Importantly, continued congressional oversight and the committed leadership of the Suitability and Security Clearance Performance Accountability Council (Performance Accountability Council)[1]—which is responsible for overseeing security

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[1]The Performance Accountability Council is comprised of the Director of National Intelligence as the Security Executive Agent, the Director of OPM as the Suitability Executive Agent, and the Deputy Director for Management, OMB as the chair with the authority to designate officials from additional agencies to serve as members. The current council includes representatives from the Department of Defense, Department of State, Federal Bureau of Investigation, Department of Homeland Security, Department of Energy, Department of Health and Human Services, Department of Veterans Affairs, and Department of the Treasury.

clearance reform efforts—have greatly contributed to the progress of DOD and the governmentwide security clearance reform.[2]

Long-standing delays in the clearance process led us to designate DOD's personnel security program, which comprises the vast majority of governmentwide security clearances, as a high-risk area in 2005.[3] That designation continued in 2007 and 2009, when we identified continued delays in the clearance process and additional concerns with clearance documentation.[4] In our January 2009 high-risk update, we noted that DOD had made significant progress toward meeting statutory timeliness goals for initial clearances as established in Section 3001 of the Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004.

Since 2009, DOD has continued to make significant progress. DOD officials within the Under Secretary of Defense for Intelligence, in coordination with the Performance Accountability Council, have demonstrated a strong commitment to, and a capacity for, addressing security clearance reform efforts in line with IRTPA. Specifically, DOD (1) significantly improved timeliness of security clearances and met IRTPA objectives for fiscal year 2010, (2) worked with members of the Performance Accountability Council to develop a strategic framework for clearance reform, (3) designed quality tools to evaluate completeness of clearance documentation, (4) issued guidance on adjudication standards, and (5) continues to be a prominent player in the overall security clearance reform effort, which includes entities within the Office of Management and Budget (OMB), Office of Personnel Management (OPM) and Office of Director of National Intelligence (ODNI). These efforts have yielded positive results. More specifically:

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[2]Since GAO first designated DOD's personnel security clearance program as a high-risk area, Congress has held over 14 oversight hearings on security clearance reforms. Key committees include (1) the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs; (2) the Subcommittee on Intelligence Community Management, House Permanent Select Committee on Intelligence; (3) the Subcommittee on Government Management, Organization, and Procurement, House Committee on Oversight and Government Reform; and (4) the Subcommittee on Readiness, House Committee on Armed Services.

[3]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

[4]GAO, *High-Risk Series*: *An Update*, GAO-07-310 (Washington, D.C.: January 2007); and *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

- **Timeliness.** Since our 2009 high-risk report, DOD has made significant progress in improving the timeliness for processing initial personnel security clearances. Specifically, we found that DOD processed 90 percent of initial clearances in an average of 49 days and met the 60-day statutory timeliness objective for processing initial clearances in fiscal year 2010. Furthermore, while the executive branch reported that DOD took an average of 129 days to process 90 percent of initial clearances for industry personnel in 2008, we found that DOD completed 90 percent of initial clearances for industry personnel in an average of 63 days for all the data we reviewed for fiscal year 2010.

- **Strategic framework.** DOD worked with the Performance Accountability Council to issue a strategic framework that was included in its 2009 report to the President. The strategic framework identified key governmentwide reform goals and identified the root causes for timeliness delays and delays to agencies honoring reciprocity. DOD continues to work with the Performance Accountability Council to sustain clearance reform efforts and enhance transparency and accountability through annual reporting to Congress, as required by IRTPA and in new reporting requirements included in the recently passed Intelligence Authorization Act for Fiscal Year 2010.[5]

- **Quality assessment tools.** DOD developed, and is implementing, two quality tools to evaluate completeness of documentation. First, the Rapid Assessment of Incomplete Security Evaluations (RAISE) tracks the quality of investigations conducted by OPM. Results of RAISE will be reported to the ODNI, which, as the Security Executive Agent of the Performance Accountability Council, will arbitrate any potential disagreements between OPM and DOD and clarify policy questions. DOD deployed RAISE to four Central Adjudication Facilities from July to October 2010 and planned to complete deployment to the remaining Central Adjudication Facilities by the beginning of calendar year 2011. Second, the Review of Adjudication Documentation Accuracy and Rationales (RADAR) tracks the quality of clearance adjudications. The Under Secretary of Defense for Intelligence has directed DOD Central Adjudication Facilities to provide adjudication case records to the Defense Personnel Research Center for analysis. The Under Secretary of Defense for Intelligence plans to use results of the RADAR assessments to monitor Central Adjudication Facilities' compliance with documentation policies, communicate performance to the Central Adjudication Facilities, identify potential weaknesses and

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[5]Pub. L. No. 111-259, § 367 (2010).

training needs, increase compliance, and establish trend data. DOD has completed a pilot program for the use of RADAR and began its implementation for the Army, Defense Industrial Security Clearance Office, and Navy Central Adjudication Facilities in September 2010.

- **Adjudicative guidance.** DOD has taken steps to issue guidance on adjudication standards. On November 8, 2009, the Under Secretary of Defense for Intelligence issued guidance on adjudication standards that outline the minimum documentation requirements adjudicators must adhere to when documenting personnel security clearance determinations for cases with potentially damaging information. On March 10, 2010, the Under Secretary of Defense for Intelligence issued additional guidance that clarifies when adjudicators may use incomplete investigative reports as the basis for granting clearances. This guidance provides standards that can be used for the sufficient explanation of incomplete investigative reports. Further, DOD recently created a Performance Accountability Directorate within the Directorate of Security to provide oversight and accountability for the DOD Central Adjudication Facilities that process DOD adjudicative decisions.

- **Commitment to reform.** DOD has participated in the development and tracking of quality metrics through the Performance Accountability Council. Executive Order 13467 established the leadership structure for security and suitability reform headed by the Performance Accountability Council as the entity responsible for driving and overseeing the reform efforts. The executive order designated the Deputy Director for Management at OMB as the chair of the council, the Director of National Intelligence as the Security Executive Agent, and the Director of OPM as the Suitability Executive Agent. In March 2010, the leaders of the joint reform effort under the Performance Accountability Council—OMB, OPM, ODNI, and DOD—engaged in an effort to develop quality metrics for security clearance investigations and adjudications. In May 2010, the leaders of the reform effort provided the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs of the U.S. Senate with 15 metrics assessing the timeliness and quality of investigations, adjudications, reciprocity, and automation. The quality metrics, in turn, can be used to gauge progress and assess the quality of the personnel security clearance process. These are positive developments that can contribute to greater visibility over the clearance process. However, these performance measures have not been fully implemented. Therefore, much remains to be done to ensure that progress

continues. Meanwhile, DOD is working with OPM to refine the Federal Investigative Standards, which are scheduled to be issued in calendar year 2011.

We will continue to monitor DOD's efforts because security clearance reform is ongoing, and DOD needs to place a high priority on ensuring that timeliness improvements continue and quality is built into every step of the process using quantifiable and independently verifiable metrics. Security clearance reform efforts are critical because DOD security clearances make up a vast majority of security clearances governmentwide. However, security clearance reform extends beyond DOD to include all executive branch agencies, including those within the Intelligence Community. As the Performance Accountability Council addresses security clearance reforms, it is important that the council ensure other non-DOD executive branch agencies that are not meeting timeliness objectives have the plans and tools necessary to make progress and ensure that quality metrics are applied and reported on.

## The 2010 Census

We are removing the 2010 Census from our High-Risk List because the U.S. Census Bureau (Bureau) generally completed its peak census data collection activities consistent with its operational plans; released the state population counts used to apportion Congress on December 21, 2010, several days ahead of the legally mandated end-of-year deadline; and remaining activities appear to be on track, including delivering, by April 1, 2011, the data that states use for congressional redistricting, as required by law.

The decennial census is a constitutionally mandated enterprise whose data products are critical to our nation. In 2004, we first reported on some of the operational and management challenges that confronted the Bureau.[6] The lack of progress in addressing these issues along with the emergence of new uncertainties, led us to designate the 2010 Census a high-risk area in March 2008.[7] Specifically, we noted that with little time remaining until Census Day, April 1, 2010, (1) long-standing weaknesses in the Bureau's information technology (IT) acquisition and contract management function, (2) problems with the performance of handheld computers used

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[6]GAO, *2010 Census: Cost and Design Issues Need to Be Addressed Soon*, GAO-04-37 (Washington, D.C.: Jan. 15, 2004).

[7]GAO, *Information Technology: Significant Problems of Critical Automation Program Contribute to Risks Facing 2010 Census*, GAO-08-550T (Washington, D.C.: Mar. 5, 2008).

to collect data, and (3) uncertainty over the ultimate cost of the census, all jeopardized a cost-effective enumeration.

To address these issues and help secure a successful census, beginning in 2005 we recommended that the Bureau improve its IT management capabilities, complete operational planning, update and document its cost estimates, and ensure its readiness for the enumeration through continued rigorous end-to-end testing.[8] At the same time, active congressional oversight helped ensure the Bureau effectively designed and managed operations and kept the enumeration on schedule.[9]

The Bureau demonstrated strong commitment and top leadership support to mitigate the risks, implement our recommendations, and improve its overall preparedness for the census. For example, in November 2008, the Bureau developed a corrective action plan that described its efforts to control costs and manage operations, strengthen risk management activities, enhance systems testing, and improve management of key automation efforts. Bureau executives also met regularly with executives from its parent agency, the Department of Commerce, to discuss progress and monitor risks, and engaged external research organizations to independently review the Bureau's efforts.

The Bureau also took steps to improve its capacity to address risks, including (1) implementing a new management structure and management processes, (2) bringing in experienced personnel to key positions, and (3) improving several reporting processes and metrics. For example, the Bureau named a Decennial Census Testing Officer who, among other activities, led a bimonthly process to consolidate and evaluate test

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[8]See, for example, GAO, *Information Technology Management: Census Bureau Has Implemented Many Key Practices, but Additional Actions Are Needed*, GAO-05-661 (Washington, D.C.: June 16, 2005); *Information Technology: Census Bureau Needs to Improve Its Risk Management of Decennial Systems*, GAO-08-79 (Washington, D.C.: Oct. 5, 2007); *2010 Census: Census Bureau Should Take Action to Improve the Credibility and Accuracy of Its Cost Estimate for the Decennial Census*, GAO-08-554 (Washington, D.C.: June 16, 2008); and *Information Technology: Census Bureau Testing of 2010 Decennial Systems Can Be Strengthened*, GAO-09-262 (Washington, D.C.: Mar. 5, 2009).

[9]Since GAO first designated the 2010 Census as a high-risk area, Congress has held 12 oversight hearings on the status of the decennial census. Key committees include (1) the Senate Committee on Homeland Security and Governmental Affairs; (2) the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs; and (3) the Subcommittee on Information Policy, Census, and National Archives, House Committee on Oversight and Government Reform.

planning across all key decennial census operations. Moreover, frequent oversight hearings convened by the House and Senate provided regular updates on the Bureau's progress in addressing the operational challenges it was facing and helped hold the agency accountable for results.

The Bureau made major strides in mitigating the risks to a successful enumeration, and data collection activities proceeded on or ahead of schedule and were generally implemented as planned. This was no small accomplishment because, in addition to the internal operational and management challenges already noted, various social and demographic trends, such as an increasingly diverse population and a distrust of government, make a cost-effective census inherently problematic.

To achieve these operational successes, the 2010 Census required an unprecedented commitment of resources, including recruiting more than 3.8 million applicants—roughly equivalent to the entire population of Oregon—for its temporary workforce. The cost of the 2010 Census escalated from an initial estimate of $11.3 billion in 2001 to around $13 billion, the most expensive population count in our nation's history.

Although every census has its decade-specific difficulties, societal trends such as concerns over personal privacy, more non-English speakers, and more people residing in makeshift and other nontraditional living arrangements make each decennial inherently challenging. As shown in figure 1, the cost of enumerating each housing unit has escalated from an average of around $16 in 1970 to around $98 in 2010, in constant 2010 dollars (an increase of over 500 percent). At the same time, the mail response rate—a key indicator of a successful census—has declined from 78 percent in 1970 to 63 percent in 2010. The bottom line is that the Bureau has to invest substantially more resources each decade in an effort to keep pace with key results from prior enumerations.

**Figure 1: The Average Cost of Counting Each Housing Unit (in Constant 2010 Dollars) Has Escalated Each Decade While Mail Response Rates Have Declined**
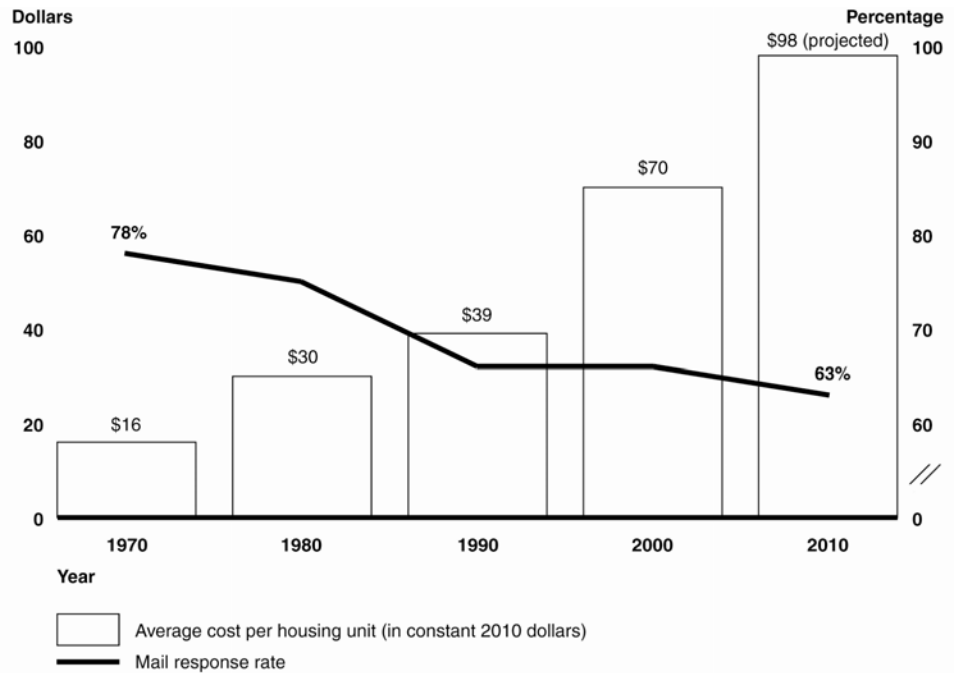


Source: GAO analysis of Census Bureau data.

Note: In the 2010 Census, the Bureau used only a short-form questionnaire. For this report, we use the 1990 and 2000 Census short-form mail response rate when comparing 1990, 2000, and 2010 mail-back response rates. Because Census short-form mail response rates are unavailable for 1980 and 1970, we use the overall response rate.

Therefore, as we noted in our 2010 report, in looking ahead toward the next Census, it will be vitally important to both identify lessons learned from the 2010 enumeration to improve existing census-taking activities, as well as to re-examine and perhaps fundamentally transform the way the Bureau plans, tests, implements, monitors, and evaluates future enumerations in order to address long-standing challenges.[10] Continued congressional oversight to help ensure the Bureau's reform efforts, as well as its management, culture, business practices, and systems, are all aligned with a cost-effective enumeration will also be critical.

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[10]GAO, *2010 Census: Data Collection Operations Were Generally Completed as Planned, but Longstanding Challenges Suggest Need for Fundamental Reforms*, GAO-11-193 (Washington, D.C.: Dec. 14, 2010).

Potential focus areas include new data collection methods such as using administrative records from other government agencies, including driver's licenses; better leveraging innovations in technology and social media to more fully engage census stakeholders and the general public on census issues; reaching agreement on a set of criteria that could be used to weigh the trade-offs associated with the need for high levels of accuracy on the one hand, and the increasing cost of achieving that accuracy on the other hand; and ensuring that the Bureau's approach to human capital management, collaboration, capital decision-making, knowledge sharing, and other internal functions are aligned toward delivering a more cost-effective headcount.[11]

The Bureau recognizes that it needs to fundamentally change its method of doing business, and has already taken some important first steps in addressing these and other re-examination areas. For example, the Bureau is rebuilding its research directorate to lead early planning efforts and has plans to evaluate the feasibility of using administrative records. Further, the Bureau has already developed a strategic plan for 2020 and other related documents that, among other things, outline the Bureau's mission and vision for 2020.

To help ensure these efforts stay on track and coalesce into a viable path toward a more cost-effective 2020 Census, in our December report we recommended that the Bureau issue a comprehensive operational plan that includes performance goals, milestones, cost estimates, and other critical information that could be reviewed by stakeholders and updated regularly. The Bureau generally agreed with our recommendation.

As the Bureau's past experience has shown, early investments in planning can help reduce the costs and risks of its downstream operations. Therefore, while the complete results of the 2010 Census—including a detailed assessment of the quality of the count—are still some years away, and Census Day 2020 is even further over the horizon, it is not too early for Congress and stakeholders to start considering the fundamental reforms needed to help ensure the next headcount is as cost-effective as possible. As part of this effort, at the request of Congress, we will continue to

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[11]GAO, *2010 Census: Data Collection Operations Were Generally Completed as Planned, but Longstanding Challenges Suggest Need for Fundamental Reforms*, GAO-11-193 (Washington, D.C.: Dec. 14, 2010).

review the Bureau's progress in evaluating the results of the 2010 Census and the rollout of more cost-effective options for 2020.

# New High-Risk Area

For 2011, we are designating one new high-risk area—Management of Federal Oil and Gas Resources.

GAO and others—including the Department of the Interior's Office of the Inspector General and Interior's Royalty Policy Committee—have identified significant problems with Interior's management of federal oil and gas resources, which provide an important source of energy for the United States, create jobs in the oil and gas industry, and generate billions of dollars annually in revenues that are shared between federal, state, and tribal governments. These include human capital and other challenges that jeopardize Interior's management of federal oil and gas resources. The April 2010 explosion and fire on the Deepwater Horizon drilling rig, which resulted in a tragic loss of life and catastrophic oil spill in the Gulf of Mexico, also increased attention on Interior's oversight of its oil and gas resources, including its efforts to manage risk associated with oil and gas exploration and production, as well as its permitting and inspection processes to ensure operational and environmental safety. The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling reported in January 2011 that this disaster was the product of several individual missteps and oversights by BP, Halliburton, and Transocean, which government regulators lacked the authority, the necessary resources, and the technical expertise to prevent.

Historically, within Interior, the Bureau of Land Management (BLM) managed onshore federal oil and gas leases, while the Minerals Management Service (MMS) managed offshore leases and collected royalties for all leases. In May 2010, in response to the Deepwater Horizon incident, the Secretary of the Interior announced a major reorganization of Interior's management of federal oil and gas resources. This reorganization eliminated MMS and transferred offshore oversight responsibilities to the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and revenue collection to a new Office of Natural Resource Revenue. Interior has acknowledged that this restructuring will be complicated and require careful and deliberate planning.

GAO is designating federal management of oil and gas resources, including production and revenue collection, as high risk because of (1) shortcomings in Interior's revenue collection policies, (2) weaknesses in Interior's human capital management, and (3) inherent challenges Interior faces in reorganizing its offshore and revenue collection functions. In recent years, GAO has made more than 50 recommendations to the Secretary of the Interior to address weaknesses in Interior's revenue

collection and human capital policies and modify its practices for managing oil and gas resources. Interior has been acting on many of these recommendations, but as of December 2010, many recommendations remain unimplemented and ongoing GAO work and other studies will likely identify additional challenges and recommendations. Interior will be challenged to successfully implement existing and future recommendations and undertake a major reorganization while operating in a constrained resource environment.

Specifically, our recent work has found the following:

**Revenue collection.** Our work has identified three major shortcomings in Interior's revenue collection policies, including ensuring that (1) the federal government receives a fair return on its oil and gas resources, (2) Interior completes its oil and gas production verification inspections, and (3) Interior's data on production and royalties are consistent and reliable. Specifically:

- In September 2008, GAO reported that Interior had not conducted a comprehensive evaluation of the federal oil and gas revenue system in over 25 years and that it did not have a process in place to evaluate whether this system was in need of reassessment.[1] At the time, GAO reported that Interior collected lower levels of revenues for oil and gas production than other oil and gas resource owners, including some U.S. states and other countries. For example, GAO reported that federal revenues for oil and gas produced in the Gulf of Mexico, according to a major study, were lower than 93 out of 104 resource owners.

  In addition, due to a lack of price flexibility in royalty rates—automatic adjustment of rates to changes in oil and gas prices or other market conditions—and the inability to change fiscal terms on existing leases, Interior and Congress were pressured to change royalty rates on an ad hoc basis, potentially resulting in billions of dollars in forgone revenues. For example, special lower royalty rates—referred to as royalty relief–granted on leases issued in the deepwater areas of the Gulf of Mexico from 1996 to 2000—a period when oil and gas prices and industry profits were much lower than they are today—could result in between $21 billion and $53

[1]GAO, *Oil and Gas Royalties: The Federal System for Collecting Oil and Gas Revenues Needs Comprehensive Reassessment*, GAO-08-691 (Washington, D.C.: Sept. 3, 2008).

billion in lost revenue to the federal government, compared with what it would have received without these provisions.

GAO recommended Interior conduct a comprehensive review of the federal oil and gas system using an independent panel. After Interior initially disagreed with our recommendations, we recommended that Congress consider directing the Secretary of the Interior to convene an independent panel to perform a comprehensive review of the federal system for collecting oil and gas revenue. More recently, Interior stated in an April 12, 2010, press release that in response to GAO's recommendation, it is undertaking a study it expects to complete in 2011 to inform decisions about federal lease terms, such as royalties, by consistently comparing the federal oil and gas fiscal systems with such systems of other countries. Specifically, Interior stated that the results of this study will enable it to ensure that its leasing policies give the public a fair return on federally owned oil and gas resources while balancing other objectives, including production and environmental quality. The results of the study may reveal the potential for greater revenues to the federal government.

- Our past work has also found that Interior's verification of the volume of oil and gas produced from federal leases—on which royalties are due to the federal government—does not provide reasonable assurance that operators are accurately measuring and reporting these volumes. For example, in March 2010, we reported that neither the Minerals Management Service (MMS) nor the Bureau of Land Management (BLM) had consistently met their statutory requirements or agency goals for oil and gas production verification inspections of certain federal leases—a key control for verifying oil and gas production.[2] For offshore leases, MMS just once met its goals to conduct oil and gas site security inspections and witness meter calibrations during fiscal years 2004 through 2008 in the four district offices we reviewed. For onshore leases, BLM met its oil and gas production verification goals one-third of the time for fiscal years 1998 through 2008 in the six field offices with reliable data we reviewed.

- We found that Interior does not have consistent and reliable data on the production and sale of oil and gas from federal leases and therefore lacks assurance that production and sales royalties are accurately reported and

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[2]GAO, *Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes*, GAO-10-313 (Washington, D.C.: Mar. 15, 2010).

paid. For example, we reported in October 2010 that Interior's data likely underestimated the amount of natural gas produced on federal leases that is released directly to the atmosphere (vented) or is burned (flared).[3] This vented and flared gas contributes to greenhouse gases and represents lost royalties. Accordingly, we made a number of recommendations to Interior to both improve its tracking of vented and flared gas and to reduce these emissions, which, if implemented, would increase the royalties due the federal government.

In addition, in July 2009, we reported on numerous instances in which oil and gas production data were missing or sales data appeared to be erroneous.[4] For example, we reported that MMS was missing about 5.5 percent of royalty reports for fiscal years 2006 and 2007 that were due on sales of oil and gas from leases in the Gulf of Mexico, potentially resulting in $117 million in uncollected royalties. For that same time period, we also found that significant amounts of data reported by royalty payors appeared erroneous. For example, we found that either Gulf of Mexico oil and gas sales values or sales volume appeared incorrect about 3.9 percent to 6.6 percent of the time.

Previously, in September 2008, we reported that MMS's royalty collection processes relied too heavily on company-reported oil and gas production figures to effectively verify the accuracy of royalty payments.[5] Based on our work, we concluded that a more consistent use of available third-party data to verify company-reported data could provide greater assurance that royalties are accurately paid and verified. Interior agreed with this assessment and has taken steps to reduce its reliance on company-reported data to verify royalties, although the effect remains uncertain.

In the same report, we also found that Interior did not have sufficient controls over changes to royalty and production data that companies reported to MMS. While companies are allowed by statute to revise data up to 6 years after they initially submit it, we found that MMS's

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[3]GAO, *Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases*, GAO-11-34 (Washington, D.C.: Oct. 29, 2010).

[4]GAO, *Mineral Revenues: MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties*, GAO-09-549 (Washington, D.C.: July 15, 2009).

[5]GAO, *Mineral Revenues: Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk*, GAO-08-893R (Washington, D.C.: Sept. 12, 2008).

information technology system allowed companies to continue to revise their data after 6 years. Further, MMS did not always recalculate royalties based on these revisions.

**Human capital.** BLM and MMS have encountered persistent problems in hiring, training, and retaining sufficient staff to meet a workload that is increasing as a result of rapid increases in oil and gas operations on federal lands and waters. In March 2010, we found that key BLM and MMS oil and gas inspection and engineering positions experienced high turnover rates and that the training offered for these positions was insufficient for carrying out the bureau's responsibilities.[6] For fiscal years 2004 and 2008, turnover rates for BLM's petroleum engineer technicians were above 50 percent in five of the nine field offices that we reviewed, and between 27 percent and 44 percent for MMS offshore inspectors in the four MMS district offices that we reviewed.

Moreover, neither BLM nor MMS provided consistent and formal training for key oil and gas staff. For example, BLM did not provide training for recently hired petroleum engineers—the staff who review and approve drilling permits—and did not require that staff pursue continuing education. Similarly, MMS did not have a formal training program for its offshore inspectors on how to verify oil and gas production. As result of these staffing and training shortfalls, Interior has been unable to successfully balance its multiple responsibilities to oversee oil and gas development on federal leases, placing both the environment and royalty collections at risk.

These human capital issues have been persistent. In June 2005, we reported that BLM lacked sufficient staff to manage the increasing demand for onshore oil and gas drilling permits while fulfilling its environmental protection responsibilities.[7] From fiscal years 1999 to 2004, the total number of onshore oil and gas drilling permits approved by BLM more than tripled, from 1,803 to 6,399. During this same time period, the eight BLM field offices that we reviewed were able to meet their goals for environmental inspections only about half of the time, in part because staff that would have performed these inspections were assigned to work on

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[6]GAO-10-313.

[7]GAO, *Oil and Gas Development: Increased Permitting Activity Has Lessened BLM's Ability to Meet Its Environmental Protection Responsibilities*, GAO-05-418 (Washington, D.C.: June 17, 2005).

drilling permits. Furthermore, staff from the majority of the field offices that we reviewed stated that increased oil and gas permitting responsibilities affected their ability to implement oil and gas resource monitoring programs, track the number of nonproducing wells and review the justification for allowing wells to sit idle, and ensure that reclamation efforts were successful.

GAO made a number of recommendations to address these issues. While Interior's newly established Bureau of Ocean Energy Management Regulation and Enforcement (BOEMRE) stated that it planned to hire additional staff with expertise in oil and gas inspections and engineering, these plans have not been fully implemented and it remains unclear whether Interior will be fully successful in hiring, training, and retaining these staff. Further, BLM's human capital challenges continue, yet this issue has not been addressed in Interior's reorganization plans.

**Reorganization.** In June 2010, Interior began implementing its plans to restructure its management of oil and gas resources by establishing BOEMRE, which is responsible for oil and gas leasing, drilling, and inspections, and the Office of Natural Resource Revenue (ONRR), which oversees the collection of royalties and other revenues. Interior plans to continue restructuring BOEMRE to establish two separate bureaus—the Bureau of Ocean Energy Management which will focus on leasing and permitting and the Bureau of Safety and Environmental Enforcement which will focus on inspection and enforcement functions. The Secretary of the Interior stated that dividing MMS's responsibilities among three separate bureaus will help ensure that each of the three newly established bureaus have a distinct and independent mission. Interior acknowledged that the restructuring will take until at least the end of 2011 and that separating these functions and their processes will be complicated and require careful and deliberate planning. As we have reported, agency reorganizations are complex and pose significant challenges to both agency management and staff and that the failure to adequately address—and often even consider—a wide variety of people and cultural issues is at the heart of unsuccessful transformation.[8] Finally, this reorganization does not address ongoing challenges with BLM's ability to address its human capital challenges.

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[8]GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

Interior's efforts to change and improve many of its current practices are an important first step to address material weaknesses in the existing system. For example, Interior has taken steps to improve the quality of its production and royalty data in addition to reducing its reliance on company-reported oil and gas production volumes to verify royalty payments. However, Interior may lack the resources and skills it needs to simultaneously address significant changes in its practices and effectively meet routine responsibilities while reorganizing the agency responsible for offshore oil and gas activities. In addition, it remains unclear if and how the reorganization will affect Interior's efforts to implement our many outstanding recommendations to improve its management of the federal oil and gas program, both offshore and onshore. If steps are not taken to effectively manage these challenges, the agency may face continued employee turnover at its senior levels and ongoing challenges hiring qualified new staff, further putting federal oil and gas resources and revenues at risk.

# Progress Being Made in Remaining High-Risk Areas

For the areas that remain on our 2011 High-Risk List, there have been important but varying levels of progress—in some areas enough progress for us to narrow the scope of the high-risk area. Several of the high-risk areas remaining on the High-Risk List required and subsequently received congressional oversight and legislation needed to make progress in addressing risks. Congress will continue to play an important role through its oversight and, where appropriate, through legislative action targeting both specific problems and the high-risk areas overall.

Top administration officials also have shown their commitment to ensuring that high-risk areas receive attention and oversight. OMB's Deputy Director for Management has held regular meetings with top agency officials to discuss plans for addressing high-risk areas. GAO has been pleased to participate in these meetings. Progress on resolving high-risk issues has been positive and is forming a foundation of accountability that, if sustained, could lead to significant movement toward addressing high-risk problems. Continued attention by OMB, concerted effort by agencies and GAO, as well as sustained congressional oversight are critical to making more progress; our experience has shown that perseverance is required to fully resolve high-risk areas.

Table 1 provides examples of congressional actions and high-level administration initiatives, discussed in more detail throughout this report, that have led to progress in addressing high-risk areas.

**Table 1: Examples of Congressional Actions and Administration Initiatives Leading to Progress on High-Risk Areas**

| High-risk area | Actions and initiatives |
|---|---|
| Revamping Federal Oversight of Food Safety | Food safety legislation that was signed into law in January 2011 expands FDA's oversight authority but does not apply to the federal food safety system as a whole. In March 2009, the President convened the Food Safety Working Group, demonstrating strong commitment and top leadership support for food safety. |
| Medicare and Medicaid Programs | Congress passed the Improper Payments Elimination and Recovery Act (IPERA) of 2010 to enhance reporting and recovering of improper payments. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 also contain provisions designed to help reduce improper payments in the Medicare and Medicaid programs. In addition, in November 2009, the President issued Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, and issued two additional memorandums in 2010 to help reduce and recover improper payments. |
| Modernizing the Outdated Financial Regulatory System | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) reforms the financial regulatory system in several ways that, depending on how the provisions are implemented, could begin to address many of the limitations of the financial regulatory system that GAO has identified. |
| Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests | In April 2010, the administration announced a reform initiative to strengthen and streamline the government's export control system by creating a single licensing agency, control list, enforcement coordination agency, and electronic licensing system. |
| Enforcement of Tax Laws | In March 2010, Congress passed the Hiring Incentives to Restore Employment Act, which included provisions that require financial institutions to report information on foreign bank accounts. IRS data show that compliance is very high when adequate information reporting exists. Congress passed other laws in 2008 that require reporting of securities' basis and businesses' credit card receipts. |
| DOD Weapon Systems Acquisition | The Weapon Systems Acquisition Reform Act of 2009 includes provisions to ensure programs are based on realistic cost estimates and to terminate programs that experience high levels of cost growth. In DOD's fiscal year 2010 and 2011 budget requests, the Secretary of Defense proposed ending all or part of at least a half dozen major defense acquisition programs that were over cost, behind schedule, or no longer suited to meet warfighters' current needs. |
| DOD Contract Management | Legislation in 2008 directed DOD to determine the number of and functions performed by contractors, in part to help identify functions that might be better performed by DOD employees. In March 2009, the administration proposed initiatives to improve contracting at all agencies, including DOD, in areas such as increasing competition and reducing the use of high-risk contracting strategies. |
| Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures | Since the 2009 update to GAO's High-Risk Series, the President directed an assessment of U.S. policies and structures for cybersecurity and appointed a national cybersecurity policy official who is responsible for coordinating the nation's cybersecurity policies and activities. |
| DOD Approach to Business Transformation | In the National Defense Authorization Acts for fiscal years 2008 and 2009, Congress codified the Chief Management Officer (CMO) position, created a deputy CMO (DCMO), required DOD to develop a strategic management plan, and required the secretaries of the military departments to designate their undersecretaries as CMOs and to develop business transformation plans. |

Source: GAO.

GAO has continued to work collaboratively with Congress, agency leaders, and OMB to resolve high-risk issues. Related to our high-risk work in fiscal year 2010, we issued 151 reports, delivered 67 testimonies to Congress, and prepared numerous other products, such as briefings and presentations. In addition, we documented nearly $27 billion in financial benefits and 522 nonfinancial benefits related to high-risk areas. These results are based on reviews spanning a wide range of issues on the High-Risk List. All of our recommendations are described in our reports and on our Web site, www.gao.gov, and together with our criteria for removal from the High-Risk List can form the foundation for addressing high-risk areas.

Progress has been made in a number of areas that remain on our 2011 High-Risk List, including in three areas—Strategic Human Capital Management, Managing Federal Real Property and DOD Support Infrastructure Management—for which the scope has been narrowed because of the progress that has been made.

- **Strategic Human Capital Management.** The federal government has made substantial progress in addressing its human capital challenges. For example, in 2002 and 2004, Congress provided agencies—individually and across the federal government—with additional authorities and flexibilities to manage the federal workforce. More recently, Congress enacted the Telework Enhancement Act of 2010, which is intended to ensure that agencies more effectively integrate telework into their management plans and agency cultures and to provide opportunities for more federal employees to telework. Also, OPM issued guidance on the availability and use of flexibilities in 2008, and, in 2010, undertook a major initiative to streamline and reform the federal hiring process. OPM also is expanding its assistance to agencies with more strategic approaches to human capital management. These changes demonstrate increased top level attention and clear progress toward more strategic management of the federal workforce.

  GAO, therefore, is narrowing the scope of this high-risk area to focus on the most significant challenges that remain to close current and emerging critical skills gaps in vital areas such as acquisitions, foreign language capabilities, and oil and gas management. Building on the progress that has been made, federal agencies need to continue to both take actions to address their specific challenges and to work with OPM and through the Chief Human Capital Officers Council to address critical skills gaps that cut across several agencies. Additional information on the planning, implementation, and measurement and evaluation actions needed to

address current and emerging critical skills gaps and hereby reduce risk in Strategic Human Capital Management is provided on page 52 of this report.

- **Managing Federal Real Property.** We found that real property data reliability and managing the deteriorating condition of facilities no longer remain high-risk issues due to governmentwide progress. Other real property management issues—such as excess and underutilized properties, overreliance on leasing, and protection of facilities—remain ongoing governmentwide concerns.

  The federal government has taken numerous steps since 2003 to improve the completeness and reliability of its real property data. In response to the 2004 Executive Order 13327 on Federal Real Property Asset Management, Senior Real Property Officers for the major real property holding agencies formed the Federal Real Property Council (FRPC) that supports real property reform efforts. The council, in conjunction with GSA, established the Federal Real Property Profile (FRPP) to meet the order's requirement for a single database that includes all real property under the control of executive branch agencies. FRPP contains asset-level information submitted annually by agencies on 25 high-level data elements, including four performance measures that enable agencies to track progress in achieving property management objectives. In response to our 2007 recommendation to improve the reliability of FRPP data, the Office of Management and Budget required, and agencies implemented, data validation plans that include procedures to verify that the data are accurate and complete.[1] Furthermore, GSA's Office of Governmentwide Policy (OGP), which acts as the database administrator of FRPP, instituted a data validation process whereby FRPP will not accept an agency's data until it has corrected any violations of established business rules and data checks. Our more recent analysis of the reliability of FRPP data found none of the basic problems we have previously found, such as missing data or inexplicably large changes between years.[2] Despite these improvements, agencies continue to improve their real property data for

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[1]GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, GAO-07-349 (Washington, D.C.: Apr. 13, 2007).

[2]In order to independently assess the reliability of FRPP data, we reviewed the fiscal year 2008 and 2009 data for domestic buildings and structures from the Departments of Energy, Homeland Security, the Interior, and Veterans Affairs, and the General Services Administration.

their own purposes. However, from a governmentwide perspective, OGP has sufficient standards and processes in place to consider the 25 elements in FRPP sufficiently reliable as a database describing the real property holdings of the federal government.

Federal agencies have also improved their ability to manage their repair and maintenance backlogs by conducting facility condition assessments, prioritizing repairs, and improving the definition of deferred repair and maintenance. All major real property-holding agencies have initiated facility condition assessments to identify repair and maintenance deficiencies associated with their assets and define or estimate their maintenance backlog. Furthermore, these agencies prioritize repair and maintenance for assets they consider to be important to their mission when deciding what projects to fund. Our 2008 review of six property-holding agencies did not identify any instances in which an agency's mission had been significantly hampered as a result of a repair and maintenance backlog.[3] FRPP performance measures, including condition index, mission dependency, and annual operating costs, enable governmentwide measurement of progress in addressing maintenance needs. In addition, the Federal Accounting Standards Advisory Board, in consultation with OMB and FRPC, is progressing in addressing our recommendation to provide a realistic estimate of the government's fiscal exposure to repair and maintenance costs by revising the definition for deferred maintenance and repairs. Despite these improvements in information, agencies continue to face challenges in reducing maintenance backlogs, although some agencies—such as GSA and the departments of Veterans Affairs and Interior—were able to address needed repairs and improve the condition of facilities through temporary funds they received through the American Recovery and Reinvestment Act of 2009. Additional information about the actions needed to reduce risks for Managing Federal Real Property is provided on page 58 of this report.

- **DOD Support Infrastructure Management.** Within the Department of Defense (DOD) Support Infrastructure Management high-risk area, the management and planning for defense facilities sustainment—maintenance and repair activities necessary to keep facilities in good working order—no longer remains high risk because DOD has made significant progress in that area. Other DOD support infrastructure

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[3]GAO, *Federal Real Property: Government's Fiscal Exposure from Repair and Maintenance Backlogs Is Unclear*, GAO-09-10 (Washington, D.C.: Oct. 16, 2008).

management issues—disposing of excess facilities and achieving efficiencies in base support—remain ongoing high-risk concerns.

We have previously found that the military services redirected sustainment funds to other purposes and facilities were not sufficiently maintained in good working order. DOD is more accurately assessing infrastructure requirements through efforts to improve real property inventory and facility data collection with ongoing implementation of its Real Property Assets Database and efforts to verify the accuracy of inventory records. Moreover, DOD's Senior Real Property Officer has certified the department's inventory data for inclusion in the General Services Administration's and Federal Real Property Council's Federal Real Property Profile. DOD also has developed a facilities sustainment model that provides a consistent and reasonable framework for preparing estimates of DOD's annual facility sustainment funding requirements. DOD's more accurate real property inventory data and facilities sustainment model effectively positions DOD to more accurately account for facilities inventory and facilities' condition, and can help to ensure that DOD requests sufficient funding to maintain the facilities in good working order.

The department has demonstrated strong commitment and top leadership support to address the risks and has the capacity to resolve the risks related to planning and management for facilities sustainment. More specifically, according to DOD officials, DOD issued guidance in 2007 requiring the services to budget funding of at least 90 percent of facilities' sustainment requirements in fiscal years 2009 through 2013 to provide a minimum funding level for sustainment across DOD and more consistency across the military services in sustainment budgeting. According to DOD, in fiscal year 2010, the services met the requirement to fund at 90 percent of sustainment needs. DOD's steps to accurately determine its facility sustainment needs and improve its budgeting process should help to arrest the rate of increase in the backlog of unfunded maintenance through timely facilities sustainment and thus help to improve DOD's efforts to better maintain the condition of its facilities. DOD is also improving facilities and enhancing service members' and their families' quality of life by leveraging private capital through the privatization of military family housing and other facilities such as barracks. For these reasons, we no longer believe that facilities sustainment remains high risk. However, DOD needs to maintain its current level of sustained commitment to ensure that it carries its progress to date through to a successful conclusion and we plan to continue to monitor this issue to determine if the desired results are achieved and sustained.

Regarding the two remaining high-risk concerns for DOD support infrastructure management issues—disposing of excess facilities and achieving efficiencies in base support—DOD has demonstrated leadership commitment and developed the capacity, in terms of people and resources, to address existing challenges for these two areas, but has not yet demonstrated sufficient progress in implementing corrective actions or fully developed corrective action plans. DOD needs to continue to implement its schedule for demolishing excess and surplus facilities in the inventory to achieve the high rates of demolition needed to dispose of remaining unneeded facilities. Additionally, the department needs to develop and implement a corrective action plan to achieve economies and efficiencies from base consolidation under its joint basing initiative. A more detailed discussion of these two remaining concerns is contained in the Department of Defense Support Infrastructure Management update on page 72 of this report.

Several additional examples of progress made to address high-risk issues underscore the importance of high-level attention by the executive branch and coordinated action by Congress and efforts by agencies to implement our recommendations and targeted corrective actions to address high-risk areas within the context of our criteria.

- **DOD Weapon Systems Acquisition.** While DOD still faces significant challenges in managing its weapon system programs, the past 3 years have seen DOD and Congress take meaningful steps toward addressing long-standing weapon acquisition issues. DOD made major revisions to its acquisition policies to place more emphasis on acquiring knowledge about requirements, technology, and design before programs start—thus putting it in a better position to field capabilities on time and at the estimated cost. Congress strengthened DOD's acquisition policies and processes by passing the Weapon Systems Acquisition Reform Act of 2009, which includes provisions to ensure programs are based on realistic cost estimates and to terminate programs that experience high levels of cost growth. The House Armed Services Committee Panel on Defense Acquisition Reform issued its final report in March 2010 and made additional recommendations to improve the performance of the defense acquisition system, many of which were incorporated into the Improve Acquisition Act of 2010.

In addition, DOD has started to reprioritize and rebalance its weapon system investments. In DOD's fiscal year 2010 and 2011 budget requests, the Secretary of Defense proposed ending all or part of at least a half dozen major defense acquisition programs that were over cost, behind

schedule, or no longer suited to meet the warfighters' current needs. Congress's support for several of the recommended terminations signaled a willingness to make difficult choices on individual weapon systems and DOD's weapon system investments as a whole. Further, the Undersecretary of Defense for Acquisition, Technology, and Logistics is beginning to implement a range of efficiency initiatives that focus on affordability, trade-offs, and portfolio reviews, consistent with past GAO recommendations.

These are all positive steps, but inconsistent implementation has hindered past DOD efforts to address this high-risk area. To build a more balanced and affordable portfolio of weapon programs and improve outcomes over the long term, DOD must still develop an analytical approach and empower portfolio managers to better prioritize capability needs while doing a better job of allocating resources. It must also work harder to ensure that its policy changes and initiatives are consistently put into practice and reflected in decisions made on individual acquisitions. Additional information about the actions needed to reduce risks for DOD Weapon Systems Acquisition is provided on page 86 of this report.

**DOD Supply Chain Management.** DOD has taken a major step toward improving management of supply inventories, a primary reason for the department's supply chain management program being on GAO's High-Risk List. Long-standing problems in this area have included high levels of inventory and ineffective and inefficient inventory management practices. In response to a legislative mandate, the department submitted its Comprehensive Inventory Management Improvement Plan to Congress in November 2010. The plan is aimed at improving the inventory management systems of the military departments and the Defense Logistics Agency with the objective of reducing the acquisition and storage of spare parts and other secondary inventory items that are excess to requirements. DOD reported that the total value of its secondary inventory was more than $91 billion in 2009 and that $10.3 billion (11 percent) of its secondary inventory has been designated as excess and categorized for potential reuse or disposal.

DOD's plan addresses the eight inventory management plan elements required by the statute.[4] For example, the plan includes efforts to (1)

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[4]GAO, *DOD's 2010 Comprehensive Inventory Management Improvement Plan Addressed Statutory Requirements, But Faces Implementation Challenges*, GAO-11-240R (Washington, D.C.: Jan. 7, 2011).

comprehensively review demand-forecasting procedures to identify and correct any systematic weaknesses in such procedures, (2) accelerate DOD's efforts to achieve total asset visibility, and (3) more aggressively pursue disposal reviews and actions on stocks identified for potential reuse or disposal. In addressing these and other elements of inventory management, the plan includes characteristics—such as a mission statement, problem definition, and performance measures—that our prior work has shown to be important in helping to establish a results-oriented management framework.

The development and issuance of the plan is a major step toward resolving long-standing problems that we and others have identified in prior reports and testimonies. Further, DOD has established working groups and an associated reporting structure intended to ensure actions are progressing as planned while monitoring for adverse effects on operational readiness. Nevertheless, DOD faces a number of implementation challenges, including aggressive timelines and benchmarking; the absence of estimates for the extent that additional resources would be required; delays in implementing new information systems; nonstandard definitions, processes, and procedures, and metrics across DOD components; and the need for coordination and collaboration among multiple types of stakeholders. Overcoming these challenges will be important to successfully implementing the plan and to achieving more efficient and effective management of DOD's supply inventories. To assist in continued congressional oversight of this area, GAO will evaluate DOD's implementation of its plan and, in response to a legislative mandate, issue a report not later than 18 months after the plan was submitted to Congress.

Three focus areas for improvement in this high-risk area are requirements forecasting, asset visibility, and materiel distribution. With the issuance of its November 2010 plan for improving inventory management practices, DOD has a corrective action plan to address requirements forecasting and other aspects of inventory management. DOD, however, has not yet developed detailed corrective action plans that address the other two focus areas of asset visibility and materiel distribution. In addition, DOD will need to fully implement a program for monitoring and independently validating the effectiveness and sustainability of corrective actions and will need to demonstrate progress in all three of the key focus areas. Key to DOD's ability to demonstrate progress in addressing supply chain management challenges is the development and implementation of outcome-based performance measures. Additional information about the

actions needed to reduce risks for DOD Supply Chain Management is discussed on page 81 of this report.

- **Revamping Federal Oversight of Food Safety.** For years, GAO has reported on the fragmented nature of federal food safety oversight. While the Food and Drug Administration (FDA) and U.S. Department of Agriculture (USDA) have primary oversight responsibilities, a total of 15 agencies collectively administer at least 30 food-related laws. As a first step that could address this fragmentation, in March 2009, the President convened the Food Safety Working Group, demonstrating strong commitment and top leadership support for food safety. The working group is co-chaired by the Secretaries of Health and Human Services and USDA and includes officials from federal agencies with key food safety responsibilities, including FDA. The working group has set priorities for federal food safety agencies, established goals, and taken steps designed to increase collaboration in some areas that cross regulatory jurisdictions. In particular, federal agencies have taken steps designed to increase collaboration on improving produce safety, reducing *Salmonella* contamination, and developing food safety performance measures. New food safety legislation that was signed into law in January 2011 strengthens a major part of the food safety system. It shifts the focus of FDA regulators from responding to contamination to preventing it, according to FDA, and expands FDA's oversight authority. However, it does not apply to the federal food safety system as a whole. Thus, food safety oversight remains fragmented and the agencies have not developed a governmentwide performance plan that includes results-oriented goals and performance measures, and information about resources. Such a plan could be used to guide corrective actions and monitor progress. Additional information about the actions needed to reduce risks for Revamping Federal Oversight of Food Safety is provided on page 111 of this report.

- **DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management.** Since the 2009 high-risk update, the Department of Energy's (DOE) National Nuclear Security Administration (NNSA) and Office of Environmental Management (EM) have continued to make progress addressing underlying weaknesses in their contract and project performance. During the last 2 years, DOE has taken a number of actions to implement the departmentwide corrective action plan it developed in 2008. For example, DOE has updated program and project management policies and guidance in an effort to improve the reliability of project cost estimates, better assess project risks, and better ensure project reviews are timely and useful and identify problems early. Specifically, DOE has updated its policies and guidance in November 2010 to require an independent cost estimate for projects with a

total cost of $100 million or greater before approving a project's cost and schedule baseline. Also, for projects with a total cost of $750 million or more and where critical new technologies are being developed, the updated guidance generally requires an assessment of the technology readiness level. DOE is also taking steps to ensure that contractors for large-scale projects are using an earned value management system that conforms to project management industry standards and that has been certified as reliable. An earned value system allows project managers to assess the extent to which the cost and schedule of work performed at any given point in time is in line with what had been planned. Finally, DOE is also restructuring its portfolio of projects to distinguish between capital asset projects and operating projects to better recognize the different issues faced by each. It is also breaking large projects into smaller, more manageable projects, when possible. DOE management, particularly in EM, has been proactive in working with GAO and the Office of Management and Budget—both through meetings and correspondence—to share information and perspectives on planned and actual improvements made.

These and other steps illustrate DOE's commitment to improving its contract and project management, but the results of these efforts must ultimately be demonstrated through improved project performance. DOE has generally met three of five criteria needed to remove NNSA and EM from the High-Risk List. Specifically, DOE has (1) demonstrated strong commitment and leadership, (2) demonstrated progress in implementing corrective measures, and (3) developed a corrective action plan that identifies root causes, effective solutions, and a near-term plan for implementing the solutions. Two criteria remain: having the capacity (people and resources) to resolve the problems, and monitoring and independently validating that the many corrective measures it has taken are both effective and sustainable over the long term. With regard to capacity, DOE's corrective action plan recognized capacity as one of the top 10 issues facing the department. Specifically, the plan said that the department lacked an adequate number of federal contracting and project personnel with the appropriate skills (such as cost estimating, risk management, and technical expertise) to plan, direct, and oversee project execution. These challenges are likely to continue as DOE's workforce ages and the department faces future budget constraints. Both NNSA and EM are taking steps to assess current and future staffing needs and are in the process of developing plans to address the shortfalls. In particular, we note EM's progress on hiring and training federal contracting and project personnel, as well as the development of alternative staffing arrangements to supplement EM employees' technical expertise with experts from the

U.S. Army Corps of Engineers and contractors from DOE national
laboratories. Perhaps more importantly, DOE must demonstrate that the
policy and process changes being made result in sustained improved
project performance—that is, that projects are being consistently brought
in on time and on budget and that they fulfill mission requirements.

Recent GAO work, however, has shown that both NNSA and EM continue
to struggle to develop credible and reliable cost estimates, meet cost and
schedule goals on projects, and overcome other related project
management challenges. With a combined annual budget of more than $15
billion and with missions often involving complex one-of-a-kind efforts,
consistent and rigorous contract and project management are critical.
NNSA is tasked with modernizing the nation's aging nuclear weapons
production facilities, a challenging effort that will take years and cost
billions of dollars. In an era of fiscal challenges, NNSA anticipates future
budget requests will include multibillion-dollar increases for capital asset
projects. EM faces ongoing complex and long-term challenges in removing
radioactive and hazardous chemical contaminants—left over from decades
of weapons production—from soil, groundwater, and facilities. Billions of
dollars have already been spent, and will continue to be spent over the
coming decades, to treat and dispose of this waste. Thus, until DOE can
consistently demonstrate that these recent changes to policies and
processes have actually resulted in improved performance on major
projects, NNSA and EM will remain on the High-Risk List. Additional
information about the actions needed to reduce risks for DOE's Contract
Management for the National Nuclear Security Administration and Office
of Environmental Management is provided on page 128 of this report.

- **Management of Interagency Contracting.** Federal agencies and the
  Office of Management and Budget (OMB) continue to make progress in
  strengthening the management of interagency contracting as a result of
  demonstrated commitment and leadership support for addressing
  identified problems. In congressionally required reviews of selected
  agencies' use of interagency contracts to make purchases on behalf of the
  Department of Defense (DOD), agency inspectors general have found that
  agencies have demonstrated progress addressing shortcomings in their
  interagency contracting practices. For example, a review of DOD
  purchases through the General Services Administration (GSA) found that
  GSA had made significant progress over the past several years in
  strengthening controls over the management, monitoring, and reporting of
  client funds. Similarly, the National Institutes of Health (NIH) and DOD
  signed a formal Memorandum of Agreement that outlines the roles and
  responsibilities of each party in using NIH contracts to procure goods and

services for DOD. However, these reviews have also highlighted persistent problems with DOD users that request goods and services through interagency contracts, in areas such as acquisition planning and contract administration, demonstrating a need for DOD to continue to focus on addressing these deficiencies.

OMB has similarly committed to improving interagency contracting across government. In August 2010, OMB reported on its efforts to strengthen interagency contracting practices, as well as challenges that remain. For example, OMB surveyed 24 agencies on efforts taken to implement prior OMB guidance that was designed to improve the management and use of interagency contracting. The guidance emphasizes that the use of interagency contracting is a shared responsibility between the requesting and servicing agencies and includes a checklist of roles and responsibilities for agencies throughout the acquisition life cycle. OMB's survey found that most agencies had reported implementing at least some of the internal controls called for in the guidance, such as adequately documenting decisions to use another agency's contract and conducting a cost effectiveness analysis when deciding to use an interagency contract. However, agencies need to ensure they monitor and validate that users of interagency contracts comply with the guidance to maximize the value of these management controls. OMB has established a corrective action plan to implement GAO's recent recommendations designed to provide better transparency and a more coordinated approach in awarding interagency contracts. OMB plans to issue guidance on the creation and management of new multiagency contracts and is currently exploring different options for improving the amount of information available on existing interagency contracts. While these initiatives are promising, their success will be contingent on continued management attention.

Finally, congressional initiatives to provide oversight and improve management of interagency contracting have also contributed to sustaining progress in this area. In 2008, Congress enacted legislation which directed that the Federal Acquisition Regulation be amended to require that agencies establish business cases when creating certain types of interagency contracts. This legislation also directed that federal procurement regulations include additional management controls for interagency acquisitions; these new requirements were recently incorporated into the Federal Acquisition Regulation through an interim rule. Recent congressional oversight hearings on the management of interagency contracting have also served to underscore the importance of continued improvement in the use of this acquisition method.

To sustain progress and further improve the management of interagency contracting, OMB and federal agencies must continue to focus on addressing identified deficiencies in the use, management, and transparency of these contracts. Agencies also must take steps to ensure compliance with OMB's interagency contracting guidance to maximize the value of this contracting method. Additional information on the actions needed to improve the Management of Interagency Contracting is discussed on page 136 of this report.

- **Implementing and Transforming DHS.** The Department of Homeland Security (DHS) continues to make progress in implementing and transforming its acquisition, information technology, financial, and human capital management functions. Senior leaders at the department, including the Secretary and Deputy Secretary of Homeland Security, have continued to demonstrate strong commitment and support to addressing this high-risk area by, for example, periodically meeting with GAO to discuss DHS's plans and efforts. DHS has also developed a strategy for addressing the high-risk designation and resolving its management challenges, and, in January 2011, provided us with an updated strategy. Among other things, the strategy includes corrective action plans for addressing challenges within each management function and designates senior officials responsible for implementing corrective actions identified in those plans. Going forward, we will be providing DHS with feedback on this strategy and monitoring its implementation.

In addition, DHS has made progress in strengthening its management functions and integrating those functions with and across the department and its components. For example, DHS has revised its acquisition and information technology management oversight policies to include more detailed guidance to inform departmental decision making. Within financial management, DHS has reduced the number of conditions at the component level contributing to departmentwide material weaknesses. DHS has also issued human capital plans, such as its Workforce Strategy for Fiscal Years 2011-2016, containing goals, objectives, and measures for human capital management at the department. Further, DHS has taken action to integrate its management functions by, among other things, establishing common policies within each function and developing a revised management integration plan that identifies initiatives for driving management integration at the department.

While these are positive steps, DHS needs to address significant management weaknesses in acquisition, financial management, human capital, and information technology by, for example, validating key

acquisition documents during the acquisition review process, obtaining and sustaining unqualified audit opinions on departmentwide financial statements, implementing its workforce strategy, and enhancing its IT investment practices. DHS also needs to continue to demonstrate measurable, sustainable progress in addressing its management challenges and implementing corrective actions to improve and integrate its management functions within and across the department and its components. Additional information on the actions needed to reduce risks for Implementing and Transforming DHS is provided on page 90 of this report.

# Overviews for Each High-Risk Area

Overall, the government continues to take high-risk problems seriously and is making long-needed progress toward correcting them. Congress has also acted to address several individual high-risk areas through hearings and legislation. Continued perseverance in addressing high-risk areas will ultimately yield significant benefits. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of our national government, and ensure the ability of government to deliver on its promises.

The following pages provide overviews of each of the 30 high-risk areas on our updated list. The overviews show (1) why the area is high risk; (2) the actions that have been taken and that are under way to address the problem since our last update, as well as the issues that are to be resolved; and (3) what remains to be done to address the risk. Each of these high-risk areas is described on our High Risk and Other Major Government Challenges Web site, www.gao.gov/highrisk/. The Web Site is updated regularly to reflect newly issued GAO reports and recommendations, as well as agencies' progress in implementing our recommendations.

# Management of Federal Oil and Gas Resources (New)

**Why Area Is High Risk**

GAO's work has identified continued challenges in the Department of the Interior's management of federal oil and gas on leased federal lands and waters; specifically, (1) Interior does not have reasonable assurance that it is collecting its share of revenue from oil and gas produced on federal lands; (2) Interior continues to experience problems in hiring, training and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters; and (3) Interior is currently engaged in a broad reorganization of both its offshore oil and gas management and revenue collection functions and there are many open questions about whether Interior has the capacity to undertake such a reorganization while continuing to provide reasonable assurance that billions of dollars of revenue owed the public are being properly assessed and collected as well as managing oil and gas exploration and production on federal lands and waters. As a result, GAO has concluded that management of federal oil and gas resources is a high-risk area.

Federal oil and gas resources provide an important source of energy for the United States, create jobs in the oil and gas industry, and generate billions of dollars annually in revenues that are shared between federal, state, and tribal governments. Revenue generated from federal oil and gas production is one of the largest nontax sources of federal government funds, accounting for about $9 billion in fiscal year 2009. Also, the explosion onboard the Deepwater Horizon and oil spill in the Gulf of Mexico in April 2010 emphasized the importance of Interior's management of permitting and inspection processes to ensure operational and environmental safety. The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling reported in January 2011 that this disaster was the product of several individual missteps and oversights by BP, Halliburton, and Transocean, which government regulators lacked the authority, the necessary resources, and the technical expertise to prevent.

Historically, Interior's Bureau of Land Management (BLM) managed onshore federal oil and gas activities while the Minerals Management Service (MMS) managed offshore activities and collected royalties for all leases. Interior recently began restructuring its oil and gas program, transferring offshore oversight responsibilities to the newly created Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and revenue collection to a new Office of Natural Resource Revenue.

# What GAO Found

Interior faces ongoing challenges in three broad areas, including:

- *Revenue collection.* In 2008, GAO reported that Interior collected lower levels of revenues for oil and gas production than all but 11 of 104 oil and gas resource owners whose revenue collection systems were evaluated in a comprehensive industry study—these resource owners included many other countries as well as some states. GAO recommended that Interior undertake a comprehensive reassessment of its revenue collection policies and processes. Interior has commissioned such a study in response to GAO's September 2008 report, which it expects to complete in 2011. The results of the study may reveal the potential for greater revenues to the federal government. GAO also reported in 2010 that neither BLM nor MMS had consistently met their statutory requirements or agency goals for oil and gas production verification inspections. Without such verification, Interior cannot provide reasonable assurance that the public is collecting its legal share of revenue from oil and gas development on federal lands and waters. In addition, GAO reported in 2009 on numerous problems with Interior's efforts to collect data on oil and gas produced on federal lands, including missing data, errors in company-reported data on oil and gas production, sales data that did not reflect prevailing market prices for oil and gas, and a lack of controls over changes to the data that companies reported. As a result of Interior's lack of consistent and reliable data on the production and sale of oil and gas from federal lands, Interior could not provide reasonable assurance that it was assessing and collecting the appropriate amount of royalties on this production. GAO made a number of recommendations to Interior to improve controls on the accuracy and reliability of royalty data. Interior generally agreed with GAO's recommendations and is working to implement many of them, but these efforts are not complete and it is uncertain at this time if they will be fully successful.

- *Human capital.* GAO has reported that BLM and MMS have encountered persistent problems in hiring, training, and retaining sufficient staff to meet its oversight and management of oil and gas operations on federal lands and waters. For example, in 2010, GAO found that BLM and MMS experienced high turnover rates in key oil and gas inspection and engineering positions. As a result, Interior faces challenges meeting its responsibilities to oversee oil and gas development on federal leases, potentially placing both the environment and royalties at risk. GAO made recommendations to address these issues. While Interior's reorganization of MMS includes plans to hire additional staff with expertise in oil and gas inspections and engineering, these plans have not been fully implemented and it remains unclear whether Interior will be fully successful in hiring, training, and retaining these staff. Further, human capital issues also exist

in BLM and the management of onshore oil and gas, and these issues have not been addressed in Interior's reorganization plans.

- *Reorganization.* In May 2010, the Secretary of the Interior announced plans to reorganize MMS—its bureau responsible for overseeing offshore oil and gas activities and collecting royalties—into three separate bureaus. The Secretary of the Interior stated that dividing MMS's responsibilities among three separate bureaus will help ensure that each of the three newly established bureaus have a distinct and independent mission. While this reorganization may eventually lead to more effective operations, GAO has reported that organizational transformations are not simple endeavors and require the concentrated efforts of both leaders and employees to realize intended synergies and accomplish new organizational goals. One key practice that GAO has identified for effective organizational transformation is to balance continued delivery of services with transformational activities. However, we are concerned about Interior's capacity to find the proper balance given its history of management problems and challenges in the human capital area. Specifically, GAO is concerned about Interior's ability to undertake this reorganization while providing reasonable assurance that billions of dollars of revenues owed the public are being properly assessed and collected and that oversight of oil and gas exploration and production on federal lands and waters maintains an appropriate balance between efficiency and timeliness on one hand, and protection of the environment and operational safety on the other. In addition, Interior's reorganization efforts do not address BLM's ongoing challenges with its permitting and inspections programs and human capital challenges.

# What Remains to Be Done

Interior must successfully address the challenges GAO has identified, implement open recommendations, and meet its routine responsibilities to manage federal oil and gas resources in the public interest, while managing a major reorganization that has the potential to distract agency management from other important tasks and put additional strain on Interior staff. While Interior recently began implementing a number of GAO recommendations, including those intended to improve the reliability of data necessary for determining royalties, the agency has yet to fully implement a number of recommendations, including those intended to (1) provide reasonable assurance that oil and gas produced from federal leases is accurately measured and that the public is getting an appropriate share of oil and gas revenues, and (2) address its long-standing human capital issues.

## GAO Contact

For additional information about this high-risk area, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

## Related GAO Products

*Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases.* GAO-11-34. Washington, D.C.: October 29, 2010.

*Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes.* GAO-10-313. Washington, D.C.: March 15, 2010.

*Offshore Oil and Gas Development: Additional Guidance Would Help Strengthen the Minerals Management Service's Assessment of Environmental Impacts in the North Aleutian Basin.* GAO-10-276. Washington, D.C.: March 8, 2010.

*Energy Policy Act of 2005: Greater Clarity Needed to Address Concerns with Categorical Exclusions for Oil and Gas Development under Section 390 of the Act.* GAO-09-872. Washington, D.C.: September 16, 2009.

*Mineral Revenues: MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties.* GAO-09-549. Washington, D.C.: July 15, 2009.

*Oil and Gas Leasing: Interior Could Do More to Encourage Diligent Development.* GAO-09-74. Washington, D.C.: October 3, 2008.

*Mineral Revenues: Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk.* GAO-08-893R. Washington, D.C.: September 12, 2008.

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*Oil and Gas Royalties: Royalty Relief Will Cost the Government Billions of Dollars but Uncertainty Over Future Energy Prices and Production Levels Make Precise Estimates Impossible at this Time.* GAO-07-590R. Washington, D.C.: April 12, 2007.

*Oil and Gas Development: Increased Permitting Activity Has Lessened BLM's Ability to Meet Its Environmental Protection Responsibilities.* GAO-05-418. Washington, D.C.: June 17, 2005.

*Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations.* GAO-03-669. Washington, D.C.: July 2, 2003.

# Modernizing the Outdated U.S. Financial Regulatory System

The United States continues to recover from the aftermath of the worst financial crisis in more than 75 years, which led to federal assistance being provided to many firms, including the two large housing-related government sponsored enterprises (GSE). These events clearly demonstrated that the U.S. financial regulatory system was in need of significant reform. GAO designated reform of the financial regulatory system as a high-risk area in 2009.

During the past few decades, the U.S. financial regulatory system failed to adapt to significant changes. First, although the U.S. financial system increasingly became dominated by large interconnected financial conglomerates, no single regulator was tasked with monitoring and assessing the risks that these firms' activities posed across the entire financial system. Second, various entities, such as nonbank mortgage lenders, hedge funds, and credit rating agencies, were not subject to sufficiently comprehensive regulation and oversight, despite their critical roles in financial markets. Third, the regulatory system was not effective at providing key information and protections for new and more complex financial products for consumers and investors. Making changes that better position regulators to oversee firms and products that pose risks to the financial system and consumers and to adapt to new products and participants as they arise is essential to reduce the likelihood that the financial markets will experience another financial crisis similar to the most recent one. Losses from risky mortgage products also resulted in two large housing-related GSEs being placed into government conservatorship.

In the last year, policymakers have taken significant actions intended to reform the U.S. financial regulatory system to address the risks associated with evolving financial firms, markets, and products. After considerable debate within the administration and Congress, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) was enacted. The act's reforms aim to better position the financial regulatory system in areas addressing the changes and risks that GAO identified.

- A new Financial Stability Oversight Council made up of the various financial regulators was created to identify risks to U.S. financial stability, including risks posed by large, interconnected financial conglomerates. Reducing the potential for systemic risk posed by the interconnectedness

of firms was also addressed by new requirements for many over-the-counter derivatives to be cleared through clearinghouses and traded on exchanges.

- Additional requirements and oversight have also been placed on hedge funds, credit rating agencies, and other market participants previously subject to less regulation.

- A new Bureau of Consumer Financial Protection has been created to have broad regulatory responsibilities for mortgage loans and other consumer financial products, although securities, futures, and insurance products are exempt.

These changes represent significant steps in this high-risk area. However, much of the work to implement these new entities and requirements and address the role of the government in mortgage markets remains.

## What Remains to Be Done

The Dodd-Frank Act includes many provisions that are intended to improve the U.S. financial regulatory system. However, many of the act's changes, including new regulatory structures, agencies, and requirements, are yet to be implemented, and many decisions by regulators as to how new regulations will address various problem areas are forthcoming. For example, the new oversight council has only recently begun meetings to fulfill its mission. Similarly, financial regulators have yet to develop and issue many of the rules necessary to fully implement various changes, including those related to proprietary trading, trading and clearing of over-the-counter derivatives, and others. Until these new structures, requirements, and entities are in place, fully staffed, and functioning effectively, the act's intent to reform the financial system will not be achieved. Policymakers also must determine how to reform the housing GSEs and the extent of government involvement in housing finance going forward.

## GAO Contact

For additional information about this high-risk area, contact Orice Williams Brown at (202) 512-8678 or williamso@gao.gov.

# Related GAO Products

*Troubled Asset Relief Program: Bank Stress Test Offers Lessons as Regulators Take Further Actions to Strengthen Supervisory Oversight.* GAO-10-861. Washington, D.C.: September 29, 2010.

*Life Insurance Settlements: Regulatory Inconsistencies May Pose a Number of Challenges.* GAO-10-775. Washington, D.C.: July 9, 2010.

*Financial Markets Regulation: Financial Crisis Highlights Need to Improve Oversight of Leverage at Financial Institutions and across System.* GAO-10-555T. Washington, D.C.: May 6, 2010.

*Federal Deposit Insurance Act: Regulators' Use of Systemic Risk Exception Raises Moral Hazard Concerns and Opportunities Exist to Clarify the Provision.* GAO-10-100. Washington, D.C.: April 15, 2010.

*Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises' Long-term Structures.* GAO-10-144T. Washington, D.C.: October 8, 2009.

*Financial Regulation: Recent Crisis Reaffirms the Need to Overhaul the U.S. Regulatory System.* GAO-09-1049T. Washington, D.C.: September 29, 2009.

*Financial Markets Regulation: Financial Crisis Highlights Need to Improve Oversight of Leverage at Financial Institutions and across System.* GAO-09-739. Washington, D.C.: July 22, 2009.

*Fair Lending: Data Limitations and the Fragmented U.S. Financial Regulatory Structure Challenge Federal Oversight and Enforcement Efforts.* GAO-09-704. Washington, D.C.: July 15, 2009.

*Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System.* GAO-09-216. Washington, D.C.: January 8, 2009.

# Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability

## Why Area Is High Risk

In July 2009, GAO added the U.S. Postal Service's (USPS) financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based restructuring. Amid challenging economic conditions, a changing business environment, and declining mail volumes, USPS is facing a deteriorating financial situation in which it does not have sufficient revenues to cover its expenses and financial obligations.

Mail volume has declined from 213 billion pieces in fiscal year 2006 to 171 billion pieces in fiscal year 2010—a decline of about 20 percent. USPS expects mail volume to decline further to about 150 billion pieces by 2020. This trend exposes weaknesses in USPS's business model, which has relied on mail volume growth to help cover costs. USPS actions to improve its financial condition have been limited in part by statutory and regulatory requirements, such as those related to closing unneeded facilities.

## What GAO Found

USPS cannot fund its current level of service and operations from its revenues and urgently needs to restructure to reflect changes in mail volume, revenue, and use of the mail. Although USPS reports $12.5 billion in cost savings since fiscal year 2006, it has not been able to cut costs fast enough to offset the large decline in mail volume and revenue—particularly costs related to its workforce, retail and processing networks, and delivery services. Further, its revenue initiatives have had limited results. USPS can borrow up to $3 billion from the Treasury annually but expects to reach its statutory $15 billion borrowing limit in fiscal year 2011. USPS must align its costs with revenues, generate sufficient funding for capital investment, and manage its growing debt (see table 2).

**Table 2: Postal Service Financial Results and Projections, Fiscal Years 2006 through 2011**

Dollars in billions

| Fiscal year | Net income (loss) | Total revenues | Total expenses | Outstanding debt |
|---|---|---|---|---|
| 2006 | $0.9 | $72.8 | $71.9 | $2.1 |
| 2007 | (5.1) | 75.0 | 80.1 | 4.2 |
| 2008 | (2.8) | 75.0 | 77.8 | 7.2 |
| 2009 | (3.8) | 68.1 | 71.9 | 10.2 |
| 2010 | (8.5) | 67.1 | 75.6 | 12.0 |
| 2011 (projected) | (6.4) | 67.7 | 74.1 | 15.0 |

Source: USPS.

In March 2010, USPS issued a 10-year Action Plan, as suggested by GAO when it added USPS to its High-Risk List, that included actions for Congress and USPS to take to achieve financial viability. The plan included restructuring its retiree health benefits payments, eliminating Saturday delivery, expanding access to retail services, establishing a more flexible workforce, and expanding products and services. In April 2010, GAO reported on strategies and options for USPS to generate revenues, reduce costs, and increase efficiency (see table 3). Options included reducing compensation and benefit costs—which constitute about 80 percent of expenses—and optimizing networks to eliminate excess capacity. Several bills were introduced in 2010 that included provisions to restructure USPS benefit payments and address barriers to implementing USPS's Action Plan. These bills were not enacted.

USPS has yet to fully implement its Action Plan. USPS's actions alone under its existing authority will not be sufficient to achieve sustainable financial viability. Congress, USPS, and other stakeholders need to reach agreement on a package of actions that would allow USPS to modernize its services to meet changing customer needs, and remove barriers restricting USPS actions, which in turn would permit USPS to optimize its networks and workforce so that it can become more efficient and reduce costs.

# What Remains to Be Done

Congress needs to approve a comprehensive package of actions to improve USPS's financial viability by (1) modifying its retiree health benefit cost structure in a fiscally responsible manner; (2) facilitating USPS cost reduction, such as by modernizing and optimizing postal networks and workforce; and (3) requiring any binding arbitration in the negotiation process for USPS labor contracts to take USPS's financial condition into account. USPS needs to take more aggressive action to reduce costs.

The following table summarizes selected strategies and options for action by Congress and USPS to address USPS's financial viability, with some options requiring collaboration with unions through collective bargaining.

**Table 3: Strategies and Options to Facilitate Progress toward Financial Viability**

| Challenges | Options for USPS | Options for Congress |
|---|---|---|
| **Strategy: Reduce compensation and benefits costs** | | |
| *Workforce size:* <br><br> About 300,000 postal employees are expected to retire through 2020. <br><br> Collective bargaining agreements include limits on outsourcing. <br><br> Postal unions are concerned about the loss of jobs paying a middle-class wage and benefits to private-sector jobs with lower wages and no benefit guarantees. | Reduce the size of the workforce through retirements and outsourcing, where it is cost-effective to do so. | |
| *Wages*: USPS is required to maintain compensation and benefits comparable to the private sector, and wages account for about one-half of USPS's costs. | Reduce wage costs, for example, through a two-tiered pay system that would pay new hires lower wages and "grandfather" employees in the current system. | Require arbitrators to consider USPS's financial condition when making binding arbitration decisions. |
| *Benefits:* <br><br> USPS benefits account for about 30 percent of USPS's costs. USPS is required to make annual multibillion-dollar retiree health benefit payments. <br><br> Employees eligible for workers' compensation benefits can continue these more generous benefits even when eligible to retire. | Reduce benefit costs by reducing USPS health and life insurance contribution rates for active employees to levels comparable to those paid by other federal agencies. | Defer costs by revising funding requirements for retiree health benefits. <br><br> Revise workers compensation laws for employees eligible for retirement. |
| *Workforce mix and work rules*: USPS has a high ratio of full-time career employees—about 78 percent—and wants flexibility to hire more part-time employees. | Adjust workforce mix, for example, by using more part-time staff. | |
| **Strategy: Reduce other operations and network costs and improve efficiency** | | |
| USPS has costly excess capacity and inadequate flexibility to quickly reduce costs in its retail, processing, and delivery networks. <br><br> Closing facilities has been limited by political, employee, union, and community opposition to potential job losses. <br><br> *Retail*: Legal restrictions limit its ability to close certain types of post offices. <br><br> *Delivery*: Delivery is the largest cost segment, labor-intensive, and required by USPS annual appropriation to be provided 6 days a week. | *Mail processing*: <br> Close unneeded facilities. <br> Relax delivery standards to facilitate closures or consolidations. <br><br> *Retail:* <br> Optimize USPS retail facility network (including hours and locations). <br> Move more retail services to private stores and self-service and close unneeded retail facilities. <br><br> *Delivery*: Expand use of more cost-efficient delivery, such as cluster boxes. <br><br> *Field structure*: Reduce the number of field administrative offices. | *Mail processing*: Support having USPS reduce excess capacity by closing some of its major mail processing facilities. <br><br> *Retail*: Remove statutory and appropriations language restricting USPS's ability to close some of its 36,500 retail facilities. <br><br> *Delivery*: Remove appropriations language requiring 6-day delivery. |

| Challenges | Options for USPS | Options for Congress |
|---|---|---|
| **Strategy: Generate revenues through product and pricing flexibility** | | |
| The changing use of the mail is projected to continue limiting USPS's ability to generate sufficient revenues.<br><br>Rate increases for market-dominant products are limited by the inflation-based price cap.<br><br>Large rate increases may lower USPS revenues in the long run and add to its excess capacity.<br><br>In fiscal year 2009, USPS lost $1.7 billion from products with revenues that did not cover costs, mainly Periodicals and Standard Mail Flats (e.g., catalogs). | Revise pricing for market-dominant products, such as First-Class Mail and Standard Mail.<br><br>Address loss-making products by better aligning prices and costs.<br><br>Provide volume incentives for certain types of bulk business mail.<br><br>Develop new postal products and product enhancements.<br><br>Provide incentives by simplifying complex rules for mail preparation. | Determine whether preferential pricing required by law for loss-making products should continue.<br><br>Broaden USPS authority to enter into partnerships with state and local governments. |

Source USPS.

## GAO Contact

For additional information about this high-risk area, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

## Related GAO Products

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*U.S. Postal Service: Mail Processing Network Initiatives Progressing, and Guidance for Consolidating Area Mail Processing Operations Being Followed.* GAO-10-731. Washington, D.C.: June 16, 2010.

*U.S. Postal Service: Action Needed to Facilitate Financial Viability.* GAO-10-601T. Washington, D.C.: April 22, 2010.

*U.S. Postal Service: Action Needed to Facilitate Financial Viability.* GAO-10-624T. Washington, D.C.: April 15, 2010.

*U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability.* GAO-10-455. Washington, D.C.: April 12, 2010.

*U.S. Postal Service: Financial Crisis Demands Aggressive Action.* GAO-10-538T. Washington, D.C.: March 18, 2010.

*High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability.* GAO-09-937SP. Washington, D.C.: July 28, 2009.

*U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable.* GAO-09-674T. Washington, D.C.: May 20, 2009.

*U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs.* GAO-09-332T. Washington, D.C.: January 28, 2009.

*U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services.* GAO-08-41. Washington, D.C.: December 10, 2007.

*U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation.* GAO-07-717. Washington, D.C.: June 21, 2007.

# Funding the Nation's Surface Transportation System

## Why Area Is High Risk

The nation's surface transportation system is critical to the economy and affects the daily life of most Americans. However, the system is under growing strain, and the cost to repair and upgrade the system to safely and reliably meet current and future demands is estimated in the hundreds of billions of dollars. The demand for infrastructure improvements may exceed what the nation can afford. Moreover, recent increases in spending for surface transportation programs have not commensurately improved system performance because many programs do not effectively address key challenges, federal goals and roles are unclear, programs lack links to performance, and some programs do not use the best tools and approaches to ensure effective investment decisions.

## What GAO Found

**Highways and transit.** Revenues to support the Highway Trust Fund—the major source of federal highway and transit funding—are eroding. To supplement these revenues, which are derived from motor fuel and other highway use taxes, Congress has transferred over $30 billion from general revenues to the Highway Trust Fund since 2008. This approach to augmenting transportation funding is not sustainable in the face of the federal government's growing fiscal challenge. GAO's long-term simulations show that absent policy changes, the federal government faces unsustainable growth in deficits and debt. Alternative financing approaches, such as public-private partnerships and bonding strategies, can help meet demands, but these, too, can be forms of debt that must be repaid. New revenues for transportation infrastructure investments can come only from taxes and fees, and ultimately major changes in transportation spending, revenues, or both will be needed to bring the two into balance.

**Passenger rail.** Amtrak's reliance on federal financial support—about $1.5 billion in annual subsidies—is likely to continue. Even with $1.3 billion in one-time capital funds from the American Recovery and Reinvestment Act of 2009 (Recovery Act), Amtrak has estimated capital needs of about $52 billion for Northeast Corridor improvements through 2030 and about $23 billion for locomotive and passenger car replacement by 2040. The federal government finances nearly all of Amtrak's capital costs. In response to the Passenger Rail Investment and Improvement Act of 2008, which reauthorized federal support for intercity passenger rail service, Amtrak and the Department of Transportation (DOT) recently established minimum performance and service quality standards for Amtrak. In addition, Amtrak has taken measures to improve its financial management. However, these actions are too recent to determine how

they will affect Amtrak's financial performance, the need for federal subsidies, and the targeting of subsidies to achieve public benefits.

**Freight rail.** Freight rail currently moves about 40 percent of the goods shipped nationwide (as measured by ton-miles), and DOT expects the demand for freight rail service to increase 88 percent by 2035. The federal government has begun to finance freight railroad infrastructure improvements expected to generate public benefits. For example, in 2010 DOT awarded over $300 million in Recovery Act grants for such improvements. However, the federal role with regard to freight rail is still being defined, and the sustainability of future investments is unclear given the growing federal fiscal challenge. Decisions about future federal investments will involve trade-offs between potential gains in economic efficiency from freight rail improvements and the benefits of alternative uses of funds. Identifying the public benefits of federal investments in freight projects may also be challenging, as will determining how best to leverage investments in this sector.

## What Remains to Be Done

GAO has called for fundamental reexamination and reform of the nation's surface transportation policies to ensure (1) the federal role is based on well-defined national goals and interests, (2) performance and accountability for results, and (3) a fiscally sustainable program. Congressional reauthorization of federal surface transportation programs presents a timely opportunity to address the need for reform. These actions have not occurred in large part because the current multiyear authorization for surface transportation programs expired in 2009, and the administration has not presented a reauthorization proposal. Existing programs have been funded since then through temporary extensions.

## GAO Contact

For additional information about this high-risk area, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

## Related GAO Products

*Statewide Transportation Planning: Opportunities Exist to Transition to Performance-Based Planning and Federal Oversight.* GAO-11-77. Washington, D.C.: December 15, 2010.

*Federal Transit Programs: Federal Transit Administration Has Opportunities to Improve Performance Accountability.* GAO-11-54. Washington, D.C.: November 17, 2010.

*Highway Bridge Program: Condition of Nation's Bridges Shows Limited Improvement, but Further Actions Could Enhance the Impact of Federal Investment.* GAO-10-930T. Washington, D.C.: July 21, 2010.

*Highway Trust Fund: Nearly All States Received More Funding Than They Contributed in Highway Taxes Since 2005.* GAO-10-780. Washington, D.C.: June 30, 2010.

*Metropolitan Planning Organizations: Options Exist to Enhance Transportation Planning Capacity and Federal Oversight.* GAO-09-868. Washington, D.C.: September 9. 2009.

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*Surface Transportation: Clear Federal Role and Criteria-Based Selection Process Could Improve Three National and Regional Infrastructure Programs.* GAO-09-219. Washington, D.C.: February 6, 2009.

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*Physical Infrastructure: Challenges and Investment Options for the Nation's Infrastructure.* GAO-08-763T. Washington, D.C.: May 8, 2008.

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# Strategic Human Capital Management

## Why Area Is High Risk

GAO initially designated strategic human capital management as a high-risk area because of the long-standing lack of leadership of strategic human capital management. While as discussed below, significant steps have been taken, the area remains high risk because of a need to address current and emerging critical skills gaps that are undermining agencies' abilities to meet their vital missions. The federal government's current budget and long-term fiscal pressures underscore the importance of a strategic and efficient approach to the recruitment, hiring, development and retention of individuals with the needed critical skills.

## What GAO Found

In 2001, GAO reported that a consistent approach to the government's management of its people—its human capital—was the critical missing link in reforming and modernizing the federal government's management practices. Many agencies faced challenges in key areas, including leadership; strategic human capital planning; acquiring, developing, and retaining staff; and creating results-oriented organizational cultures.

The federal government has made substantial progress in addressing its human capital challenges. For example, in 2002 and 2004, Congress provided agencies—individually and across the federal government—with additional authorities and flexibilities to manage the federal workforce. More recently, Congress enacted the Telework Enhancement Act of 2010, which is intended to ensure that agencies more effectively integrate telework into their management plans and agency cultures and to provide opportunities for more federal employees to telework.[1] Also, the Office of Personnel Management (OPM) issued guidance on the availability and use of flexibilities in 2008, and, in 2010, undertook a major initiative to streamline and reform the federal hiring process. OPM is also expanding its assistance to agencies with more strategic approaches to human capital management. These changes demonstrate increased top level attention and clear progress toward more strategic management of the federal workforce.

Therefore, GAO is narrowing the scope of this high-risk area to focus on the most significant challenges that remain to close current and emerging critical skills gaps. These challenges must be addressed for agencies to effectively and efficiently meet their missions. For example:

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[1]Pub. L. No. 111-292, 124 Stat. 3165 (Dec. 9, 2010), *codified* at 5 U.S.C. §§ 6501-6506.

*Acquisition management:* The shortage of trained acquisition personnel impedes the capacity and capability of agencies, such as the Departments of Defense (DOD) and Homeland Security (DHS) to oversee and manage contracts that have become more expensive and increasingly complex. As a result, GAO work has found that the federal government is at risk for significant overcharges and wasteful spending of the hundreds of billions of contract dollars it spends for goods and services each year. In 2009, GAO found that DOD lacked critical information to ensure its acquisition workforce was sufficient to meet its national security mission. As a result, GAO made recommendations aimed at improving DOD's management and oversight of its acquisition workforce. In particular, GAO recommended that DOD identify and update, on an ongoing basis, the number and skill sets of the total acquisition workforce—including civilian, military, and contractor personnel—that the department needs to fulfill its mission. DOD could then use this information to better inform its resource allocation decisions. DOD concurred with the recommendation and noted several efforts to address elements of the recommendation, such as the deployment of a competency assessment of the acquisition workforce to identify gaps and improve training.

In 2008, GAO recommended to DHS several actions to be taken to better manage acquisition workforce challenges, including establishing a coordinated planning process across the component agencies within the agency, improving workforce data, and developing a comprehensive implementation plan to execute the existing DHS acquisition workforce initiatives. In response, DHS agreed with GAO's recommendations and is implementing several efforts to address them, including a more accurate identification of employees performing acquisition-related functions, collecting data on the current acquisition workforce, and development of a comprehensive implementation plan to execute existing acquisition workforce initiatives.

*Foreign language capabilities:* Agencies, such as the Department of State, have persistent shortages of staff with critical language skills and have some foreign language shortfalls in areas of geographic strategic interest. GAO has reported that these skills gaps put diplomatic readiness at risk and could hinder U.S. overseas operations. Therefore, for example, GAO recommended in 2009 that State develop a comprehensive strategic plan that links all of State's efforts to meet its foreign language requirements, and that includes clearly defined and measurable performance goals and objectives of the language proficiency program. State generally agreed and convened a working group to develop an action plan to address GAO's recommendations.

Further, domestically, an agency like the Federal Emergency Management Agency (FEMA) can improve its services to limited English proficiency (LEP) communities. GAO recommended in 2010 that agencies, including FEMA, take a variety of steps to ensure that LEP persons can access federal services and programs. DHS agreed with the recommendation to FEMA and stated that it will collaborate with FEMA to determine documents for translation as well as monitoring and evaluating services to the LEP communities.

*Oil and gas management*: The Department of the Interior lacks sufficient staff with the critical skills, such as petroleum engineering, needed to process drilling permits, review oil and gas metering systems, and conduct oil and gas production verification inspections, including conducting site inspections and activities to ensure meters are correctly measuring oil and gas. GAO found in 2010 that this lack of skills could result in inaccurate oil and gas measurement and possibly lead to less federal revenue due to inaccurate royalty collections, and contributed to the federal government's oil and gas management being high-risk. As a result, in 2010, GAO made recommendations, including that Interior take additional steps to attract, train, and retain qualified staff at sufficient levels to ensure an effective inspection program. Interior generally agreed with GAO's recommendations and has taken several actions and planned others to address the recommendations. For example, while Interior continues to use its traditional recruitment and retention tools, such as bonuses, superior qualifications appointments, and student loan repayments, it recognized that this may not be sufficient and has committed to exploring other opportunities to acquire staff with the skills necessary to carry out Interior's oil and gas oversight responsibilities. Further, Interior plans to have inspections staff attend standardized training necessary to carry out their job functions.

*FAA technician workforce:* The Federal Aviation Administration (FAA) lacks a longer-term strategy to address the hundreds of technician retirements projected through 2020 and has just begun to assess the skills and competencies its technician workforce will need to maintain its Next Generation technologies. GAO has reported that safe and efficient air travel depends on FAA having technicians with the right skills now and in the future. Also, GAO recommended in 2010 that FAA develop a written technician workforce planning strategy that identifies needed skills and staffing, and a strategic training plan showing how training efforts contribute to performance goals. GAO is awaiting FAA's response to the recommendation.

*Veterinarians:* There is a growing shortage of veterinarians at agencies, such as the Food Safety and Inspection Service, who oversee the slaughter and handling of livestock and poultry. GAO reported in 2009 that this shortage has the potential to place human health, the economy, and our nation's food supply at risk. GAO recommended that agencies, such as the U.S. Department of Agriculture and other agencies with food safety responsibilities, conduct assessments of their veterinarian workforces to identify current and future workforce needs, while also taking into consideration training and employee development needs, and that a governmentwide approach be used to address shortcomings. In response, OPM and relevant federal agencies created an interagency forum and developed a strategic workforce plan to obtain a governmentwide understanding of the current status and future needs of the federal veterinary workforce. While this is a positive step, more work remains to be done. For example, the agencies still need to conduct agencywide assessments of their veterinarian workforces and create shared solutions to agency problems. Moreover, steps are still needed to prepare for potential catastrophic events, such as multiple intentional introductions of foot-and-mouth disease, and respond to disease outbreaks that affect public health.

# What Remains to Be Done

Legislative initiatives by Congress and the demonstrated commitment by executive branch officials are helping to address high-risk human capital challenges.

In recent years, as indicated above, GAO has made numerous recommendations to individual agencies to address their specific human capital challenges. At the same time, GAO has also recommended actions that OPM can take to better assist agencies in achieving their strategic workforce planning goals. Resolving human capital high-risk issues will require that agencies continue to both take actions to address their specific challenges and work with OPM and through the Chief Human Capital Officers Council to address critical skills gaps that cut across several agencies. Overall, the needed actions can be grouped into the following three broad categories:

*Planning:* Agencies' workforce plans must fully support the highly skilled talent needs of agencies, both now and as those needs evolve to address new mission priorities. These workforce plans must define the root causes of skills gaps, identify effective solutions to skills shortages, and provide the steps necessary to implement solutions.

*Implementation:* Agencies' recruitment, hiring, and development strategies must be responsive to changing applicant and workforce needs and expectations, as well as to the increasingly competitive battle for top talent. They must also show the capacity to define and implement corrective measures to narrow skill shortages.

*Measurement and evaluation:* Agencies need to measure the effects of key initiatives to address critical skills gaps, evaluate the performance of those initiatives, and make appropriate adjustments. By taking these steps, agencies will improve their ability to monitor and independently validate the effectiveness and sustainability of corrective measures.

## GAO Contact

For additional information about this high-risk area, contact Yvonne Jones at (202) 512-2717 or jonesy@gao.gov.

## Related GAO Products

*Defense Acquisition Workforce: DOD's Training Program Demonstrates Many Attributes of Effectiveness, but Improvement Is Needed.* GAO-11-22. Washington, D.C.: October 28, 2010.

*Federal Aviation Administration: Agency Is Taking Steps to Plan for and Train Its Technician Workforce, but a More Strategic Approach Is Warranted.* GAO-11-91. Washington, D.C.: October 22, 2010.

*Highlights of a Forum: Participant-Identified Leading Practices That Could Increase the Employment of Individuals with Disabilities in the Federal Workforce.* GAO-11-81SP. Washington, D.C.: October 5, 2010.

*Human Capital: Further Actions Needed to Enhance DOD's Civilian Strategic Workforce Plan.* GAO-10-814R. Washington, D.C.: September 27, 2010.

*Language Access: Selected Agencies Can Improve Services to Limited English Proficient Persons.* GAO-10-91. Washington, D.C.: April 26, 2010.

*Workforce Planning: Interior, EPA and the Forest Service Should Strengthen Linkages to Their Strategic Plans and Improve Evaluation.* GAO-10-413. Washington, D.C.: March 31, 2010.

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*Measurement of Production Volumes.* GAO-10-313. Washington, D.C.: March 15, 2010.

*Human Capital: Continued Opportunities Exist for FDA and OPM to Improve Oversight of Recruitment, Relocation, and Retention Incentives.* GAO-10-226. Washington, D.C.: January 22, 2010.

*Department of State: Comprehensive Plan Needed to Address Persistent Foreign Language Shortfalls.* GAO-09-955. Washington, D.C.: September 17, 2009.

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*Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan.* GAO-09-235. Washington, D.C.: February 10, 2009.

*Veterinarian Workforce: Actions Are Needed to Ensure Sufficient Capacity for Protecting Public and Animal Health.* GAO-09-178. Washington, D.C.: February 4, 2009.

*Department of Homeland Security: A Strategic Approach Is Needed to Better Ensure the Acquisition Workforce Can Meet Mission Needs.* GAO-09-30. Washington, D.C.: November 19, 2008.

*Federal Acquisitions and Contracting: Systemic Challenges Need Attention.* GAO-07-1098T. Washington, D.C.: July 17, 2007.

# Managing Federal Real Property

## Why Area Is High Risk

The federal real property portfolio is vast and diverse. It totals over 900,000 buildings and structures with a combined area of over 3 billion square feet. Progress has been made on many fronts, including significant progress with real property data reliability and managing the condition of facilities. However, federal agencies continue to face long-standing problems, such as overreliance on leasing, excess and underutilized property, and protecting federal facilities. As a result, this area remains high risk, with the exceptions of governmentwide real property data reliability and management of condition of facilities, which GAO found to be sufficiently improved to be no longer considered high risk. Additionally, challenges persist with the Department of Defense's management of its real property (see Department of Defense Support Infrastructure Management for an update on this topic).

## What GAO Found

Since GAO first designated real property management as a high-risk area in 2003, the government has made progress in many aspects of real property management. Two consecutive administrations demonstrated commitment to this issue. First, the 2004 Executive Order 13327 established the Federal Real Property Council (FRPC), composed of representatives from real property-holding agencies, to promote reform efforts. The FRPC and the General Services Administration (GSA) established the Federal Real Property Profile (FRPP) a centralized real property database, and agencies have developed asset management plans, standardized data, and adopted performance measures. Further, a June 2010 presidential memorandum directed agencies to identify and eliminate excess properties to produce a $3 billion cost savings by 2012.

Most recently, GAO has found that governmentwide data reliability and managing the condition of facilities no longer remain high-risk concerns. Improvements in FRPP data reliability are due to the Office of Management and Budget's (OMB) leadership, along with GSA data controls and data verification plans developed by agencies. Although agencies continue to improve their real property data for their own purposes, the improved FRPP data allows for the measurement of governmentwide progress, particularly in the areas of excess and underutilized property and condition of facilities. Furthermore, agencies have procedures in place to prioritize maintenance and repair needs to minimize their impact on their mission.

While progress has been made, certain long-standing problems remain. OMB has not developed a corrective action plan to address the fact that agencies increasingly rely on leasing. GSA, as the government's principal

landlord, now leases more property than it owns. In addition, although efforts to dispose of unneeded assets have been made, a large number of excess and underutilized assets remain. According to FRPP data, agencies reported 45,190 buildings as underutilized in fiscal year 2009—an increase of 1,830 such buildings from the previous fiscal year. Maintaining this unneeded space is costly. For example, in fiscal year 2009, agencies reported underutilized buildings accounted for $1.66 billion in annual operating costs. As GAO has reported over the years, attempted corrective action measures have not addressed the root causes that exacerbate these problems, such as various legal and budget-related limitations and competing stakeholder interests.

Federal agencies also have made limited progress and continue to face challenges in securing real property. GAO has reported that, since transferring to the Department of Homeland Security, the Federal Protective Service (FPS) experienced management and funding challenges that have hampered its ability to protect about 9,000 federal facilities. In particular, FPS has limited ability to allocate resources using risk management and lacks appropriate oversight and enforcement to manage its growing contract guard program. In 2010, GAO found that limited information about risks and the inability to control common areas pose challenges to protecting leased space.

# What Remains to Be Done

Two consecutive administrations have demonstrated a commitment to this issue and improved FRPP data now gives OMB the ability to measure progress governmentwide. Other actions are needed to address root causes. GAO has recommended that OMB and the FRPC develop a strategy to address the continued reliance on leasing in cases where ownership would be less costly. This strategy should identify the conditions, if any, under which leasing is an acceptable alternative. Also, OMB and the FRPC should develop potential strategies to reduce the effect of competing stakeholder interests as a barrier to disposing of excess property. Also, to better protect facilities, agencies such as FPS should develop a more comprehensive program to assess risk and allocate resources. GAO will monitor the implementation of current efforts, such as the presidential memorandum.

# GAO Contact

For additional information about this high-risk area, contact David Wise or Mark L. Goldstein at (202) 512-5731 or wised@gao.gov or goldsteinm@gao.gov.

# Related GAO Products

*Building Security: New Federal Standards Hold Promise, But Could Be Strengthened to Better Protect Leased Space.* GAO-10-873. Washington, D.C.: September 22, 2010.

*Homeland Security: Federal Protective Service's Contract Guard Program Requires More Oversight and Reassessment of Use of Contract Guards.* GAO-10-341. Washington, D.C.: April 13, 2010.

*Homeland Security: Greater Attention to Key Practices Would Improve the Federal Protective Service's Approach to Facility Protection.* GAO-10-142. Washington, D.C.: October 23, 2009.

*Homeland Security: Actions Needed to Improve Security Practices at National Icons and Parks.* GAO-09-983. Washington, D.C.: August 28, 2009.

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*Homeland Security: Preliminary Results Show Federal Protective Service's Ability to Protect Federal Facilities Is Hampered by Weaknesses in Its Contract Security Guard Program.* GAO-09-859T. Washington, D.C.: July 8, 2009.

*VA Real Property: VA Emphasizes Enhanced-Use Leases to Manage Its Real Property Portfolio.* GAO-09-776T. Washington, D.C.: June 10, 2009.

*Federal Real Property: Authorities and Actions Regarding Enhanced Use Leases and Sale of Unneeded Real Property.* GAO-09-283R. Washington, D.C.: February 17, 2009.

*Federal Real Property: Government's Fiscal Exposure from Repair and Maintenance Backlogs Is Unclear.* GAO-09-10. Washington, D.C.: October 16, 2008.

*Federal Real Property: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions.* GAO-08-939. Washington, D.C.: September 10, 2008.

*Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing.* GAO-08-197. Washington, D.C.: January 24, 2008.

# Department of Defense Approach to Business Transformation

## Why Area Is High Risk

In 2005, GAO identified DOD's approach to business transformation as a high-risk area because (1) DOD had not established clear and specific management responsibility, accountability and control over business transformation-related activities and applicable resources; and (2) DOD lacked a clear strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms to monitor progress. GAO has designated many of DOD's key business areas as high risk due to their vulnerability to waste, fraud, abuse, and mismanagement.

Because of the complexity and long-term nature of DOD's transformation efforts, GAO has reported the need for a chief management officer (CMO) position and a comprehensive, enterprisewide business transformation plan. In May 2007, DOD designated the Deputy Secretary of Defense as the CMO. In addition, the National Defense Authorization Acts for Fiscal Years 2008 and 2009 contained provisions that codified the CMO and deputy CMO (DCMO) positions, required DOD to develop a strategic management plan, and required the Secretaries of the military departments to designate their Undersecretaries as CMOs and to develop business transformation plans.

DOD also has made progress in establishing management oversight and developing a strategic plan to guide business transformation efforts. Specifically, DOD's senior leadership has demonstrated its commitment and taken positive steps, including filling key positions, issuing directives broadly defining the responsibilities of the CMO and DCMO, establishing governance entities, issuing an initial strategic management plan, and refining the plan in two subsequent updates. To fully implement its management approach, DOD needs to take additional actions to more clearly define management roles and responsibilities, including for the CMO and DCMO; further refine strategic goals, performance measures, and other elements of DOD's strategic management plan; and establish mechanisms to guide and synchronize its strategic planning efforts.

## What GAO Found

The Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapons systems acquisition. Weaknesses in these areas adversely affect DOD's efficiency and effectiveness, and hinder its ability to free up resources for higher priority needs.

DOD senior leadership is committed to transforming business operations and continues to refine its management approach to guide transformation-related activities. For example, in 2008, DOD issued directives outlining broad CMO and DCMO responsibilities and issued its first strategic management plan. In the plan, DOD stated the plan would be used by senior managers as a guide to align their business operations with performance priorities, and would serve as a template for future strategic management plans. Prior to these actions, DOD had established governance entities, such as the Defense Business Systems Management Committee—intended to be the primary transformation oversight mechanism—and the Business Transformation Agency to support the committee. In July 2009, DOD updated its plan, which defines priorities and related goals, performance measures, and reform initiatives. DOD has since begun to collect data and, in January 2010, began reporting on progress. By July 2010, DOD had filled key positions such as the DCMO and military department CMOs. Also, in 2010, the Defense Secretary initiated a departmentwide effort to find greater efficiencies and reduce costs, including in key business areas.

DOD has taken some positive steps in developing its approach to business transformation, but additional actions are needed to further define management roles and responsibilities, and to strengthen strategic planning. For example, the CMO and DCMO have responsibilities, under statutes and department guidance, related to improving the efficiency and effectiveness of business operations. Given these responsibilities, the CMO and DCMO are uniquely positioned to monitor, integrate, and otherwise institutionalize the Secretary of Defense's ongoing initiative that is specifically focused on finding greater efficiencies and reducing costs, including in key business areas. However, the CMO and DCMO have not been assigned any specific roles and responsibilities for this initiative. DOD agreed with our recommendation that the Secretary assign such roles and responsibilities. Without doing so, it is unclear how DOD will establish accountability and leverage those positions to provide the leadership needed to sustain momentum and progress in achieving reforms in the long term. DOD also has yet to clearly define the relationship between the DCMO and military department CMOs or the responsibilities of governance entities. For example, DOD considers the Defense Business Systems Management Committee to be the primary forum for addressing business transformation issues, but has not yet revised its charter to reflect a broader role beyond overseeing information technology related-investments to modernize business systems.

With respect to strategic planning, DOD's updated 2009 plan, issued in July 2009, identified top-level priorities for DOD's business operations, which was an improvement over its initial plan. However, it did not have a complete set of measurable goals, funding priorities, or resources needed to achieve the stated goals. Our prior work has shown that a performance goal should be expressed in an objective, quantifiable, and measurable form, and that performance measures should have quantifiable, numerical targets or other measurable values to allow assessments of whether overall goals and objectives were achieved. Of the 43 goals in DOD's 2009 plan, 15 were not expressed in a measurable form and, of the 76 measures, 56 lacked information, such as baseline or target data, that would enable DOD to assess progress in achieving the plan's goals.

For example, under its business priority to "support contingency business operations," DOD's 2009 plan stated that defense business operations must provide adaptable, responsive, effective support for the warfighter. One of the goals related to this priority was stated broadly—to "improve business process internal controls in Afghanistan." For this goal, DOD identified two broad performance measures—"increase contract oversight" and "apply lessons-learned in Iraq to Afghanistan"—but did not specify any targets or other measurable values to demonstrate how it would measure progress against the goal. On December 30, 2010, DOD issued an updated plan that covers fiscal year 2011. We plan to evaluate the updated plan to assess whether it contains key elements, such as measurable goals, funding priorities, and resource needs.

DOD has also not set up internal mechanisms, such as procedures and milestones, to reach consensus with the military departments and others on priorities, synchronize the development of plans with each other and the budget process, and guide efforts to monitor progress and take corrective action. Without a comprehensive plan, supported by a well-defined planning process, DOD will not have the tools it needs to set strategic direction for business transformation efforts; fully align efforts to develop plans and budget requests that reflect business priorities; institutionalize strategic planning efforts; and measure and demonstrate progress in reforming its business operations, including in high-risk areas discussed in this report.

## What Remains to Be Done

DOD still needs to clearly establish roles and responsibilities, as well as relationships, among various business-related positions and governance entities. For example, DOD needs to

- assign specific roles and responsibilities to the CMO and DCMO for integrating the Secretary's efficiency initiative with ongoing reform efforts, overseeing its implementation, and otherwise institutionalizing the effort in the long term;

- more clearly define the relationship between the DCMO and military department CMOs; and

- update the charter of the DBSMC to reflect its broader responsibilities for business transformation efforts beyond systems modernization.

  DOD also needs to develop a clear, comprehensive, and integrated enterprisewide business transformation plan with measurable goals and funding priorities, supported by a clearly defined strategic planning process. In defining the process, DOD needs to outline elements such as how DOD and the military departments—including the CMO, DCMO, and military department CMOs—will

- reach consensus on business priorities;

- coordinate review and approval of updates to plans;

- synchronize the development of plans with the budget process; and

- monitor the implementation of reform initiatives, and report progress, on a periodic basis, toward achieving established goals.

## GAO Contact

For additional information about this high-risk area, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

## Related GAO Products

*Defense Business Transformation: DOD Needs to Take Additional Actions to Further Define Key Management Roles, Develop Measurable Goals, and Align Planning Efforts.* GAO-11-181R. Washington, D.C.: January 26, 2011.

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*Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve.* GAO10-1059T. Washington, D.C.: September 29, 2010.

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*Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies.* GAO-08-322T. Washington, D.C.: December 13, 2007.

*Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies.* GAO-08-34. Washington, D.C.: November 1, 2007.

*Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership.* GAO-07-1072. Washington, D.C.: September 5, 2007.

# Department of Defense Business Systems Modernization

## Why Area Is High Risk

The Department of Defense (DOD) is spending billions of dollars each year to acquire modern systems that are fundamental to achieving its business transformation goals. While the department's capability and performance relative to business systems modernization has improved, significant challenges remain. The department has not fully defined and established a family of business system modernization management controls that is vital to ensuring that it can effectively and efficiently manage an undertaking with the size, complexity, and significance of its business systems modernization, and minimize the associated risks.

## What GAO Found

DOD reports that its business systems environment includes about 2,300 investments, which are supported by billions of dollars in annual expenditures and are intended to support business functions and operations. DOD has been attempting to modernize its business systems. Since GAO designated this area as high risk in 1995, it has made over 250 recommendations aimed at strengthening DOD's institutional approach to modernization, and reducing the risks associated with key investments. For example, since 2001, GAO has provided a series of recommendations relative to developing and using a business enterprise architecture and establishing effective investment management controls to guide and constrain DOD's multibillion-dollar business systems environment. GAO also made recommendations aimed at ensuring that DOD follows best practices when acquiring information technology systems and services. In addition, since 2002, Congress has included provisions consistent with GAO's recommendations in National Defense Authorization Acts.

In response to GAO recommendations and statutory provisions, between 2005 and 2008 GAO reported that DOD had made progress implementing key institutional modernization management controls. For example, DOD has continued to develop updates to its architecture that address important elements related to the National Defense Authorization Acts and practices that GAO has identified as missing. In addition, DOD has defined and begun implementing improved investment controls, such as the Business Capability Lifecycle, which is intended to streamline business system capability definition, acquisition, and investment oversight processes, to guide and constrain its departmentwide systems modernizations.

However, notwithstanding this progress, in May 2009, GAO reported that the pace of DOD's efforts in defining and consistently implementing fundamental business systems modernization management controls (both institutional and program specific) had slowed compared with progress

made in previous years, leaving much to be accomplished. To this end, GAO's work has highlighted challenges that DOD still faces in aligning its corporate architecture and its component organization architectures, leveraging the federated architecture to avoid investments that provide similar but duplicative functionality in support of common DOD activities, and institutionalizing the business systems investment process at all levels of the organization. In addition, ensuring that effective system acquisition management controls are implemented on each business system investment also remains a formidable challenge, as GAO's recent reports on management weaknesses associated with individual programs have disclosed. In particular, GAO recently reported that DOD's large-scale, software-intensive system acquisitions continue to fall short of cost, schedule, and performance expectations. Specifically, GAO reported in 2010 that six of nine enterprise resource planning systems had experienced schedule delays ranging from 2 to 12 years, and five had incurred cost increases ranging from $530 million to $2.4 billion. According to DOD, as of December 2009, it had invested approximately $5.8 billion to develop and implement these systems.

Relatedly, GAO continues to identify weaknesses in such areas as architectural alignment, informed investment decision making, earned value management, economic justification, risk management, requirements management, and test management. For example:

- In September 2009, GAO reported that the Defense Readiness Reporting System program was not being effectively managed and made recommendations to address a number of acquisition management weaknesses, including the absence of effective executive oversight, a reliable integrated master schedule, well-defined and managed requirements, and adequate testing. GAO concluded that, as a result, these acquisition management weaknesses had collectively contributed to a program that had fallen well short of expectations—a 7-year schedule delay—and was unlikely to meet future expectations.

- In September 2008 and July 2008, respectively, GAO reported that the Navy Enterprise Resource Planning (ERP) and the Global Combat Support System-Marine Corps (GCSS-MC) programs' compliance with DOD's federated business enterprise architecture had not been sufficiently demonstrated. As a result, GAO concluded that the department did not have a sufficient basis for knowing if these programs had been defined to optimize the DOD and Department of the Navy business operations. GAO also reported the programs had not performed basic earned value management activities, such as conducting integrated baseline reviews of

its cost and schedule estimates and schedule risk assessments, resulting in actual program costs and schedules that did not track to estimates. Specifically, not effectively implementing key IT management controls had contributed to a more than 2-year schedule delay and almost $600 million cost overrun on Navy ERP since it began, and had in part contributed to a 3-year schedule slippage and about $193 million cost overrun on the first phase of GCSS-MC, and would likely contribute to future delays and overruns if not corrected.

- In August 2008, GAO reported that the Expeditionary Combat Support System had not used a comprehensive and fully integrated risk management process that provided adequate visibility of risk management activities program-wide. In addition, in October 2010, GAO reported that the program was not fully following best practices for developing reliable schedules and cost estimates and had experienced a schedule slippage of at least 4 years and a $2.2 billion increase in its life-cycle cost estimate.

GAO concluded that these acquisition planning limitations could result in actual program costs continuing to exceed the estimates, and made recommendations to address each limitation.

Until DOD fully defines and consistently implements the full range of business systems modernization management controls, it will not be able to adequately ensure that its business system investments are the right solutions for addressing its business needs, that its business system investments are being managed to produce expected capabilities efficiently and cost effectively, and that business stakeholders are satisfied. GAO plans to continue to monitor DOD's efforts to address these areas and, to this end, has ongoing work focusing on (1) the status and progress of the military departments' enterprise architecture programs; and (2) GAO's prior recommendations pertaining to the department's and the military departments' investment management processes, and the effectiveness of the department's investment review boards in approving and certifying business system investments in accordance with applicable criteria.

## What Remains to Be Done

At DOD, the supporting component architectures—modernization blueprints—for component organizations need to be further developed and aligned with the corporate architecture to provide a federated business enterprise architecture (i.e., a family of coherent but distinct member architectures that conform to an overarching corporate or parent architecture). In addition, business system investments need to be defined

and implemented within the context of DOD's federated architecture, and both the corporate and component investment management processes need to be better defined and institutionalized. Further, DOD needs to ensure that its business system investments are managed with the kind of acquisition management rigor and discipline that is embodied in relevant guidance and best practices, so that each investment will deliver expected benefits and capabilities on time and within budget.

## GAO Contact

For additional information about this high-risk area, contact Valerie C. Melvin at (202) 512-6304 or melvinv@gao.gov.

## Related GAO Products

*DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed.* GAO-11-53. Washington, D.C.: October 7, 2010.

*Business Systems Modernization: Scope and Content of DOD's Congressional Report and Executive Oversight of Investments Need to Improve.* GAO-10-663. Washington, D.C.: May 24, 2010.

*Military Readiness: DOD Needs to Strengthen Management and Oversight of the Defense Readiness Reporting System.* GAO-09-518. Washington, D.C.: September 25, 2009.

*DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed.* GAO-09-841. Washington, D.C.: September 15, 2009.

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*DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas.* GAO-08-896. Washington, D.C.: September 8, 2008.

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*DOD Business Systems Modernization: Key Navy Programs' Compliance with DOD's Federated Business Enterprise Architecture Needs to Be Adequately Demonstrated.* GAO-08-972. Washington, D.C.: August 7, 2008.

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*Business Systems Modernization: Air Force Needs to Fully Define Policies and Procedures for Institutionally Managing Investments.* GAO-08-52. Washington, D.C., October 31, 2007.

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# Department of Defense Support Infrastructure Management

## Why Area Is High Risk

The Department of Defense (DOD) has 507 permanent installations that comprise more than 300,000 buildings and 200,000 other structures—including barracks, commissaries, data centers, office buildings, laboratories, and maintenance depots—with a replacement value of more than $800 billion. This infrastructure is critical to maintaining military readiness, and the cost to build and maintain it represents a significant financial commitment.

Since designating this area high-risk in 1997, GAO has reported on challenges DOD faces in reducing excess and obsolete infrastructure, sustaining facilities, and achieving efficiencies in base support by eliminating duplication of support services where bases are in close proximity to one another or adjacent to one another. Because DOD has made significant progress in addressing issues regarding planning and funding to sustain facilities, we are narrowing the defense infrastructure high risk area to focus on two remaining issues: reducing excess infrastructure and achieving efficiencies in base support. Although DOD has made some progress in reducing excess facilities and in establishing joint bases and common base support standards at the joint bases, additional actions by DOD are needed in these two areas, based on our criteria for removing areas from being designated high risk and specifically to warrant removing the high risk designation for DOD's defense support infrastructure. Challenges also persist with the government-wide management of federal real property (see Managing Federal Real Property for an update on this topic).

## What GAO Found

DOD has clearly demonstrated leadership commitment to improving management of defense support infrastructure and has made some progress in addressing the three issues that comprise this high risk area: funding facilities sustainment, reducing excess facilities, and establishing joint bases with common standards. Regarding facilities sustainment funding, we have previously reported on a long standing practice by the services to redirect funds from facilities' sustainment to other purposes thus risking facilities' deterioration and potentially making them less mission capable. According to DOD officials, in 2007, DOD issued guidance requiring the services to fund sustainment at 90 percent or more of such requirements through 2013. According to DOD officials, sustainment was funded at this level in fiscal year 2010. In addition, DOD has made improvements in its model used to budget for sustainment funding and developing an inventory of its facilities that accurately reflects their condition. These actions should arrest the rate of increase of the maintenance backlog that resulted from DOD's prior approach to

managing and funding sustainment and thus we no longer consider this issue to be a factor in our designation of defense support infrastructure as high risk. Regarding the disposal of excess facilities and delivering consistent installation support at joint bases, DOD has demonstrated leadership commitment and developed the capacity, in terms of people and resources to address existing challenges but has not yet fully developed corrective action plans or demonstrated sufficient progress in implementing corrective actions.

DOD has made progress in reducing its excess infrastructure by implementing base closures as part of the 2005 base realignment and closure process, which has been the primary means of disposing of the Department's excess infrastructure. The 2005 base realignment and closure recommendations must be implemented by September 15, 2011. However, DOD continues to have significant amounts of excess infrastructure and senior DOD officials have stated that further reductions may be needed to ensure that DOD's infrastructure is appropriately sized to carry out its missions in a cost effective manner. As part of addressing the excess infrastructure issue, DOD has established annual targets for each of its service components for demolishing 222 million square feet of excess or surplus facilities between fiscal years 2011 and 2016. DOD's scheduled targets call for demolition of about 44 million square feet between fiscal years 2011 and 2013. The department's schedule shows that the majority—178 million square feet or about 80 percent of the total—is scheduled for demolition in fiscal years 2014 through 2016. Data provided by DOD shows that the department demolished only about 40 million square feet of excess and surplus facilities between fiscal years 2007 and 2010, or an average of about 10 million square feet per year. While DOD's actions to establish targets for the further reduction of excess and surplus capacity is encouraging, the department has not yet made sufficient progress in reducing its excess and surplus facilities and is only in the early stages of future reductions. This is particularly important in light of the Secretary of Defense's overall effort to achieve efficiencies since maintaining only those facilities needed to meet mission requirements and avoiding sustaining those that do not helps to conserve resources and makes such resources available for other high priority uses.

Second, DOD has made some progress in implementing joint bases with common support standards but has not demonstrated progress in achieving greater economies and cost savings thought to be likely through elimination of duplicate base support where bases are adjacent to or in close proximity to one another. DOD has consolidated 26 individual bases into 12 joint bases to implement a base realignment and closure

recommendation and adopted a set of 267 common base support standards. However, our work has shown that little if any cost savings are likely, at least in the near term, because some of the common standards adopted would require a higher and more costly level of base support than the services have traditionally funded and, because certain administrative efficiencies have not been attained. DOD officials acknowledge that the joint basing initiative has not yet produced savings. However, they do expect to achieve savings as the bases gain experience with consolidation and the common standards and new operational efficiencies are identified and adopted over time.

In 2009, to address the expected increased installation support costs from implementing joint basing, we recommended that DOD periodically review the installation support standards as experience is gained with delivering installation support at the joint bases and make adjustments, if needed, to ensure that each standard reflects the level of service necessary to meet installation requirements as economically as possible. We further recommended that DOD complete a detailed analysis of the estimated installation support costs from the initial joint bases and report the results of the analysis to the Congress in the department's documents supporting the administration's annual budget submission.

While DOD partially agreed with our recommendations, it has neither conducted the analyses yet, nor developed a specific plan to achieve the efficiencies originally expected from the joint basing initiative. DOD officials told us that ideally, all bases should provide support services in accordance with the newly established standards and the Installations Strategic Plan identifies the use of common standards as a measure to help achieve the goal of providing high quality base capabilities. However, DOD officials said that primarily because of the significant increase in base support funding that would be needed for all bases to meet the joint basing support standards, DOD has required that only the joint bases but not the remaining nearly 500 other bases meet the standards for the time being. The officials also told us that the department will begin regular assessments of the common standards to determine what adjustments are needed in February 2011.

## What Remains to Be Done

To demonstrate sustained progress in defense support infrastructure management, DOD needs to continue to implement its schedule for demolishing excess and surplus facilities in the inventory to achieve the high rates of demolition needed to dispose of remaining unneeded facilities.

DOD additionally needs to develop and implement a corrective action plan to achieve economies and efficiencies from base consolidation under the joint basing initiative. Specifically, DOD needs to ensure prudent use of resources by (1) fully implementing its plan to conduct regular assessments of the common standards due to begin in February 2011 and make adjustments if warranted, to ensure that each standard reflects the level of service actually needed to meet base support requirements as economically as possible before further expanding use of these new common standards to the other approximately 500 bases; and (2) periodically reviewing administrative costs as joint basing is implemented to achieve efficiencies.

## GAO Contact

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## Related GAO Products

*Defense Planning: DOD Needs to Review the Costs and Benefits of Basing Alternatives for Army Forces in Europe.* GAO-10-745R. Washington, D.C.: September 13, 2010.

*Military Base Realignments and Closures: DOD Is Taking Steps to Mitigate Challenges but Is Not Fully Reporting Some Additional Costs.* GAO-10-725R. Washington, D.C.: July 21, 2010.

*Defense Infrastructure: Army Needs to Improve Its Facility Planning Systems to Better Support Installations Experiencing Significant Growth.* GAO-10-602. Washington, D.C.: June 24, 2010.

*Defense Infrastructure: Opportunities Exist to Improve the Navy's Basing Decision Process and DOD Oversight.* GAO-10-482. Washington, D.C.: May 11, 2010.

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*Military Base Realignments and Closures: DOD Needs to Update Savings Estimates and Continue to Address Challenges in Consolidating Supply-Related Functions at Depot Maintenance Locations.* GAO-09-703. Washington, D.C.: July 9, 2009.

*Defense Infrastructure: Planning Challenges Could Increase Risks for DOD in Providing Utility Services When Needed to Support the Military Buildup on Guam.* GAO-09-653. Washington, D.C.: June 30, 2009.

*Defense Infrastructure: DOD Needs to Improve Oversight of Relocatable Facilities and Develop a Strategy for Managing Their Use across the Military Services.* GAO-09-585. Washington, D.C.: June 12, 2009.

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*Defense Infrastructure: Continued Management Attention Is Needed to Support Installation Facilities and Operations.* GAO-08-502. Washington, D.C.: April 24, 2008.

# Department of Defense Financial Management

Given the size and complexity of the Department of Defense's (DOD) worldwide operations, involving hundreds of billions of dollars of resources, accurate and timely financial management information and effective accountability are critical. Nonetheless, pervasive financial and related business management systems and control deficiencies resulted in GAO designating DOD financial management as high risk in 1995. These deficiencies adversely affected DOD's ability to control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent and detect fraud, waste, and abuse; address pressing management issues; and prepare auditable financial statements.

## What GAO Found

Since GAO's last update, DOD has taken encouraging steps toward establishing departmentwide financial management improvements that provide timely, reliable, accurate, and useful information for management operations, including financial reporting and decision making. The department's primary vehicle for financial management reform is the Financial Improvement and Audit Readiness (FIAR) Plan, which lays out DOD's strategy, methodology, and guidance. In accordance with this plan, DOD continues its efforts to build its capacity for auditable financial reporting, though full audit readiness remains a long-term goal. Key to DOD's audit readiness and its ability to produce information that decision makers can rely on is the modernization of automated information systems through the department's Enterprise Resource Planning (ERP) programs; however, these programs continue to present challenges in implementation. Finally, lasting financial management improvement, and the departmentwide transformation entailed, will depend on sustained commitment from DOD leadership at the department level and, as well, in each military department. The leadership role of the Chief Management Officers (CMO) recently established in the military departments will become increasingly important as focus on implementation of the FIAR Plan increases.

The FIAR Plan, first issued in 2005, defines the department's strategy and methodology for improving financial management and controls, and it reports summary results of DOD's progress toward achieving financial statement auditability. The FIAR Plan has continued to evolve and mature as a strategic plan. GAO made several recommendations in its May 2009 report for increasing the plan's effectiveness as a strategic and management tool for guiding, monitoring, and reporting on financial management improvement efforts and increasing the likelihood of meeting the department's goal of financial statement auditability.

GAO recommended that DOD take the following actions:

- Issue guidance for developing and implementing improvement efforts,

- Establish a baseline of the department and key components current financial management weaknesses and capabilities to effectively measure and report on incremental progress,

- Describe linkage between FIAR Plan goals and corrective actions and reported accomplishments,

- Establish clear results-oriented metrics for measuring and reporting incremental progress, and

- Assign accountability and identify the resources budgeted and consumed.

In its May 2010 FIAR Status Report and Guidance, the department identified steps taken to address GAO's recommendations to strengthen the FIAR Plan strategy and establish sustainable financial management improvements for decision making and audit readiness. For example, DOD has established shared priorities and methodology, including guidance to develop component financial improvement plans, and an improved governance framework that includes the CMOs in the military departments.

In its November 2010 FIAR Plan Status Report, DOD's strategy and methodology continue to focus in the near term on two departmentwide priorities: (1) strengthening processes, controls, and systems that produce budgetary information and support the department's Statement of Budgetary Resources (SBR); and (2) improving the accuracy and reliability of management information pertaining to mission-critical assets, including military equipment and real property, and validating improvement through existence and completeness testing. The plan is now organized into five phases, or waves. They focus on audit readiness for the SBR (waves 1 and 2), audit readiness for the existence and completeness of assets (wave 3), and readiness for full financial statement audit (waves 4 and 5). DOD has not yet completed the plan, and needs to add the specific steps for achieving a full audit through waves 4 and 5.

While completing the FIAR Plan and taking corrective actions in response to our recommendations and related legislative requirements for improving the plan, DOD will also need to increase its focus on implementation of the plan. Key to successful implementation of the FIAR

Plan will be the efforts of DOD military departments and the quality of their individual financial improvement plans.

Although DOD as a whole will require years to achieve readiness for a full financial statement audit, some individual reporting entities have received unqualified, or "clean," audit opinions , including the Army Corps of Engineers and Military Retirement Fund. The U.S. Marine Corps has sought, as a first step, to prepare for a financial audit focused on its SBR. While its initial efforts have not yet been successful, they can provide lessons learned for the Corps and other DOD components.

A key element of financial management improvement under the FIAR Plan is the successful implementation of its ERP systems. However, the department has yet to take important steps to address inadequate requirements management and systems testing, data quality issues, and other problems that continue to hinder its efforts to implement its automated systems on schedule, within cost, and with the intended capabilities.

To continue to make progress toward financial transformation in today's demanding environment and through the long term, DOD needs the sustained commitment of its top leadership, departmentwide and within its components. The leadership of the military departments' CMOs will be an important element in effective implementation of the FIAR Plan. To guide the CMOs' efforts, DOD needs to define their specific roles and responsibilities, as we have recommended.

Accurate, timely, and useful financial management information is essential for sound management analysis, decision making, and reporting within DOD. The resolution of long-standing and deeply entrenched financial management problems facing the department is a daunting challenge.

## What Remains to Be Done

GAO has made numerous recommendations in this area. Key to successfully transforming DOD's financial management operations will be allocating sufficient resources; augmenting current corrective action plans; implementing effective solutions; and establishing performance measurement monitoring mechanisms. As the resolution of DOD's long-standing and deeply entrenched financial management problems is likely to require a number of years, sustained top leadership support will also be critical to successful transformation.

## GAO Contact

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## Related GAO Products

*DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed.* GAO-11-53. October 7, 2010.

*Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve.* GAO-10-1059T. September 29, 2010.

*Department of Defense: Additional Actions Needed to Improve Financial Management of Military Equipment.* GAO-10-695. July 26, 2010.

*Business Systems Modernization: Scope and Content of DOD's Congressional Report and Executive Oversight of Investments Need to Improve.* GAO-10-663. May 24, 2010.

*U.S. Government Financial Statements: Fiscal Year 2009 Audit Highlights Financial Management Challenges and Unsustainable Long-Term Fiscal Path.* GAO-10-483T. April 14, 2010.

*Fiscal Year 2008 U.S. Government Financial Statements: Federal Government Faces New and Continuing Financial Management and Fiscal Challenges.* GAO-09-805T. July 8, 2009.

*Financial Management: Achieving Financial Statement Auditability in the Department of Defense.* GAO-09-373. May 6, 2009.

*Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation.* GAO-09-272R. January 9, 2009.

# Department of Defense Supply Chain Management

## Why Area Is High Risk

GAO has identified Department of Defense (DOD) supply chain management as a high-risk area due to weaknesses in the management of supply inventories and responsiveness to warfighter requirements, such as shortages of critical items during the early years of operations in Iraq. Supply chain management is the operation of a continuous and comprehensive logistics process, from initial customer order for materiel or services to the ultimate satisfaction of the customer's requirements. DOD estimated that its logistics operations, including supply chain management, cost about $194 billion in fiscal year 2009. DOD's goal is to have efficient and effective supply chain processes. Three key focus areas for improvement in this high-risk area are requirements forecasting, asset visibility, and materiel distribution.

## What GAO Found

DOD has made progress in supply chain management, but long-standing problems have not yet been resolved. GAO found that DOD generally met two and partially met three criteria for removing a high-risk designation. DOD has demonstrated top leadership support for improving supply chain management. For example, the department's *Strategic Management Plan* identifies improving the effectiveness and efficiency of supply chain management as a top business priority. DOD also has the capacity to resolve risks in this area; it has people and other resources to draw from to help resolve its supply chain management problems. However, DOD has not yet fully met three criteria for removing a high-risk designation. These pertain to its (1) corrective action plan, (2) program for monitoring and independently validating the effectiveness and sustainability of corrective measures, and (3) ability to demonstrate progress in having implemented corrective measures.

DOD has taken positive steps to address its management of supply inventories and responsiveness to warfighter requirements, but systemic weaknesses remain to be addressed in the three focus areas for improvement.

**Requirements forecasting:** DOD's ability to match supply inventories with requirements has been a continuing challenge due, in part, to difficulties in accurately forecasting demand. As a result, the services and the Defense Logistics Agency (DLA) have had inventory levels that are higher than needed to meet current requirements. GAO reported in May 2010 that DLA had substantial amounts of spare parts inventory beyond current needs and projected demand, including an annual average inventory excess of about $1 billion from fiscal year 2006 to 2008. GAO's review of DLA, as well as prior reviews of the Army, Navy, and Air Force,

found that problems with accurately forecasting demand for spare parts were a major factor contributing to mismatches between inventory levels and requirements.

In response to a provision of the National Defense Authorization Act for Fiscal Year 2010, DOD submitted a plan to Congress in November 2010 aimed at improving inventory management practices and reducing excess inventory. DOD's plan cites efforts to improve demand forecasting, among several other improvement efforts. GAO's review showed that this plan is an important step in improving inventory management practices; however, DOD still needs to implement these efforts and demonstrate progress in reducing average excess inventory. The act also mandates that GAO review the implementation of DOD's plan and issue a report within 18 months of the plan's submission to Congress.

**Asset visibility and materiel distribution:** GAO's prior work has shown that DOD has had continuing challenges with asset visibility and materiel distribution, which are interrelated focus areas that affect support to the warfighter. Asset visibility challenges have included a lack of interoperability among information technology systems and problems with management of shipping containers. Limitations in asset visibility make it difficult to obtain timely and accurate information on the assets that are present in the theater of operations. DOD also has faced challenges in coordinating and consolidating distribution and supply support within a theater. For example, one key challenge was establishing an effective mechanism that would enable a joint force commander to exercise appropriate command and control over transportation and other logistics assets in the theater.

Drawing from lessons learned, DOD has taken steps to improve both asset visibility and materiel distribution in support of ongoing military operations, including operations in Afghanistan. For example, it has increased the use of radio frequency identification on cargo to provide better visibility of assets that are in transit and also used a Deployment and Distribution Operations Center to help coordinate the movement of materiel and forces. However, GAO's review of supply support for troops in Afghanistan found that DOD continues to be challenged by a lack of full asset visibility and limited cargo-processing and cargo-receiving capabilities, among several other issues. GAO reported in June 2010 that while DOD was taking steps to mitigate these challenges, some longer-term efforts, such as planned or ongoing projects to expand storage hub and airfield capacity, would not be in place to support the troop increase, further burdening a heavily strained transportation system.

Weaknesses in asset visibility and materiel distribution have remained, in part, due to the lack of detailed corrective action plans defining root causes and identifying effective solutions. GAO has long recommended that DOD develop and implement a comprehensive strategy to guide and integrate improvement efforts, and several congressional hearings in recent years have focused specifically on DOD's strategic planning for supply chain management. In July 2010, DOD released its *Logistics Strategic Plan* to provide high-level strategic direction for supply chain management, including asset visibility and distribution, and other logistics improvements. GAO found that this plan provides unifying themes for improvement efforts and lists several initiatives related to asset visibility and distribution, but it lacks detailed information to guide and integrate improvement efforts. For example, it does not discuss gaps in current capabilities and lacks milestones and other information for the initiatives.

DOD also does not have management tools for monitoring and validating the effectiveness of corrective measures and demonstrating progress. For example, the *Logistics Strategic Plan* highlights the need for performance management, but GAO reported that it lacks benchmarks and targets for tracking supply chain effectiveness and efficiency. The plan also does not clearly link stated performance measures to the asset visibility and distribution initiatives. Moreover, it is not clear how the plan will be used within the existing logistics governance framework to assist decision makers and influence resource decisions and priorities.

Finally, GAO has previously noted that improvements to supply chain management are closely linked with DOD's efforts to modernize its business information systems (another high-risk area GAO has identified at DOD). GAO's recent work shows that these systems have continuing weaknesses that affect data reliability. For example, the Army has a $2.6 billion enterprise resource planning system, the Logistics Modernization Program, intended to help reduce inventory and improve supply and demand forecast planning; however, GAO reported in 2010 that the Army has yet to achieve these envisioned benefits because data issues prevent using the system as intended. GAO recommended that the Army take actions to enhance data quality, including improved testing. The Army concurred; however, efforts to date have not been sufficient.

## What Remains to Be Done

With the issuance of its November 2010 plan for improving inventory management practices, DOD has a corrective action plan to address the focus area of requirements forecasting, as well as other aspects of inventory management. DOD, however, has not yet developed detailed

corrective action plans that address the focus areas of asset visibility and materiel distribution and that are linked to its overall *Logistic Strategic Plan*. These action plans, when developed, should address root causes and effective solutions, and should incorporate elements of effective strategic planning. As GAO has discussed in prior reports and testimonies, these elements include a comprehensive mission statement, long-term goals, strategies to achieve the goals, use of measures to gauge progress, identification of key external factors that could affect the achievement of goals, a description of how program evaluations will be used, and stakeholder involvement in developing the plan.

In addition, DOD will need to fully implement a program for monitoring and independently validating the effectiveness and sustainability of corrective actions and will need to demonstrate progress in all three of the key focus areas. The *Logistics Strategic Plan* describes DOD's new performance management framework for monitoring implementation of the plan. Building upon this framework, DOD needs to fully develop and implement the processes and management tools needed to comprehensively guide and integrate its various improvement efforts, demonstrate measurable progress, and achieve its goals for effective and efficient supply chain management.

Key to DOD's ability to demonstrate progress in addressing supply chain management challenges is the development and implementation of outcome-based performance measures. Characteristics of successful performance measures include baseline or trend data for assessing performance, measurable targets for future performance, and timeframes for the achievement of goals. DOD has identified some performance measures in both the *Logistics Strategic Plan* and the inventory management plan; however, other needed measures have yet to be defined. The inventory management plan, for example, notes that key performance measures for demand forecasting are to be developed by 2012. Further, GAO's prior work has found an absence of outcome-based performance measures for the asset visibility and materiel distribution focus areas, as well as a lack of cost-related measures. DOD has acknowledged that it needs to track the speed, reliability, and overall efficiency of the supply chain through measures such as perfect order fulfillment (which aims to measure how well the supply chain delivers the right part to the customer on time, in the correct quantity, and with no materiel deficiencies) and total supply chain management cost. Lastly, DOD will need to ensure that it has reliable data supporting its performance measures to evaluate supply chain effectiveness and

efficiency. As one example, it will need to enhance data quality in the Army's Logistics Modernization Program.

## GAO Contact

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## Related GAO Products

*DOD's 2010 Comprehensive Inventory Management Improvement Plan Addresses Statutory Requirements, But Faces Implementation Challenges.* GAO-11-240R. Washington, D.C.: January 7, 2011.

*Defense Logistics: Additional Oversight and Reporting for the Army Logistics Modernization Program Are Needed.* GAO-11-139. Washington, D.C.: November 18, 2010.

*DOD's High-Risk Areas: Observations on DOD's Progress and Challenges in Strategic Planning for Supply Chain Management.* GAO-10-929T. Washington, D.C.: July 27, 2010.

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# Department of Defense Weapon Systems Acquisition

## Why Area Is High Risk

Congress and the Department of Defense (DOD) have long explored ways to improve the acquisition of major weapon systems, yet poor program outcomes persist. Over the next 5 years, DOD expects to invest almost $343 billion (fiscal year 2011 dollars) on the development and procurement of major defense acquisition programs. With the prospect of slowly growing or flat defense budgets for years to come, DOD must get better returns on its weapon system investments and find ways to deliver more capability to the warfighter for less than it has in the past.

## What GAO Found

While the performance of individual programs can vary greatly, GAO's work has revealed significant aggregate cost and schedule growth in DOD's portfolio of major defense acquisition programs. In 2009, GAO reported that the total cost growth on DOD's fiscal year 2008 portfolio of 96 major defense acquisition programs was over $303 billion (fiscal year 2011 dollars) and the average delay in delivering initial capability was 22 months.

DOD has demonstrated a strong commitment, at the highest levels, to address the management of its weapon system acquisitions. At the strategic level, DOD has started to reprioritize and rebalance its weapon system investments. In 2009 and 2010, the Secretary of Defense proposed canceling or significantly curtailing weapon programs, such as the Army's Future Combat System Manned Ground Vehicles and the Navy's DDG-1000 Destroyer—which he characterized as too costly or no longer relevant for current operations. DOD plans to replace several of the canceled programs and has an opportunity to pursue knowledge-based acquisition strategies on the new programs. In addition, the Under Secretary of Defense for Acquisition, Technology, and Logistics has embraced an Army initiative to eliminate redundant programs within capability portfolios and make affordability a key requirement for weapon programs. These actions are consistent with past GAO findings and recommendations. However, if these initiatives are going to have a lasting, positive effect, they need to be translated into better day-to-day management and decision making. For example, GAO has recommended that DOD empower its capability portfolio managers at the departmentwide level to prioritize needs, make decisions about solutions, and allocate resources; and develop criteria to assess the affordability and capabilities provided by new programs in the context of overall defense spending.

At the program level, GAO's recent observations present a mixed picture of DOD's adherence to a knowledge-based acquisition approach, which is key for improving acquisition outcomes. For 42 programs GAO assessed in depth in 2010, there was continued improvement in the technology, design, and manufacturing knowledge the programs had at key points in the acquisition process. However, most programs were still proceeding with less knowledge than best practices suggest, putting them at higher risk for cost growth and schedule delays. DOD has begun to implement a revised acquisition policy and congressional reforms that address these and other common acquisition risks. If DOD consistently implements these reforms, the number of programs adhering to a knowledge-based acquisition approach should increase and the outcomes for DOD programs should improve. To help promote accountability for compliance with acquisition policies and address the factors that keep weapon acquisitions on the High-Risk List, DOD has worked with GAO and the Office of Management and Budget to develop a comprehensive set of process and outcome metrics to provide consistent criteria for measuring progress.

# What Remains to Be Done

Due to actions by Congress, such as the Weapon Systems Acquisition Reform Act of 2009, and DOD, DOD's policy for defense acquisition programs now reflects the basic elements of a knowledge-based acquisition approach and its weapon system investments are being rebalanced. However, to improve outcomes over the long-term, DOD should

- develop an analytical approach to better prioritize capability needs;

- empower portfolio managers to prioritize needs, make decisions about solutions, and allocate resources; and

- enable well-planned programs by providing them the resources they need, while holding itself and its programs accountable for policy implementation via milestone and funding decisions and reporting on performance metrics.

# GAO Contact

For additional information about this high-risk area, contact Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov.

# Related GAO Products

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**Acquisition policy and practices**

*Defense Acquisitions: Strong Leadership Is Key to Planning and Executing Stable Weapon Programs.* GAO-10-522. Washington, D.C.: May 6, 2010.

*Best Practices: DOD Can Achieve Better Outcomes by Standardizing the Way Manufacturing Risks Are Managed.* GAO-10-439. Washington, D.C.: April 22, 2010.

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*Joint Strike Fighter: Additional Costs and Delays Risk Not Meeting Warfighter Requirements on Time.* GAO-10-382. Washington, D.C.: March 19, 2010.

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*Defense Acquisitions: Rapid Acquisition of MRAP Vehicles.* GAO-10-155T. Washington, D.C.: October 8, 2009.

# Implementing and Transforming the Department of Homeland Security

## Why Area Is High Risk

In 2003, GAO designated implementing and transforming the Department of Homeland Security (DHS) as high risk because DHS had to transform 22 agencies—several with major management challenges—into one department, and failure to effectively address DHS's management and mission risks could have serious consequences for U.S. national and economic security. GAO's prior work on mergers and acquisitions, undertaken before the creation of DHS, found that successful transformations of large organizations, even those faced with less strenuous reorganizations than DHS, can take years to achieve. DHS, with more than 200,000 employees and an annual budget of more than $40 billion, is the third-largest federal department, and its transformation is critical to achieving its homeland security missions. This high-risk area includes challenges in strengthening DHS's management functions, including acquisition, information technology, financial, and human capital management; the impact of those challenges on DHS's mission implementation; and challenges in integrating management functions within and across the department and its components.

## What GAO Found

DHS has taken action to implement, transform, and strengthen its management functions. The Secretary and Deputy Secretary of Homeland Security, and other senior officials, have demonstrated commitment and top leadership support to address the department's management challenges. For example, the Secretary designated, in January 2010, the Under Secretary for Management to be responsible for coordinating DHS's efforts to address this high-risk area, as well as other senior officials to be responsible for implementing corrective actions within each management function. According to the Deputy Secretary, the department is committed to actively monitoring and improving programs and operations that have been assessed as high risk, and ensuring that leadership provides continuing support for these improvement efforts. Senior DHS officials have also periodically met with GAO since our January 2009 high risk update to discuss the high-risk area and their improvement plans. In January 2011, DHS provided us with its updated *Integrated Strategy for High Risk Management*, which details the department's plans for addressing the high-risk designation. The strategy contains information on the implementation and transformation of DHS, such as corrective actions to address challenges within each management area and officials responsible for implementing these corrective actions. Specifically, the strategy includes, among other things,

- an overview of each management function, including key accomplishments, perceived challenges, and examples of integration within the specific lines of business;

- an overview of the department's plan to address management integration, by, for example, enhancing acquisition management efforts across the department; and

- corrective action plans for each management function. For example, the acquisition management corrective action plan calls for conducting a study to identify acquisition capabilities and the positions that are necessary for an appropriate DHS workforce.

GAO plans to provide DHS with detailed feedback on the strategy, as well as monitor its implementation, going forward.

While DHS has taken action to implement and transform its management functions, this area remains high risk because DHS has not yet demonstrated sustainable progress in implementing corrective actions and addressing key challenges within its management functions, and in integrating those functions within and across the department and its components. DHS also needs to identify and acquire the resources needed to address these challenges. For example, DHS has not fully planned for or acquired the workforce needed to implement its acquisition oversight policies. DHS has established a framework to monitor the implementation of corrective actions through various departmentwide committees, but these committees have just begun to monitor implementation efforts and the department is working to develop measures to assess its progress in implementing corrective actions. DHS has also begun to implement corrective actions, but it has not yet demonstrated sustainable, measurable progress in addressing key challenges within each management function and in the integration of those functions.

Regarding its management functions, DHS has made progress in implementing and strengthening the functions, but continues to face significant weaknesses that hinder the department's transformation efforts and its ability to meet its missions. For example:

- DHS revised its acquisition management oversight policies to include more detailed guidance to inform departmental acquisition decision making. However, as GAO reported in June 2010, DHS's Acquisition Review Board had not reviewed most major programs, and DHS did not yet have accurate cost estimates for most programs. GAO has recommended that,

among other things, DHS establish a mechanism to identify and track on a regular basis new and ongoing major investments and ensure compliance with actions called for by investment oversight boards, and that investment decisions be transparent and documented as required. DHS generally concurred with these recommendations and reported taking action to begin to address some of them, including developing the Next Generation Periodic Reporting System to capture and track key program information, and monitoring cost and schedule performance, contract awards and program risks.

- DHS strengthened its enterprise architecture, or blueprint to guide information technology acquisitions, but has not yet fully defined and prioritized all architecture segments. DHS has also improved its policies and procedures for investment management, but more work remains. GAO has made a range of recommendations to strengthen DHS information technology management, such as establishing procedures for implementing project-specific investment management policies, and policies and procedures for portfolio-based investment management. DHS generally concurred with these recommendations and stated it would use GAO's findings to improve its investment management and investment review procedures. DHS has since reported taking action to address some of the recommendations, including issuing a new departmental directive and related guidance for information technology acquisitions in November 2008.

- DHS developed corrective action plans for its financial management weaknesses, and the number of conditions contributing to departmentwide material weaknesses has declined at the component level since 2005. However, DHS has been unable to obtain an unqualified audit opinion on its departmentwide financial statements and has not yet implemented a consolidated financial management system. In December 2009, GAO recommended that DHS establish contractor oversight mechanisms to monitor its procurement of a consolidated financial management system; expedite the completion of the development of its financial management strategy and plan so that the department is well positioned to move forward with an integrated solution; and develop a human capital plan for the system that identifies needed skills for the acquisition and implementation of the new system. DHS generally agreed with these recommendations and described actions it had taken and planned to take to address them. DHS noted, for example, the importance of being vigilant in its oversight of the program and that it had already taken some action such as taking steps toward developing a robust concept of operations for the financial system. In November 2010, DHS awarded a contract for the financial system, which will enable the

department to move forward with the standardization of business
processes and fiscal reporting capabilities.

- DHS issued plans for human capital management and employee
development. For example, in December 2010 DHS issued its *Workforce
Strategy for Fiscal Years 2011-2016* which contains the department's
workforce goals, objectives, and performance measures for human capital
management. DHS's scores on the Partnership for Public Service's 2010
rankings of Best Places to Work in the Federal Government improved
from prior years, but DHS was ranked 28 out of 32 large federal agencies
on employee satisfaction and commitment. DHS also has not fully
assessed its needs and capabilities to identify shortfalls, such as foreign
language gaps. In June 2010, GAO recommended that DHS
comprehensively assess the extent to which existing foreign language
programs and activities address foreign language shortfalls, and
incorporate the results of these foreign language assessments into the
department's future strategic and workforce planning documents. DHS
generally concurred with our recommendations and reported taking
actions to address them. For example, DHS stated that it would establish a
task force consisting of DHS offices and components to, among other
things, identify foreign language requirements and assess the necessary
skills.

Challenges within acquisition, information technology, financial, and
human capital management have resulted in performance problems and
mission delays. For example, because of acquisition management
weaknesses, major programs, such as the recently canceled Secure Border
Initiative Network virtual fence, have not met capability, benefit, cost, and
schedule expectations. Further, financial management internal control
weaknesses have impeded DHS from providing reliable and timely
financial data to support daily operational decision making. In addition,
human capital management challenges at the Federal Protective Service
within DHS, such as some new security officers not completing basic law
enforcement training and a lack of data on officers' skills and abilities,
have hindered the agency's ability to protect federal facilities and conduct
law enforcement activities.

DHS has taken action to integrate its management functions by, for
example, establishing common policies within each function. In February
2010, DHS also developed an initial plan for management integration in
which it identified seven initiatives for achieving management integration,
including implementing a consolidated financial management system,
developing a balanced workforce strategy, and consolidating DHS
headquarters operations at one location. However, GAO reported that this

initial plan did not contain details on how the initiatives contribute to management integration, among other things. In January 2011, DHS provided us with its updated management integration plan, which is part of the *Integrated Strategy for High Risk Management*. The plan contains information on ongoing and planned initiatives to integrate its management functions within and across the department and its components. For example, DHS plans to establish a framework for managing investments across its components and management functions to strengthen integration within and across those functions, as well as to ensure mission needs drive investment decisions. This framework seeks to enhance DHS resource decision making and oversight by creating new department-level councils to identify priorities and capability gaps, revising how DHS components and lines of business manage acquisition programs, and developing a common framework for monitoring and assessing implementation of investment decision. GAO will continue to provide DHS with feedback on their plans and monitor their implementation.

## What Remains to Be Done

Based on GAO's prior work, we have identified and provided to DHS key actions and outcomes that are critical to addressing the challenges within the department's management functions and in integrating those functions across the department. These key outcomes include, among others, validating required acquisition documents at major milestones in the acquisition review process; demonstrating that enterprise architecture documents provide a meaningful basis for informing investment decisions; obtaining and then sustaining unqualified audit opinions for at least 2 consecutive years on the departmentwide financial statements while demonstrating measurable progress in reducing material weaknesses and significant deficiencies; and implementing the *Workforce Strategy for Fiscal Years 2011-2016* and linking workforce planning efforts to strategic and program-specific planning efforts to identify current and future human capital needs. In addition to addressing these actions and outcomes, DHS needs to implement its *Integrated Strategy for High Risk Management*, and continue its efforts to (1) identify and acquire resources needed to achieve key actions and outcomes; (2) implement a program to independently monitor and validate corrective measures; and (3) show measurable, sustainable progress in implementing corrective actions and achieving key outcomes. Demonstrated, sustained progress in all of these areas will help DHS strengthen and integrate management functions within and across the department and its components.

# GAO Contact

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# Related GAO Products

*Department of Homeland Security: Progress Made in Implementation and Transformation of Management Functions, but More Work Remains.* GAO-10-911T. Washington, D.C.: September 30, 2010.

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*Department of Homeland Security: DHS Needs to Comprehensively Assess Its Foreign Language Needs and Capabilities and Identify Shortfalls.* GAO-10-714. Washington, D.C.: June 22, 2010.

*Department of Homeland Security: A Comprehensive Strategy Is Still Needed to Achieve Management Integration Departmentwide.* GAO-10-318T. Washington, D.C.: December 15, 2009.

*Financial Management Systems: DHS Faces Challenges to Successfully Consolidating Its Existing Disparate Systems.* GAO-10-76. Washington, D.C.: December 4, 2009.

*Department of Homeland Security: Actions Taken Toward Management Integration, but a Comprehensive Strategy Is Still Needed.* GAO-10-131. Washington, D.C.: November 20, 2009.

*Homeland Security: Despite Progress, DHS Continues to Be Challenged in Managing Its Multi-Billion Dollar Annual Investment in Large-Scale Information Technology Systems.* GAO-09-1002T. Washington, D.C.: September 15, 2009.

*Department of Homeland Security: A Strategic Approach Is Needed to Better Ensure the Acquisition Workforce Can Meet Mission Needs.* GAO-09-30. Washington, D.C.: November 19, 2008.

*Information Technology: DHS Needs to Fully Define and Implement Policies and Procedures for Effectively Managing Investments.* GAO-07-424. Washington, D.C.: April 27, 2007.

# Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information

## Why Area Is High Risk

In January 2005, GAO designated terrorism-related information sharing as high risk because the government faced serious challenges in analyzing key information and sharing it among federal, state, local, and other security partners in a timely, accurate, and useful way to protect against terrorist threats. GAO has since monitored federal efforts to implement the Information Sharing Environment (Environment)—an approach that facilitates the sharing of terrorism and homeland security information, which may include any method determined necessary and appropriate. The Environment is to serve as an overarching solution to strengthening the sharing of intelligence, terrorism, law enforcement, and other information among these partners.

GAO found that the government had begun to implement some initiatives that improved sharing but did not yet have a comprehensive approach that was guided by an overall plan and measures to help gauge progress and achieve desired results. In addition, recent homeland security incidents and the changing nature of domestic threats, among other things, make continued progress in improving sharing critical. As a result, this area remains high risk.

## What GAO Found

The government has continued to make progress during the past 2 years in sharing terrorism-related information among its many security partners, but does not yet have a fully-functioning Information Sharing Environment in place. In terms of progress to date, the Program Manager for the Environment, as well as key security agencies, have taken steps that partially address the criteria GAO uses to designate an issue as high risk. For example, they developed a corrective action plan—or framework—to implement a set of initial activities that help to establish the Environment, partly responding to GAO's previous recommendations calling for a guiding roadmap. The framework includes, among other things, developing common information sharing standards and ways to better share primarily unclassified information with state and local partners. The Program Manager also developed performance measures to assess progress achieved in implementing these initial activities, and agencies are building some of these activities into their enterprise architectures, thereby providing agencies with important information to help implement information sharing capabilities and technologies. Furthermore, the administration aimed to strengthen leadership for the Environment by elevating the Program Manager to co-chair of an interagency policy committee, consisting of senior officials from the key agencies, that reports to national security staff.

Nevertheless, the Program Manager and agencies have additional work to do to stand up the Environment, including moving beyond the initial framework and developing a comprehensive corrective action plan—or roadmap—that, among other things, includes solutions to past barriers to sharing. For example, the Program Manager and agencies have not yet defined their vision of how the Environment should fully function and what results it should achieve; determined the next set of information sharing initiatives beyond the initial framework that must be implemented; and ensured that agencies have fully inventoried what information they own that could have a possible link to terrorism and determined how to share it within the Environment. The Program Manager also has not used an enterprise architecture to capture the vision and expected results of the Environment, to fully define information sharing technologies and capabilities, and develop an implementation roadmap.

In addition, better clarifying how and to what extent some agency-led initiatives that are outside of the Environment will be integrated into it could help leverage benefits achieved. For example, intelligence agencies have technology initiatives—including new ways of ensuring that authorized users have access to, and are able to search across, classified systems and networks to facilitate information sharing—but it is not clear to what extent transferring this best practice to non classified information is being considered under the Environment. Further, the Program Manager has been able to provide some resources to support the standup of the Environment, including seed money to support some of the initial actions under the framework. However, since a budget estimate that identifies incremental costs for building and operating the Environment has not been developed, some agencies are concerned about obtaining funds to pay for additional implementing activities.

The administration and Program Manager recognize that they need to determine what the next generation Environment should contain, how agencies will develop it, and how they will monitor and demonstrate progress and results achieved, among other things. They have begun outreach efforts with security partners to discuss these issues, but have not yet set timelines for completing these actions. To monitor and report on results, in addition to the metrics and monitoring established under the framework, the Program Manager has provided annual progress reports to Congress that catalogue information sharing initiatives agencies have underway. In terms of demonstrating progress, however, the metrics and reports do not provide an accounting of the activities completed and capabilities in place compared with those still needed for a fully-functioning Environment. Finally, while the changes to the interagency

committee and Program Manager's role have the potential to provide sustained leadership for the Environment, it is too early to determine whether the changes provide the authority and leverage to ensure that all agencies participate and fulfill their responsibilities under the Environment.

GAO's work has also shown that agencies, such as the Department of Homeland Security, can take steps to improve their own sharing. For example, the Department has established an information sharing vision with goals and objectives, implementing roadmap, and governance board to set policy and monitor progress, as well as taken steps to use an enterprise architecture approach to guide technology and program investments. We have also recommended that the Department, as the designated lead agency for sharing with state and local partners, should take steps to fully identify states' information needs, define the programs and activities it will use to meet these needs, and set time frames for establishing metrics to gauge results. Furthermore, GAO's ongoing work shows that federal agencies have made progress in implementing corrective actions to address problems exposed by the December 25, 2009, attempted airline bombing. These actions are intended to address problems in the way agencies share and use information to nominate individuals to the terrorist watchlist, and use the list to prevent persons of concern from obtaining visas and boarding planes to the United States, among other things. However, we found that these changes can have impacts—such as on the resources of agencies that nominate persons to the watchlist and on individuals prescreened for air travel—that will be important for agencies to monitor and address as appropriate moving forward.

## What Remains to Be Done

The Program Manager and key security agencies need to (1) develop a corrective action plan to fully address GAO's past recommendation calling for a comprehensive roadmap for the Environment that defines expected results and the remaining actions needed to achieve them; (2) determine what capacity, including funding and technologies, are needed moving forward; (3) more fully respond to GAO's past recommendation that the Program Manager and agencies develop measures to monitor and show results achieved, such as improved sharing; and (4) develop ways to demonstrate progress in terms of comparing how much of the Environment is implemented and how much remains to be built. GAO will also continue to monitor how changes in the leadership of the Environment have helped to provide the authority and leverage needed to

ensure that agencies participate and fulfill their responsibilities for achieving a fully-functioning Environment.

## GAO Contact

For additional information about this high-risk area, contact Eileen R. Larence at (202) 512-6510 or larencee@gao.gov.

## Related GAO Products

*Information Sharing: DHS Could Better Define How It Plans to Meet Its State and Local Mission and Improve Performance Accountability.* GAO-11-223, Washington, D.C.: December 16, 2010.

*Information Sharing: Federal Agencies Are Helping Fusion Centers Build and Sustain Capabilities and Protect Privacy, but Could Better Measure Results.* GAO-10-972. Washington, D.C.: September 29, 2010.

*Critical Infrastructure Protection: DHS Efforts to Assess and Promote Resiliency Are Evolving but Program Management Could Be Strengthened.* GAO-10-772. Washington, D.C.: September 23, 2010.

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*Information Sharing: Federal Agencies Are Sharing Border and Terrorism Information with Local and Tribal Law Enforcement Agencies, but Additional Efforts Are Needed.* GAO-10-41. Washington, D.C: December 18, 2009.

# Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures

## Why Area Is High Risk

Federal agencies and our nation's critical infrastructures—such as power distribution, water supply, telecommunications, and emergency services—rely extensively on computerized information systems and electronic data to carry out their operations. The security of these systems and data is essential to protecting national and economic security, and public health and safety. Safeguarding federal computer systems and the systems that support critical infrastructures—referred to as cyber critical infrastructure protection, or cyber CIP—is a continuing concern. Federal information security has been on GAO's list of high-risk areas since 1997; in 2003, GAO expanded this high-risk area to include cyber CIP. Risks to information systems include continuing insider threats from disaffected or careless employees and business partners, escalating and emerging threats from around the globe, the ease of obtaining and using hacking tools, the steady advance in the sophistication of attack technology, and the emergence of new and more destructive attacks.

## What GAO Found

The administration and agencies of the executive branch, including the Departments of Defense (DOD) and Homeland Security (DHS), continue to improve the security of federal systems, better protect cyber-reliant critical infrastructures, and strengthen the nation's security posture. Since the 2009 update to GAO's *High-Risk Series*, the president directed a review of U.S. policies and structures for cybersecurity and appointed a national cybersecurity policy official who is responsible for coordinating the nation's cybersecurity policies and activities. Executive branch agencies have also made progress instituting several governmentwide initiatives that are aimed at bolstering aspects of federal cybersecurity, such as reducing the number of federal access points to the Internet, establishing security configurations for desktop computers, and enhancing situational awareness of cyber events. In addition, DOD established a new Cyber Command in 2009 to help defend military computer networks and, in its role as the focal point for federal efforts to protect the nation's cyber critical infrastructures, DHS issued a revised national infrastructure protection plan in 2009 and an interim national cyber incident response plan in 2010. These actions demonstrate the executive branch's commitment to managing the risks associated with the nation's extensive reliance on federal information systems and cyber critical infrastructures.

The federal government continues to face significant challenges in protecting its information systems and the nation's cyber critical infrastructures. Cyber threats are growing and evolving, reported security incidents are on the rise, and significant security deficiencies pervade federal systems that jeopardize the confidentiality, integrity, and

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availability of the systems and the information they process. In addition, the administration and executive branch agencies have not yet fully implemented key actions that are intended to address threats and improve the current U.S. approach to cybersecurity, such as

- updating the national strategy for securing the information and communications infrastructure,

- developing a comprehensive national strategy for addressing global cybersecurity and governance,

- creating a prioritized national and federal research and development agenda for improving cybersecurity, and

- implementing the near- and mid-term actions recommended by the cybersecurity policy review directed by the president.

Executive branch agencies, in particular DHS, also need to improve their capacity to protect against cyber threats by, among other things, advancing cyber analysis and warning capabilities, acquiring sufficient analytical and technical capabilities, developing strategies for hiring and retaining highly qualified cyber analysts, and strengthening the effectiveness of the public-private sector partnerships in securing cyber critical infrastructure. Furthermore, shortcomings and challenges associated with the implementation of several of the governmentwide security initiatives limit the initiatives' effectiveness in protecting federal systems.

In addition, federal systems continued to be afflicted by persistent control weaknesses. GAO determined that serious and widespread information security control deficiencies were a governmentwide material weakness in internal control over financial reporting as part of its audit of the fiscal year 2010 financial statements for the United States government. Agencies did not consistently implement effective controls to prevent, limit, and detect unauthorized access or manage the configuration of network devices to prevent unauthorized access and ensure system integrity. Most of the 24 major federal agencies had information security weaknesses in five key control categories, as illustrated in figure 2.

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**Figure 2: Information Security Weaknesses at Major Federal Agencies for Fiscal Year 2010**

Number of agencies



Information security weaknesses
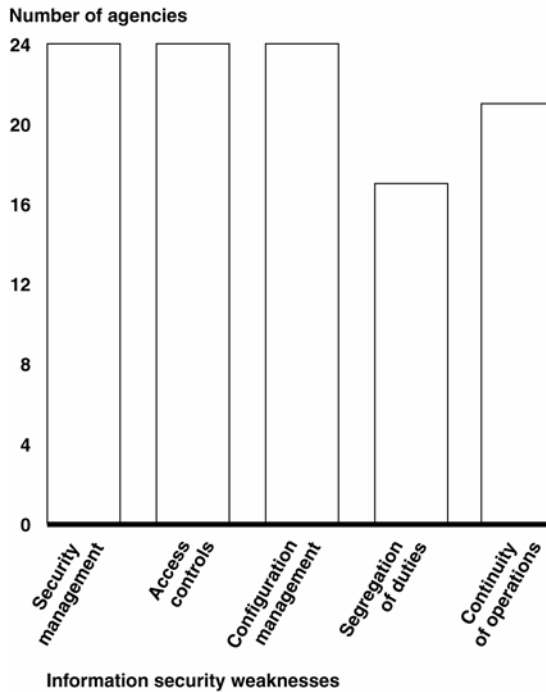
Source: GAO analysis of agency, IG, and GAO reports as of December 21, 2010.

An underlying cause for the information security weaknesses identified at executive branch agencies is that they have not yet fully or effectively implemented key elements of an agencywide information security program, such as assessing risks, developing and implementing cost-effective security safeguards that reduce risk to an acceptable level, periodically testing and evaluating the effectiveness of the safeguards, and mitigating known control deficiencies. Until the executive branch agencies implement the hundreds of recommendations made by GAO and agency inspectors general to address cyber challenges, resolve identified deficiencies, and fully implement effective security programs, a broad array of federal assets and operations will remain at risk of fraud, misuse, and disruption, and the nation's most critical federal and private sector infrastructure systems will remain at increased risk of attack from our adversaries.

## What Remains to Be Done

Additional federal efforts are needed to update and implement national strategies and plans for (1) securing cyber critical infrastructures, (2) addressing global cybersecurity and governance, (3) prioritizing cybersecurity research and development, and (4) completing near- and midterm cybersecurity actions recommended by a presidentially directed review. In this regard, the administration needs to clearly articulate the goals and objectives of these efforts, assign specific roles and responsibilities to agencies, develop milestones, deploy sufficient resources, define performance measures, monitor progress, and validate the effectiveness of completed actions in meeting stated goals and objectives.

Executive branch agencies, in particular DHS, also need to improve and expand their cyber analytical and technical capabilities, expand oversight of federal agencies' implementation of information security, and demonstrate progress in strengthening the effectiveness of public-private sector partnerships in securing cyber critical infrastructures.

Agencies also need to (1) develop and implement remedial action plans for resolving known security deficiencies of government systems, (2) fully develop and effectively implement agencywide information security programs, as required by the Federal Information Security Management Act of 2002, and (3) demonstrate measurable, sustained progress in improving security over federal systems. Such progress should include having the governmentwide material weakness in information security upgraded to a significant deficiency for 2 consecutive years and reducing the deficiencies that contribute to the significant deficiency, as reported by GAO in its annual audit of the financial statements for the United States government.

## GAO Contact

For additional information about this high-risk area, contact Gregory C. Wilshusen at (202) 512-6244 or wilshuseng@gao.gov.

## Related GAO Products

*Information Security: Federal Agencies Have Taken Steps to Secure Wireless Networks, but Further Actions Can Mitigate Risk.* GAO-11-43. Washington, D.C.: November 30, 2010.

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# Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests

## Why Area Is High Risk

The U.S. government and U.S. companies sell advanced military weapons and technologies overseas to promote foreign policy, increase security, and improve economic welfare. These weapons are often targets for espionage, theft, and reverse engineering.

The U.S. government has a number of programs to identify and protect technologies critical to U.S. national security interests. These include the export control system to approve the commercial sale of arms and dual-use items, the Foreign Military Sales (FMS) program for government-to-government sales of military goods and services, anti-tamper policies for advanced weapon systems, and government review of foreign investment in U.S. companies. These programs are administered by multiple federal agencies with related and sometimes overlapping jurisdictions, including the Departments of Commerce, Defense, Justice, Homeland Security, State, and the Treasury. GAO designated this area as high risk in 2007.

## What GAO Found

Over the last decade, GAO has identified a number of weaknesses in government programs designed to regulate and protect critical defense-related technologies and has made multiple recommendations to correct these weaknesses. Individual agencies have been responsive to prior GAO report findings on the existing export control system, as well as in other related programs, and have taken the following actions in specific areas since the 2009 High-Risk update.

- In 2009, the National Security Council issued guidelines to ensure timely adjudication of commodity jurisdiction cases. As of July 2010, State officials reported that the median processing time for such cases decreased to 36 days, down from 118 days in 2002.

- Commerce has reached agreement with China to conduct on-site reviews of validated end-users receiving U.S. dual-use goods.

- Defense improved its system of identifying military-critical technologies and has coordinated with Commerce and State to establish guidance for developing and maintaining this system.

- Defense began offering training on anti-tamper guidelines to program managers in 2009 to help protect weapons systems and military-critical technologies from unauthorized or improper use.

GAO has also identified a number of areas in which further action is
needed to improve specific programs.

- Defense, Homeland Security, and State need to improve internal and
interagency practices to facilitate reliable shipment verification,
monitoring, and administration of the foreign military sales program.

- Agencies need to eliminate gaps and inconsistencies in the defense
exports data collection systems used to monitor foreign military sales and
direct commercial sales programs.

- Defense and State need to develop and implement specific plans to
monitor, evaluate, and report routinely on outcomes for projects that
provide weapons, defense-critical technologies, and training to foreign
governments to help them respond to global terrorism.

In April 2010, the administration announced a reform initiative to
strengthen and streamline the government's export control system by
creating a single licensing agency, control list, enforcement coordination
agency, and electronic licensing system. This initiative represents a
significant step in re-evaluating and reforming a key component of critical
technology protection programs and has the potential to significantly
improve the efficiency of the export control process. The administration's
challenge will be to maintain or improve the system's effectiveness, as well
as work with Congress to implement a number of regulatory and legal
changes, such as merging existing licensing responsibilities into a single
agency. Further, programs essential to the protection of critical
technologies extend beyond export control and must work collectively to
be effective. For example, the FMS program also exports defense arms to
foreign governments but separately reports such exports from those
approved under the export control system, limiting a complete picture of
defense exports. To date, the executive and legislative branches have not
re-examined programs to identify and protect technologies critical to U.S.
national security interests to determine if they are collectively effective in
light of the current security environment and technological advances.

## What Remains to Be Done

Action is needed at three levels to help protect technologies critical to U.S.
national security interests.

First, individual federal agencies need to continue to take action to fully
address identified weaknesses in their respective programs, such as

oversight of programs that provide weapons and other support and training to foreign governments to help them respond to global terrorism.

Second, to build on the constructive efforts currently under way, the executive branch will need to identify measures to assess the effectiveness and sustainability of its government-wide export control reform efforts. For example, these measures could include assessments of exporter compliance and the impact of the new system on U.S. economic interests. It will also need to work with Congress to implement a number of regulatory and legal aspects of the reform.

Finally, the executive branch and Congress should consider re-evaluating the wider portfolio of critical technology-related programs, such as FMS and government review of foreign investment in U.S. companies, to ensure that these programs work together as a system to meet the demands of the new security environment and help the U.S. military retain its technological superiority.

## GAO Contact

For additional information about this high-risk area, contact Belva M. Martin at (202) 512-4841 or martinb@gao.gov.

## Related GAO Products

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# Revamping Federal Oversight of Food Safety

## Why Area Is High Risk

The fragmented federal oversight of food safety has caused inconsistent oversight, ineffective coordination, and inefficient use of resources. The 2010 nationwide recall of more than 500 million eggs due to *Salmonella* contamination highlights this fragmentation. Several agencies have different roles and responsibilities in the egg production system, including the Food and Drug Administration (FDA) and the U.S. Department of Agriculture's (USDA) Food Safety and Inspection Service (FSIS), USDA's Agricultural Marketing Service, and USDA's Animal and Plant Health Inspection Service. Three major trends also create food safety challenges: a substantial and increasing portion of the U.S. food supply is imported, consumers are eating more raw and minimally processed foods, and growing segments of the population are increasingly susceptible to food-borne illnesses. New food safety legislation that was signed into law in January 2011 strengthens a major part of the food safety system. It shifts the focus of FDA regulators from responding to contamination to preventing it, according to FDA, and expands FDA's oversight authority. While the law has several provisions that require interagency collaboration on food safety oversight, it does not apply to the federal food safety system as a whole or address USDA's authorities, which remain separate and distinct from FDA's.

## What GAO Found

GAO recommended that one of the actions to help reduce fragmentation was for the President to reconvene the Council on Food Safety. Positively, the President demonstrated strong commitment and top leadership support by establishing the Food Safety Working Group in 2009 to coordinate federal efforts and develop goals to make food safe. The working group is co-chaired by the Secretaries of Health and Human Services and USDA and includes officials from many federal agencies, including FDA. Through the working group, federal agencies have taken steps designed to increase collaboration in some areas that cross regulatory jurisdictions—in particular, improving produce safety, reducing *Salmonella* contamination, and developing food safety performance measures.

While such actions are encouraging, they are first steps. The agencies have not developed a governmentwide performance plan for food safety that includes results-oriented goals and performance measures, and information about resources. When GAO added food safety to the High Risk list in 2007, it said that what remains to be done is to develop a governmentwide performance plan that is mission based, has a results orientation, and provides a cross-agency perspective. Such a plan could be used to guide corrective actions for addressing fragmentation and monitor

progress by the 15 federal agencies that collectively administer over 30 food-related laws. Without a governmentwide plan, decision makers do not have a comprehensive picture of the federal government's performance on food safety.

Food safety oversight remains fragmented in several areas. The two primary food safety agencies are USDA, which is responsible for the safety of meat, poultry, processed egg products, and catfish, and FDA, which is responsible for virtually all other food, including shell eggs and seafood. The 2008 Farm Bill assigned USDA oversight responsibility for catfish, thus splitting up seafood oversight and expending scarce resources. Specifically, USDA officials estimate it will cost about $30 million for fiscal years 2011 and 2012 to develop and implement its catfish inspection program.

GAO has also reported that food safety oversight is fragmented in the following areas.

- Customs and Border Protection (CBP), FDA, and USDA oversee the safety of imported food, which makes up a growing portion of food sold in the United States. In September 2009, GAO found gaps in enforcement and collaboration, such as the agencies' computer systems not sharing key information, which may increase the risk that unsafe food might enter U.S. commerce. GAO recommended that the agencies take specific steps to improve information sharing and streamline processes, such as ensuring that CBP's new screening system communicates time-of-arrival information to FDA's and USDA's screening systems. GAO continues to monitor their actions.

- CBP, FDA, and the National Marine Fisheries Service share responsibility for detecting and preventing seafood fraud, which includes mislabeling species for financial gain. In February 2009, GAO found that the agencies have not identified similar and sometimes overlapping activities, such as operating laboratories for determining seafood species. GAO recommended that the agencies develop goals, strategies, and mechanisms to share information and resources. GAO is monitoring their progress on implementing these recommendations.

- FDA and the Federal Trade Commission (FTC) have jurisdiction over health- and nutrient-related claims made by food manufacturers. In January 2011, GAO reported that FDA had difficulty taking action against companies with potentially false or misleading claims on food labels. Unlike FTC, FDA does not have express legal authority to compel companies to provide information supporting their claims and must

develop the evidence needed to support an enforcement action. We recommended that FDA identify and request from Congress the authorities it needs.

## What Remains to Be Done

The executive branch should develop a governmentwide performance plan that includes results-oriented goals and performance measures, and a discussion of strategies and resources in order to guide corrective actions and monitor progress. While the new food safety law expands FDA's oversight authority, Congress should also consider enacting comprehensive, uniform, and risk-based food safety legislation. Congress should also consider commissioning a detailed analysis of alternative organizational structures for food safety.

## GAO Contact

For additional information about this high-risk area, contact Lisa Shames at (202) 512-3841 or shamesl@gao.gov.

## Related GAO Products

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# Protecting Public Health through Enhanced Oversight of Medical Products

## Why Area Is High Risk

The Food and Drug Administration (FDA) oversees the safety and effectiveness of all medical products marketed in the United States, regardless of whether they are manufactured here or abroad. Globalization has placed increasing demands on the agency. For example, drugs manufactured in more than 100 countries were offered for entry into the United States in fiscal year 2009. The oversight of medical products was added to GAO's High-Risk List in January 2009 because FDA was facing multiple challenges that threatened to compromise its ability to protect the public health. GAO identified weaknesses in several areas, including inspections of foreign manufacturing establishments, postmarket safety monitoring, and oversight of clinical trials. FDA will need to respond to these challenges, in addition to managing a growing workload.

## What GAO Found

As discussed below, FDA has begun taking steps to improve its oversight of medical products, such as modernizing its mission critical information management systems, but more needs to be done to resolve concerns, including the following:

- **Improving resource management and strategic planning.** FDA has encountered difficulties in fulfilling its medical product responsibilities. These responsibilities have grown in recent years as have the number of medical products subject to FDA's oversight. FDA has been unable to fulfill some of its statutory requirements, such as biennially inspecting certain manufacturing establishments. FDA does not have reliable estimates of its resource requirements. For example, FDA could not provide data showing its workload and accomplishments in some areas, such as its review of reports identifying potential safety issues associated with specific medical products. While FDA established 48 annual performance measures for fiscal year 2010, GAO found that they were only partially results-oriented.

  GAO believes that FDA needs performance measures that are more clearly focused on results, such as public health outcomes, the agency's strategic objectives, and identified management challenges. These challenges include recruiting, retaining, and developing its workforce; continuing to modernize its information systems; coordinating internally and externally; and keeping up with scientific advances. GAO also found that FDA does not have an agencywide strategic human capital plan. FDA has said that it is in the process of developing evidence-based estimates of its resource needs and that it was preparing to begin a workforce planning effort. In addition, in 2010, FDA introduced a new Internet-based agencywide system—FDA Transparency, Results, Accountability, Credibility and

Knowledge-sharing (TRACK)—to monitor progress and performance in key program areas in a transparent manner

- **Responding to globalization.** There are thousands of foreign drug and medical device establishments registered to market their products in the United States. FDA has opened offices overseas, but GAO found that while these offices are engaging in activities to help ensure the safety of imported products, FDA has not yet developed a long-term workforce plan that could help address the offices' potential staffing challenges and that it also needed a set of performance goals and measures that can demonstrate the contribution of these offices to the long-term outcomes related to the regulation of imported products. While FDA also increased its inspections of foreign drug establishments, it still conducts relatively fewer foreign inspections than it conducts domestically. GAO estimated that while FDA inspects domestic drug establishments about once every 2.5 years, it would take FDA about 9 years to inspect all the drug establishments in its foreign inventory.

  Also, FDA's approach in selecting establishments for inspection is inconsistent with GAO's 2008 recommendation that FDA inspect, at a comparable rate, those establishments that are identified as having the greatest public health risk potential, if they experience a manufacturing defect, regardless of whether they are a foreign or domestic establishment. FDA has acknowledged that conducting foreign inspections can pose unique challenges, such as limits on its ability to require foreign establishments to allow the agency to inspect their facilities, the large number and incompleteness of information on certain suppliers of ingredients to foreign establishments, and the expenses associated with conducting foreign inspections.

  To meet the challenge of globalization, FDA has begun to improve the information used to manage its foreign drug inspection program, but its data systems continue to contain inaccurate information on foreign establishments, compromising the agency's oversight. It has also begun to increase the number of inspections of foreign drug manufacturing establishments and has devoted more staff and dedicated greater financial resources to these inspections. It is also planning to implement a system for use at U.S. borders and ports that is designed to identify shipments that appear to pose the greatest risk and target them for examination.

- **Overseeing postmarket safety.** Although improvements have been made, long-standing concerns remain regarding the effectiveness of FDA's postmarket oversight. FDA staff have expressed concern about their

ability to meet a growing postmarket workload, with some maintaining that their premarket responsibilities are considered a higher priority. FDA is also encountering technological and staffing issues that limit its capacity to conduct drug safety studies. In addition, GAO identified concerns with FDA's oversight of certain drugs approved through its accelerated approval process. As part of this process, which is designed to expedite marketing approval for new drugs intended to treat serious or life-threatening illnesses, FDA may require drug sponsors to conduct postmarketing studies to confirm a drug's clinical benefit. Yet, GAO found that FDA was not routinely monitoring the status of these studies and had little in the way of accessible, comprehensive data to monitor the progression of such studies.

In addition, GAO reported that FDA had not developed criteria for exercising its authority to expedite the withdrawal from the market of a drug approved under the accelerated approval process, if a study was either not completed or if the study failed to confirm a drug's clinical benefit. Although GAO determined that FDA had never exercised its authority to withdraw a drug from the market—even when study requirements had gone unfulfilled for nearly 13 years—and recommended that the agency develop criteria to clarify the conditions under which it would utilize this authority, FDA disagreed with the need to develop such criteria, citing the need to address each situation on its own merits.

To address long-standing concerns regarding the postmarket safety of the products it regulates, FDA has several efforts underway. For example, FDA acknowledged that its oversight of postmarket studies had been inadequate and is implementing a number of improvements to ensure appropriate oversight and more efficient tracking. FDA has begun an initiative to improve the reporting and analysis of adverse events that are associated with the use of specific medical products.

- **Implementing the Safe Medical Devices Act of 1990.** This act requires FDA to either reclassify certain high-risk medical device types to a less-risky class or establish a schedule for such devices to be reviewed through its most stringent premarket approval process. GAO found that a significant number of high-risk devices—including device types that FDA has identified as implantable; life sustaining; or posing a significant risk to the health, safety, or welfare of a patient—still enter the market through FDA's less stringent premarket notification process. FDA has agreed that implementing this act is important and that it is committed to taking action. In August 2010, FDA proposed a rule that would require manufacturers of 4 of the 24 device types GAO raised concerns about to submit applications to have their devices reviewed through FDA's most

stringent premarket approval process. FDA is continuing to consider its options for completing this task as expeditiously as possible. In addition, FDA is also conducting its own comprehensive internal assessment of the premarket medical device review process and has taken the important step of commissioning the Institute of Medicine to conduct an independent review of this activity.

# What Remains to Be Done

GAO believes that FDA must do more to respond to identified weaknesses before the high-risk designation can be removed. In addition to making a strong commitment to address key management challenges, FDA needs to

- strengthen its resource management and its strategic and human capital planning. To ensure it has the capacity to fulfill its mission, it must establish reliable estimates of resource needs and use these estimates in planning and prioritizing its work.

- develop more results-oriented performance measures—particularly in light of increasing demands facing the agency. With this information in hand, FDA needs to employ a risk-based approach in planning and conducting activities. For example, FDA needs to conduct more inspections of foreign drug establishments and inspect those foreign establishments that pose a greater public health risk at a frequency comparable to domestic establishments with similar characteristics and continue to improve the information it uses to manage the foreign drug inspection program.

- create a workforce plan for its new overseas offices and acknowledge that it may need new legal authorities to better oversee foreign establishments.

- balance these demands with its other priorities, such as implementing a rigorous postmarket safety system without sacrificing a thorough and careful premarket approval process. Long-standing concerns regarding the postmarket safety of drugs and medical devices make this an area in need of considerable attention. Among other things, GAO believes that FDA needs to place additional emphasis on ensuring staff can fulfill their postmarket duties and the careful monitoring of postmarket studies.

- establish both a plan and a timetable for ensuring that high-risk medical device types are reviewed through FDA's most stringent premarket approval process.

Part of meeting these challenges will require that the agency's management foster a culture in which managers and staff identify, understand, value, and implement meaningful metrics. This will enable the

agency to appropriately prioritize its work, monitor its performance, independently validate the effectiveness of its corrective actions, and ultimately, objectively demonstrate the progress it has made.

## GAO Contact

For additional information about this high-risk area, contact Marcia Crosse at (202) 512-7114 or crossem@gao.gov.

## Related GAO Products

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*Food and Drug Administration: Opportunities Exist to Better Address Management Challenges.* GAO-10-279. Washington, D.C.: February 19, 2010.

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# Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals

## Why Area Is High Risk

The Environmental Protection Agency's (EPA) ability to effectively implement its mission of protecting public health and the environment is critically dependent on credible and timely assessments of the risks posed by chemicals. Such assessments are the cornerstone of scientifically sound environmental decisions, policies, and regulations under a variety of statutes, such as the Safe Drinking Water Act, the Toxic Substances Control Act (TSCA), and the Clean Air Act. EPA conducts assessments of chemicals under its Integrated Risk Information System (IRIS) program and is authorized under TSCA to obtain information on the risks of chemicals and to control those it determines pose an unreasonable risk. Because EPA had not developed sufficient chemical assessment information under these programs to limit public exposure to many chemicals that may pose substantial health risks, GAO added this issue to the High-Risk List in 2009.

## What GAO Found

**IRIS.** EPA's IRIS database provides the basic information the agency needs to determine whether it should establish controls to, for example, protect the public from exposure to toxic chemicals in the air, in water, and at hazardous waste sites. In March 2008, GAO reported that the viability of the IRIS program was at risk because EPA had been unable to complete timely, credible chemical assessments—including those of chemicals of greatest concern, such as formaldehyde and dioxin, which have been in progress for 13 and 19 years, respectively. In addition, EPA had been unable to decrease its long-standing backlog of ongoing assessments or to keep its existing assessments current. In May 2009, EPA revised its IRIS assessment process. If implemented effectively, these assessment reforms represent significant improvements and will be largely responsive to GAO's 2008 recommendations. They will restore EPA's control of the process and increase its transparency, among other things. For example, under the prior process, interagency reviews were required and managed by the Office of Management and Budget (OMB), and EPA was not allowed to proceed with assessments at various stages until OMB agreed that EPA had sufficiently responded to interagency comments. In contrast, under the reforms, EPA is to manage the entire assessment process, and all written comments on draft assessments provided during the interagency process are to be part of the public record. It is too soon to determine whether the reforms will be effective, but EPA has made some progress in addressing its assessment backlog. GAO is currently reviewing EPA's implementation of the revised process.

**TSCA.** GAO has also reported that EPA's assessments of industrial chemicals under TSCA provide limited information on health and

environmental risks. In contrast to the approach taken by the European Union—which generally places the burden on companies to provide data on the chemicals they produce and to address the risks they pose to human health and the environment—TSCA generally places the burden on EPA to obtain information about the roughly 80,000 chemicals already on the U.S. market. TSCA also requires EPA to demonstrate that certain health or environmental risks are likely before it can require companies to further test their chemicals. As a result, EPA does not routinely assess the risks of the industrial chemicals already in use. For the approximately 700 new chemicals introduced into commerce annually, chemical companies are required to provide EPA with certain information in premanufacture notices, and EPA can ban or limit the use of these chemicals if the information is inadequate. Although 85 percent of the notices lack any health or safety test data, EPA does not often use its authority to obtain more information. Subsequent to GAO's reports, EPA has taken some steps to begin to address some of these issues. For example, using its existing authorities, EPA has initiated actions on such chemicals as mercury and lead to, for example, ban or phase out their use in certain products. However, most such actions are in the early stages of development. Regarding statutory changes, the EPA Administrator has expressed support for TSCA reforms and developed principles for addressing them.

## What Remains to Be Done

The EPA Administrator needs to continue to demonstrate a strong commitment to and support of the IRIS program and its TSCA initiatives. Specifically, EPA needs to ensure that its 2009 IRIS reforms are implemented effectively and that the program can routinely provide timely and credible assessments. Regarding TSCA, GAO has recommended both statutory and regulatory changes to, among other things, provide EPA with additional authorities to obtain health and safety information from the chemical industry and to shift more of the burden to chemical companies for demonstrating the safety of their chemicals. Congress and EPA need to act on these important issues.

## GAO Contact

For additional information about this high-risk area, contact David Trimble at (202) 512-3841 or trimbled@gao.gov.

# Related GAO Products

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# Department of Defense Contract Management

## Why Area Is High Risk

The Department of Defense (DOD) obligated $372 billion on contracts for goods and services in fiscal year 2009. At times, however, the lack of well-defined requirements, the use of ill-suited business arrangements, and the lack of an adequate number of trained acquisition and contract oversight personnel contribute to unmet expectations and place the department at risk of potentially paying more than necessary.

## What GAO Found

DOD relies heavily on contractors to provide services to help meet critical needs, but its approach to managing services acquisitions traditionally has not been strategically oriented. For example, DOD's reliance on contractors is not yet fully guided by a systematic determination of which functions and activities should be contracted out and which should be performed by civilian employees or military personnel, or by an assessment of the risks that reliance on contractors may pose. GAO reported in November 2009 that DOD policies do not require assessments of the risks associated with contractors closely supporting inherently governmental functions at key acquisition decision points. Similarly, legislation in 2008 directed DOD to determine the number of contractors and the functions they perform, in part to help identify functions that might be better performed by DOD employees, but it is too soon to determine whether this effort will prove successful.

Improved DOD guidance, initiation and use of independent management reviews, and other steps to promote the use of sound business arrangements have begun to address prior weaknesses in the department's management and use of undefinitized contract actions, time-and-materials contracts, and award fees. Over the past 2 years, however, GAO reported that DOD had missed opportunities to promote competition. For example, in September 2009, GAO reported that DOD, along with other federal agencies, rarely took advantage of additional opportunities for competition when placing orders under blanket purchase agreements. In response to this report and others, DOD leadership in 2010 has identified steps to promote more effective competition in its acquisitions.

Properly managing the acquisition of goods and services requires a workforce with the right skills and capabilities. In support of the Secretary of Defense's strategy to resize and rebalance the acquisition workforce, DOD in April 2010 issued an acquisition workforce plan that identified planned workforce growth, specified recruitment and retention goals, and forecasted workforce-wide attrition and retirement trends. While a positive step, GAO reported in September 2010 that DOD had not yet fully addressed the desired mix of civilian, military, and contractor personnel or

completed its assessment of the critical skills and competencies of DOD's acquisition workforce.

Planning for the use of contractors in military operations, vetting contractor personnel who provide security, and training nonacquisition personnel on the use and management of contractors in contingencies are all challenges evidenced in Iraq and Afghanistan. For example, in July 2009, GAO reported that DOD faced challenges when vetting its foreign security contractors because it had not developed procedures for vetting these personnel. Similarly, although DOD guidance calls for combatant commanders to include operational contract support requirements in their operation plans, GAO reported in March 2010 that few plans included this information. In June 2010, GAO reported that a cultural change emphasizing an awareness of operational contract support throughout DOD is needed to address these challenges.

# What Remains to Be Done

To improve outcomes on the billions of dollars spent annually on goods and services, sustained DOD leadership and commitment is needed to ensure that policies are consistently put into practice. Further, DOD needs to

- take steps to strategically manage services acquisition, including defining and measuring against desired outcomes, and developing the data needed to do so;

- determine the appropriate mix, roles, and responsibilities of contractors, federal civilian, and military personnel;

- assess the effectiveness of efforts to improve competition and address prior weaknesses with specific contracting arrangements and incentives;

- ensure that its acquisition workforce is adequately sized, trained, and equipped to meet the department's needs; and

- fully integrate operational contract support throughout the department through education and predeployment training.

DOD has generally agreed with GAO's recommendations and has efforts under way to implement them.

# GAO Contact

For additional information about this high-risk area, contact John Hutton at (202) 512-4841 or huttonj@gao.gov.

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# Department of Energy's Contract Management for the National Nuclear Security Administration and Office of Environmental Management

## Why Area Is High Risk

The Department of Energy (DOE), the largest non-Defense Department contracting agency in the federal government, relies primarily on contractors to carry out its diverse missions and operate its laboratories and other facilities. About 90 percent of DOE's annual budget is spent on contracts. Contract management—which includes both contract administration and project management—is a high-risk area because DOE's record of inadequate management and oversight of contractors has left the department vulnerable to fraud, waste, abuse, and mismanagement. In January 2009, to recognize progress made at the Office of Science, GAO narrowed the focus of its high-risk designation to two DOE program elements—the National Nuclear Security Administration (NNSA) and Office of Environmental Management (EM). Together, these two programs account for 60 percent of DOE's budget of nearly $27 billion.

## What GAO Found

DOE has continued to take many steps to address contract and project management weaknesses, including (1) demonstrating strong commitment and top leadership support, (2) developing a corrective action plan that identifies effective solutions, and (3) demonstrating progress implementing corrective measures. These are three of the five criteria for removal from GAO's High-Risk List. In March 2009, GAO testified that DOE was managing over 100 construction projects with estimated costs over $90 billion and 97 nuclear waste cleanup projects with estimated costs over $230 billion. GAO found that 8 of the 10 major NNSA and EM construction projects (DOE defines a major project as any project greater than or equal to $750 million) that GAO reviewed had exceeded the initial cost estimates for completing these projects. In total, DOE added $14 billion to these initial estimates. GAO also found that 9 of the 10 major construction projects were behind schedule. In total, DOE added more than 45 years to the initial schedule estimates for these projects. Since that time, DOE has been restructuring its portfolio of projects to distinguish between capital asset projects and operating projects and is taking steps to break large projects into smaller, more manageable components when possible. In addition, over the last 2 years, DOE has updated program and project management guidance to improve the reliability of project cost estimates, better assess project risks, and ensure that project reviews are timely and useful and identify problems early. DOE officials stated that these and other changes will improve project performance.

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The steps DOE has taken are very important, but have not yet consistently improved contract and management performance in NNSA and EM. For example, GAO found that NNSA cannot accurately identify the total costs to operate and maintain its nuclear weapons facilities because NNSA does not have a mechanism to reconcile the differences in site contractors' accounting practices. As a result, NNSA lacks the management information necessary to make cost-benefit decisions on infrastructure investment. Furthermore, NNSA's project to construct a new Uranium Processing Facility at the Y-12 National Security Complex has experienced a nearly sevenfold cost increase from its 2004 estimate of between $600 million and $1.1 billion to its current estimate of between $4.2 billion and $6.5 billion. Moreover, NNSA does not expect all technologies for this facility to be mature enough before critical decisions on cost and schedule are made. Finally, GAO found that NNSA's plans to modernize its Kansas City Plant were based on an inadequate cost estimate. Specifically, NNSA based its cost estimate of leasing a new facility versus constructing one itself upon an arbitrary 20-year horizon rather than on the estimated actual lifespan of the facility. As a result, NNSA's financing decisions were not as fully informed or as transparent as they could have been. Constructing a new Uranium Processing Facility, modernizing the Kansas City Plant, and constructing a major new nuclear facility at NNSA's Los Alamos National Laboratory are cornerstones of NNSA's multibillion-dollar transformation of the nuclear weapons complex and exemplify high-risk endeavors by NNSA that GAO will continue to monitor closely.

EM has also experienced problems. For example, GAO reported in January 2010 that its reviews of cost estimates for two major EM projects—construction of a $1.3 billion Salt Waste Processing Facility at the Savannah River Site in South Carolina and decontamination and decommissioning at the Y-12 National Security Complex in Tennessee that DOE estimates will cost between $1.1 billion and $1.2 billion—found that the estimates did not exemplify the four characteristics of high-quality cost estimates. Specifically, best practices establish that high-quality cost estimates must be credible, well-documented, accurate, and comprehensive. GAO also found that another large EM project—emptying, cleaning, and closing large underground liquid radioactive waste tanks at the Savannah River Site—has experienced a $1.4 billion increase in its estimated cost from $3.2 billion to $4.6 billion because, among other things, DOE's cost estimate that formed the basis of its contractor's initial proposal was inaccurate. In addition, of the 91 EM cleanup projects funded with $6 billion in Recovery Act funds, nearly one-third were not meeting cost or schedule targets when GAO reviewed them, although more recent information indicates cost and schedule performance on

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these projects has improved. These Recovery Act projects were generally smaller and simpler than some of EM's other cleanup work. Furthermore, DOE has also recently renegotiated commitments with the Environmental Protection Agency and the state of Washington that move out DOE's promise to complete the treatment of the Hanford Site's radioactive waste by nearly 20 years. Cleaning up the entire site will cost the department tens of billions to over a hundred billion dollars.

In its corrective action plan, DOE recognized that having sufficient people and other resources to resolve its contract and project management problems was one of the top 10 issues facing the department. Specifically, the plan said that the department lacked an adequate number of federal contracting and project personnel with the appropriate skills (such as cost estimating, risk management, and technical expertise) to plan, direct, and oversee project execution. These challenges are likely to continue as DOE's workforce ages and the department faces future budget constraints. Both NNSA and EM are taking steps to assess current and future staffing needs and are in the process of developing plans to address the shortfalls.

## What Remains to Be Done

DOE's removal from the High-Risk List requires meeting all five of GAO's long-established criteria. DOE has already demonstrated and must continue to sustain leadership commitment and progress implementing corrective measures and also ensure the successful implementation of its corrective action plan. Additional actions are needed to meet the remaining two criteria. DOE needs to commit sufficient people and resources to resolve its contract management problems. Furthermore, DOE must monitor and independently validate the effectiveness and sustainability of its corrective measures. In particular, DOE must ensure that the corrective measures it is taking to improve its cost estimating policies and procedures ultimately result in cost estimates for its major projects that are more accurate and reliable, and can be used to hold the department accountable for its performance.

## GAO Contact

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# National Aeronautics and Space Administration Acquisition Management

## Why Area Is High Risk

The National Aeronautics and Space Administration (NASA) plans to invest billions of dollars in the coming years to explore space, understand Earth's environment, and conduct aeronautics research. GAO has designated NASA's acquisition management as high risk in view of persistent cost growth and schedule slippage in the majority of its major projects. GAO's work has focused on identifying a number of causal factors, including antiquated financial management systems, poor cost estimating, and underestimating risks associated with development of its major systems.

## What GAO Found

NASA has taken steps to improve its acquisition management and continues to work to address systemic weaknesses by adopting practices that focus on closing gaps in knowledge about requirements, technologies, funding, time, and other resources before commitments are made to a new project. In 2007, NASA developed a plan to improve how it manages its acquisitions. The plan identifies specific actions to strengthen project management, increase accuracy in cost estimating, facilitate monitoring of contractor cost performance, and improve business processes and financial management; it also establishes points of accountability and metrics to assess progress. NASA has made some progress on the management and oversight of its major projects to improve overall acquisition outcomes, including the following:

- revising its acquisition and engineering policies in 2007 to incorporate elements of a knowledge-based approach and continuing to refine the policies to provide better information for decision makers.

- enhancing cost-estimating methodologies and as of 2009 ensuring that independent analyses are used to provide decision makers with an objective representation of likely project cost and schedule results.

- implementing a management review process in 2006 to enable it to more effectively monitor a project's performance, including cost, schedule, and cross-cutting technical and nontechnical issues.

- updating and increasing the availability of program and project management learning and development activities. Importantly, as of October 2009, NASA has certified all major program and project managers to ensure they possess the necessary competencies, training, and experience pursuant to OMB's guidance.

Although not part of its improvement plan, NASA continues to utilize earned value management to assess contract performance. NASA has also initiated an effort to develop and pilot agency processes with a long-term goal of improving NASA's ability to utilize earned value management as a performance assessment tool for in-house projects. Additionally, a key initiative aimed at improving contractor cost performance monitoring has not been fully implemented. In addition, NASA is completing work aimed at identifying the root causes of its acquisition issues. It may take several years before it is apparent whether the initiatives will significantly improve NASA's acquisition performance. GAO's work continues to find that NASA has difficulty meeting cost, schedule, and performance goals for many of its projects. For example, GAO reported in 2010 that 10 major NASA projects have experienced cost growth averaging almost $121.1 million, or 18.7 percent, and a 15-month schedule delay. Many of these projects experienced challenges, including developing new or retrofitting older technologies, stabilizing engineering designs, managing the performance of contractors, and resolving issues with partners. Moreover, a recent review by the James Webb Space Telescope Independent Comprehensive Review Panel highlighted significant breakdowns in oversight, accountability, and cost estimating that are likely to lead to an unanticipated cost overrun of approximately $1.4 billion, or potentially more, and a schedule delay of about 15 months.

## What Remains to Be Done

NASA is implementing a corrective action plan to improve the effectiveness of its project management. Successful implementation of the plan will gain even more importance in an increasingly constrained fiscal environment. In addition to implementing its plan, NASA needs to continue to define the metrics it uses to monitor progress of its acquisitions at key milestones, such as project confirmation and critical design review. Further, once those measures are fully defined, NASA should track its decisions against those metrics. Ultimately, NASA must demonstrate positive outcomes in controlling cost growth and schedule slippage in its major programs and projects. This could take several years to become apparent given the long-term nature of spacecraft development.

## GAO Contact

For additional information about this high-risk area, contact Cristina T. Chaplain at (202) 512-4841 or chaplainc@gao.gov.

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# Management of Interagency Contracting

## Why Area Is High Risk

When used correctly, interagency contracting—where one agency either uses another agency's contract directly or obtains contracting support services from another agency—can offer improved efficiency in the procurement process. By providing a simplified, expedited, and lower cost method of procurement, interagency contracting can help agencies save both time and administration costs versus awarding new contracts. This is particularly important at a time when agencies face growing workloads and slow growth in the acquisition workforce. Although precise numbers are unavailable, agencies reported spending at least $53 billion in fiscal year 2009 using interagency contracts to acquire goods and services that support a wide variety of activities. GAO designated the management of interagency contracting as a high-risk area in 2005, due in part to the need for stronger internal controls, clear definitions of roles and responsibilities, and training to ensure proper use of this contracting method.

## What GAO Found

The management of interagency contracting continues to evolve, and agencies have made progress but still face challenges in making effective use of this contracting method. In response to congressional direction since 2004, agency inspectors general (IG) continue to review interagency contracting for the Department of Defense (DOD), the largest government purchaser of goods and services. These reviews found that, in general, agencies making purchases for DOD have improved interagency contracting practices by better defining roles and responsibilities and improving controls over funding procedures, among other things; however, problems persist with DOD's use of interagency contracting. Specifically, the DOD IG has identified acquisition planning, the use of proper funds, and contract administration as areas that require further improvement when other agencies make purchases on behalf of DOD.

In April 2010, GAO reported on additional challenges that agencies face in fully realizing the benefits of interagency contracts. Specifically, GAO found that the Office of Management and Budget (OMB) and federal agencies lack reliable and comprehensive data to effectively leverage, manage, and oversee these contracts. For example, the total number of one type of interagency contract—multiagency contracts (MAC)—is unknown due to a lack of sufficient and reliable data on these contracts. Similarly, GAO found that the General Services Administration (GSA) lacks data about customer agencies' use of the Multiple Award Schedule program—the largest interagency contracting program—which limits GSA's ability to determine how well the program meets customers' needs. In addition, agency officials and vendors expressed concerns to GAO

about potential duplication when multiple agencies create separate contracts for similar products and services. Unjustified duplication needlessly increases costs to vendors, which they pass on to the government, and can result in missed opportunities to leverage the government's buying power. Finally, GAO found limited governmentwide policy in place for establishing and overseeing MACs. GAO made a number of recommendations to OMB and GSA in April 2010 to improve transparency and management, and to promote a more coordinated approach in awarding interagency contracts.

GSA and OMB have taken steps to address these recommendations and improve the management of interagency contracting. GSA has established an action plan with timeframes for implementing GAO's recommendations. In August 2010, OMB reported on its efforts to strengthen interagency contracting. For example, it conducted a survey of 24 agencies on actions taken to implement prior OMB guidance on the management and use of interagency contracts. The survey found that most agencies had reported implementing at least some of the internal controls called for in the guidance, such as documenting decisions to use another agency's contract. OMB also plans to issue guidance on creating and managing new MACs and is exploring options for improving the information available on existing interagency contracts to help agencies make better procurement decisions.

## What Remains to Be Done

OMB and GSA have established corrective action plans that outline the steps they will take in response to GAO recommendations. These initiatives are in the early stages of implementation and will require continued management attention to demonstrate progress. In addition, given the continued problems identified with DOD's use of interagency contracts, it is similarly important that DOD continue to focus on addressing these deficiencies. Finally, agencies must take steps to ensure their compliance with OMB's guidance in order to achieve the greatest value possible from interagency contracting.

## GAO Contact

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# Related Products

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# Enforcement of Tax Laws

## Why Area Is High Risk

Internal Revenue Service (IRS) enforcement of the tax laws is vital to ensuring that all owed taxes are paid, which in turn can promote voluntary compliance by giving taxpayers confidence that others are paying their fair share. GAO's high-risk area includes IRS's efforts to ensure payment both of unpaid taxes known to IRS and unpaid taxes IRS has not detected.

## What GAO Found

Typically, about 84 percent of owed taxes are paid voluntarily and timely. IRS last estimated the resulting tax gap to be $345 billion for 2001. After late payments and IRS enforcement, the net tax gap was $290 billion. Many experts believe that the tax gap was underestimated for 2001 and has grown larger since then. IRS expects to update the tax gap estimate by 2013.

IRS has stepped up enforcement over the past decade. Over the last 3 years, IRS collected an average annual amount of $54 billion through enforcement actions, up by 61 percent from 2000. Importantly, IRS continues to research the extent and causes of tax noncompliance and is using the results to revise its examination programs. The results have also helped support legislation, passed in 2008, estimated to raise tens of billions of dollars, such as requiring brokers to report taxpayers' basis in securities for computing capital gains.

Recently, Congress and IRS have taken innovative actions aimed at further improving tax compliance, often directly based on GAO's work. In 2010, IRS began implementing a new regulatory regime for paid tax return preparers; an important step given the critical role they play in helping taxpayers meet their tax obligations. Congress passed a law in 2010 that requires financial institutions to report information on foreign bank accounts and others in 2008 that require reporting of securities' basis and businesses' credit card receipts. In addition, as of tax year 2010, IRS is requiring businesses to report uncertain tax positions on their tax returns. Finally, increased electronic filing and the continued modernization of its information systems should give IRS access to more timely and accurate data.

The impact of these initiatives on tax compliance will depend on how IRS implements them. IRS is just beginning to develop a strategy for better integrating paid preparers into its enforcement and taxpayer service programs. The new information from financial institutions may be so complex that it cannot be readily incorporated into IRS's automated compliance verification processes, requiring those processes to be rethought. One example of rethinking is IRS's nascent efforts at modeling

networks of related businesses that share a common owner. Finally, further refining of return-on-investment measures for its enforcement programs should improve how IRS allocates resources across the programs. Resource allocation will become increasingly important as IRS is tasked with broader responsibilities, such as those in the Patient Protection and Affordable Care Act of 2010.

Further, legislative action may be needed to address some compliance issues. IRS has statutory authority to correct certain errors, such as calculation mistakes or omitted or inconsistent entries, during tax return processing. Expanding such math error authority could help IRS correct additional errors before interest is owed by taxpayers and avoid burdensome audits. The complexity of the tax code is also a compliance issue—complexity can cause taxpayer confusion and provide opportunities to hide willful noncompliance.

## What Remains to Be Done

For IRS to improve its enforcement of tax laws it must

- continue to perform compliance research on a regular basis and use the results to identify areas of noncompliance, justify resource requests, and target scarce resources; and

- leverage new requirements for paid preparers, sources of taxpayer information, and technologies to enhance the effectiveness and timeliness of service and enforcement corrective measures.

In that regard, IRS should implement GAO's open recommendations, such as developing a strategy for ensuring compliance by business networks.

To assist IRS in reducing the tax gap, Congress should consider expanding IRS's legal authority, called math error authority, to correct taxpayer calculation mistakes or omitted or inconsistent entries during tax return processing before issuing refunds. Simplifying the tax code has the potential to improve compliance, as well.

## GAO Contacts

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# Internal Revenue Service Business Systems Modernization

## Why Area Is High Risk

The Internal Revenue Service's (IRS) Business Systems Modernization (BSM) program is a multibillion-dollar, highly complex effort that involves the development and delivery of a number of modernized tax administration and internal management systems as well as core infrastructure projects that are intended to replace the agency's aging business and tax processing systems. It is critical to providing improved and expanded service to taxpayers and internal business efficiencies for IRS and providing the reliable and timely financial management information needed to better enable IRS to justify its resource allocation decisions and congressional budgetary requests.

A long history of continuing delays and design difficulties and their impact on IRS's operations led GAO to designate IRS's systems modernization and its financial management as separate high-risk areas in 1995. Since resolution of IRS's most serious remaining financial management problems depended largely on the success of BSM, GAO combined the two issues into one high-risk area in 2005. Because challenges remain and IRS has not yet implemented its new strategy for managing individual taxpayer accounts, the area has remained high risk.

## What GAO Found

Since GAO designated this area as high risk, it has reported on a number of management controls and capabilities and financial management controls that are critical to the effective management of BSM and IRS's ability to provide reliable and timely financial management information and has made numerous recommendations aimed at improving these areas. To address weaknesses identified, GAO recommended that IRS take the following actions, among others:

- fully revisit the vision and strategy for the BSM program and develop a new set of long-term goals, strategies, and plans consistent with the budgetary outlook and IRS's management capabilities;

- define procedures for validating contractor-developed cost and schedule estimates;

- develop processes for determining the type of task order to be awarded in acquiring modernized systems;

- improve its process for determining whether expected project benefits were achieved by including an analysis of quantitative and qualitative investment data; and

- define policies and procedures to guide system modernization projects in developing and managing requirements.

GAO has also made numerous recommendations aimed at addressing deficiencies in controls over tax revenue collections, tax refund disbursements, hard-copy tax receipts and related data and information systems security.

IRS has taken action to address GAO's recommendations. For example, in 2008, IRS began working on a new strategy that, among other things, addresses the management of individual taxpayer accounts as well as several long-term goals to enhance IRS's systems. In the initial phase intended to be delivered by the January 2012 filing season, IRS plans to create a modernized taxpayer account database and to move the processing of individual taxpayer accounts from a weekly processing cycle to a daily processing cycle. IRS expects the new strategy will result in faster refunds, improved customer service, elimination of notices based on out-of-date information, faster resolution of taxpayer account issues, and better online tools and services for taxpayers several years sooner than the previous approach. GAO also reported that IRS, in response to recommendations, developed requirements development and management policies, procedures, and tools including (1) a standardized process for the elicitation and documentation of requirements; (2) guidance on establishing and maintaining full bidirectional requirements traceability; (3) guidance on tracking cost and schedule impacts of changes to requirements; and (4) a process for ensuring that formal peer reviews are planned and completed for key requirements. IRS also addressed several deficiencies that GAO identified in prior financial statement audits, including resolving a material weakness in internal controls over financial reporting and improving the availability of cost information to support informed decision making. IRS also made significant enhancements to its general ledger system for tax transactions and brought it into compliance with the United States Standard General Ledger.

While progress has been made, GAO recommended that IRS needed to further define the second phase of its new strategy for managing individual taxpayer accounts which it expects to deliver in January 2014. GAO also reported in May 2010, that IRS had not yet developed a quantitative measure of work accomplished for its projects, a recommendation made to IRS in 2007. While IRS has taken steps to address this recommendation, it does not plan to have it fully implemented until fiscal year 2012. GAO further reported in November 2010 that significant financial management

weaknesses remain. Specifically, the legacy automated financial management systems IRS continues to rely on (1) do not provide adequate information to support day-to-day decision making or to report reliable financial statement balances without reliance on significant compensating procedures, and (2) continue to exhibit serious deficiencies in information security that jeopardize the integrity and confidentiality of the financial and taxpayer information they process and the accuracy of the financial information they report.

## What Remains to Be Done

For BSM, while IRS has made progress in addressing weaknesses in management controls and capabilities in response to GAO's recommendations, it now needs to leverage these controls and capabilities to successfully deliver its BSM projects. Specifically, IRS needs to deliver a modernized taxpayer account database and move the processing of individual taxpayer accounts from a weekly processing cycle to a daily processing cycle by 2012. IRS also needs to continue its efforts to achieve expected benefits including faster refunds, improved customer service, and faster resolution of taxpayer account issues through 2014. For financial management issues, in addition to addressing outstanding recommendations, IRS needs to (1) ensure corrective action plans address all issues and define root causes; and (2) strengthen its program for monitoring the effectiveness of corrective actions taken in response to GAO's information security recommendations. Until IRS resolves these issues, the agency's ability to successfully modernize its operational and financial management systems will continue to be jeopardized.

## GAO Contact

For additional information about this high-risk area, contact David A. Powner at (202) 512-9286 or pownerd@gao.gov or Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

## Related GAO Products

*Financial Audit: IRS's Fiscal Years 2010 and 2009 Financial Statements.* GAO-11-142. Washington, D.C.: November 10, 2010.

*Internal Revenue Service: Status of GAO Financial Audit and Related Financial Management Report Recommendations.* GAO-10-597. Washington, D.C.: June 30, 2010.

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# Improving and Modernizing Federal Disability Programs

## Why Area Is High Risk

Designated a high-risk area in 2003, federal disability programs remain in need of modernization. Almost 200 federal programs provide a wide range of services and supports, resulting in a patchwork of policies and programs without a unified strategy or set of national goals. Further, disability programs emphasize medical conditions in assessing work incapacity without adequate consideration of work opportunities afforded by advances in medicine, technology, and job demands. Beyond these broad concerns, the largest disability programs—managed by the Social Security Administration (SSA), Department of Veterans Affairs (VA), and Department of Defense (DOD)—are experiencing growing workloads, creating challenges to making timely and accurate decisions.

## What GAO Found

Some agencies have taken steps to modernize their disability programs, such as updating and revising their eligibility criteria. However, such revisions have not fully incorporated a modern understanding of how technology and labor market changes could affect eligibility for disability benefits. Moreover, there is no set of agreed upon governmentwide outcomes for disability policies and programs as well as strategies to achieve them. Key stakeholders agree that a stronger federal role is needed to focus and align efforts across numerous federal agencies and programs that play a role in supporting individuals with disabilities. In ongoing discussions with GAO, the administration and Office of Management and Budget have said they are considering a course of action going forward.

SSA has taken steps to address challenges with claims processing, but it continues to struggle with growing workloads and long waits for decisions. For example, SSA developed a plan that has helped the agency reduce its hearing-level backlog from over 760,000 in fiscal year 2008 to about 697,000 in fiscal year 2010. SSA's goal is to reduce the number of pending hearing-level claims to below 466,000 by the end of fiscal year 2013. Workloads, however, are increasing at SSA's initial claims level, where pending claims exceeded 1 million in fiscal year 2010. The agency has developed additional strategies to deal with its workload challenges. Effective management of SSA's disability claims process will require comprehensive planning and monitoring going forward.

VA has made progress in some areas of its claims process and faced continued challenges in others. In fiscal year 2008, VA completed nearly 66 percent more initial compensation claims than in fiscal year 2000 and reduced pending appeals from about 127,000 to 95,000. However, in fiscal year 2008, it took VA on average 776 days to resolve an appeal. We

reported in January 2010 that VA has implemented several improvement initiatives, including expanding its practice of workload distribution and testing new claims-processing approaches—such as shortening response periods for certain claims and appeals and reorganizing its claims-processing units. Per our recommendations, VA recently completed evaluations of some key initiatives, and continues to evaluate others. Thus, their long-term impact on the timeliness and accuracy of veterans' claims is not yet known.

Through their pilot of an integrated disability evaluation system (IDES), DOD and VA have made some progress toward addressing inefficiencies associated with operating two separate yet similar disability systems, but full implementation will require careful monitoring. DOD's and VA's recently completed evaluation of the pilot has generally shown positive results. In support of plans to expand the IDES militarywide, DOD and VA have identified actions needed to address staffing, logistical, and other challenges. However, they do not have a monitoring process for identifying emerging problems such as staffing shortages in order to quickly take remedial actions.

## What Remains to Be Done

An overall federal strategy and governmentwide coordination among programs is needed to align disability policies, services, and supports, but little progress has been made. SSA, VA, and DOD leadership have demonstrated a strong commitment and invested additional resources to address claims workloads. However, the agencies still need to complete work on the following recommendations. SSA needs to employ a comprehensive plan that considers its entire disability process. VA needs to evaluate its claims-processing initiatives to assess return on investment. As VA and DOD proceed with a joint disability evaluation system, they need to develop a systematic monitoring process and ensure adequate staffing is in place.

## GAO Contact

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## Related GAO Products

*Military and Veterans Disability System: Pilot Has Achieved Some Goals, but Further Planning and Monitoring Needed.* GAO-11-69. Washington, D.C.: December 6, 2010.

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December 7, 2007.

# Pension Benefit Guaranty Corporation Insurance Programs

## Why Area Is High Risk

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of 44 million participants in more than 27,000 private defined benefit plans through its single-employer and multiemployer insurance programs. At the end of fiscal year 2010, PBGC's net accumulated financial deficit for its programs was $23 billion—an increase of over $11 billion from the end of fiscal year 2008, and significantly worse than in 2000, when PBGC reported a $10 billion surplus. PBGC estimates that plans sponsored by financially weak firms are underfunded by about $170 billion, an amount that has been worsening due to economic circumstances. The Pension Protection Act of 2006 (PPA) strengthened some aspects of funding rules and premiums, but in response to the recession, subsequent legislation authorized a phase-in of those changes. PBGC has implemented various measures to improve its operations, but weaknesses remain. GAO put the single-employer program on its High-Risk List in July 2003 and added the multiemployer program in January 2009.

## What GAO Found

As the insurer of private defined benefit pension plans, PBGC's financial portfolio is now one of the largest of any federal government corporation, with nearly $80 billion in assets. Yet, because of long-term structural challenges and recent investment losses, PBGC's financial future is uncertain and GAO is continuing to designate PBGC's insurance programs as high risk.

In the wake of the recent financial crisis, the combined net financial condition of PBGC's single-employer and multiemployer insurance programs declined precipitously. Although it has stabilized some as the economy has begun to recover, PBGC continues to face the ongoing threat of losses from the termination of underfunded plans. At the end of fiscal year 2010, PBGC projected $99.4 billion in liabilities under the single-employer program, mostly for benefits owed participants in terminated plans, and $3.1 billion under the multiemployer program, mostly for nonrecoverable financial assistance. As a result, PBGC's net accumulated deficit totaled $23 billion at the end of fiscal year 2010, more than double its deficit from 2 years earlier.

**Figure 3: PBGC's Net Financial Position, Single-Employer and Multiemployer Programs Combined**
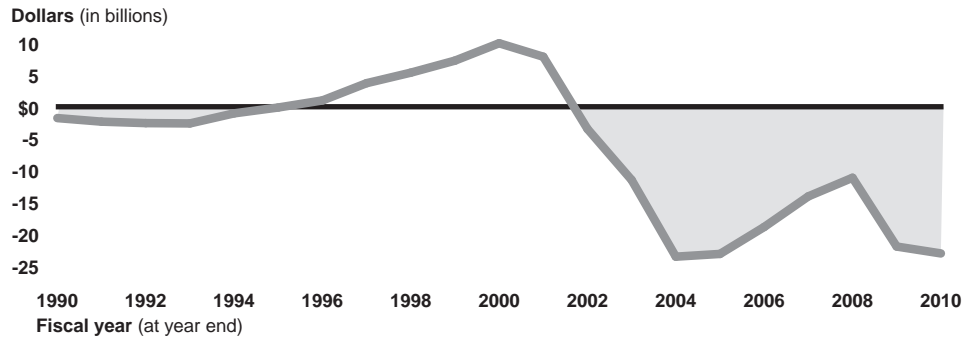


Source: PBGC.

Note: Net financial position equals program assets less the current value of future benefit obligations and financial assistance unlikely to be repaid.

Long-term structural challenges are at the heart of PBGC's difficulties. For example, PBGC's premium base has been eroding over time as fewer sponsors are paying premiums for fewer participants. In fiscal year 2010, PBGC insured about half the number of plans it insured 15 years ago. In addition, many underfunded defined benefit plans are sponsored by companies that have been hurt by the recession. To the extent these sponsors have a greater likelihood of bankruptcy, their plans are at greater risk of termination. All of these developments increase PBGC's financial risk.

To respond to these challenges, PBGC has taken various steps to improve its workforce planning and contracting procedures, but weaknesses remain—especially in the areas of governance and strategic management. For example, PBGC's current three-member board of directors cannot devote sufficient time to provide adequate policy direction and oversight. Further, PBGC's current strategic management does not adequately incorporate goals for setting a long-term, coherent investment policy, for determining the optimal mix of contract and federal workers, and for addressing delays in determining benefits for participants in large, complex plans that have been terminated.

## What Remains to Be Done

To safeguard the private pension system's role in national retirement security, PPA's changes related to funding rules and premiums, which are being phased-in as a result of subsequent legislation, need to be fully implemented. Also, Congress should expand PBGC's board and encourage

PBGC to strengthen its strategic management. Although PBGC will likely remain at risk from a premium rate structure that does not adequately reflect its financial exposure and the threat of terminations of large underfunded plans, it can take steps to strengthen its operations to better manage the challenges of its unstable financial condition and increasing workloads.

For example, PBGC could adopt a coherent, long-term investment policy to strengthen strategic management of its assets; include procurement decision making in corporate-level strategic planning to strengthen strategic management of its contract workforce; and establish separate performance measures for large, complex plans to strengthen strategic management of its benefit determination process.

## GAO Contact

For additional information about this high-risk area, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

## Related GAO Products

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*Troubled Asset Relief Program: Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future.* GAO-10-492. Washington, D.C.: April 6, 2010.

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*Pension Benefit Guaranty Corporation: More Strategic Approach Needed for Processing Complex Plans Prone to Delays and Overpayments.* GAO-09-716. Washington, D.C.: August 17, 2009.

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*Defined Benefit Plans: Proposed Plan Buyouts by Financial Firms Pose Potential Risks and Benefits.* GAO-09-207. Washington, D.C.: March 16, 2009.

# Medicare Program

## Why Area Is High Risk

GAO has designated Medicare as a high-risk program because its complexity and susceptibility to improper payments, added to its size, have led to serious management challenges. In 2010, Medicare covered 47 million elderly and disabled beneficiaries had estimated outlays of $509 billion. Medicare had estimated improper payments of almost $48 billion in fiscal year 2010. However, this improper payment estimate did not include all of the program's risk, since it did not include improper payments in its prescription drug benefit, for which the agency has not yet estimated a total amount. The Centers for Medicare & Medicaid Services (CMS), which administers Medicare, is responsible for implementing payment methods that encourage efficient service delivery, managing the program to serve beneficiaries and safeguard it from loss, and overseeing patient safety and care. CMS faces growing challenges in coming years, given the rapid growth expected in the number of Medicare beneficiaries and program spending.

## What GAO Found

The Medicare program remains on a path that is fiscally unsustainable over the long term. This fiscal pressure heightens the need for CMS to improve Medicare's payment methods to achieve efficiency and savings, and its management, program integrity, and oversight of patient care and safety.

**Reforming and refining payments.** Since January 2009, CMS has implemented payment reforms for Medicare Advantage, and inpatient hospital, home health, and end-stage renal disease services. The agency has also begun to provide feedback to physicians on their resource use and is developing a value-based payment method for physician services that accounts for the quality and cost of care. Efforts to provide feedback and encourage efficiency are crucial because physician influence on the use of other services is estimated to account for up to 90 percent of health care spending.

In addition, CMS has taken steps to ensure that some physician fees recognize efficiencies when certain services are furnished together, but the agency has not targeted the services with the greatest potential for savings. Under the budget neutrality requirement, the savings that have been generated have been redistributed to increase physician fees for other services. Therefore, GAO recommended in 2009 that Congress consider exempting savings from adjusting physician fees to recognize efficiencies from budget neutrality to ensure that Medicare realizes these savings.

GAO's work has also shown that payment for imaging services may benefit from refinements. Specifically, CMS could add more front-end approaches to better ensure appropriate payments, such as requiring physicians to obtain prior authorization from Medicare before ordering an imaging service. CMS also has opportunities to improve the way it adjusts physician payments to account for geographical differences in the costs of providing care in different localities. GAO has recommended that the agency examine and revise the physician payment localities it uses for this purpose by using an approach that is uniformly applied to all states and based on the most current data. CMS agreed to consider the recommendation, but was concerned about its redistributive effects. The agency subsequently initiated a study of physician payment locality adjustments. The study is ongoing and CMS has not implemented any change.

**Improving program management.** CMS's implementation of competitive bidding for medical equipment and supplies and its new Medicare Administrative Contractors (MAC) have progressed, with some delays. Congress halted the first round of competitive bidding and required CMS to improve its implementation. In regard to contracting reform, due to delays because of protests filed in connection with the procurement process, CMS did not meet the target that it set for 2009 and 2010 in transferring workload to MACs. As of December 2010, CMS transferred Medicare's fee-for-service claims workload to the new MACs in all but six jurisdictions. For those six jurisdictions, CMS is transferring claims workload in two jurisdictions, and has ongoing procurement activity in the remainder. Some new MACs had delays in paying providers' claims, but overall, CMS's contractors continued to meet the agency's performance targets for timeliness of claims processing in 2009.

Regarding Medicare Advantage, CMS has not complied with statutory requirements to mail information on plan disenrollment to beneficiaries but did take steps to post this information on its Web site. In addition, the agency took enforcement actions for inappropriate marketing against at least 73 organizations that sponsored Medicare Advantage plans from January 2006 to February 2009.

In regard to CMS's management of its contracting function, GAO found pervasive internal control deficiencies that put billions of taxpayer dollars at risk of improper payments or waste and recommended that CMS take actions to address them. Recently, CMS has taken several actions to address the recommendations and correct certain deficiencies we noted, such as revising policies and procedures, and developing a centralized

tracking mechanism for employee training. However, CMS has not made sufficient progress to complete actions to address recommendations related to clarifying the roles and responsibilities for implementing certain contractor oversight responsibilities, clearing a backlog of contracts that are overdue for closeout, and finishing its investigation of over $70 million in payments GAO questioned in 2007.

**Enhancing program integrity.** New directives, implementing guidance, and legislation will impact CMS's efforts to reduce improper payments in the next few years. The administration has issued Executive Order 13520 on Reducing Improper Payments in 2009 and related implementing guidance in 2010. In addition, the Improper Payments Elimination, and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 and established additional requirements related to accountability, recovery auditing, compliance and noncompliance determinations, and reporting. Further, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 contain provisions designed to help reduce improper payments in the Medicare program.

CMS has already taken action in some areas—for example, as required by law, it implemented a national Medicare Recovery Audit Contractors (RAC) program in 2009. CMS has set a key performance measure to reduce improper fee-for-service and Part C payments and is developing measures of improper payment for Part D. CMS was not able to demonstrate sustained progress at reducing its fee-for-service error rate, because changes made to improve the methodology for measurement make current year estimates noncomparable to any issued before 2009. Its 2010 fee-for-service payment error rate of 10.5 percent will serve as the baseline for setting targets for future reduction efforts. However, with a 2010 Part C improper payment rate of 14.1 percent, the agency met its target to have its 2010 improper payment rate lower than 14.3 percent. For Part D, the agency is working to develop a composite improper payment rate, and for 2010 has four nonaddable estimates, with the largest being $5.4 billion.

Other recent CMS program integrity efforts include issuing regulations, tightening provider enrollment requirements and creating a Center for Program Integrity, responsible for addressing program vulnerabilities leading to improper payments. However, having corrective action processes to address the vulnerabilities that lead to improper payments is also important to effectively managing them. CMS did not develop an adequate process to address the vulnerabilities to improper payments identified by the RACs.

Further, several recommendations GAO made to improve the targeting of claims review for services with high rates of improper billing have not been addressed. Our February 2009 report indicated that Medicare continued to pay some home health agencies for services that are not medically necessary or not rendered. To help address the issue, GAO recommended that postpayment reviews be conducted on claims submitted by home health agencies with high rates of improper billing identified through prepayment review and that CMS require that physicians receive a statement of home health services beneficiaries received based on the physicians' certification. In addition, GAO recommended that CMS require its contractors to develop thresholds for unexplained increases in billing by providers and use them to develop automated prepayment controls as a way to reduce improper payments. CMS has not implemented these three recommendations because the agency indicated it had taken other actions; however, GAO believes these actions will not have the same effect.

CMS's oversight of Part D plan sponsors' programs to deter fraud and abuse has been limited. However, CMS has taken some actions to increase it. For example, CMS officials indicated that they had conducted expanded desk audits and were implementing an oversight strategy.

**Overseeing patient care and safety.** CMS's oversight of the quality of nursing home care has increased significantly in recent years, but weaknesses remain in surveillance that could understate care quality problems. Under contract with CMS, states conduct surveys at nursing homes to help ensure compliance with federal quality standards, but a substantial percentage of state nursing home surveyors and state agency directors identified weaknesses in CMS's survey methodology and guidance. In addition to these methodology and guidance weaknesses, workforce shortages and insufficient training, inconsistencies in the focus and frequency of the supervisory review of deficiencies, and external pressure from the nursing home industry may lead to understatement of serious care problems.

CMS established the Special Facility Focus (SFF) Program in 1998 to help address poor nursing home performance. The SFF Program is limited to 136 homes because of resource constraints, but according to GAO's estimate, almost 4 percent (580) of the roughly 16,000 nursing homes in the United States could be considered the most poorly performing. CMS's current approach for funding state surveys of facilities participating in Medicare and Medicaid is ineffective yet these surveys are meant to ensure that these facilities provide safe, high-quality care. GAO found serious

weaknesses in CMS's ability to (1) equitably allocate more than $250 million in federal Medicare funding to states according to their workload, (2) determine the extent to which funding or other factors affected states' ability to accomplish their workload, and (3) guarantee appropriate state contributions. These weaknesses make assessing the adequacy of funding difficult.

However, CMS has implemented many recommendations that GAO has made to improve oversight of nursing home care. Of the 96 recommendations made by GAO from July 1998 through March 2010, CMS has fully implemented 45, partially implemented 4, is taking steps to implement 29, did not implement 18. Examples of key recommendations implemented by CMS include (1) a new survey methodology to improve the quality and consistency of state nursing home surveys and (2) new complaint and enforcement databases to better monitor state survey activities and hold nursing homes accountable for poor care.

# What Remains to Be Done

CMS has not met GAO's criteria for having the Medicare program removed from the High-Risk List—for example, the agency is still developing its Part D improper payment rate methodology and has not yet been able to demonstrate sustained progress in lowering its fee-for-service and Part C improper payment rates. CMS needs a plan with clear measures and benchmarks for reducing Medicare's risk for improper payments, inefficient payment methods, and issues in program management and patient care and safety. One important step relates to how well CMS implements IPERA and earlier requirements to identify the causes of improper payments and take appropriate action on them. Identifying the causes of improper payments and implementing GAO's recommendation to develop an adequate corrective action process to address vulnerabilities could strengthen CMS's efforts to reduce improper payments. Without an adequate corrective action process that uses information on vulnerabilities identified by the agency, its contractors, and others, CMS will not be able to effectively address its challenges related to improper payment. CMS has implemented certain GAO recommendations, such as in the area of nursing home oversight; however, further action is needed on GAO's recommendations to improve management of key activities. To refine payment methods to encourage efficient provision of services CMS should take action to

• ensure the implementation of an effective physician profiling system;

- better manage payments for services, such as imaging;

- systematically apply payment changes to reflect efficiencies achieved by providers when services are commonly furnished together; and

- refine the geographic adjustment of physician payments by revising the physician payment localities using an approach uniformly applied to all states and based on current data.

   In addition, further action is needed by CMS to establish policies to improve contract oversight, better target review of claims for services with high rates of improper billing, and improve the monitoring of nursing homes with serious care problems.

## GAO Contact

For additional information about this high-risk area, contact Cynthia A. Bascetta at (202) 512-7114 or bascettac@gao.gov.

## Related GAO Products

*Medicare Recovery Audit Contracting: Weaknesses Remain in Addressing Vulnerabilities to Improper Payments, Although Improvements Made to Contractor Oversight.* GAO-10-143. Washington, D.C.: March 31, 2010.

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*Centers for Medicare and Medicaid Services: Deficiencies in Contract Management Internal Control Are Pervasive.* GAO-10-60. Washington, D.C.: October 23, 2009.

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# Medicaid Program

## Why Area Is High Risk

GAO designated Medicaid as a high-risk program in part due to concerns about the adequacy of fiscal oversight, which is necessary to prevent inappropriate program spending. Medicaid, the federal-state program that covered acute health care, long-term care and other services for over 65 million low-income people in fiscal year 2009, consists of more than 50 distinct state-based programs that cost the federal government and states an estimated $381 billion that year. The program accounts for more than 20 percent of states' expenditures and exerts continuing pressure on state budgets. The federal government matches state expenditures for most Medicaid services using the Federal Medical Assistance Percentage, a statutory formula based on each state's per capita income. The Centers for Medicare & Medicaid Services (CMS) in the Department of Health and Human Services (HHS) is responsible for overseeing the program at the federal level, while the states administer their respective programs' day-to-day operations.

## What GAO Found

Strong federal oversight of Medicaid is warranted as the program continues to grow in size and cost to states and the federal government. For example, under the Patient Protection and Affordable Care Act (PPACA), the cost of the Medicaid expansion is estimated to exceed $430 billion over the next 10 years, with the federal government responsible for paying over 90 percent of these increased costs. CMS will need new tools and resources, including more reliable data for assessing expenditures and measuring performance, as the law is implemented. Medicaid remains at high-risk due to concerns about the adequacy of fiscal oversight of this large, diverse, and growing program. Areas of concern include the following:

**Improper payments to Medicaid providers serving program beneficiaries.** Improper payments to providers that submit inappropriate claims can result in substantial financial losses to states and the federal government. Medicaid payments can be improper for various reasons; such as if payments are made for people not eligible for Medicaid or made for services not provided. In its 2010 agency financial report, HHS estimated—on the basis of individual state error rates from a sample of 17 states reviewed on a rotating basis each year—a national improper payment rate for Medicaid of 9.4 percent (with the federal share estimated at $22.5 billion) for fiscal year 2010. Certain services may be more susceptible to improper payments. For example, in 2009 GAO found that Medicaid beneficiaries and providers were involved in potentially wasteful or abusive purchases of controlled substances in five selected states. Specifically, GAO found that Medicaid paid over $2 million in controlled

substance prescriptions during fiscal years 2006 and 2007 that were written or filled by 65 medical practitioners and pharmacies barred, excluded, or both from federal health care programs, including Medicaid. GAO recommended that CMS issue guidance to states to implement processes that better prevent payment of improper claims for controlled substances in Medicaid. CMS generally agreed with GAO recommendations; however, guidance had not been issued as of the end of 2010.

Positive steps toward improving the transparency over and reducing improper payments have been taken in recent years, including issuance of Presidential Memoranda and a 2009 Executive Order, *Reducing Improper Payments*, along with the enactment of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). CMS has also taken steps to address improper payments. For example, in 2010 the agency issued guidance to states in response to PPACA provisions requiring the establishment of a Recovery Audit Contractor Program for Medicaid and implementation of standard prepayment edits for Medicaid claims in all states. In addition, CMS's Medicaid Integrity Group was elevated and incorporated into the agency's overall program integrity program. However, it is too soon to assess the effectiveness of CMS's actions and the activities called for in the Presidential Memoranda, Executive Order, and IPERA in reducing improper payments.

**Managed care rate setting and quality of data used to set such rates has not been consistently reviewed by CMS.** Requirements for Medicaid managed care rates to be actuarially sound are key safeguards in efforts to ensure that federal spending is appropriate. In 2010, GAO reported that CMS had been inconsistent in ensuring that states are complying with the actuarial soundness requirements. Further, GAO found that CMS efforts were not sufficient to ensure the quality of the data used by states to set managed care rates. With limited information on data quality, CMS cannot ensure that states' managed care rates are appropriate, which places billions of dollars at risk for misspending. GAO recommended that CMS implement a mechanism to track state compliance with actuarial soundness requirements, clarify federal guidance on rate-setting reviews, and make use of information on data quality in overseeing states' rate setting. HHS agreed with the recommendations and described efforts begun to improve CMS's oversight.

**Financing methods that are inappropriate and large supplemental payments that are not always transparent.** Some states have established varied financing arrangements involving Medicaid supplemental payments that inappropriately increase federal Medicaid matching payments. Subject to certain requirements, states may make supplemental payments to Medicaid providers that are separate from and in addition to standard state Medicaid payments for services. In fiscal year 2010, states made more than $31 billion in supplemental payments; the federal share was more than $19 billion. GAO and others have reported concerns with states' Medicaid supplemental payments over the last decade, including the use of supplemental payment arrangements to increase federal funding without a commensurate increase in state funding.

A variety of federal legislative and CMS actions have helped curb inappropriate arrangements, but gaps remain. In 2003 CMS began an initiative to closely review state supplemental payments and required states to end those it found inappropriate, however, in 2008, GAO reported that CMS had not reviewed all supplemental payment arrangements to ensure payments were appropriate and for Medicaid purposes. In 2009, GAO found that ongoing federal oversight of supplemental payments was warranted in part because states' Medicaid supplemental payments to certain hospitals through Disproportionate Share Hospital (DSH) payments for uncompensated hospital care did not account for other Medicaid payments the hospitals had received. In 2011, improved transparency and accountability requirements will go into effect for state DSH payments, including standards for state calculations of DSH payment limits, state reporting of DSH payments on a facility basis, and independent auditing of state DSH payment reports and calculations. Similar standards for calculating and reporting of other types of Medicaid supplemental payments, such as non-DSH supplemental payments made under the Medicaid upper payment limit, have not been established.

Congress has capped overall federal expenditures for DSH payments and created a hospital DSH payment limit that caps DSH payments to individual hospitals. And under the Patient Protection and Affordable Care Act (PPACA), reductions to DSH allocations to states in future years will occur. Similar limits have not been established for non-DSH supplemental payments, which appear to be increasing in amounts. In 2006 states reported making $6.3 billion (federal share $3.7 billion) in non-DSH supplemental payments, but not all states were reporting their payments. By 2010 this amount had grown to $14 billion (federal share $9.6 billion) in non-DSH supplemental payments; however, according to CMS officials

reporting is likely incomplete. Some key GAO recommendations aimed at improving federal oversight of non-DSH payments have not yet been implemented. GAO has recommended, among other things, that CMS establish uniform guidance for states setting forth acceptable methods for calculating payment amounts, require facility specific reporting of supplemental payments and develop a strategy to ensure all state supplemental payment arrangements have been reviewed.

**Demonstrations that inappropriately increase federal costs.** HHS has authority to waive certain statutory provisions to allow states to implement demonstrations that test ideas for achieving program objectives. By policy, demonstrations should not increase federal costs. However, GAO reported in 2008 that HHS had approved two state demonstrations that could increase the federal financial liability substantially. At the time of our work in 2007, HHS disagreed with our recommendation to improve the demonstration review process through steps such as clarifying the criteria for reviewing and approving states' proposed spending limits and ensuring that valid methods were used to demonstrate budget neutrality. Consequently, we elevated this recommendation to the Congress for consideration. HHS subsequently reported taking steps, such as monitoring the budget neutrality of ongoing demonstrations, to improve its oversight. However, no changes are planned in the approval process and methods used to determine budget neutrality of demonstrations to ensure that demonstrations do not increase the federal financial liability.

# What Remains to Be Done

Congress, HHS and CMS have taken steps to improve the fiscal integrity of Medicaid, and CMS has implemented certain GAO recommendations, such as improving the information collected on certain supplemental payments. More federal oversight of Medicaid's fiscal and program integrity is needed, however, in addition to state actions. For example, CMS needs to ensure states develop adequate corrective action processes to address vulnerabilities to improper Medicaid payments to providers, and issue guidance to states to better prevent payment of improper claims for controlled substances in Medicaid. States also have key roles in reducing improper payments to providers in developing, implementing, and evaluating the effectiveness of corrective plans to reduce improper payments.

CMS should also continue taking steps to improve oversight of Medicaid managed care payment rate-setting and Medicaid supplemental payments. CMS needs to identify and review the appropriateness of all Medicaid

supplemental payment arrangements; establish guidance to states on appropriate methods for calculating non-DSH Medicaid supplemental payments; improve reporting on non-DSH supplemental payments, and ensure that states account for all Medicaid payments when calculating DSH payment limits for payments to hospitals for uncompensated care.

## GAO Contact

For additional information about this high-risk area, contact Katherine M. Iritani at (202) 512-7114 or iritanik@gao.gov.

## Related GAO Products

*Medicaid Managed Care: CMS's Oversight of States' Rate Setting Needs Improvement.* GAO-10-810. Washington D.C.: August 4, 2010.

*Medicaid: Ongoing Federal Oversight of Payments to Offset Uncompensated Hospital Care Costs Is Warranted.* GAO-10-69. Washington D.C.: November 20, 2009.

*Medicaid: Fraud and Abuse Related to Controlled Substances Identified in Selected States.* GAO-09-957.  Washington, D.C.: September 9, 2009.

*Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments.* GAO-09-628T. Washington, D.C.: April 22, 2009.

*Medicaid: CMS Needs More Information on the Billions of Dollars Spent on Supplemental Payments.* GAO-08-614. Washington, D.C.: May 30, 2008.

*Medicaid Financing: Long-standing Concerns about Inappropriate State Arrangements Support Need for Improved Federal Oversight.* GAO-08-650T. Washington D.C.: April 3, 2008.

*Improper Payments: Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements.* GAO-08-438T. Washington, D.C.: January 31, 2008.

*Medicaid Demonstration Waivers: Recent HHS Approvals Continue to Raise Cost and Oversight Concerns.* GAO-08-87. Washington, D.C.: January 31, 2008.

*Improper Payments: Federal Executive Branch Agencies' Fiscal Year 2007 Improper Payment Estimate Reporting.* GAO-08-377R. Washington, D.C.: January 23, 2008.

*Medicaid Financing: Long-standing Concerns about Inappropriate State Arrangements Support Need for Improved Federal Oversight.* GAO-08-255T. Washington D.C.: November 1, 2007.

*Medicaid Financing: Federal Oversight Initiative Is Consistent with Medicaid Payment Principles but Needs Greater Transparency.* GAO-07-214. Washington, D.C.: March 30, 2007.

*Medicaid Financial Management: Steps Taken to Improve Federal Oversight but Other Actions Needed to Sustain Efforts.* GAO-06-705. Washington, D.C.: June 22, 2006.

*Medicaid Financing: States' Use of Contingency-Fee Consultants to Maximize Federal Reimbursements Highlights Need for Improved Federal Oversight.* GAO-05-748. Washington, D.C.: June 28, 2005.

# National Flood Insurance Program

## Why Area Is High Risk

The National Flood Insurance Program (NFIP) is a key component of the federal government's efforts to limit the damage and financial impact of floods; however, it likely will not generate sufficient revenues to repay the billions of dollars borrowed from the Treasury Department to cover claims from the 2005 hurricanes or future catastrophic losses. The lack of sufficient revenues highlights structural weaknesses in how the program is funded. Also, weaknesses in NFIP management and operations, including financial reporting processes and internal controls, and oversight of contractors place the program at risk. The Federal Emergency Management Agency (FEMA), within the Department of Homeland Security, is responsible for managing NFIP. While FEMA has taken some steps to address these issues, including increasing the number of policyholders and implementing new contractor oversight processes, it continues to face complex challenges, and Congress needs to act to restructure the program.

## What GAO Found

The potential losses generated by NFIP create substantial financial exposure for the federal government and U.S. taxpayers. While Congress and FEMA intended that NFIP be funded with premiums collected from policyholders rather than with tax dollars, the program is, by design, not actuarially sound. NFIP cannot do some of the things that private insurers do to manage risks. For example, NFIP is not structured to build a capital surplus, is likely unable to purchase reinsurance to cover catastrophic losses, cannot reject high-risk applicants, and is subject to statutory limits on rate increases. In addition, its premium rates do not reflect actual flood risk. For example, nearly one in four property owners pay subsidized rates, "full-risk" rates may not reflect the full risk of flooding, and NFIP allows "grandfathered" rates that allow some property owners to continue paying rates that do not reflect reassessments of their properties' flood risk. Further, NFIP cannot deny insurance on the basis of frequent losses and, thus, provides policies for repetitive loss properties, which represent only 1 percent of policies but account for 25 percent to 30 percent of claims. NFIP's financial condition has improved slightly due to an increase in the number of policyholders and moderate flood losses, and FEMA has taken some encouraging steps toward improving its financial position, including reducing its debt to Treasury by almost $850 million since August 2009. However, FEMA will likely not be able to repay the $18.5 billion owed to Treasury as of November 30, 2010, especially if it faces catastrophic loss years or increased borrowing rates.

Weaknesses in the management and operations of NFIP also create a risk that the funds allocated to NFIP and the premiums paid by policyholders

are not being used efficiently or effectively. Payments to write-your-own (WYO) insurers—the private insurers who sell NFIP policies and administer claims—generally represent one-third to two-thirds of the premiums collected in a given year. But FEMA does not systematically consider actual expense information when calculating these payments or implement all of its financial controls for the WYO program. GAO also found that FEMA did not consistently follow its procedures for monitoring non-WYO contractors or coordinate contract monitoring responsibilities among departments on some contracts. Some contract monitoring records were missing, and no system was in place that would allow departments to share information on contractor deficiencies. GAO also found that FEMA does not have an effective system to manage flood insurance policy and claims data, although it invested roughly 7 years and $40 million on a new system whose development has been halted because it did not meet users' needs. GAO will be issuing a detailed report on underlying management and operational challenges facing NFIP in March 2011. FEMA has begun to acknowledge its management challenges and develop a plan of action, but the effectiveness of these actions is not yet clear. Unless these operational and management issues are addressed, FEMA risks ongoing challenges in effectively and efficiently managing NFIP, including its management and use of information, data, and technology.

## What Remains to Be Done

Addressing NFIP's financial challenges will require reforming the program. At the same time, FEMA must develop and implement a plan to address its operational and management issues. FEMA officials have acknowledged the need for actions to improve NFIP operations, including the many recommended by GAO, and must demonstrate a continued strong commitment and support for these actions.

## GAO Contact

For additional information about this high-risk area, contact Orice Williams Brown at (202) 512-8678 or williamso@gao.gov.

## Related GAO Products

*National Flood Insurance Program: Continued Actions Needed to Address Financial and Operational Issues.* GAO-10-1063T. Washington, D.C.: September 22, 2010.

*Financial Management: Improvements Needed in National Flood Insurance Program's Financial Controls and Oversight.* GAO-10-66. Washington, D.C.: December 22, 2009.

*Flood Insurance: Opportunities Exist to Improve Oversight of the WYO Program.* GAO-09-455. Washington, D.C.: August 21, 2009.

*Information on Proposed Changes to the National Flood Insurance Program.* GAO-09-420R. Washington, D.C.: February 27, 2009.

*Flood Insurance: Options for Addressing the Financial Impact of Subsidized Premium Rates on the National Flood Insurance Program.* GAO-09-20. Washington, D.C.: November 14, 2008.

*Flood Insurance: FEMA's Rate-Setting Process Warrants Attention.* GAO-09-12. Washington, D.C.: October 31, 2008.

*National Flood Insurance Program: Financial Challenges Underscore Need for Improved Oversight of Mitigation Programs and Key Contracts.* GAO-08-437. Washington, D.C.: June 16, 2008.

*National Flood Insurance Program: Greater Transparency and Oversight of Wind and Flood Damage Determinations Are Needed.* GAO-08-28. Washington, D.C.: December 28, 2007.

*Federal Emergency Management Agency: Ongoing Challenges Facing the National Flood Insurance Program.* GAO-08-118T. Washington, D.C.: October 2, 2007.

*National Flood Insurance Program: FEMA's Management and Oversight of Payments for Insurance Company Services Should Be Improved.* GAO-07-1078. Washington, D.C.: September 5, 2007.

*National Flood Insurance Program: Preliminary Views on FEMA's Ability to Ensure Accurate Payments on Hurricane-Damaged Properties.* GAO-07-991T. Washington, D.C.: June 12, 2007.

*National Flood Insurance Program: New Processes Aided Hurricane Katrina Claims Handling, but FEMA's Oversight Should Be Improved.* GAO-07-169. Washington, D.C.: December 15, 2006.

*Federal Emergency Management Agency: Challenges for the National Flood Insurance Program.* GAO-06-335T. Washington, D.C.: January 25, 2006.

*Federal Emergency Management Agency: Improvements Needed to Enhance Oversight and Management of the National Flood Insurance Program.* GAO-06-119. Washington, D.C.: October 18, 2005.

# Appendix I: High-Risk Program History and Criteria

In 1990, GAO began a program to report on government operations that it identified as "high risk." Since then, generally coinciding with the start of each new Congress, GAO has reported on the status of progress to address high-risk areas and updated the High-Risk List. GAO's most recent high-risk update was in January 2009.[1] That update identified 30 high-risk areas. In July 2009, a 31st area was added, Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability.

Overall, our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. Since our program began, the government has taken high-risk problems seriously and has made long-needed progress toward correcting them. In a number of cases, progress has been sufficient for us to remove the high-risk designation. A summary of changes to our High-Risk List over the past 21 years is shown in table 4. Areas removed from the High-Risk List over that same period are shown in table 5. The areas on GAO's 2011 High-Risk List, and the year each was designated as high risk, are shown in table 6.

**Table 4: Changes to GAO's High-Risk List, 1990-2011**

|  | Number of areas |
|---|---|
| Original high-risk list in 1990 | 14 |
| High-risk areas added since 1990 | 39 |
| High-risk areas removed since 1990 | 21 |
| High-risk areas consolidated since 1990 | 2 |
| High-risk list in 2011 | 30 |

Source: GAO.

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[1]GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

**Table 5: Areas Removed from GAO's High-Risk List, 1990-2011**

| Area | Year removed | Year designated high risk |
|------|--------------|---------------------------|
| Federal Transit Administration Grant Management | 1995 | 1990 |
| Pension Benefit Guaranty Corporation | 1995 | 1990 |
| Resolution Trust Corporation | 1995 | 1990 |
| State Department Management of Overseas Real Property | 1995 | 1990 |
| Bank Insurance Fund | 1995 | 1991 |
| Customs Service Financial Management | 1999 | 1991 |
| Farm Loan Programs | 2001 | 1990 |
| Superfund Program | 2001 | 1990 |
| National Weather Service Modernization | 2001 | 1995 |
| The 2000 Census | 2001 | 1997 |
| The Year 2000 Computing Challenge | 2001 | 1997 |
| Asset Forfeiture Programs | 2003 | 1990 |
| Supplemental Security Income | 2003 | 1997 |
| Student Financial Aid Programs | 2005 | 1990 |
| Federal Aviation Administration Financial Management | 2005 | 1999 |
| Forest Service Financial Management | 2005 | 1999 |
| HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs | 2007 | 1994 |
| U.S. Postal Service's Transformation Efforts and Long-Term Outlook | 2007 | 2001 |
| FAA's Air Traffic Control Modernization | 2009 | 1995 |
| 2010 Census | 2011 | 2008 |
| DOD Personnel Security Clearance Program | 2011 | 2005 |

Source: GAO.

**Table 6: Year That Areas on GAO's 2011 High-Risk List Were Designated High Risk**

| Area | Year designated high risk |
|---|---|
| Medicare Program | 1990 |
| DOD Supply Chain Management | 1990 |
| DOD Weapon Systems Acquisition | 1990 |
| DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management | 1990 |
| NASA Acquisition Management | 1990 |
| Enforcement of Tax Laws | 1990 |
| DOD Contract Management | 1992 |
| DOD Financial Management | 1995 |
| DOD Business Systems Modernization | 1995 |
| IRS Business Systems Modernization | 1995 |
| Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures | 1997 |
| DOD Support Infrastructure Management | 1997 |
| Strategic Human Capital Management | 2001 |
| Medicaid Program | 2003 |
| Managing Federal Real Property | 2003 |
| Improving and Modernizing Federal Disability Programs | 2003 |
| Implementing and Transforming the Department of Homeland Security | 2003 |
| Pension Benefit Guaranty Corporation Insurance Programs | 2003 |
| Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland | 2005 |
| DOD Approach to Business Transformation | 2005 |
| Management of Interagency Contracting | 2005 |
| National Flood Insurance Program | 2006 |
| Funding the Nation's Surface Transportation System | 2007 |
| Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests | 2007 |
| Revamping Federal Oversight of Food Safety | 2007 |
| Modernizing the Outdated U.S. Financial Regulatory System | 2009 |
| Protecting Public Health through Enhanced Oversight of Medical Products | 2009 |
| Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals | 2009 |
| Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability | 2009 |
| Management of Federal Oil and Gas Resources | 2011 |

Source: GAO.

Eight of the 21 areas removed from the list over the years were among the 14 programs and operations we determined to be high risk at the outset of our efforts to monitor such programs. These results demonstrate that the sustained attention and commitment by Congress and agencies to resolve serious, long-standing high-risk problems have paid off, as root causes of the government's exposure to over half of our original High-Risk List have been successfully addressed.

To determine which federal government programs and functions should be designated high risk, we use our guidance document *Determining Performance and Accountability Challenges and High Risks*.[2] In determining whether a government program or operation is high risk, we consider whether it involves national significance or a management function that is key to performance and accountability. We also consider whether the risk is

- an inherent problem, such as may arise when the nature of a program creates susceptibility to fraud, waste, and abuse; or

- a systemic problem, such as may arise when the programmatic, management support, or financial systems, policies, and procedures established by an agency to carry out a program are ineffective, creating a material weakness.

Further, we consider qualitative factors, such as whether the risk

- involves public health or safety, service delivery, national security, national defense, economic growth, or privacy or citizens' rights; or

- could result in significantly impaired service, program failure, injury or loss of life, or significantly reduced economy, efficiency, or effectiveness.

In addition, we also consider the exposure to loss in monetary or other quantitative terms. At a minimum, $1 billion must be at risk in areas such as the value of major assets being impaired; revenue sources not being realized; major agency assets being lost, stolen, damaged, wasted, or underutilized; improper payments; and contingencies or potential liabilities.

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[2]GAO, *Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP (Washington, D.C.: November 2000).

Before making a high-risk designation, we also consider corrective
measures planned or under way to resolve a material control weakness
and the status and effectiveness of these actions.

When legislative and agency actions, including those in response to our
recommendations, result in significant and sustainable progress toward
resolving a high-risk problem, we remove the high-risk designation. Key
determinants here include a demonstrated strong commitment to, and top
leadership support for, addressing problems; the capacity to address
problems; a corrective action plan; a program to monitor corrective
measures; and demonstrated progress in implementing corrective
measures.

Our experience with the *High-Risk Series* over the past 21 years has
shown that the key elements needed to make progress in high-risk areas
are congressional action, high-level administration initiatives, and agency
efforts targeted to address the risks and grounded in the five criteria we
established for removal from the High-Risk List. Table 7 provides more
detail on the types of actions that have led to success.

**Table 7: Criteria for Removal from High-Risk List and Examples of Actions by Congress, the Administration, and Agencies Leading to Progress**

**These five criteria can form a road map for efforts to improve and ultimately address high-risk issues**

**1. Demonstrated top leadership commitment**
- Congressional oversight and legislation
- OMB leadership
- Top leadership in individual agencies

**2. Capacity**
- People and other resources to reduce risks
- Processes for reporting and accountability mechanisms

**3. Corrective action plan**
- Analysis identifying root causes of problems
- Plans targeted to address root causes
- Implementation of solutions to root causes

**4. Monitoring**
- Established performance measures
- Data collection and analysis

**5. Demonstrated progress**
- Evidence of implemented corrective actions
- Appropriate adjustments to action plans based on data

Source: GAO.

Note: Addressing some of the criteria leads to progress, while satisfying all of the criteria is central to removal from the list.