

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

DEPARTMENT OF AGRICULTURE

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

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

The Chairman's letter noted that improving Forest Service financial management and improving farm loan program administration and management were two challenges of particular concern at USDA. The Chairman also noted GAO's finding that USDA's fiscal year 2000 Performance Plan contained specific performance goals to address only 5 of the 16 problem areas.

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

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

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

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

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

DEPARTMENT OF COMMERCE

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

- Increase the accuracy and control the cost of the 2000 decennial census.
- Obtain a clean opinion on the Department's consolidated financial statements.
- Address Y2K computer problem.
- Successfully implement the Advanced Weather Interactive Processing System (AWIPS).
- Successfully implement a Department-wide financial management system.
- Reassess the mission and financial viability of the National Technical Information Service (NTIS).
- Expand private sector participation in the National Oceanic and Atmospheric Administration's (NOAA) Marine and Aeronautical Data Gathering.
- Manage the Patent and Trademark Office's (PTO) space requirements and lease costs.
- Maximize competition in the Department's financial assistance programs.
- Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.

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

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

On April 27, 2000, Committee staff met with representatives from DOC, the DOC IG and GAO at the DOC's headquarters building. During this meeting, Committee staff noted that, although DOC's Performance Report often provided a description of strategies for addressing some of the Department's management challenges, the Performance Report often did not provide information on specific goals and measures that could be used to assess progress on these management challenges. DOC officials told Committee staff that the Department had not adopted specific and measurable goals to address all the major management problems because

officials believed that Performance Plans should primarily concentrate on program outcomes and not specific management efforts. Nonetheless, DOC officials said that the Department would likely establish a management strategic goal in future GPRA planning efforts to complement DOC's program goals. According to DOC officials, such a new management strategic goal would link to annual performance goals and measures that specifically address the major management challenges and high-risk programs for the Department. Also at this meeting, officials from the Department's IG informed the Committee staff that DOC is generally making progress on addressing the management challenges that confront the Department.

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

DEPARTMENT OF DEFENSE

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

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

The DoD's IG submitted to the Committee a new list of the top-ten management challenges facing the Department after Chairman Thompson's August 1999 letter. In addition to the Year 2000 issue, contract management and military personnel were removed from the list. Added were "Other Security Concerns Management," management, and health care.

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

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

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

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

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

DEPARTMENT OF EDUCATION

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

- Inadequate effort to ensure access to postsecondary institutions while protecting Federal financial interests,
- Lack of a sound, integrated information technology strategy,
- Lack of adequate financial data for management of student financial aid programs,
- Y2K computer conversion,
- Balancing oversight of programs and program flexibility,
- Implementation of an effective performance-based organization to operate student financial aid programs,
- Lack of information technology staff with the technical expertise to negotiate and oversee systems contracts,
- Start-up and data integrity problems with the agency's "EDCAPS" financial management system,
- "Gatekeeping" and institutional monitoring in the student financial aid programs,
- Implementing legislation authorizing a data match with the Internal Revenue Service to improve student financial aid eligibility determinations,
- Controls over "paperless" systems for student financial aid fund delivery, and
- Performance reporting under the Results Act.

The Chairman's letter expressed concern that, based on the GAO's analysis, Education's Performance Plan for fiscal year 2000 had no specific goals to address 7 of these 12 problem areas. The Chairman also noted that many of the problems related to different aspects of student financial aid, a GAO "high risk" area, and had persisted for years.

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

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

- Financial management,
- Year 2000 computer readiness,
- Information systems security,
- Implementation of the Student Financial Assistance Modernization Blueprint and Performance Plan,
- Controls over "paperless" systems for student financial aid fund delivery,
- Implementation of the Clinger-Cohen Act to improve information technology management,

Performance reporting under the Results Act,
Balancing compliance monitoring and technical assistance for Elementary and Secondary
Education Programs, and
Implementing legislation authorizing a data match with the Internal Revenue Service to
improve student financial aid eligibility determinations.

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

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

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

¹One of the problems from last year, resolving the Y2K conversion, was resolved and is no longer applicable.

² Section 484(q) of the Higher Education Act, as amended, 20 U.S.C. § 1091(q).

closure on the legal issues--either by resolving these issues or submitting proposed amendments to the Congress.

DEPARTMENT OF ENERGY

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

- Y2K computer conversion,
- Information security,
- Contract management,
- Difficulty completing large projects,
- Slow transition to external regulations,
- DOE's ineffective organizational structure,
- DOE's staff lack technical and management skills,
- Environmental compliance and waste management problems at DOE facilities,
- Nuclear and occupational safety and health deficiencies,
- Delays in disposal of radioactive waste,
- Extensive inventories of nuclear and nonnuclear materials that may no longer be necessary,
- Poor condition of DOE's infrastructure,
- Deficiencies in control over government personal property, and
- Access to sensitive materials, areas, and information, and physical security.

Among other things, the Chairman's letter noted that contract management at DOE had been on GAO's high-risk list since the inception of the list in 1990. This is a particularly serious problem since DOE relies on contractors to perform about 90 percent of its work. The Chairman's letter also noted GAO's finding that DOE's fiscal year 2000 Performance Plan contained specific performance goals to address 9 of the 14 problem areas identified by GAO and the IG.

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

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

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

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

GAO found that DOE's Performance Plan for fiscal year 2001 contained goals that directly addressed 8 of the current management problems. However, GAO concluded that insufficient progress had been made to consider any of them resolved. GAO also questioned the adequacy of some DOE goals to address its management problems. For example, GAO said DOE's goals relating to timely completion of large projects focus on procedures rather than outcomes.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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

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

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

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

Committee staff met with HHS officials on April 25, 2000, to follow up on the Chairman's August letter and the Secretary's response. Representatives from GAO and the agency's IG also participated. The HHS officials agreed that the major management challenges identified by the Chairman, GAO, and the IG are "on target." They stressed that more resources are needed to resolve many of these problems. There needs to be a consensus in the Executive

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

Branch and Congress on the importance of addressing these problems, and funding must be provided. They cited the resolution of the Y2K problem as an example of how this combination worked well. They suggested that some form of separate or “fenced off” funding that would be available only to resolve major management problems might help. The IG endorsed this concept, noting dedicated funding for management improvements should be regarded as an “investment.”

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

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

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

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

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

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

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

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

- Year 2000 computer challenge,
- Information security,
- Internal control weaknesses,
- Information and financial management systems,
- Organizational problems,
- Insufficient mix of staff with proper skills,
- Bringing on line the Real Estate Assessment Center,
- Restructuring project mortgages to bring them to market levels,
- Defining relationship between Community Builders and Public Trust Officers,
- Section 8 program problems, and
- Management of real estate owned properties.

The Chairman's letter noted that HUD had been a GAO-designated "high-risk" area since 1994 because of four serious, long-standing department-wide problems: internal control weaknesses; unreliable information and financial management systems; organizational deficiencies; and an insufficient mix of staff with the proper skills. The Chairman's letter acknowledged that HUD had established a "2020 Management Reform Plan" to resolve its major management problems, but expressed concern about the reportedly slow pace in implementing the 2020 reforms. He noted, in this regard, the IG's assessment that the 2020 Reform Plan was "still a work in progress" while "disclosures of fraud, waste, and abuse continue unabated." The Chairman also referenced GAO's finding that HUD's fiscal year 2000 Performance Plan contained specific performance goals to address only 3 of the 11 problem areas identified by GAO and the IG.

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

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

- HUD 2020 Plan development and execution,
- Staff resources,
- Single family property disposition program,
- Single family loss mitigation activities,
- Troubled Agency Recovery Centers not operating as intended,

Real estate assessment system,
Financial management systems,
Procurement systems, and
Section 8 program administration.

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

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

GAO found that HUD's Performance Plan for fiscal year 2001 contained goals that directly addressed 5 of the 11 management problems listed in Chairman Thompson's August 1999 letter.

DEPARTMENT OF THE INTERIOR

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

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

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

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

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

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

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

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

DEPARTMENT OF JUSTICE

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

- Y2K computer readiness,
- Information security,
- Management of forfeited assets,
- Immigration and Naturalization Service (INS) organizational structure,
- INS internal communications and coordination problems,
- INS financial management,
- The effectiveness of INS' southwest border strategy,
- INS process for removing criminal aliens,
- INS procedures for granting citizenship,
- Justice-wide financial management problems,
- Internal control weaknesses within the Drug Enforcement Administration (DEA),
- Prison overcrowding,
- Detention space and infrastructure for criminals and illegal migrants,
- INS' ineffective program to remove illegal aliens,
- INS' automation system vulnerability to waste and abuse, and
- Failed information systems planning and implementation.

The letter pointed out that DOJ's Performance Plan for fiscal year 2000 had performance goals directly addressing 8 of the 16 problems. The letter also noted a particular concern over management of forfeited assets by the Department of Justice and the Treasury Department. The two departments maintain separate forfeited asset funds that have inventories totaling about \$1.8 billion. GAO designated forfeited asset management at both departments as a "high-risk" area in its original 1990 high-risk list. According to GAO, there is no acceptable reason for the long delays in completing the actions necessary to remove this high-risk designation. Furthermore, Justice and Treasury have refused to implement a GAO recommendation dating back to 1991 to consolidate the management and disposition of properties. Indeed, Justice and Treasury maintain separate contractors to handle seized assets at some of the same locations.

By letter dated October 13, 1999, DOJ responded to the Chairman's letter. Among other things, the response discussed actions DOJ was taking on the designated management challenges.

In December 1999, the DOJ IG submitted to the Committee an updated list of the most serious management problems at DOJ. Because of the DOJ's efforts in testing and renovating mission critical computer systems, the IG removed Y2K from the list. In addition, INS automation system problems has been merged into information systems planning and implementation due to the similarity of the two issues. Finally, the IG added two new management challenges: grants management and human capital.

On December 17, 1999, the Committee staff met with DOJ officials, as well as GAO and IG representatives, to follow up on the Chairman's letter and DOJ's response. The Committee staff asked DOJ to do a study to see if the consolidation of the management of the assets would be cost-effective. According to GAO, such a study should look at: (1) the cost of storing the assets in each location, (2) the administration costs of one contract instead of two, and (3) which company would give more back to the government after the selling of the assets. The DOJ officials agreed to look into the possibility of doing such a study.

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

GAO latest review concluded that 15 of the 16 items listed in the Chairman's August letter remain management challenges at DOJ. The only item that is no longer a problem is the Y2K conversion. GAO found that DOJ's Performance Plan for fiscal year 2001 contains goals that directly address 9 of the 15 problems. Management challenges that are not addressed include internal control weaknesses at DEA and concerns about the effectiveness of INS' organizational structure and internal communications. Also, DOJ has no goals to address the high-risk area of forfeited assets management. DOJ has not responded to the Committee's request for a study on consolidating management of the Justice and Treasury fund.

DEPARTMENT OF LABOR

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

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

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

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

Although the Committee had yet to receive a written response from the Department, Committee staff met with representatives from DOL, the DOL IG and GAO at DOL headquarters on April 7, 2000. DOL had recently issued its fiscal year 1999 Performance Report and its fiscal year 2001 Performance Plan. During the meeting, Committee staff discussed both of these documents as they related to management challenges confronting the Department. Committee staff pointed out that DOL's Performance Report did not directly nor comprehensively address the Department's progress in resolving major management challenges and included only a limited and general discussion of strategies to be implemented in improving mission performance

as it related to these management challenges. In its 2001 Performance Plan, DOL discussed some of the program improvement opportunities identified by GAO and the IG but again did not comprehensively address these management challenges. DOL said that it did not believe that the GPRA planning and reporting process was appropriate for addressing some of its management challenges. Labor said it believes that some of the challenges identified by the IG are of an administrative nature and are already addressed within existing audit resolution processes.

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

DEPARTMENT OF STATE

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

- Worldwide security,
- Meeting Year 2000 computer challenges,
- Information security,
- Management of information resources,
- Visa Processing System,
- Financial management,
- Reorganization of foreign affairs agencies, and
- Human capital management.

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

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

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

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

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

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

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

DEPARTMENT OF TRANSPORTATION

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

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

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

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

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

On April 3, 2000, DOT Secretary Slater publicly announced the results of the Department's efforts as reported in its fiscal year 1999 Performance Report. A review of the Performance Report shows that it addressed many of the management challenges identified by

GAO and DOT's IG. To highlight its responses to these major management problems, the DOT Performance Report included a table identifying these management challenges and the pages in the report on which each is discussed. Where the DOT management challenge relates to an outcome, the associated goal page is referenced. For most of the management challenges, the Performance Report included performance measures that directly related to the challenge or related to a portion of the challenge. However, GAO pointed out that, regarding the challenge related to the poor financial condition of Amtrak, the DOT report did not address Amtrak's continuing net losses and its ability to reach operational self-sufficiency by the year 2002.

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

DEPARTMENT OF THE TREASURY

Chairman Thompson's August 1999 letter to the Department of the Treasury referenced 21 major management challenges for the Department:

- Information technology (IT) investment management,
- Integration and reliability of financial management systems,
- Preparation of departmentwide financial statements,
- Preparation of reliable consolidated financial statements for the government,
- Financial management and compliance with the Federal Financial Management Improvement Act (FFMIA),
- Accountability, internal controls and reporting for asset forfeiture program,
- Computer security controls,
- Implementation of Treasury's responsibilities under the Debt Collection Improvement Act of 1996 (DCIA),
- Implementation of electronic funds transfer accounts as required by DCIA,
- Restructuring IRS' organization and business practices,
- IRS' systems modernization efforts,
- Internal controls over taxpayer receipts and sensitive taxpayer data,
- Internal controls over unpaid tax assessments,
- Collection of Federal tax receivables and other unpaid assessments,
- IRS' inability to rely on general ledger to support financial statements,
- IRS' efforts to reduce filing fraud,
- Security controls over information systems that place taxpayer data at risk,
- Y2K computer problem,
- Access and security controls in Customs' automated systems, and
- Customs' development of the Automated Commercial Environment (ACE) system

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

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

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

In March 2000, Treasury released its fiscal year 1999 Performance Report, which broadly discussed the Department's major management challenges. In its recent review of Treasury's fiscal year 2001 Performance Plan, GAO noted that the Department included a new report section that discusses, in varying depth, the Department's major management challenges. Specifically, GAO found that of the total 21 management challenges, Treasury (1) established goals and measures that were directly applicable to 3 of its challenges, (2) established goals and measures that were indirectly applicable to 5 of its challenges, (3) did not establish goals and measures but provided strategies to address 10 of its challenges, and (4) did not establish goals and measures for 3 of its challenges.

Overall, Treasury has made moderate progress in developing and implementing performance goals and measures for its major management problems. Treasury appears to have made some improvements in its latest Performance Plan but more needs to be done to ensure that the Department adequately addresses all its management challenges in its GPRA planning and reporting processes. For instance, according to GAO, Treasury included in its fiscal year 2001 Performance Plan specific and measurable goals for only 3 of 21 major management challenges. Treasury still has performance goals for only one of the five GAO-designated "high-risk" problems at the Department.

DEPARTMENT OF VETERANS AFFAIRS

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

- VA's health care infrastructure does not meet its current or future needs,
- Lack of adequate information to ensure that veterans have access to needed health care,
- Lack of outcome measures and data to assess the impact of managed care initiatives,
- Difficulties in managing non-health benefits programs,
- Need for more effective information systems management,
- Health care quality management,
- Debt prevention and collection,
- Timeliness and quality of medical examinations for compensation and pension (C&P) claims,
- Ineffective management of the Federal Employees Compensation Act (FECA) program,
- Need to more effectively identify inappropriate benefit payments, and
- Lack of credible performance data to support GPRA.

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

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

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

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

The IG dropped Y2K computer readiness from the list of major management challenges. He further observed that while VA has made concerted efforts to achieve its goals and objectives,

the IG's work has questioned whether some areas of operation have been fully successful in accomplishing intended results. These programs and functions include: the ability to manage, bill and collect debts; the function of accurately and appropriately paying veterans benefits in a timely manner; the attainment of a Department-wide cost accounting system; and the management of an economically sound system of inventory and supply management.

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

GAO found that VA's Performance Plan for fiscal year 2001 contained goals that directly addressed 2 of the 11 management problems. According to GAO, VA made some progress in improving veterans' access to health care services. However, it did not make significant progress in addressing such problems as restructuring its health care infrastructure or improving the timeliness and accuracy of compensation and benefit claims.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

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- Financial management,
 - Management of information resources,
 - Year 2000 computer readiness,
 - Information security, and
 - Performance reporting.

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

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

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

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

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

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

ENVIRONMENTAL PROTECTION AGENCY

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

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

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

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

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

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

FEDERAL EMERGENCY MANAGEMENT AGENCY

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

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

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

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

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

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

Overall, FEMA has made progress in developing goals and measures for its major management problems as shown in its 2001 Performance Plan. FEMA should, however, ensure that it more comprehensively reports on its progress in resolving these problems in its Annual

Performance Report. This reporting will more greatly assist congressional and other stakeholders in assessing FEMA's efforts to improve performance and accountability in dealing with these management challenges.

GENERAL SERVICES ADMINISTRATION

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

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

The challenges facing GSA are severe. With the 2000 buildings under its jurisdiction, GAO has reported that GSA is not in a good position to know how adequate its building security is. Years of neglect put the cost of bringing those buildings up to acceptable quality, health and safety standards at more than \$4 billion. With respect to computer security, according to the GSA IG, GSA's information security features "may not be adequate to ensure the security of the system and data in this emerging and volatile environment."

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

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

Where GSA did agree with GAO and IG designations of major management challenges – supply depots and physical security – it gave Committee staff a status report on progress toward solving these problems. For instance, with respect to physical security, agency staff briefed the Committee on its efforts to implement a risk assessment of the 2000 buildings under GSA's jurisdiction. This includes penetrations by Navy SEALs and Delta teams which will result in recommendations for improvement of existing security practices and procedures.

With respect to issues where GSA disagreed with GAO and IG designations of major management problems, GSA's discussion was not always satisfactory. For instance, GSA claims that it has a "program in place to address computer security" and states that in the area of developing new computer systems, "a major impetus to . . . progress has been the creation of the

GSA Chief Information Officer.” While it appears that GSA has taken some action in these areas, the Committee is without an adequate explanation of what GSA attempts to achieve through these actions.

Unfortunately, according to GAO, GSA did not act on Chairman Thompson’s recommendation to adopt performance goals and measures to address its major management challenges. In a recent evaluation of GSA’s FY1999 Performance Report and FY2001 Performance Plan, GAO wrote, “With regard to the management challenges, neither the 1999 Performance Report nor the 2001 Performance Plan has goals that effectively respond to them.” According to GAO’s analysis, GSA did not adopt any goals to resolve its major management challenges. It is unclear why GSA continues to insist that setting performance goals to address major management challenges would not be helpful to gauge progress in resolving them.

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

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

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

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

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

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

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

GAO and the IG assessed the extent to which agencies addressed major management challenges in their fiscal year 1999 Performance Report. Results for many of the targets related to management challenges were mixed. For others, however, according to GAO, NASA's Performance Report does not "provide enough specific information on some of these management challenges to fully assess NASA's actions." For example, according to GAO, NASA does not "frontally address issues such as cost control, risk mitigation activities, and contingency planning" with respect to the International Space Station. Similarly, NASA does not

address in its Performance Report GAO's recommendations to cooperate more closely with the Department of Defense in aerospace testing facilities. NASA wrote in its letter to Chairman Thompson that it did not consider the issue to be "mission critical."

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

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

Like many agencies, NASA has substantial problems maintaining information security. According to the IG, "Because NASA relies so heavily on computers and networks, the agency is vulnerable to attacks that could seriously disrupt vital programs and activities." Unfortunately, the IG believes the system NASA has in place is "fragmented" and "without clear lines of authority, inadequate policies and guidelines, and ineffective enforcement of existing policies and guidelines." NASA should heed the recommendations of the IG and GAO to address their concerns. Unfortunately, according to GAO, NASA's Performance Report "provides no specifics to judge the success of the effort to improve IT security." That weakness remains in the FY2001 Performance Plan.

According to GAO's analysis of NASA's fiscal year 2001 Performance Plan, NASA included goals for only 6 of its major management challenges. As Chairman Thompson wrote in his letter to NASA, without specific and measurable goals for many of these major management challenges, it will be difficult to assess progress in addressing many of these areas. The Committee will continue to urge agencies to set such goals in their annual Performance Plans.

NUCLEAR REGULATORY COMMISSION

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

- Lacks assurance that nuclear plants are safe,
- Slow to require corrective action,
- Culture and organizations structure impede effective actions,
- Risk-informed, performance-based approach to regulatory oversight,
- Developing information management systems,
- Responding to the impact of industry deregulation and license transfers,
- Administrating and overseeing agency procurement under government contracting rules,
- Ability to effectively communicate with the public and industry,
- Maintaining unqualified financial statement,
- Ensuring that NRC's processes are responsive to industry needs,
- Ensuring that NRC's enforcement program has an appropriate safety focus and reflects improved licensee performance,
- Refocusing NRC's research program to reflect a mature industry, and
- Responding to external influences for changing NRC's operations

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

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

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

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

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

NATIONAL SCIENCE FOUNDATION

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

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

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

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

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

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

font and symbols; and developing a legally-effective and practicable mechanism to obtain electronic signatures and enforce the commitments expressed by them.

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

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

OFFICE OF PERSONNEL MANAGEMENT

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

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

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

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

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

OPM's 1999 Performance Report did not include a comprehensive discussion of the agency's efforts to address its major management challenges. Of the nine management challenges designated for OPM, OPM's fiscal year 1999 Performance Report addressed seven,

with varying degrees of information provided on strategies and measures. Two challenges were not addressed in the Performance Report: (1) the need to improve oversight of FEHBP and (2) controls over investments. One management challenge that was covered extensively involved the agency's efforts to improve its financial management, including a discussion on the financial audits undertaken by the OPM IG.

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

SMALL BUSINESS ADMINISTRATION

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

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

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

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

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

SBA has made moderate progress over the previous year by identifying and reporting some goals and measures for its management challenges and by reporting more comprehensive

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

SOCIAL SECURITY ADMINISTRATION

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

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

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

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

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

On April 12, 2000, the Committee staff met with SSA officials, along with GAO and IG representatives, to follow up on the Chairman's letter and the Commissioner's response. The meeting covered each of SSA's major management problems. Among other things, the participants noted that one challenge in the systems security area is the dispersed nature of SSA information systems. State offices and numerous SSA field offices directly use SSA systems.

On another issue, the IG noted that SSA faces three challenges in implementing GPRA: weaknesses in data sources, inadequate performance indicators, and resource constraints.

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

GAO found that SSA's Performance Plan for fiscal year 2001 contains goals that directly address 5 of the 9 management problems known to it at the time it submitted the Plan in December 1999. According to GAO, however, there is room for improvement both in measuring and achieving progress to resolve each of these problems. SSA has some performance goals related to improving the accuracy of some of its major payment programs. However, it did not establish specific targets for reducing error rates for SSI or the other programs.